Annual report 2012

DEXIA CRÉDIT LOCAL

DEXIA CRÉDIT LOCAL DCL

Dexia Crédit Local

Contents

This free translation of the registration document published in 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 3 April 2013, in compliance with Article 212-13 of the AMF's General Regulations.

2012 annual report

Dexia Group profile

General presentation

Operating historically in public sector financing and retail banking, Dexia is a European banking group that is being managed in line with an orderly resolution since the end of 2011. Dexia SA, the Group's parent company, is a Belgian law limited company, with its shares listed on NYSE Euronext Brussels and Paris as well as the Luxembourg Stock Exchange. Since the end of 2012, the date of the capital increase reserved for the Belgian and French States, these two States have been the Group's main shareholders.

In 2008, in a deteriorating economic climate, weakened by an unbalanced balance sheet structure, and with support from the Belgian, French and Luxembourg States, the Dexia Group, which had been significantly affected by the drying up of liquidity on the interbank market, implemented a restructuring plan, ratified by the European Commission, in order to realign its business around its longstanding franchises, while reducing its risk profile and rebalancing its balance sheet structure.

In autumn 2011, affected this time by the sovereign crisis, the Group saw its rating deteriorate dangerously, and facing renewed pressures in terms of its liquidity position, the Group had to introduce an orderly resolution plan based on two main pillars:

- disposal of the Group's viable operating franchises;
- run-off management of its residual assets, with the Group's viability ensured with an EUR 85 billion funding guarantee made by Belgium, France and Luxembourg and a EUR 5.5 billion recapitalisation by the Belgian and French States on 31 December 2012, with these elements validated in connection with the Group's revised orderly resolution plan.

This Group's revised resolution plan, which aimed to prevent the materialisation of the systemic risk that would be represented by its immediate liquidation, was approved by the European Commission on 28 December 2012.

In line with its commitments, the Group has disposed of the majority of its operating entities, including Dexia Bank Belgium in 2011, Dexia RBC Investor Services, DenizBank and Dexia Banque Internationale in Luxembourg in 2012, followed by Dexia Municipal Agency at the beginning of 2013.

This strategy has led to a significant reduction in the Group's scope and the size of its balance sheet. Indeed, at 31 December 2012, before the disposal of Dexia Municipal Agency, it had fallen to EUR 357.2 billion, down 13.5% compared with 31 December 2011. In view of the entity disposals and the natural impairment of assets, the balance sheet will continue to fall, dropping to around EUR 150 billion by the end of 2020, with a marked reduction between 2020 and 2025.

Virtually all of the Group's fixed-rate commitments, from loans to bonds, have traditionally and systematically been covered by interest rate swaps to protect Dexia against a potential rise in interest rates. This policy has made it possible to reduce the portfolios' value at risk and the level of prudential capital required.

However, with interest rate levels falling to all-time lows as a result of the financial crisis, Dexia had to lock in substantial assets or deposits to guarantee the value of these swaps (up to EUR 37.3 billion and 33.4 billion at 31 December 2012), with earnings affected by the costly refinancing required.

Above all, the existence of these swaps, with a net exposure of EUR 450 billion, means that it has not been possible to sell the assets which they are backed against without incurring a very significant loss. As such, it is unworkable based on current interest rate levels to accelerate the sale of portfolios a long time before they are due to mature.

Unless there is a major credit shock, the portfolio's credit quality is expected to remain relatively stable over time. The Group's balance sheet will be funded with State-guaranteed debts, primarily placed on the market, as well as short and medium-term covered market funding and, to a lesser extent, central bank funding.

On an operational level, Dexia will move towards a more centralised management model and, once the various current unravelling processes have been finalised, it will continue to optimise its procedures by adapting them to the Group's new scale.

Dexia's profile has been severely impacted by the implementation of its orderly resolution plan, with 2012 representing a turning point from this perspective. The plan has had a significant impact on both the Group's financial profile and its shareholder structure.

Message from the Chairmen

2012 was a year of considerable changes for the Dexia Group, in terms of not only its activity, but also its scope and its shareholder profile. The year was a turning point for the Group's orderly resolution plan, which we continued to implement with great determination, and marked the Group's transition from a competitive commercial entity to an entity managed in run-off.

Our priorities were clearly defined at the start of our respective mandates: to give Dexia the means to implement the resolution that commenced at the end of 2011 and to ensure an operational transition to the residual group on the one hand and the new French public sector finance division on the other, minimising risks and managing the transition process with the greatest possible transparency in relation to the Group's employees, our shareholders and, more generally, all the stakeholders concerned by this in-depth change.

At the end of 2012, implementation of the two pillars approved for the revised orderly resolution plan

At the end of December 2012, the European Commission's approval of Dexia's revised orderly resolution plan represented a decisive step forward for the Group. Indeed, this decision was vital, paving the way for the implementation of the revised plan's two pillars, i.e. Dexia SA's capital increase and the entry into force of a scheme for a tripartite funding guarantee from the Belgian, French and Luxembourg States. In this way, Dexia will be able to carry its residual assets over time, preventing the materialisation of the systemic risk which would be represented by the Group's instant liquidation.

By subscribing for Dexia SA's EUR 5.5 billion capital increase, in line with the decision taken by shareholders at an Extraordinary General Meeting on 21 December 2012, the Belgian and French States reaffirmed their support for the Group. We are aware that the decision taken by the shareholders was difficult, considering the significant dilution it has resulted in, and we would like to thank them for acting in the best corporate interests of the company and the Group. The Group now has a robust capital base and sufficient liquidity to enable it, unless there is a major credit shock, to complete its management in run-off. The Belgian and French States are now the Group's main shareholders, with 50.02% and 44.40% respectively of Dexia SA's capital.

During the past year, we actively moved forward with the strategy to dispose of the Group's viable operating entities, which commenced at the end of 2011 with the sale of Dexia Bank Belgium to the Belgian State. In this way, this process to dispose of the Group's main entities was wrapped up in 2012, with the disposals of RBC Dexia Investor Services, DenizBank and Banque Internationale in Luxembourg and the announcement of a sale and purchase agreement for Dexia Asset Management in 2013. We did our utmost to find industrial partners for these entities, enabling them to continue with their development and continue supporting their customers. In January 2013, the disposal of Dexia Municipal Agency to a new banking institution, in which the French State has a majority stake, was announced, within the context of redefining a scheme for local public sector financing in France. The completion of these disposals means that we will be able to safeguard the viable commercial franchises and represents a significant step forward with the implementation of the orderly resolution plan.

In line with the reduction in the Group's size, its governance principles have been adjusted for its new scope. In this way, the Board of Directors was changed to 13 members, reflecting the new shareholder structure. From an operational perspective, we decided to simplify the decision-making structures of Dexia SA and Dexia Crédit Local, which are now very broadly integrated.

The orderly resolution plan no longer includes banking production, with the exception of envelopes attributed with a view to desensitising the sensitive credit facilities of Dexia Crédit Local on the one hand and Dexia Crediop on the other, in order to safeguard the franchise. The Group's teams have therefore been resized in line with this new operational scope and the new missions for Dexia SA and Dexia Crédit Local, involving a reduction in the workforce, particularly for the French part. We have worked with our staff representative and union partners to limit the social impacts and consequences for the Group's staff, respecting the Group's tradition of social dialogue. We are working in line with our commitment to finding solutions for staff and assisting them during this period of uncertainty.

Dexia is now a banking group being managed in run-off

Following an extremely eventful 2012, Dexia now benefits from increased visibility concerning its future. The process to dispose of the operating entities is progressing well and the Group has reached its target scope. Backed by its strengthened capital base and with the benefit of an EUR 85 billion tripartite liquidity guarantee, the Group can now focus on managing and optimising its residual assets over time. To achieve this, Dexia is able to count on the skills of its staff, whom we would like to praise for their tireless commitment throughout the various stages of the Group's transformation, in a frequently tense and difficult context. We would also like to express our acknowledgement of the States for their support, in addition to our shareholders, who have shown considerable responsibility in enabling Dexia to continue with its activity. Dexia is now a banking group that is being managed in run-off. Its asset portfolio, with good credit quality, has a long maturity and remains sensitive to market conditions and changes in the economic environment. It is therefore vital to monitor it attentively over time. Over the years, we will ensure that this objective is achieved.

Robert de Metz
Chairman of the Board of Directors

Karel De Boeck
Chief Executive Officer

Dexia Crédit Local profile

Today, Dexia Crédit Local is the main subsidiary of Dexia, a European banking group, historically focused on public sector financing and retail banking, which has been managed with a view to working towards its orderly resolution since the end of 2011. On 28 December 2012, the European Commission ratified Dexia's revised orderly resolution plan, submitted by the Belgian, French and Luxembourg States. In addition, the Belgian, French and Luxembourg States put in place a refinancing guarantee (joint but not several) for Dexia Crédit Local on 24 January 2013.

A longstanding financial partner for the local public sector in France, Dexia Crédit Local has redefined its missions, including an end to any new lending activities. Nevertheless, the Bank has sought to honour its contractual commitments and, in partnership with the local authorities concerned, has rolled out an active policy for desensitising structured loans. In 2013-2014, Dexia Crédit Local will be able to award up to EUR 600 million in new loans with a view to accelerating the desensitisation of structured loans in line with certain conditions, as approved by the European Commission. Despite a difficult environment with significant restrictions, Dexia Crédit Local remains sensitive to its customers' needs, working with them to find concerted solutions.

Faced with a number of lenders withdrawing from the local public sector financing market in France, a new financing framework has been deployed by the French government, La Banque Postale and the Caisse des Dépôts, capitalising on the tools and capabilities of Dexia Crédit Local's teams. In this way, Société de Financement Local (SFIL) was launched on 1 February 2013. Following its sale to SFIL, Dexia Municipal Agency, renamed Caisse Française de Financement Local (CAFFIL), is a core component within this new framework, for which it will secure refinancing on the capital markets. Dexia Crédit Local has contributed towards this major project through its recognised know-how and experience.

After making good progress with the implementation of this resolution plan, Dexia and its subsidiary Dexia Crédit Local have put in place an integrated leadership team adapted to the Group's new scale. Dexia Crédit Local's profile has therefore been significantly affected, with 2012 representing a turning point from this perspective.

2012 Key figures

BALANCE SHEET (CONSOLIDATED, IFRS)

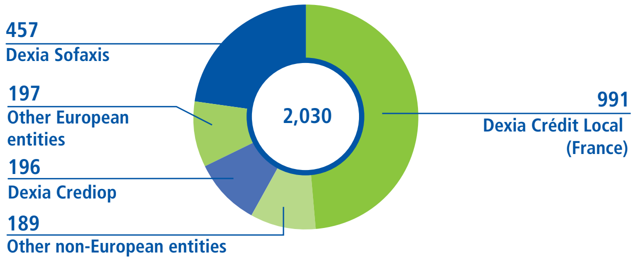
(en EUR billions)	2008	2009	2010	2011	2012
Balance sheet total	414	360	361	362	356

NET INCOME – GROUP SHARE

(en EUR millions)	2008	2009	2010	2011	2012
Balance sheet total	(3,556)	269	(696)	(2,701)	(2,040)

DEXIA CRÉDIT LOCAL GROUP EMPLOYEES

As at 31 December 2012



RATINGS ON 21 FEBRUARY 2013

	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	A+	Negative	F1+
Moody's	Baa2	Negative	P-2
Standard & Poor's	BBB	Stable	A-2
Dexia Kommunalbank Deutschland *(Pfandbriefe)*			
Standard & Poor's	A	Stable	
Dexia LDG Banque (lettres de gage)	BBB	Stable	
Standard & Poor's	F1	-	B

Board of Directors (31 March 2013)

Chairman
Robert de Metz
Chairman of the Board of Directors of Dexia SA

Chief Executive Officer
Karel De Boeck
Chief Executive Officer of Dexia SA

Executive vice-presidents

Alain Clot

Claude Piret
Member of the Management Board of Dexia SA

Philippe Rucheton
Member of the Management Board of Dexia SA

La Fédération Nationale des Travaux Publics
Represented by Patrick Bernasconi, Chairman

Jean-Pierre Brunel
Attorney-at-law

Koenraad Van Loo
Chief Executive Officer of SFPI

Thierry Francq
Special project manager supporting the French Treasury's Director General

Alexandre De Geest
Director of the Belgian Treasury (SPF Finances)

Paul Bodart
Member of the European Central Bank's T2S Committee

Bart Bronselaer
Chairman of the Board of Directors of Royal Park Investments

Delphine d'Amarzit
Department head in the French Treasury's Directorate General

Principal subsidiaries and affiliated companies (March 2013)

DEXIA CRÉDIT LOCAL

Branches:

Dexia Crédit Local Dublin branch
Dexia Crédit Local New York branch

FRENCH SUBSIDIARIES

- DEXIA CLF BANQUE 100%
- PUBLIC LOCATION LONGUE DURÉE 49%
- DEXIA FLOBAIL 100%
- DEXIA BAIL 100%
- DEXIA CLF RÉGIONS-BAIL 100%
- DEXIA MUNICIPAL AGENCY[1] 100%
  - DEXIA MUNICIPAL AGENCY (Dublin branch)
- CLF IMMOBILIER 100%
- SOFAXIS 100%
- SARL CBX.IA 1 100%
- SISL (Luxembourg) 100%
- SARL CBX.IA 2 100%
- DOMISERVE 50%
  - DOMISERVE + 100%

INTERNATIONAL SUBSIDIARIES

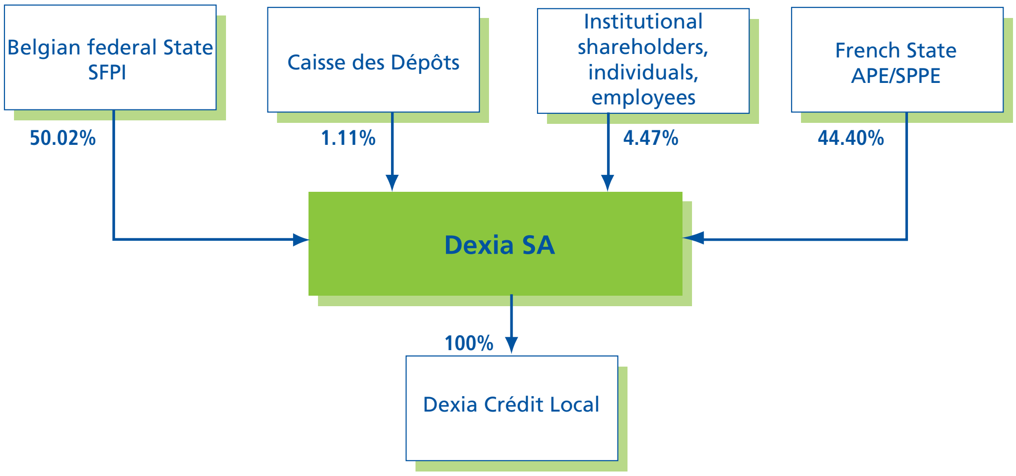
- DEXIA KOMMUNALBANK DEUTSCHLAND (Germany) 100%
- DEXIA KOMMUNALKREDIT BANK (Austria) 100%
  - DEXIA KOMMUNALKREDIT BANK POLSKA (Poland)[2] 100%
- DEXIA CREDIOP GROUP (Italy) 70%
  - DEXIA CREDIOP IRELAND (Ireland) 100%
- DEXIA HOLDINGS Inc. (United States) 100%
  - DEXIA FP HOLDINGS INC. (United States) 100%
  - FSA GLOBAL FUNDING Ltd (United States) 100%
- DEXIA REAL ESTATE CAPITAL MARKETS (UNITED STATES) 100%
- DEXIA CRÉDITO LOCAL MÉXICO SA de CV (Mexico) 100%
- DEXIA ISRAEL BANK Ltd (Israel) 65.31%
- DEXIA SABADELL SA (Spain) 100%
  - DEXIA SABADELL SA (Portugal branch)
- DEXIA DELAWARE LLC (United States) 100%
- DEXIA CAD FUNDING LLC (United States) 100%
- SUMITOMO MITSUI SPV (Japan) 100%
- DEXIA MANAGEMENT SERVICES Ltd (United Kingdom) 100%
- WISE 2006 - 1 PLC (Ireland) 100%
- DEXIA LDG BANQUE SA (Luxembourg) 100%

Fully consolidated

Proportionally consolidated

(1) On 20 October 2011, 13 February and 15 March 2012, the Board of Directors of Dexia Credit Local approved the terms of an agreement providing notably for the sale of Dexia Municipal Agency. In the light of these factors, the activities of Dexia Municipal Agency have been presented as being held for sale since 31 December 2011.
(2) On 7 November 2012, Dexia Kommunalkredit Bank AG signed an agreement for the sale of its subsidiary Dexia Kommunalkredit Bank Polska to Getin Noble Bank. The activities of Dexia Kommunalkredit Bank Polska are thus presented as being held for sale at 31 December 2012.

Dexia Crédit Local within the Dexia Group



2 – Management report

Business review

1. Overview

In 2012, Dexia Crédit Local was particularly impacted by the continuation of the Group's orderly resolution plan. For example, in the first half of 2012, the Global Project Finance business was discontinued in France, Germany, the United Kingdom and North America, due to the following:

- increased constraints on the project finance market, characterised by:
  - the future "Basel III" regulations, which are unfavourable to project finance;
  - a challenging liquidity environment;
  - mistrust of European banks among investors from English-speaking countries and difficulties securing funding in dollars and sterling, making project finance markets outside the eurozone much less attractive; and
- a severely impaired ability to continue to operate in the project finance business as a result of the Group's difficulties in raising the funds required to arrange such finance.

Furthermore, it should be noted that Dexia Crédit Local's Canadian branch, which operated a single commercial activity, was closed down in October 2012. Similarly, Dexia Crédit Local's branch in the Cayman Islands was closed down in December 2012 as part of the Group's efforts to rationalise its structure.

Finally, on 28 December 2012, the European Commission gave its approval for the revised orderly resolution plan for Dexia, submitted by the Belgian, French and Luxembourg governments on 14 December 2012 after the group experienced severe funding difficulties in autumn 2011 in the wake of the accelerating sovereign debt crisis. This new plan is intended to supersede the Dexia restructuring plan approved by the European Commission on 26 February 2010. The approval of the revised orderly resolution plan brought an end to the in-depth investigation launched by the European Commission on 21 December 2011 in connection with government aid received by the Group since October 2011.

In the local public sector segment, the Group's policy was to undertake very limited new lending, focusing on transactions connected with the desensitisation of structured loans in France and new lending with no impact on liquidity:

- in France, using loans backed by funding from the European Investment Bank (EIB) or from PLS-type affordable rental housing loan schemes, or by savings deposit funds;
- in Israel, the Group's Israeli subsidiary is independent in terms of funding;
- in Italy, very low new lending volumes were driven by local financing.

In all, new long-term commitments by the Public and Wholesale Banking business line totalled EUR 0.95 billion, compared with EUR 4.37 billion in 2011.

As at 31 December 2012, Public and Wholesale Banking's long-term core commitments stood at EUR 158 billion, down 8% year on year. Furthermore, outstanding loans in the Legacy division (previously Public and Wholesale Banking loans in non-strategic markets) declined 33% to EUR 9.7 billion. In all – i.e. combining the Core and Legacy divisions – outstanding loans for the Public and Wholesale Banking business line declined by 10%.

Alongside these low volumes of new long-term lending, Dexia Crédit Local performed well in deposit-taking (with new deposits up 25% year on year), mainly driven by strong performance in Germany.

Business review by location

A. FRANCE

In accordance with the Group's orderly resolution plan, new lending to the local public sector in 2012 totalled EUR 0.73 billion, sharply down (by 79%) on 2011 levels. The amount of own funds dedicated to this activity totalled EUR 0.4 billion, with the remaining EUR 0.3 billion coming from external sources of funding (the EIB, PLS/PSLA-type affordable rental housing loan schemes and an emergency budget taken from savings deposits). Dexia Crédit Local's commitments totalled EUR 76.1 billion, down 7.2% relative to end 2011.

Dexia Crédit Local also continued to diversify across its Public and Wholesale Banking customer base (statutory insurance, investment, CESU-type employment cheques, long-term vehicle leasing, etc.).

B. INTERNATIONAL

Germany

In Germany, Dexia Kommunalbank Deutschland issued *Pfandbriefe* (covered bonds) to refinance certain assets originated in other Group countries and transferred to it as part of a programme totalling EUR 6.7 billion since 2009.

Additionally, the subsidiary successfully continued its deposit-taking activity launched in early 2010, with total deposits exceeding EUR 4.382 billion.

In April 2012, to prepare for the effects of the very substantial reduction in new lending by the Group, Dexia Kommunalbank Deutschland launched a programme to redeem its own *Pfandbriefe* on the secondary market. The programme met with considerable success, with Dexia Kommunalbank Deutschland redeeming EUR 2.6 billion of its *Pfandbriefe*.

North America (United States and Canada)

All of the Group's North American businesses have ceased all lending activity since the Group's project finance business was wound down, and their focus is now on managing existing loan books. In this regard, it should be noted that Dexia Crédit Local's Canadian branch has been closed down and that the Company's branch in the Cayman Islands was closed down in December 2012.

United Kingdom

Following the winding down of all of the Dexia Group's project finance activities, Dexia Management Services suspended its project finance origination activities and focused on managing existing loans and customer relationships.

Iberian Peninsula

In an economic environment made very complex by the sovereign debt crisis, Dexia Sabadell concentrated on monitoring its loan book and optimising its funding.

Italy

With Italy also facing a challenging environment, Dexia Crediop's commercial activity slowed sharply. The local government banking market remained flat. Furthermore, consistent with the approach adopted throughout the Dexia Group, Dexia Crediop's strategy continued to focus on improving its liquidity position by identifying and diversifying local sources of funding and selling off non-strategic assets. New lending business was limited to locally raised funding.

Israel

In 2012, Dexia Israel held onto its position as the leading bank for local governments and maintained its independence in terms of funding. In line with various announcements previously made by the Dexia Group, the process of selling Dexia Israel is ongoing.

Central and Eastern Europe

The different entities in Central and Eastern Europe have ceased all lending activity. Existing loans, which have already been transferred onto Dexia Crédit Local's IT systems in Paris, are administered by small local teams that are coordinated from Vienna, with the overall aim of reducing the size of the balance sheet and limiting operational risk.

Mexico

The local entity will now merely carry the residual assets on its balance sheet; administration of these assets has been transferred to the Dexia Crédit Local New York branch. Outstanding exposure has been reduced substantially following the sale of a sizeable portion of the loan book.

Australia

The Australian subsidiary was closed down in May 2012.

2. Public and Wholesale Banking

Alongside the continued restructuring of the Dexia Group, the decision was made to reduce new long-term commitments as far as possible. In line with this decision, new long-term lending has deliberately been very limited. As at end December 2012, it totalled EUR 0.95 billion, down 78% on 2011 (EUR 4.37 billion). New lending in France accounted for 77% of the total amount, almost exclusively in connection with the local public sector market.

In other countries, the only new long-term commitments were EUR 155 million in Israel (which is independent in terms of funding) and EUR 67 million in Italy, driven by local funding in the project finance sector.

As at 31 December 2012, outstanding long-term loans in the Core market had declined 8% year on year to EUR 158 billion. The decline was much more pronounced in the project finance segment (down 15%) than in the local public sector business line (down 7%).

Furthermore, outstanding Public and Wholesale Banking loans in run-off entities (Legacy PWB) fell sharply to EUR 9.5 billion (down 34%). The most significant decline was in the United States (down EUR 3 billion or 60%).

Finally, outstanding loans carried by Dexia Municipal Agency totalled EUR 54.1 billion as at 31 December 2012, down 6.6% year on year.

(EUR millions)	Outstanding long-term loans			New long-term lending		
	31/12/2011	31/12/2012	Change	31/12/2011	31/12/2012	Change
CORE	**171,648**	**158,277**	**-7.8%**	**4,374**	**952**	**-78.2%**
o/w Local Public Sector	147,071	137,343	-6.6%	3,240	850	-73.8%
o/w Project Finance	24,577	20,934	-14.8%	1,135	102	-91.0%
France	82,069	76,131	-7.2%	3,434	730	-78.8%
Italy	31,457	29,690	-5.6%	120	67	-44.2%
United States and Canada	6,579	4,839	-26.4%	148	0	-
Iberian Peninsula (Spain and Portugal)	16,467	14,631	-11.1%	417	0	-
Germany	21,665	20,208	-6.7%	56	0	-
United Kingdom	12,280	11,597	-5.6%	55	0	-
Israel	1,132	1,181	4.3%	144	155	7.7%
PWB LEGACY BOOK (LOANS)	**14,452**	**9,664**	**-33.1%**	**0**	**0**	-
International Head Office (Public Banking)	6,729	5,832	-13.3%	0	0	-
Central and Eastern Europe (*)	1,683	1,244	-26.1%	0	0	-
Mexico	728	299	-59.0%	0	0	-
United States (SBPA)(**)	5,007	2,017	-59.7%	0	0	-
Germany	305	273	-10.5%	0	0	-
TOTAL DEXIA CRÉDIT LOCAL	**186,020**	**167,942**	**-9.8%**	**4,374**	**952**	**-78.2%**

(*) Central and Eastern Europe's outstanding exposure as at 31 December 2011 has been corrected by + EUR 80 million (to EUR 1,683 million) relative to the amount shown in the 2011 Annual Report (EUR 1,083 million).
(**) Standby bond purchase agreement: liquidity guarantees covering municipal bonds.

2.1. Local public sector

New lending to the local public sector declined 74% year on year to EUR 850 million. This sharp decline was a result of the following factors:

- very low levels of international lending (with only EUR 155 million in new lending recorded in Israel as at end December 2012);
- a significant fall in activity in France (down 74%): the only loans granted were those based on external funding (PLS-type affordable rental housing loan schemes, the EIB and an emergency budget taken from savings deposits) and those needed to desensitise structured loans.

Consequently, outstanding long-term exposure can be seen to have declined 6.6% year on year to EUR 137.3 billion. Excluding the effect of exchange rate fluctuations, the decline in exposure was even more pronounced (down 9%), mainly because of the euro's depreciation against sterling: at constant exchange rates, outstanding exposure in the United Kingdom fell by 4.2%.

(EUR millions)	Outstanding long-term loans			New long-term lending		
	31/12/2011	31/12/2012	Change	31/12/2011	31/12/2012	Change
CORE	**147,071**	**137,343**	**-6.6%**	**3,240**	**850**	**-73.8%**
France	72,400	67,603	-6.6%	2,689	694	-74.2%
Iberian Peninsula (Spain and Portugal)	12,500	11,264	-9.9%	332	0	-100%
Israel	1,132	1,181	4.3%	144	155	7.7%
Italy	27,793	26,227	-5.6%	18	0	-100%
United States and Canada (excluding SPBA)	2,880	2,227	-22.7%	0	0	-
Germany	21,258	19,877	-6.5%	56	0	-100%
United Kingdom	9,108	8,964	-1.6%	0	0	-

BUSINESS REVIEW BY LOCATION

a. France

Total new lending to the public sector in 2012 declined 74% to EUR 694 million. Half of all loans granted (49%) were based on external funding (PLS-type affordable rental housing loan schemes, the EIB and an emergency budget taken from savings deposits). Furthermore, 43% of new loans were made in connection with debt restructuring arrangements, and in particular the desensitisation of structured loans. The remaining 8% related to lease finance, guarantees given and loans to which Dexia was already committed in 2011.

Outstanding exposure as at end December 2012 totalled EUR 67.6 billion, down 6.6%.

New lending to the local government sector in 2012 totalled EUR 446 million (down 74.5% year on year). This decline was the result of a decision to limit new lending to only the following categories:

- lending needed to desensitise structured loans; and
- lending using external funding: it should be noted that EUR 140 million in new lending was funded from the 2012 savings deposits budget provided by Caisse des Dépôts et Consignations.

The reduction in outstanding exposure (EUR 44.8 billion) to the local government segment in 2012 (down 7% year on year) was mainly due to this low volume of new lending.

Total new lending to other segments within the local public sector market declined 72% year on year to EUR 248 million. Of this new lending, 72% was carried out using funding provided by Caisse des Dépôts (after being classified as PLS/PSLA loans to promote affordable rental housing) or the European Investment Bank (EIB) or funding taken from the 2012 savings deposits budget. As at 31 December 2012, outstanding loans to these segments totalled EUR 20.3 billion, down 5% year on year:

- total new lending to the healthcare sector declined 75% year on year to EUR 98 million, of which 56% was funded using EIB funds, PLS budgets or savings deposit funds. Total outstanding loans fell slightly year on year to EUR 10.2 billion as at 31 December 2012 (down 1%);
- total new lending to the housing and urban development sector declined 54% year on year to EUR 131 million, of which 95% was funded from PLS/PSLA budgets. Total outstanding loans fell 6% year on year to EUR 8.5 billion as at 31 December 2012.

The structured loan business contributed 6% of total new lending in 2012 (EUR 41 million, compared with EUR 184 million in 2011). 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 (the Association of French Mayors, the Federation of Mayors of Mid-sized Cities, the Association of Small French Cities, the 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 this report, structured loans are defined as:

- all loans whose structures fall into categories B to E of the Gissler Charter;
- all loans whose marketing is banned by the Charter due to their structure (i.e. gearing greater than 5, etc.), the underlying index or indices used (i.e. foreign currency, commodities, etc.) or their currency of exposure (loans denominated in Swiss francs, Japanese yen, 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 19.21 billion as at 31 December 2012, with customers paying an average interest rate of 4.25% (compared with EUR 21.88 billion and 3.98% respectively in 2011).

Structured loans

Total outstanding loans as at 31 December 2012	EUR 19.21 billion
Average interest rate paid in 2012	4.25%
Average interest rate paid in 2012 by highest 10% of customers concerned[1]	6.54%
Average interest rate paid in 2012 by lowest 10% of customers concerned[2]	1.12%

(1) The average rate paid by the 10% of customers who paid the highest rate was 6.27% in 2012.
(2) The average rate paid by the 10% of customers who paid the lowest rate was 0.30% in 2012.

A sub-category of structured loans has been defined, known as "sensitive structured loans", encompassing loans with a Gissler score of 3E, 4E or 5E or falling outside the scope of the Gissler Charter and loans with a CEPCOR score (based on the internal structured loan classification methodology used by the Committee on Evaluation and Prevention of Commercial Risks). As at 31 December 2012, outstanding sensitive structured loans totalled EUR 11.2 billion, of which 80% was held by Dexia Municipal Agency and 20% by Dexia Crédit Local.

Finally, the total volume of restructured assets declined 21% year on year to EUR 2.7 billion as at 31 December 2012.

b. International

Germany

Total outstanding loans fell 6.5% year on year to EUR 21.3 billion. No new lending was undertaken in 2012 (compared with EUR 56 million in new lending in 2011).

Iberian Peninsula

Total outstanding loans fell 9.9% year on year to EUR 11.3 billion. No new lending was undertaken in 2012 (compared with EUR 332 million in new lending in 2011).

Italy

Outstanding exposure as at end December 2012 totalled EUR 26.2 billion, down 5.6% year on year.

Israel

Long-term lending grew (to EUR 155 million), with the Israeli subsidiary's autonomous funding arrangements releasing it from the very strict limits on new international lending.

United Kingdom

Outstanding loans declined 1.6% to EUR 9 billion as at 31 December 2012 (at constant exchange rates, the decline was 4.2%).

2.2. Project finance

In the first quarter of 2012, Dexia decided to halt all new project finance origination and all advisory activities outside of Italy and Spain.

Two new transactions were completed during the first half of 2012.

	Outstanding long-term loans			New long-term lending		
(EUR millions)	31/12/2011	31/12/2012	Change	31/12/2011	31/12/2012	Change
CORE	**24,577**	**20,934**	**-14.8%**	**1,135**	**102**	**-91.0%**
France	9,669	8,528	-11.8%	745	36	-95.2%
Italy	3,663	3,463	-5.5%	102	67	-34.3%
United States and Canada (excluding SPBA)	3,698	2,612	-29.4%	148	0	-100.0%
Iberian Peninsula (Spain and Portugal)	3,967	3,367	-15.1%	85	0	-100.0%
Germany	407	331	-18.6%	0	0	-
United Kingdom	3,173	2,633	-17.0%	55	0	-100.0%

BUSINESS REVIEW BY LOCATION

a. France

Dexia Crédit Local arranged PPP (public-private partnership) financing for the construction and operation of social affairs centres and social integration houses for the *département* of Gironde.

This deal, which was initiated in 2011 but signed only in early 2012, represented a total commitment for Dexia Crédit Local of EUR 36 million (most of which is eligible for Dexia Municipal Agency).

b. Italy

New long-term lending of EUR 67 million was granted in Italy in 2012. In particular, Dexia Crédit Local financed a portfolio of solar power stations located in the Latium region and in Sicily. Dexia Crédit Local acted as both arranger and hedging bank.

2.3. Sofaxis

STATUTORY INSURANCE

Estimated premiums written in 2012 increased 6% year on year to more than EUR 350 million. This growth was driven by both an increase in insurers' rates and continued prospecting activity in the various market segments, resulting in an increase in the number of insured customers and in gross payroll, which is used to calculate insurance contributions. As in 2011, the impact of this prospecting activity was more visible in administrative centres for the sub-national public service, while the unaffiliated communities segment and the hospitals sector remained highly sensitive to continuing strong competition in this market. Moreover, slower growth in salary increases within the sub-national public service (for the fifth consecutive year) generated an automatic decrease in the adjustment of estimated premiums to actual. In all, total annual premiums increased slightly to EUR 365 million.

The 2012 marketing campaign confirmed Sofaxis's leading position in the local government market.

Insurance companies requested a significant revision of rates following the sharp increase in claims, which lowered their technical margins.

The various campaigns, as well as forward contracts entered into in 2012, meant it was necessary to update the majority of the portfolio.

The related services business continued to grow:

- the medical examination business saw contracts managed by the company grow by 6%, with more than 16,000 interventions in 2012;
- while collections arising from claims against third parties were equivalent to those seen in 2011, fees collected increased by 15%;
- psychological assistance cases were up 4% year on year.

PROPERTY AND CASUALTY INSURANCE

This new segment was a particular focus of marketing activity, with the priority being to consolidate relationships with insurance companies in the portfolio and develop contacts with new insurers.

The targeted approach to requests for proposals generating significant average premiums also helped drive growth of more than 30% in the portfolio, with total collections reaching EUR 3 million.

SERVICES

In 2012, marketing campaigns were aimed at two audiences:

- organisational optimisation campaigns were aimed at senior managers and services directors. The services that appeal to this audience are those that address the major twin concerns of absenteeism and improving effectiveness and efficiency in the public sector. Dexia's offering consists of analysing and understanding the root causes of absenteeism. DS Services draws on its expertise in statistical analysis, psychosocial risk surveys and group and individual interviews. Following a diagnostic phase, DS Services proposes action plans such as the joint formulation of management best practice guides and indicators to manage, monitor and notify absence;
- business area experts in relation to specific products and services (Quality Director, Information Systems Director, etc.). In addition to services such as the compilation of the comprehensive risk assessment document (*document unique*), third party payment services and medical examination services, which accounted for 40% of DS Services' total revenues in 2012, there was also strong growth in the rollout of business solutions in synergy with Qual'net. The risk management and prevention tool rolled out in the hospitals sector also met with great success.

This approach delivered very satisfactory results:

- 33% growth in offers sent (to EUR 12 million);
- a 130% increase in agreements received (which totalled more than EUR 5 million), representing substantial potential billings in 2013;
- a 17% increase in billed revenues, to more than EUR 3 million.

PUBLISERVICES

Through its Publiservices subsidiary, Sofaxis has developed a commercial offering in the fields of supplemental health, accidental death and disability, and social action for public sector employees.

The publication in November 2011 of the implementing decree for the laws passed in 2007 concerning the participation of local authorities and their public agencies in financing the supplemental social welfare benefits of their employees prompted local governments and Departmental Administration Centres to launch consultations in 2012.

Publiservices has secured a place in this burgeoning market, supported by new insurers designing competitive offerings in the face of traditional players, thus contributing to a successful full-year performance. The number of public sector employees covered is therefore set to increase by 50% to 18,000 in 2013.

3. Funding provided by Public and Wholesale Banking customers

Total deposits for the Public and Wholesale Banking business line amounted to EUR 8.6 billion as at 31 December 2012, up 25% year on year:

- in France, total deposits came in at EUR 1.6 billion, down 45% year on year, consisting of EUR 0.5 billion in demand deposits, EUR 0.8 billion in term deposits and EUR 0.3 billion in certificates of deposit and medium-term notes (MTNs) issued by Dexia Crédit Local and marketed by Dexia CLF Banque;
- in Germany, deposit business grew strongly, with total deposits almost trebling in the year from EUR 1.4 billion at end December 2011 to EUR 4.4 billion a year later; Dexia Kommunalbank Deutschland thus exceeded the level of deposits it had held before the dismantling of Dexia was announced in October 2011. This performance was mainly driven by a new business strategy for the "Treasury+" product (term deposits withdrawable on a monthly basis);
- in Israel, deposits totalled EUR 1.5 billion, stable relative to the position as at end December 2011. Demand deposits and term deposits totalled EUR 0.4 billion each, while certificates of deposit came to EUR 0.6 billion;
- in Italy, total deposits were more or less stable year on year at EUR 1 billion. Demand deposits totalled EUR 0.3 billion, term deposits came to EUR 0.5 billion and securities issued by the Group amounted to EUR 0.2 billion;
- in the Iberian Peninsula, deposit balances consisted almost entirely of demand deposits, which declined 10% year on year to EUR 0.2 billion.

Off-balance sheet investment products for the Public and Wholesale Banking business line totalled EUR 1.5 billion, down 46% year on year. This decline was mainly due to a decrease in outstandings on Dexia Asset Management products (SICAV-type investment companies, mutual funds, etc.).

Balance sheet deposits

(EUR millions)	As at 31/12/2011	As at 31/12/2012	Change
TOTAL	**6,861**	**8,599**	**25.3%**
France	2,822	1,552	-45.0%
Italy	952	966	1.4%
United States and Canada	22	0	-100.0%
Iberian Peninsula (Spain and Portugal)	207	186	-10.1%
Germany	1,357	4,382	223.0%
Israel	1,502	1,513	0.7%

4. Long-term funding

In light of the overall circumstances of the Dexia Group, 2012 was a transitional year in terms of funding for the Dexia Crédit Local Group. For 2011, Dexia Crédit Local was covered by a new government guarantee mechanism, the scope of which has been limited both by the temporary nature of the approval granted by the European Commission and in terms of the volumes, maturities and utilisation periods approved by the Commission.

The funding strategy implemented in 2012 revolved around developing long-term collateralised funding and issuing guaranteed bonds on a highly opportunistic basis. Given the closure of the market to Dexia covered bond issues, covered bond funding was not used.

In 2012, the Dexia Crédit Local Group raised total funding of EUR 20.8 billion, broken down as follows:

Type of funding (EUR millions)	As at 31/12/2011	As at 31/12/2012
Senior debt	16.59	17.42
Other collateralised funding	6.46	3.35
TOTAL	**23.05**	**20.77**

In 2012, the Dexia Crédit Local Group issued a total of EUR 17.4 billion in senior debt. A breakdown of the 2012 programme is set out below.

Senior debt (EUR millions)	**31/12/2011**	**31/12/2012**
France		
Dexia Municipal Agency	6,102	-
Dexia Crédit Local	6,043	15,569
Italy		
Dexia Crediop	677	1,400
Germany		
Dexia Kommunalbank Deutschland	2,370	118
United States		
Dexia Crédit Local – New York branch	1,398	338
TOTAL	**16,590**	**17,425**

4.1 Senior issues

As at 31 December 2012	**Dexia Crédit Local Paris (Unsecured)**	**Dexia Crédit Local New York branch (unsecured)**	**Dexia Crediop (secured)**	**Dexia Crédit Local (consolidated)**
Amount issued (EUR millions)	15,569.12	337.53	1,400	17,306.64
Average maturity	2.61 years	2.78 years	3.60 years	2.70 years

In 2012, the Dexia Crédit Local Group completed most of its funding programme (89%) in the form of government-guaranteed medium-term notes with maturities ranging from a year and a day to three years.

The bulk of the Group's 2012 funding was in guaranteed form:

- Dexia Crédit Local (Paris and New York) raised EUR 15.9 billion guaranteed by the French, Belgian and Luxembourg governments;
- Dexia Crediop raised EUR 1.4 billion under the guarantee mechanism put in place in Italy.

4.2 Covered bond issues

As at 31 December 2012	**Dexia Municipal Agency**	**Dexia Kommunalbank Deutschland**	**Dexia Crédit Local (consolidated)**
Amount issued (EUR millions)	-	118	118
Average maturity	-	12 years	12 years

Dexia Municipal Agency and Dexia Kommunalbank Deutschland, the Dexia Crédit Local Group's two covered bond funding vehicles, were inactive in 2012.

Both Dexia Municipal Agency and Dexia Kommunalbank Deutschland also carried out redemptions. Dexia Municipal Agency completed one-off redemptions on the secondary market for a total of EUR 0.86 billion.

Dexia Kommunalbank Deutschland reduced its exposure by EUR 2.8 billion through a redemption offer to investors. Through these transactions, these two subsidiaries were able to use a portion of the liquidity arising from asset write-downs and not used by funding vehicles, while optimising the balance of their cover pools.

4.3. Other collateralised funding

As at 31 December 2012	Dexia Crédit Local Paris	Dexia Crédit Local New York branch	Dexia Crediop	Dexia Crédit Local (consolidated)
Amount issued (EUR millions)	3,348.53	-	-	3,348.53
Average maturity	5.89 years	-	-	5.89 years

As in 2011, one of the strategies used in 2012 was to develop sources of collateralised funding other than covered bonds.

The increased use of collateralised funding was reflected in the arrangement of several long-term repos, further optimising the Group's balance sheet. Through these transactions, the Group raised funding, mainly in US dollars, equivalent to EUR 2,693 million.

Collateralised funding also encompasses funding for PLS/PLI/PSLA affordable rental housing loan schemes provided by Caisse des Dépôts. Drawdowns from Caisse des Dépôts in 2012 totalled EUR 655.59 million.

5. Financial Markets Activities

5.1. Cash management and short-term funding

In 2012, Dexia Crédit Local was particularly impacted by an unfavourable shift in its funding structure, with long-term borrowings replaced by short-term funding. The closure of the money markets provoked by the European sovereign debt crisis weighed on short-term funding. In spite of the guarantee, which covered a total of EUR 54 billion as at end December, and in spite of participating in European Central Bank tenders, Dexia Crédit Local availed itself of emergency measures offered by the French and Belgian central banks.

5.2. Commercial activities

317 debt management deals with French public sector clients were hedged in 2012, representing a total nominal amount of EUR 2.48 billion.

Risk management

1. Introduction

Dexia Group's orderly resolution continued during 2012 and demanded considerable reactivity on the part of the risk support line in coping with events occurring during 2012.

The organisation of the risk support line and its governance were adapted in 2012 following the transfer of activities and teams to Belfius Bank et Assurance (previously Dexia Bank Belgium) requiring them to be set up in France, and ahead of the disposal of Dexia Municipal Agency (DMA) and the creation of Société de Financement Local.

Although still very strained, Dexia Crédit Local's liquidity situation improved considerably in 2012, following the reduction in size of the Group's balance sheet, due in particular to disposals and the easing of the sovereign debt crisis. As at 31 December 2012, Dexia Crédit Local had been able to repay in full its emergency liquidity line from the ECB, and the liquidity guarantee granted by the Belgian, French and Luxembourg States was drawn to an amount of EUR 54 billion.

The evolution of the budgetary situation of sovereign states continued to be at the heart of Dexia Crédit Local's concerns, particularly in view of its exposure to Italy, Spain, Portugal and Greece. Hungary was also paid increasing attention, as recent reforms are weakening the financial health of local authorities.

In France, in 2012, difficulties in the health sector resulted in repayment arrears, the majority of which were settled however. In the local public sector, despite a satisfactory financial situation overall, repayment arrears rose, albeit moderately. The reasons for this are (i) more difficult access to credit, (ii) a one-off liquidity problem associated with the non-renewal of Dexia Crédit Local's credit lines and (iii) challenges by some clients to the conditions of their structured loans.

As a direct consequence of the Dexia Group orderly resolution plan and the significant reduction of its balance sheet, Dexia is no longer considered to be a Global Systematically Important Financial Institution (Global SIFI). It nonetheless remains a Domestic Systematically Important Financial Institution (Domestic SIFI) at the Belgian level.

2. Governance

The task of the risk support line is to implement independent and integrated risk measures for the various types of risks, to monitor and manage them, to identify risks, to propose corrective measures, to alert the relevant committees proactively and to decide on the amount of provisions necessary.

The general organisation of the risk support line of Dexia Crédit Local follows that of Dexia. It evolved through a number of stages during 2012 in order to adapt to the Group's new scope and the location of the Dexia teams. First, the risk management team had to adapt to the transfer of a large portion of the Dexia SA Brussels-based team members to Belfius Bank et Assurance. The activities managed by these teams have had to be recreated in order to manage all of the bank's risks. The teams transferred during this transitional period have however provided continuity of service.

Secondly, the risk support line was reorganised in line with the major strategic priorities of the orderly resolution plan and the new scope of the Group, particularly in France, ahead of the creation of Société de Financement Local, whose risk management teams come from Dexia and Dexia Crédit Local's Paris staff. A transitional period ensuring continuity of service in accordance with a number of Service Level Agreements (SLA) has been established between the two entities until end-July 2013. In particular, this change in organisation has been driven by the pooling of the Dexia SA and Dexia Crédit Local risk teams, by the reforming of some of the risk teams following the transfer of team members to Société de Financement Local and the creation of a "restructuring and workout" team in charge of the active restructuring or repayment of certain financing facilities.

In order to adapt to its new business scope, Dexia Crédit Local commenced an overhaul and simplification of its risk governance system. The number of committees was reduced, reflecting the amalgamation of committees with similar responsibilities or fields of activity. This new governance revolves around the Risk Committee, composed of the members of Dexia SA's Management Board, which is attended by the other members of Dexia Crédit Local's senior management for matters related to Dexia Crédit Local. This committee has responsibility in particular for ruling on all transactions with a major impact on Dexia Crédit Local (credit risk, liquidity risk, impact on income or the level of capital) as well as various policies and directives.

Since the end of 2012, the risk support line has been structured around two units: the Risk Management department in charge of credit risk, market risk and operational risk and permanent control and the "Risk Quantification, Measurement, Validation and Reporting" department, which brings together two Group-wide functions: "risk quantification, measurement and reporting" (all of the support functions to the risk support line), and "validation and quality control". This organisation also relies on the pooling of existing risk teams at the Dexia SA and Dexia Crédit Local level, organised into a knowledge centre supporting the risk management departments of Dexia Crédit Local's subsidiaries.

The heads of these two departments, along with the member of the Management Board in charge of risk, are the members of the Risk Management Executive Committee (Risk Excom). The role of this committee is to determine the overall risk management strategy, oversee the organisation of the risk support line, follow up on major regulatory issues, methodologies and the various projects and review key risk issues.

The organisation and governance presented below correspond to the structure in place on the date of publication of the report

2.1. Credit Risk

DEFINITION

Credit risk represents the potential loss, reflected in a reduction in the value of an asset or by repayment arrears, which Dexia Crédit Local may suffer as a result of a deterioration of a counterparty's solvency.

ORGANISATION

Risk Management supervises Dexia Crédit Local's credit risk, under the aegis of Dexia Crédit Local's senior management. It is in charge of defining the Group's credit risk policy, which encompasses the credit approval process, the supervision of processes for rating counterparties, the analysis of credit files and the monitoring of exposures.

COMMITTEES

Credit risk management revolves around the Risk Committee, which approves risk policies for the entire Group and rules on larger transactions from a credit risk perspective. The Risk Committee delegates its decision-making power to credit committees. This delegation is governed by specific rules, by type of counterparty, on the basis of their level of rating and the amount of the consolidated exposure.

The Risk Committee remains the decision-making body of last resort for larger credit files or those presenting a level of risk considered sensitive. For each file presented to the credit committee, an independent analysis is performed, presenting the main risk indicators, as well as a qualitative analysis of the transaction. In general, the activity of the credit committees was extremely limited in 2012 in view of the fact that most of Dexia Crédit Local's portfolio has been placed in run-off.

In parallel with the oversight of the lending process, several committees are in charge of supervising specific risks. These committees meet on a quarterly basis and include in particular:

- the Watchlist Committee, which supervises assets considered to be "sensitive" that have been placed on watch;
- the Default Committee, which classifies and monitors counterparties in default applying rules prevailing at Dexia Crédit Local and in compliance with the Basel II regulatory framework;
- the Impairment Committee, which decides on the amount of impairments set aside and monitors the cost of risk;
- the Credit Ratings Committee, which ensures that the internal credit rating system is applied correctly and that the credit rating process is in keeping with the principles that have been established and that the same process is applied by all of the various entities.

The Credit Risk Management department of each Dexia Crédit Local subsidiary and branch focuses on its own domestic market and is responsible for analysing and monitoring local counterparties.

2.2. Market Risk

DEFINITION

Market risk represents the Group's exposure to variations in market parameters, such as interest rates and exchange rates.

Interest rate risk consists of a structural interest rate risk and a specific interest rate risk associated with the issuer. The latter arises from variations in the credit spread of a specific issuer within a rating class. As for exchange risk, this represents the potential decrease in value due to the fluctuation of exchange rates of currencies against the euro.

ORGANISATION

Financial Market Risk Management (FMRM) monitors market risk under the aegis of Dexia Crédit Local's senior management. Backed by its global risk management approach, it is responsible for identifying, analysing, monitoring and reporting risks and results (including the valuation of financial instruments) associated with market activities.

Policies, directives and procedures documenting and governing each of the market activities are applied across Dexia Crédit Local. Central teams assembled within the knowledge centres have the task of defining methods of calculating the income statement and measuring risks, as well as guaranteeing the consolidated measurement, reporting and monitoring of the risks and results of each of the activities for which they are responsible.

Established in the operating entities, local FMRM teams are in charge of monitoring daily activity, i.e. inter alia the implementation of policies and directives defined at a Group level, as well as the assessment and monitoring of risks at a local level (calculating risk indicators, controlling limits and triggers, supervising new activities/new products, etc.), as well as reporting, and reconciliation with local management control, accounts and information systems. Each operating entity is also responsible for monitoring and reporting to local management committees as well as to local supervisory and regulatory bodies.

COMMITTEES

The Market Risks Committee (MRC) meets each month and deals with the following matters: definition and revision of limits, analysis of ratios in relation to risks and profit and loss triggers[1] and decisions relating to them, discussion of directives, governance and standards with regard to risks, risk concepts and methods for measuring risks, and the quality of the valuation process.

(1) Loss triggers warn of 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.

A Valuation and Collateral Market Risk Committee (V&C MRC) meets each quarter to analyse indicators relating to the management of collateral and to examine the quality of valuations of structured products.

The Risks Committee (RC) and the Risk Management Executive Committee validate all major changes to be made to the risk profile or risk governance.

2.3. Balance Sheet Management

DEFINITION

Balance Sheet Management (BSM) is in charge of hedging all structural risks associated with the banking book, i.e. interest rate risks, exchange risks, liquidity risks and profit and loss risks.

Cash and Liability Management (CLM) is in charge of managing cash and hedging short-term interest rate risks.

The definitions of structural and specific interest rate risk and exchange risk are detailed in the section on market risk.

Liquidity risk measures Dexia Crédit Local's ability to satisfy its current and future cash requirements, both expected and those that would apply should conditions deteriorate, with Dexia Crédit Local working on the basis of various stressed scenarios.

ORGANISATION

Balance Sheet Management (BSM) is under the responsibility of the finance support line and has the task of managing the structural risks of all Dexia Crédit Local entities.

Within Risk Management, a dedicated team, called BSM Risk Management, is in charge of defining the risk framework under which risk management may be conducted by BSM Finance (risk factors, limits, investment universe, parameters), validating models used in the effective management of this risk, monitoring exposures and ensuring that they comply with Group standards, defining stresses to be applied to different risk factors and validating risk management by the finance support line and ensuring that the framework complies with external regulations in force.

COMMITTEES

ALM risks (Balance Sheet Management – BSM) are managed within the Dexia Crédit Local ALCO (Assets & Liabilities Committee), which was amalgamated with the Dexia ALCO. It meets on a quarterly basis. The ALCO decides on the global risk framework, sets limits, guarantees the consistency of strategy and delegates operational implementation to the ALCOs of international entities. The ALCO decides on the overall level of exposures, in line with the decisions of the Management Board. The ALCOs of international entities manage the risks specific to their balance sheet within the framework defined by and under the responsibility of the Group ALCO.

The Funding and Liquidity Committee (FLC), by delegation from the Dexia ALCO committee, centralises and coordinates the decision-making process concerning liquidity matters. The FLC is responsible for monitoring the Group's liquidity position, its evolution and its cover by short, medium and long-term resources. It monitors the achievement of liquidity targets set by the Management Board and helps to develop strategies for funding and the disposal of assets which will enable the Group to overcome adverse scenarios developed internally or at the request of the regulators. It validates price mechanisms for internal disposals within the Dexia Group. The FLC, which meets on a weekly basis, is doing everything possible to improve the Group's liquidity profile.

2.4. Operational risk and permanent control

DEFINITION

Operational risk represents the risk of financial or non-financial impact arising from a shortcoming or failure of internal processes, personnel or systems, or from external factors. This definition includes IT, legal and compliance risks.

Permanent Control (excluding compliance) has the task of checking that the risk control mechanism in place is robust and effective, and of ensuring the quality of accounting and financial information and the quality of information systems.

ORGANISATION

The operational risk management framework within Dexia Crédit Local is based on a system of governance involving clearly defined responsibilities and roles.

- The Management Board regularly examines changes in the risk profile of the various Dexia Crédit Local activities.

- The Risk Committee approves the policy for all Dexia Crédit Local entities.

- The Operational Risk Acceptance Committee (ORAC), meeting on a quarterly basis, examines the main risks identified, decides on whether they are acceptable or not, and which if any corrective actions to be taken. It also validates proposed prevention or improvement measures in relation to the various elements of the mechanism (permanent control, IT security, insurance programmes and so on). It is chaired by the member of the Management Board in charge of risk management.

- Middle management has primary responsibility for managing operational risk. In each field of activity, it appoints an operational risk correspondent whose role is to coordinate the collection of data and to assess risks, with support from the local operational risk support line.

- The Information systems security committee examines and decides on actions to be taken to ensure business continuity and the implementation of Information systems security policy

Permanent Control excluding compliance in Dexia Crédit Local is run by the Dexia Crédit Local Operational Risk Manager. In order to ensure consolidated oversight, permanent control relies on the use of decentralised risk measurement and monitoring teams within departments, subsidiaries and branches, and the use of consultation procedures within the framework of permanent control committees.

3. Risk Monitoring

3.1. Credit risk

DEXIA CRÉDIT LOCAL'S CREDIT RISK POLICY

In order to manage credit risk, the Risk Management department has put a general framework of policies and procedures in place. This framework guides the credit risk management function in its risk analysis, decision-making and monitoring functions.

Risk Management manages the lending process by delegating authority to different committees and heads of support lines, within the limits put in place by the bank's senior management and by chairing credit committees. Within the context of its credit risk monitoring function, Risk Management, and more particularly the different teams in charge of credit risk, control changes in the credit risk of its portfolios by regularly analysing credit files and reviewing ratings. It also defines and implements reserve policy. It classifies files in default, and decides on specific and collective reserves.

RISK MEASUREMENT

As Dexia Crédit Local has adopted an IRBA Advanced approach, the assessment of credit risk relies principally on internal rating systems established within the context of Basel II: under the Advanced approach, each counterparty is assigned an internal rating by credit risk analysts using dedicated rating tools. This internal rating corresponds to an assessment of the level of the counterparty's risk of default, expressed through an internal rating scale, and is a key element in the credit approval process. Ratings are revised at a minimum annually, and this permits proactive identification of the counterparties necessitating regular monitoring by the Watchlist Committee, on the basis of objective criteria or expert judgement. In the Basel II Standard approach, the portfolio is also subject to regular monitoring.

In order to control Dexia Crédit Local's general credit risk profile, and to limit the concentration of risk, credit risk limits are defined for each counterparty, setting the maximum exposure deemed acceptable for a given counterparty. Limits by business sector and by product may also be imposed by Risk Management. The latter proactively monitors limits, and may reduce them at any time depending on changes in the associated risks.

FUNDAMENTALS OF DEXIA CRÉDIT LOCAL CREDIT RISK IN 2012

a. Macroeconomic environment

In 2012, the continuing crisis, linked to uncertainty over public finances in the eurozone, its consequences on the entire global economy, and also a less strong recovery than expected in the United States, led the IMF to revise its global growth forecasts downwards during the year, from 3.5% to 3.3%.

No real recovery is expected in 2013 given the persistence of the pressures observed in 2012. The IMF expects growth of 3.6%. However, this forecast is liable to be significantly adjusted, as there is a strong possibility of a deterioration of the situation: global growth will be extremely sensitive to the evolution of the crisis in the eurozone as well as the effects of a possible deterioration of the state of public finances in the United States.

In the eurozone, the financial markets continue to doubt the capacity of peripheral countries to cope with their high levels of deficit and public debt and also the effectiveness of the responses from European institutions. The implementation in the majority of member states of fiscal austerity policies weighs on levels of demand and investment. As a consequence, the eurozone again entered recession in 2012, with negative growth of 0.4% according to the IMF. The low growth levels observed in Germany and France could not offset the negative performances recorded in countries in Southern Europe. For 2013, the IMF anticipates a slight improvement of the situation from the second half-year, with economic growth rising to 0.2%. This forecast is relatively optimistic compared with the expectations of several forecasters, many of which expect another recession.

In 2012, within the eurozone, market concerns related mainly to the so-called "peripherals", i.e. Portugal, Italy, Ireland, Greece and Spain. Outside the eurozone, Hungary was also an increasing worry as a result of the adoption of several economic policy measures weakening the financial sector and in view of the unpredictable nature of the institutional environment.

Although the risk of a departure from the eurozone has lessened, the situation in Greece remains extremely worrying. The country saw a fifth consecutive year of recession in 2012 and the level of public debt now exceeds 160% of GDP. Significant financial aid was granted to the country. This second rescue package (2012) includes aid of EUR 130 billion paid by the European Union and the IMF as well as the write-off by private investors of 53.5% of the value of their sovereign Greek securities. In exchange, Athens undertook to reduce the deficit and to control public debt by adopting a series of drastic structural reforms. Finally, in view of the efforts made, Athens was given two more years in which to complete its fiscal adjustment, deferring until 2016 the date on which the country has to have the public deficit down to 3% of GDP. Public debt should be at 124% of GDP by 2020. Doubts persist however as to the country's ability to recover. As at 31 December 2012, Dexia Crédit Local no longer had any sovereign exposure to Greece.

In Spain, the conservative government of Prime Minister Mariano Rajoy succeeded in 2012 in avoiding a call for rescue by the European Union. Nevertheless, the country continues to face a lack of confidence on the markets with the result that the cost of debt has increased severely. Although it eased considerably at the end of the year, the cost of debt seems unable to reverse sustainably without major intervention by the European institutions. The reaction of investors to the introduction at the end of 2012 of the European Stability Mechanism (ESM) will be crucial in this regard. Initial aid of EUR 39.5 billion dedicated to recapitalisation of the Spanish banking sector was granted by the ESM. This operation is part of a broader plan to support the financial sector which also includes the creation in December 2012 of a bad bank (SAREB) charged with the hive-off of toxic real estate assets. Moreover, Spain is still facing immense unemployment (25% at the end of 2012), a high public deficit (the official target of 6.3% for 2012 will clearly not be achieved) and worrying local authority debt.

In Italy, the reforms implemented since the end of 2011 by the government of Mario Monti brought the public deficit down to 2.6% of GDP in 2012. However, its public debt remains one of the highest in the eurozone (exceeding EUR 2,000 billion in October 2012) and market confidence is still far from completely restored, as illustrated by significant fluctuations of refinancing conditions for the Italian State observed during 2012. In addition, the prospect of the resignation of Mario Monti aroused fears as to the country's ability to complete its schedule of reforms, whilst the effects of austerity measures are feeding popular opposition and harming the chances of economic recovery. The country's future will depend on the formation of the new government and the decisions it takes, following the legislative elections on 24 February.

In Portugal, the reforming government of Prime Minister Pedro Passos Coelho which came to power at the beginning of 2011 continued to implement a programme in compliance with the requirements of the IMF and the European Union. The refinancing conditions granted to the country softened (with 10-year bond yields approaching 8%) although they remain high. However, in 2013 Portuguese decision-makers will have to deal with growing resistance to reforms among the population as well as a weakening of political consensus regarding austerity policies.

Ireland is continuing to implement reforms and an internal devaluation policy enabling it to return to a positive growth rate from 2011 (+ 1.4%) and to avoid recession in 2012 (+ 0.4%). The government remains firmly in favour of continuing the programme agreed with the IMF and the European Union with the agreement thus far of the population. More generally, as Ireland is an open economy, it remains seriously exposed to an economic slowdown in the eurozone, the United Kingdom and the United States.

Hungary has seen its economic activity slow sharply from 2007, thus distinguishing it from the trends in other countries in Central Europe. Since its accession to power in 2010, the right-wing nationalist government of Viktor Orbán has implemented a series of provisional measures aimed at halting the effects of the severe economic crisis affecting the country, such as the nationalisation of private retirement funds and the introduction of taxes which, although described as "exceptional", were continued into 2013. Although a stabilisation of the deficit and public debt was to be observed in 2012, the relatively unpredictable nature of economic policy and the absence of structural reforms resulted in a severe depreciation of the forint (despite a rebound in 2012) considerably increasing the household debt burden, a significant proportion of which (close to 60%) is denominated in foreign currencies. The government reacted by introducing a plan to ease household debt which resulted in significant costs for financial organisations, further drying up the supply of credit. Remaining the most heavily indebted country in Central Europe (public debt represented just under 80% of GDP in 2012), in 2011 Hungary called, for the second time in four years, upon the assistance of the IMF and the ECB by way of a credit line of EUR 15 billion. In recession in 2012, Hungary is likely to experience stagnant economic activity in 2013 (+0.8% according to the IMF).

In general, all sovereign securities from "peripheral" countries and Hungary are subject to specific and regular monitoring by the Institutional Credit, ABS and Countries expert centre and the Watchlist Committee.

In the United States, the recovery continued modestly in 2012 (+2.2% according to the IMF). Whilst the real estate market is stabilising, job creation seems to be marking time. In 2013, US growth, which should reach 2.1% according to the IMF, remains threatened by a deterioration of the situation in the eurozone but, above all, a risk of sharp budget tightening particularly following the debt ceiling being reached. In the meantime, at the beginning of January 2013, policymakers succeeded in avoiding the "fiscal cliff", which would have involved an automatic triggering at the very beginning of the year of a series of tax rises and public expenditure cuts, and which could have resulted in an estimated contraction of 4% of GDP and very likely put the United States into recession with significant repercussions on the global economy. Nevertheless, the agreement obtained is deemed insufficient by the IMF, which thinks that concerns have only been addressed in the short term and that new measures must be adopted in order to guarantee the viability of US public finances.

b. Situation of the local public sector and Dexia Crédit Local commitments

Against the background of the sovereign debt crisis, it is important not to extrapolate the risk of default by a sovereign state to that of its local authorities.

Nevertheless, the financial data available for local authorities show an alteration of performances in the majority of European countries and in the United States as a consequence of a tense economic climate, leading to a fall in tax receipts; savings capacities are restricted and pressures are being placed on cash. This general deterioration, which Dexia Crédit Local has responded to by setting aside collective reserves since 2011 against in particular the local public sector in Spain, Italy and North America, has proved to be contained and at this stage is not reflected in an increase of defaults. Situations differ however from one country to another.

France

In France, in 2012 local finances suffered from a scarcity of means. In fact, the freezing of state aid and the problems of credit drying up, which were already present in 2011, combined with a low increase in tax resources.

Indeed, resources from the replacement of the local business tax are proving to be less dynamic: a part was offset by grants frozen in time and the new taxes are more sensitive to the economic situation, which remains weak. In addition, fiscal reform profoundly altered the local authorities' power over rates. Therefore the creation of financial room to manoeuvre by increased rates is increasingly complicated, all the more since rates are today reaching high levels in certain regions and local elections are approaching.

To the low momentum of direct contributions can be added the fall in transfer duties (*droits de mutation à titre onéreux* – DMTO), which can be estimated at almost 10%.

Although the needs of the population are increasing (social welfare, training, alternatives to road travel and so on), the strong constraints weighing on resources have consequences on local authority expenditure.

Indeed, as they had already begun to in 2011, in 2012 local authorities showed a desire to control their current expenditure, in particular by limiting the growth of personnel expenses.

Despite these efforts by management, gross savings by local authorities[1] should show a decline in 2012, whatever the category of authority, in contrast to the rise observed in 2011.

As for investment expenditure, the estimated increase in 2012 (+1.6%) is well below what was expected, particularly with regard to the electoral cycle in the municipal sector: 2012, the penultimate year of the current cycle (elections in 2014), should in fact have been a year of investment rebound.

Overall, local authorities are victims of a scissor effect between the evolution of their expenditure and their resources resulting in a fall in the level of their gross savings. Nevertheless, in 2012, the appearance of an increase of the cash balances of authorities at the end of the

(1) Balance of the operating portion used to finance debt repayments and investments.

Management report

financial year necessitated recourse to debt (positive net flows of debt) comparable to that in 2011 (a little less than EUR 5 billion) resulting in a rise of outstanding debt in the order of 3% over that year.

Despite the increase observed in State governance and supervision via the Regional Health Agencies with the HPST (Hospitals, Patients, Health and Territories) Act, the health sector presents a negative outlook considering (i) pressures on resources against the background of restrictive national budgets, (ii) the necessary adaptation of establishments to the needs of their health area and (iii) the deterioration of access to bank finance. This deterioration is reflected in a rise in the number of health establishment files monitored on the watchlist and by payment arrears following the bank's non-renewal of matured credit lines. At the end of the year, the majority of payment arrears had been settled however, by virtue in particular of one-off financial support from Regional Health Agencies to those establishments.

On the Dexia Crédit Local portfolio, payment arrears on the French local public sector rose moderately in 2012. This situation does not result so much from a general deterioration of the financial situation of local authorities, which remains satisfactory, as from the following factors: (i) more difficult access to credit which penalises the weaker, (ii) a one-off liquidity problem associated with the non-renewal of Dexia Crédit Local credit lines and (iii) some clients contesting the conditions of their structured loans. In the majority of cases, payment arrears on structured loans do not result from clients' inability to pay their arrears. The policy followed by Dexia Crédit Local not to renew short-term credit lines to the local public sector has contributed significantly to the fall of EUR 7.8 billion over 2012 in Dexia Crédit Local's outstanding loans to the French local public sector which amounted to EUR 70 billion as at 31 December 2012, including EUR 48.3 billion through Dexia Municipal Agency.

Germany

In Germany, 2010[1] saw a clear economic recovery with a growth rate of 4.2%. Similarly, the unemployment rate fell slightly from 8.2% to 7.7%. Despite this improvement of the economy, the *Länder* posted a fall in their savings, with expenditure growth remaining relatively sustained, although some States posted savings severely in deficit. Overall, the debt ratio remains high, and slightly up, at 209%, but this average hides contrasting situations.

Although 2011 data are not yet known, initial figures show an improvement, with receipts up, expenditure stable and deficits before borrowing well down at EUR -9.4 billion against EUR -20.8 billion in 2010[2].

Some German cities seem to be facing tense situations which the robustness of the adjustment system does not reveal. Social expenditure represents a quarter of their budget and it is trending sharply upwards. In order to cope with this burden, cities use *Kassenkredite* (short-term facilities) to finance their operations (EUR 45 billion in 2011). In order to curb this development and in the spirit of the principle of solidarity between levels of authorities, more and more *Länder* establish aid schemes for municipalities and encourage them to take measures to regulate their finances. These schemes fall fully within the framework of the responsibilities of regions to the local level.

Furthermore, the two major measures taken by the government in 2009 and 2010 continue to have impacts today:

- "Debt Brake" aimed at reducing and limiting public debt and deficits with two targets to be reached by 2019, namely a deficit of 0.35% of GDP for the Federal State and zero new borrowing for Federated States;
- Introduction of a Stability Council responsible for checking budget discipline and particularly for monitoring the five *Länder* in difficulty (Berlin, Bremen Saarland, Saxony-Anhalt and Schleswig-Holstein). During the last meeting of the Council, in May 2012, it was stressed that the drastic stabilisation plans put in place by these Länder had achieved results and their undertakings had been met for the year 2011.

Dexia internal ratings of Dexia Crédit Local's outstanding loans to the German local public sector remain at a very good level, ranging from AAA to AA (82% of outstanding loans rated AA), and are stable for the *Länder*. The portfolio is healthy, despite some operations to desensitise structured products, which represent an extremely marginal proportion of German outstanding loans.

Dexia Crédit Local's outstanding loans to the German local public sector amounted to EUR 20 billion as at 31 December 2012.

Italy

In Italy, reform of fiscal federalism continues to be implemented and is increasing the fiscal autonomy of local authorities (re-introduction of land tax in favour of municipalities, and an increase in the proportion received from income tax, profits tax, VAT, and so on). As a consequence, transfers from the state to local authorities fell by EUR 9.1 billion in 2012 for the regions and EUR 6.6 billion for municipalities.

As a complement to the internal stability pact, which was established prior to the crisis in order to regulate public expenditure and is still applicable, new government measures aimed at reducing the weight of debt are now imposed on regional authorities: debt interest must be less than 8% of current receipts of local authorities in 2012, then 6% in 2013 and 4% in 2014; for the regions, debt servicing (capital + interest) must remain at a maximum of 20% of actual fiscal receipts from 2012 and for coming years. In addition, 2013 will see the extra obligation on local and regional authorities to observe a new debt ratio per inhabitant.

According to the 2010 accounts, provinces posted relatively stable savings levels (13% of current receipts) but an average debt which had increased to 109% of current receipts (105% in 2009). The financial ratios of municipalities have improved slightly: management savings rose from 9% to 9.4% and debt fell from 90% to 86% of current receipts. Trends differ between regions although on average management savings improved slightly from 6% to 7% of current receipts.

To assist local authorities with strained liquidity situations, the government is implementing a multiyear financial rebalancing procedure which will enable loans to be granted to local authorities with structural imbalances on their balance sheets.

For the Italian local public sector, the 2012 financial year saw further developments in a series of court cases associated with simple derivatives transactions: an increase of objections on the grounds that transactions bring no economic advantage to the authority, then at the end of the year a first major judgement, on appeal, dismissing the claim.

Beyond these cases, there are no defaults of payment associated with borrower insolvency. The portfolio is relatively stable in terms of credit

(1) (2) Latest available accounts.

quality, with the exception of some regions due to the increase of health expenditure. It should be noted that the financial regulation of municipalities and provinces is protective for bank creditors. In fact, in the event that the authority is unable to provide essential services and/or to pay expenditure due for payment, loan maturities come with a payment delegation which makes them a priority and immunises them from any restructuring proceedings.

Dexia Crédit Local's outstanding loans to the Italian local public sector amounted to EUR 18.1 billion as at 31 December 2012, including EUR 2.7 billion borne by Dexia Municipal Agency.

Spain

In Spain, Spanish local authorities have suffered since 2010 from the extension of the economic crisis which affects some of their resources linked to the economy. Spain adopted drastic austerity measures and set its authorities strict targets in terms of deficits or debt. As a consequence, local authorities also implemented austerity programmes (rationalisation of the public sector, reduction of grants, decrease in investments).

In 2010[(1)] management savings by the regions deteriorated to -6% of current receipts, and debt amounted to 86% of receipts. The savings of provinces stood at 15% and debt at 80%. For municipalities, management savings fell slightly to 9% of current receipts whilst debt rose a little, to 74% of receipts. In 2011, the current receipts of the regions fell by 5%, and debt rose by 17%; for municipalities and provinces, the level of receipts and debt remained stable.

All of the measures adopted enabled the regions to contain their deficits better: for 2012, the target deficit for the regions is -1.5% of GDP, and as at Q3 2012, the regional deficit had reached -0.93% against -2.20% as at Q3 2011, a saving of EUR 13.6 billion made by the regions.

Before the closure of the markets, to aid certain authorities that had been drained of liquidity and in order to revive local economies, the government introduced two mechanisms:

- a fund to wipe out supplier debts which enabled such debts to be converted into bank debts (benefiting from a pledge of certain transfers from the State);
- a Regional Liquidity Fund (*Fundo de Liquidez Autonomica* - FLA) with EUR 18 billion to enable the regions to deal with their debt payments in the second half of 2012: 10 regions (out of 17) took this up (including Catalonia, Valencia, the Balearic Islands and Andalucia). The FLA will be renewed in 2013.

In 2012, the difficulties of Spanish local authorities led to a reduction in Dexia's internal rating. No loan or obligation borne by the regions suffered from payment arrears. On the other hand, the instalments of four Spanish cities which had been poorly rated for several financial years were settled in arrears or remain unpaid.

Dexia Crédit Local outstandings to the Spanish local public sector amounted to EUR 11.2 billion as at 31 December 2012.

Portugal

In Portugal, the situation remains relatively stable: the occurrence of credit events on certain players enabled Dexia Sabadell to open negotiations with the Portuguese government and the authorities concerned to optimise the portfolio. It should be noted that the fiscal policy of Portuguese authorities is more strongly controlled by central government which has increased its supervision over the regions and introduced programmes to provide aid to municipalities in exchange for the adoption of drastic savings measures.

Dexia Crédit Local outstanding loans to the Portuguese local public sector amounted to EUR 2 billion as at 31 December 2012.

Great Britain

Great Britain is still marked, at a local organisation level, by a low degree of decentralisation and fiscal autonomy, and in the field of social housing by a division between local authorities and housing associations, the latter forming a sector strictly administered by the public powers in view of the considerable state subsidies for their investments. The result is a reduced level of credit risk, as the budget of each authority has to be ratified each year by the government, and as the management of housing associations may, at the first signs of difficulties and as is current practice, be subject to intervention by the supervisory authority and they may even be forced to amalgamate with another housing association if the difficulties are severe.

Beyond the strict framework for them and for local authorities, for two years housing associations have suffered from a marked reduction in the investment grants that they receive from the government, and this has led to less investment and therefore to an improvement of their individual financial profiles. As a result, and indeed every year since it began its activity in Great Britain, in 2012 Dexia Crédit Local experienced no payment incidents in either sector.

Dexia Crédit Local outstanding loans to the UK local public sector amounted to EUR 9.3 billion as at 31 December 2012.

Central and Eastern Europe

Dexia outstanding loans to Central and Eastern Europe are considerably lower than those to Western European countries, and all the more since the majority of the Poland portfolio was sold in 2012.

Overall, and taking into account the economic situation of Hungary and Romania, the loan portfolio to Eastern Europe is principally classified as "non-investment grade", with a slight downgrading of ratings. Although Romanian counterparties cause no particular concern in terms of credit risk, Hungarian cities are subject to close monitoring, in particular considering the deep changes impacting the organisation of the local public sector and its finances as well as some cases of financial stress.

In Hungary, there are numerous changes to report in local administrative organisation, with a recentralisation of competences. At the end of 2011, the debts of counties were taken over by the state. Since 2012, the responsibilities of cities have been undergoing redefinition: education and health services, until now provided by the cities, will in the future be provided by the state. As a consequence, the expenditure of cities will be reduced considerably, as will their receipts in a proportion not yet fully known, with the state retaining a portion of the resources previously transferred to deliver those public services. In this transitional phase and in view of the difficulties faced by certain cities, particularly in terms of liquidity, the government increased the budget for discretionary grants (*Ohniki*). Finally, at the end of October it announced the take-over of HUF 600 billion in municipal debts (54% of total municipal debts) under conditions to be discussed with the banks concerned.

Dexia Crédit Local outstanding loans to the Hungarian local public sector amounted to EUR 0.1 billion as at 31 December 2012.

(1) Latest available accounts

In Poland, the institutional framework is relatively stable: the principal measure adopted recently involves setting an individual debt limit for each authority depending on its average savings capacity over the last three fiscal years.

Dexia Crédit Local outstanding loans to the Polish local public sector amounted to EUR 0.1 billion as at 31 December 2012.

In Romania, there have been few changes over recent years in terms of responsibilities. On the other hand, in view of the crisis affecting the Romanian economy, the state reduced the proportion of fiscal receipts it reserved for local authorities and strengthened its control over the local public sector: debt levels are limited, with debt servicing costs that must not exceed 30% of average receipts over three financial years and, since 2011, any authority in arrears is no longer authorised to borrow.

Despite the reduction of the portion of income taxes passing to them, the reduction of current receipts of cities and counties has been contained. Austerity measures have resulted in a notable fall in current expenditure. Management savings have therefore improved, to 25% of current receipts on average for cities and 21% for counties. Debt has stabilised to a level of 65% on average for cities and 52% for counties.

Dexia Crédit Local outstanding loans to the Romanian local public sector amounted to EUR 0.3 billion as at 31 December 2012

United States

In the United States, the institutional framework of the Federated States, although varying from one State to another, remains rather protective: autonomy in setting receipts, obligatory budget balance, and an obligation to set aside reserves. Nevertheless, as State receipts are very directly linked to the economic situation (40% approximately coming from personal income tax, 30% from sales tax and 8% from corporate income tax), the States have been impacted from 2009 by the clear slowdown of economic activity and the sharp rise of unemployment. A recovery has been observed however since the beginning of 2011: tax receipts posted a rise of 9% without however reaching their pre-crisis level. Confronted by recession, the States drastically reduced their expenditure and, above all, dipped into their reserves: for the best rated counterparties this only reached one half of the level observed before the crisis and for others was practically zero or even negative. This enabled the level of debt service to be kept at a stable level: 2.8% of receipts from personal income tax against 2.5% the previous financial year.

It should be noted that there were several cases of cities filing for bankruptcy (under Chapter 9) such as Stockton and San Bernardino in California, or being bailed out such as Woonsocket, Central Falls and East Providence in the State of Rhode Island (the only Dexia Crédit Local outstanding loan to these cities is to Woonsocket for USD 28.5 million covered by a guarantee from Assured).

The last rating review saw some 15 cases of downgrade, the majority limited to one notch. More than one half of the Dexia Crédit Local portfolio to Federated States retains a rating of at least AA. Although cities, counties and school districts also remain well rated as a whole, ten or so counterparties in Dexia Credit Local's portfolio out of 120 have been downgraded.

Dexia Crédit Local outstanding loans to the US local public sector amounted to EUR 10.8 billion as at 31 December 2012.

General conclusion on Dexia Crédit Local's local public sector portfolio:

Despite pressures observed on the local public sector, the Dexia Crédit Local portfolio remains of a very good quality since almost 90% of outstanding loans, all countries combined, remain investment grade and the number of files requiring monitoring by the Watchlist Committee did not increase much during 2012.

c. Liabilities on project and corporate finance

This portfolio of approximately EUR 24.6 billion as at 31 December 2012 is two-thirds composed of project finance, i.e. transactions without recourse to their sponsors the repayment of which is only on the basis of their own cash flows analysed at origination and strongly secured in favour of the bank (asset sureties, contracts, dividend limitation and so on). The remainder consists of corporate finance (acquisition finance, commercial transactions or corporate bonds).

The project finance portfolio, at approximately EUR 16 billion, is 49% made up of PPP (public-private partnerships), principally in the United Kingdom and France, 29% energy (including approximately 60% renewable energies: onshore and offshore wind farms and thermodynamic and photovoltaic solar energy), 14% traffic risk and 8% other sectors (water, environment, telecoms, etc). 63% of the portfolio is situated in Western Europe, 24% in the United States, Canada and Australia and the remainder in the rest of the world. Portfolio quality remains sound with 70% of the portfolio rated investment grade. The main difficulties encountered this year involved projects associated with a traffic risk in the United States and Spain. This led Dexia Crédit Local to increase its level of reserves against the motorway sector, which amounted to EUR 72.9 million at the end of 2012.

The corporate portfolio is smaller, at approximately EUR 8.6 billion. It is made up of enterprises in the infrastructure sector (motorway or car park operators and building and public works companies) (39%), the utilities sector (water/environment/energy or gas distribution and transmission) (24%), energy (including hydrocarbons) (17%), real estate (11%) and miscellaneous (9%). 80% of the portfolio is located in Western Europe, 15% in the United States, Canada and Australia and the remainder in the rest of the world. Portfolio quality remains sound with 73% of the portfolio rated investment grade. The main difficulties encountered involved over-leveraged acquisition finance that was arranged prior to the crisis and which is difficult to refinance under current market conditions.

In order to guarantee the active management of files presenting difficulties and more particularly those necessitating restructuring, in 2012 Dexia Crédit Local established a dedicated "restructuring and workout" unit reporting directly to Credit Risk Management. Over-leveraged acquisition financing is included in the loans that this unit is likely to manage in the future.

d. Bond portfolio

As at 31 December 2012, the Dexia Crédit Local bond portfolio amounted to EUR 100.2 billion.

The strategy of deleveraging the residual bond portfolio of Dexia Credit Local in 2012 was no longer focused on an accelerated reduction of the size of the balance sheet, but rather on asset disposals, which did not adversely affect the Group's solvency, based on market conditions and opportunities, in line with the Dexia orderly resolution plan approved by the European Commission at the end of 2012. In this regard, the volume of bond sales amounted to approximately EUR 2.8 billion, of which 48% relating to sovereigns, 30.7% to banking bonds and 11% to ABS/MBS. Among these disposals, it is worth noting the sale of all Greek sovereign securities (approximately EUR 800 million in nominal value) at the end of 2012 in an auction launched by the Greek authorities following the Private Sector Involvement. It should also be noted that 62% of the asset sales were for bonds denominated in currencies (USD and JPY) other than the euro and for which refinancing conditions were more difficult.

e. Impact of disposals

The sale of Dexia Municipal Agency on 31 January 2013 contributed considerably to the reduction of Dexia Crédit Local's outstanding loans to the local public sector. In particular, this sale led to the exit from the consolidated Dexia Crédit Local portfolio of EUR 48.3 billion in loans to the French local public sector, EUR 3 billion to the Swiss local public sector, EUR 2.7 billion to the Italian local public sector and EUR 2.7 billion to the local public sectors of other countries.

Dexia Crédit Local also took over certain assets from Banque Internationale à Luxembourg for a total of EUR 6.8 billion (principally the portfolio of "Legacy" assets for EUR 4.6 billion), which did not fall within the scope of Dexia's sale of that entity.

CREDIT RISK EXPOSURE[1]

Credit risk exposure is calculated as follows:

- Balance sheet assets other than derivatives: the accounting value after deduction of specific provisions;
- Derivatives: the market value of the derivative contracts;
- Off-balance sheet commitments: the maximum amounts that can be drawn or the maximum amount that Dexia Crédit Local is committed to pay for the guarantees granted to third parties.

When a credit risk exposure is guaranteed by a third party with a lower risk weight compared to the underlying asset, the substitution principle applies.

Total credit risk exposure (ongoing activities and activities held for sale) includes the fully consolidated subsidiaries of Dexia Crédit Local.

As at 31 December 2012, Dexia Crédit Local's total credit risk exposure amounted to EUR 278 billion, including EUR 210 billion for ongoing activities and EUR 67.9 billion for activities held for sale (mainly Dexia Municipal Agency).

a. Exposure per type of counterparty (as at 31 December 2012)

In EUR millions	Total	Continuing activities	Activities held for sale
Central governments	34,946	30,408	4,538
Local public sector	160,295	103,542	56,753
Corporate	8,552	8,407	145
Monolines	5,652	5,652	0
ABS/MBS	12,807	7,899	4,908
Project finance	15,957	15,939	18
Financial institutions	39,786	38,207	1,579
TOTAL	**277,995**	**210,055**	**67,940**

As at 31 December 2012, most exposure to ongoing activities remained concentrated on the local public sector (49.4%). The proportion of financial institutions fell sharply to 18% of total ongoing activities as at 31 December 2012, by virtue of the fall in refinancing transactions between Dexia Crédit Local and Belfius Bank et Assurance.

(1) See also Note 7.2. "Exposure to credit risk" in the consolidated financial statements in this Annual Report (page 176).

b. Exposure per geographic zone (as at 31 December 2012)

In EUR millions	Total	Continuing activities	Activities held for sale
France	84,768	33,475	51,293
Italy	37,458	33,460	3,999
Germany	25,403	24,448	954
Spain	23,493	22,975	518
Great Britain	18,841	18,145	696
Belgium	16,271	11,044	5,227
Central Europe	4,333	4,201	132
Switzerland	3,977	176	3,801
Portugal	3,884	3,809	75
Austria	2,220	1,948	272
Scandinavia	1,768	1,574	194
Ireland	1,594	1,592	2
Hungary	1,390	1,390	0
Supra-European	878	832	46
Netherlands	701	701	0
Luxembourg	490	477	14
Greece	227	227	0
United States and Canada	32,202	31,513	690
Japan	7,321	7,296	25
Southeast Asia	1,220	1,220	0
Central and East America	1,110	1,110	0
Turkey	676	676	0
Other	7,770	7,767	3
TOTAL	**277,995**	**210,055**	**67,940**

As at 31 December 2012, most Group exposure remained concentrated in the European Union.

The sale of Dexia Banque Belgique resulted in a reduction in refinancing transactions between Dexia Crédit Local and Belfius Bank et Assurance, and heavily reduced exposure to Belgium, which represented only 5.3% of exposure from continuing activities as of end-2012 compared with 13% of exposure from activities at end-2011.

c. Exposure per rating (as at 31 December 2012)

As %	Total	Continuing activities	Activities held for sale
AAA	14.07%	12.62%	18.53%
AA	20.65%	22.17%	15.96%
A	28.96%	29.59%	27.01%
BBB	23.84%	21.88%	29.88%
NIG	11.10%	12.34%	7.26%
D	0.63%	0.60%	0.74%
Unrated	0.75%	0.80%	0.62%
TOTAL	**100.00%**	**100.00%**	**100.00%**

As at 31 December 2012, 86% of exposure to continuing activities was rated investment grade and 12% rated non-investment grade (NIG).

d. Breakdown of the government bond portfolio on certain European countries

(in EUR millions)	Nominal amount	Maximum credit risk exposure (banking book)	Of which continuing activities	Of which activities held for sale
Non-performing loans under collection	11,550	12,339	11,001	1,339
Reserves allocated	1,822	1,307	1,307	0
Italy	1,153	1,169	1,169	0
Portugal	468	450	450	0
Hungary	0	0	0	0
Spain	0	0	0	0
Greece	0	0	0	0
TOTAL	**14,993**	**15,265**	**13,927**	**1,339**

At the end of 2012, Dexia sold all of its Greek sovereign securities (approximately EUR 800 million in nominal value) in an auction launched by the Greek authorities following the PSI.

Exposure to Italian government bonds increased in 2012 following the restructuring of bond swap transactions.

e. Impairment for counterparty risk

Loans and advances, including securities reclassified in loans and advances (EUR millions)	31/12/2011	31/12/2012	Change (value) Dec. 2011-Dec.2012	Change (%) Dec. 2011-Dec.2012
Non-performing loans under collection	1,018	1,683	666	65%
Reserves allocated	364	**418**	54	15%

Securities and derivatives (EUR millions)	31/12/2011	31/12/2012	Change (value) Dec. 2011-Dec.2012	Change (%) Dec. 2011-Dec.2012
Reserves on banks	98	112	14	14%
Reserves on Greek sovereign debt*	2,788	0	(2,788)	
Reserves on Hellenic Railways*	23	0	(23)	

** during the first half of 2012, Sovereign Greek and Hellenic Railways securities were the subject of a swap agreement with the EFSF (European Financial Stability Facility).*

In 2012, impaired loans and advances to customers increased by 65% to EUR 1,683 million. This increase was accompanied by a 15% rise in specific reserves on loans and advances to customers, which stood at EUR 418 million. Several phenomena contributed to this increase:

- the classification under non-performing loans under collection of new counterparties including, primarily, motorway financing in the United States and LBO financing in France;
- the orderly resolution of the Dexia Group resulting in changes to the Dexia Crédit Local scope, including, first, the transfer of Dexia Holdings Inc. and Dexia SA Financial products to Dexia Crédit Local and, secondly, the takeover by Dexia Crédit Local Dublin of operations originating from Dexia BIL. Both of these operations increased outstanding non-performing loans for collection and the reserves against ABS;
- In addition, loans and advances to Hellenic Railways were the subject of a swap agreement with the EFSF (European Financial Stability Facility) resulting in the write-off of the EUR 138 million non-performing loan for collection and the writeback of the EUR 112 million impairment.

3.2. Market risk

DEXIA CRÉDIT LOCAL'S POLICY REGARDING MARKET RISK

In order to ensure integrated market risk management, Dexia Crédit Local has developed a framework based on the following elements:

- A complete risk measurement approach which is an important part of the process of monitoring and control of the Dexia Crédit Local risk profile;
- A structure of limits and procedures governing the acceptance of risk, consistent with the entire process for measuring and managing risk.

RISK MEASUREMENT

The Dexia Group has adopted the Value at Risk (VaR) measurement methodology as one of its main risk metrics. VaR measures the potential loss expected with a 99% confidence level and for a holding period of 10 days. Dexia applies multiple VaR approaches to obtain a precise measurement of the inherent market risk of its various activities and portfolios.

- General interest-rate and forex risks are measured through a parametric VaR approach, the methodology of which is based on the assumption of a normal distribution of yields of risk factors.
- Specific interest-rate risk and other risks in trading books are measured by means of an historical VaR approach. The historical VaR is a VaR the distribution of which is constructed applying the historic scenarios for the risk factors affecting the current portfolio.

Dexia Crédit Local uses an internal parametric VaR model to calculate its regulatory capital requirement on general interest-rate risk and foreign exchange risk generated by its trading activities.

The VaR methodologies are improved on an on-going basis. The Market Risk Engine project now provides an historical VaR (standard in numerous banks) that applies on every risk factor.

As a complement to VaR measures and loss triggers, Dexia applies a broad range of other measures aimed at assessing risks associated with the different business lines and portfolios (limits in terms of maturities, markets and authorised products, sensitivity to different risk factors and so on).

Stress testing completes the risk management mechanism by exploring a range of events outside the probability-based framework of VaR measurement techniques. VaR measurements assess the market risk under standard, everyday conditions, whilst stress testing quantifies it under abnormal circumstances. Against this background, different scenarios are regularly revised and updated. The results of consolidated stress tests and the corresponding analysis are presented quarterly to the Market Risk Committee and Risk Committee.

The bond portfolio is not subject to VaR limits given its different investment horizon but is subject to regular stress tests.

EXPOSURE TO MARKET RISK[a]

Value at Risk

Details regarding the VaR used for market activities, not including the bank bond portfolio, are given in the table below. Dexia Crédit Local's average VaR was EUR 9.5 million in 2012 (against EUR 8.2 million in 2011).

The limits have been reduced to comply with the principle of risk appetite reduction stated in the Dexia orderly resolution plan. Thus, as at 31 December 2012, the VaR limit was EUR 22 million.

Value at risk of Treasury and Financial Markets(*)

		2011				2012			
VaR (10 days, 99%) (in EUR million)		**IR[1] & FX[2][3] (Trading and Banking)**	**Spread Trading**	**Other risks [4]**	**Total 2011**	**IR[1] & FX[2] (Trading and Banking)[3]**	**Spread Trading**	**Other risks[5]**	**Total 2012**
Per activity	Average	3.3	4.9	0	8.2	3.2	6.2	0.4	9.5
	End of period	3.2	2.7	0	5.9	1.8	8.2	0.4	10.4
	Maximum	7.3	7.9	0	14.1	10.3	8.8	0.4	18.3
	Minimum	2.1	2.4	0	4.5	1.1	2.6	0.4	4.5
	Limit	27				22			

(1) IR: interest rate.
(2) FX: foreign exchange.
(3) IR & Forex: excluding asset & liability management (BSM).
(4) Other risks: BMA.

(*) The above figures take account of Dexia Municipal Agency positions. In fact, no VaR specific to this sub-scope was calculated. These positions only contributed very slightly to the total amount of Dexia Crédit Local VaR throughout 2012.

(a) Cf. also Note 7.5. "Market risks and Balance Sheet Management (BSM)" in the consolidated accounts in the present Annual Report.

It should be noted that following the disposal of Dexia Municipal Agency to Société de Financement Local (SFIL) and therefore its deconsolidation from Dexia Crédit Local as at 31 January 2013, Dexia Credit Local derivatives that previously covered DMA balance sheet items were recorded as isolated open positions and have therefore been reclassified as trading instruments. A trading portfolio was also re-opened in Paris to manage these positions. To that end, a market risk framework with appropriate guidelines has been put in place.

Bond portfolios

The bond portfolios of Dexia Crédit Local excluding Dexia Municipal Agency (ongoing activities) represented an amount of EUR 89 billion as at 31 December 2012. The economic value sensitivity of these bond portfolios to interest rate variations is extremely limited, as the interest rate risk is hedged. A major part of the bond portfolios is classified as Loans & Receivables. The AFS reserve of these securities is insensitive to credit spread variations. As for the other bond portfolios, classified as AFS, the sensitivity of fair value (and the AFS reserve) to a spread increase of one basis point amounts to EUR -27.3 million.

The bond portfolios of entities in the disposal programme (activities held for sale, mainly Dexia Municipal Agency) represented an amount of EUR 11.3 billion as at 31 December 2012. The economic value sensitivity of these bond portfolios to interest rate variations is extremely limited, as the interest rate risk is hedged. A major part of the bond portfolios is classified as Loans & Receivables. The AFS reserve of these securities is insensitive to credit spread variations. As for the other bond portfolios, classified as AFS, the sensitivity of fair value (and the AFS reserve) to a spread increase of one basis point amounts to EUR -0.8 million.

Considering the illiquidity of the markets and the reduced visibility for prices/spreads in the valuation process, models were used to value the "illiquid" portion of assets available for sale (AFS).

3.3. Balance sheet management

DEXIA CRÉDIT LOCAL POLICY REGARDING ALM RISK

The main aim of Dexia balance sheet management is to minimise the volatility of Profit and Loss by immunising the commercial margin and by protecting Dexia Crédit Local's overall creation of value. It does not aim to create additional income by deliberately taking interest rate risk, and attention is paid to the overall stabilisation of bank revenues.

RISK MEASUREMENT

Interest rate risk

All of Dexia Crédit Local's subsidiaries and branches use the same methods to measure balance sheet risk. The risk sensitivity measures reflect balance sheet exposure to a parallel shift of 1% on the interest rate curve. Sensitivity of the net present value of BSM positions to a movement in interest rates is the main indicator for measuring risk and for setting limits and monitoring risks.

Global and partial sensitivities per time interval are still the main risk indicators on which asset-liability risk committees (ALCO) manage risks.

The structural rate risk of Dexia Crédit Local is concentrated principally on European long-term interest rates and results from the structural imbalance between Dexia's assets and liabilities after hedging the interest rate risk.

Currency risk (structural)

Dexia Crédit Local's reporting currency is the euro, but its assets, liabilities, income and expenses are also denominated in other currencies. The Group ALCO decides on hedging the risk associated with the evolution of these results in foreign currencies. In this case, a systematic and ongoing hedge was applied to these exposures.

The structural risks associated with the funding of holdings with equity in foreign currencies (limited to the US dollar) as well as the volatility of Dexia Crédit Local's solvency ratio are also monitored regularly.

BALANCE SHEET EXPOSURE TO INTEREST RATE RISK

For ongoing activities, the sensitivity of long-term ALM was EUR -6 million as at 31 December 2012 (against EUR -33 million as at 31 December 2011 for the entire Dexia Crédit Local Group). The level related to ongoing activities as at the reporting date of 31 December 2012 corresponds to the interest rate risk policy now followed by Dexia within the context of the run-off management of the majority of the Dexia Crédit Local's activities. It complies with the Balance Sheet Management strategy, which aims to minimise the volatility of the income statement.

These sensitivity variations are mainly due to the redefined scope of Dexia Crédit Local.

Sensitivity and limits of the long term ALM as at 31 December 2012

(in EUR millions)	Total	2012 Of which continuing activities	 Of which activities held for sale
Sensitivity	+4.0	-6.0	+10.0
Limit	+266.0	+266.0	Non alocated

3.4. Liquidity

DEXIA CRÉDIT LOCAL POLICY REGARDING LIQUIDITY RISK

Dexia measures and manages liquidity risk by an internal management process which was redefined in 2011. The cornerstone of this management process is the Funding and Liquidity Committee (FLC), a central committee that brings together all parties involved in liquidity and funding matters and coordinates their activities.

In 2012, the Funding and Liquidity Committee met on a weekly basis to closely monitor changes in the liquidity position of the Dexia Group and Dexia Crédit Local and, mandated by the ALCO, to make key decisions aimed at its improvement. Collateralised long-term funding transactions, securities swaps, covered issues and non-covered funding as well as the close monitoring of funding sources and production are some of the instruments and activities used by Dexia on the initiative of this committee to improve the liquidity position of Dexia and of Dexia Crédit Local in particular.

The liquidity management process aims to cover Dexia Crédit Local's funding requirements. Funding requirements are assessed dynamically taking into consideration existing and planned on and off-balance sheet transactions; reserves are composed of assets eligible for the refinancing facilities of central banks to which Dexia has access.

Regular information channels have been put in place towards the management bodies:

- weekly meetings of the FLC during which the evolution of the liquidity situation is studied and analysed in detail;
- regular meetings of the audit committee and the board of directors.

In light of the pressures on the liquidity situation in 2012, specific and regular modes of information have been introduced:

- daily, weekly and monthly reporting to members of the Group Management Board, to the shareholder and guarantor States and to the regulators. This information also serves all those involved in the management of Dexia Group and Dexia Crédit Local liquidity, i.e. BSM Finance, BSM Risk Management and TFM;
- monthly disclosure to the shareholder and guarantor States, central banks and regulators of the multiyear funding plan;
- a weekly call with the regulators and French and Belgian central banks (BDF, ACP, BNB).

RISK MEASUREMENT

Liquidity indicators have evolved to take into account the constraints weighing on the liquidity situation. The four weeks liquidity ratio comparing liquidity reserves to Dexia's liquidity gaps following various scenarios is supplemented by the drawings ceiling authorised by the Bank of France on the emergency liquidity assistance (ELA) facility and by the maximum authorised amount of guaranteed issues.

Dexia Crédit Local's liquidity risk is also framed by the liquidity ratio monitored by the Prudential Control Authority (ACP); it is defined as the ratio between liquidities (as the numerator) and liabilities (as the denominator) over a prospective period of one month; the coefficient thus calculated must at all times be above 100 (Instruction No. 2009-05 dated 29 June 2009 relating to the standardised approach to liquidity risk). This ratio is sent to the ACP on a monthly basis

LIQUIDITY MANAGEMENT

Changes in the liquidity structure of Dexia Crédit Local

The improvement of Dexia Crédit Local's financial structure and the reduction of its liquidity requirement were priority objectives of the transformation plan launched in 2008. During the summer of 2011, the exceptionally difficult environment severely damaged Dexia Crédit Local's liquidity situation, leading at the end of December 2012 to funding in the order of EUR 90.7 billion (EUR 109.7 billion with the 2008 guarantee) via central banks and guaranteed issues.

However, the second half of 2012 was marked by a reduction in pressures on the liquidity situation and by the finalisation of the guarantee scheme granted by the Belgian, French and Luxembourg States.

More detailed information on this new guarantee agreement is provided in the section entitled "Significant events" in this Annual Report and Note 4.3 to the "Transactions with related parties".

In particular, Dexia benefited from an easing of the various credit indicators whilst the persisting concerns regarding sovereign debts within the eurozone weighed heavily on the markets during the first half of the year, resulting in a fall of long-term rates and very severe volatility.

This was reflected by a reduction in pressures weighing on Dexia Crédit Local's liquidity situation which is illustrated in particular by the following favourable developments:

- The upward trend of long-term rates in the second half-year resulted in a EUR 2.4 billion reduction in the net collateral required to be lodged with derivatives counterparties compared to the end of June 2012.
- As a result of the structural reduction of the balance sheet and the maintenance of long-term funding over the quarter, Dexia Crédit Local's short-term funding requirement was EUR 44.3 billion at the end of December, and has been falling since the end of 2011 (EUR 88 billion at the end of December 2011 and EUR 60.3 billion at the end of June 2012).
- The respite in the European sovereign debt crisis enabled Dexia Crédit Local to refinance its liquidity gaps better by taking advantage of the increased investor appetite for State-guaranteed debt, particularly on the US market.

Despite these positive elements, Dexia made full use of the provisional guarantee mechanism granted by the three States at the end of 2011. The provisional guarantee ceiling was raised to EUR 55 billion in June 2012 and outstanding guaranteed funding under the 2011 agreement reached EUR 54 billion at the end of December 2012. As previously indicated, the guarantee ceiling was set at EUR 85 billion in principal including funding already covered by the 2011 provisional guarantee and the guaranteed debt issued under the 2011 provisional agreement and the 2013 agreement reached EUR 54 billion at the end of February 2013.

It should be noted that USD 4.7 billion of guaranteed debt was placed with US institutional investors and the average maturity of the guaranteed debt was 1.3 years. Finally, Dexia Crédit Local is considering implementing specific short and long-term issue programmes to be deployed in 2013, however this is a temporary situation since a return to this one-off refinancing is possible in 2013.

Thanks to the placement of guaranteed debt issues and the EUR 2 billion capital increase (including additional paid-in capital) use of the emergency liquidity assistance (ELA), which was EUR 14.2 billion at the end of June, was zero as at 31 December 2012. However, this situation is temporary, with a return to this exceptional refinancing expected during the course of 2013.

As a consequence, the funding structure of Dexia Crédit Local changed significantly during 2012 under the combined effect of disposals of strategic entities, increased recourse to central banks and the market trends described above.

These elements resulted in:

- An increase in outstanding long-term funding (12 months and more) via the increased issue of guaranteed debts and long-term covered funding more than offsetting the reduction of outstanding senior non-guaranteed debt and covered bonds (EUR +4.7 billion net);
- A fall in outstanding short-term funding (EUR -43.7 billion), reflected over the period under consideration by a very sharp reduction in the portion of the balance sheet covered by short-term funding. This in fact fell from 22% at the end of December 2011 to approximately 12% at the end of December 2012.

In the course of 2012, Dexia Crédit Local was generally unable to reach the minimum regulatory threshold defined for the liquidity ratio that it is subject to. Observance of this ratio in the future will depend on the implementation of Dexia Crédit Local's issuance plan which is still subject to much uncertainty.

Liability management

In view of the very poor price levels of its subordinated debt on the secondary market, and in order to optimise its balance sheet management, Dexia Crédit Local successfully completed several debt repurchase transactions.

A public cash tender offer on perpetual non-cumulative (Tier 1 hybrid) securities was launched on 2 March and closed on 14 March 2012 for a nominal amount of EUR 700 million. This buyback offer was a response to the desire to increase Dexia Crédit Local's Core Tier 1 capital and was pre-financed via an asset sale. The combination of that asset sale and the repurchase of perpetual securities was therefore neutral for the Group's liquidity situation.

A second series of repurchases, this time of redeemable subordinated (Lower Tier 2 hybrid) debt was launched on 20 November 2012 on behalf of Dexia Crédit Local and related to a EUR 500 million issue maturing in 2017 and a EUR 300 million issue maturing in 2019. A total amount of EUR 411.55 million was placed by investors, or 51.4% of the combined total nominal amounts of the two issues.

Finally, Dexia Crédit Local also proceeded with the repurchase of senior covered bonds[1] via the German and French subsidiaries of Dexia Crédit Local, Dexia Kommunalbank Deutschland and Dexia Municipal Agency (DMA). At the close of an offer launched on 23 April 2012 and closed on 3 May 2012, Dexia Kommunalbank Deutschland had repurchased EUR 2.6 billion of *Pfandbriefe*. In contrast to the subordinated debt involved in the transactions described above, these securities did not offer any discount on their nominal value, as this exercise was primarily aimed at optimising the issuer's cash flow management as well as the structure of its cover pool, without impact on Group liquidity. To a more limited extent, during H1 2012 Dexia Municipal Agency also carried out a steady stream of covered bond buybacks for smaller amounts (EUR 830 million), in order to optimise its debt repurchase profile.

3.5. Operational risk and permanent control

DEXIA CRÉDIT LOCAL POLICY REGARDING OPERATIONAL RISK MANAGEMENT AND PERMANENT CONTROL

Dexia Crédit Local's policy regarding operational risk management consists of regularly identifying and assessing the various risks and existing controls, in order to check that the level of tolerance defined per activity is observed. If that is not the case, the governance in place must lead to the rapid establishment of corrective actions or improvements which will bring about a return to an acceptable situation. This mechanism is supplemented by a policy of prevention, particularly regarding information security, of guaranteeing business continuity and, when necessary, by transferring certain risks through insurance.

In terms of permanent control, Dexia Crédit Local's policy aims to ensure cover for the types of risks provided for by CRBF Regulation 97-02 through a system of first- and second-level controls. Heads and staff members of operational departments are responsible for the adaptation and smooth running of first-level permanent control procedures in their fields of activity. The second level of control is for specialist functions, independent of the activities controlled and reporting directly to the Management Board. The execution of second-level permanent controls is checked each quarter as part of reporting procedures for the permanent control plan. Their results are compared with previously defined objectives and any shortcomings in control or in the results is allocated a corrective action plan monitored by a permanent control steering team. The supporting material required for the traceability of the results is also checked each quarter.

RISK MEASUREMENT AND MANAGEMENT

The operational risk management system relies on the following elements:

a. Operational risk database

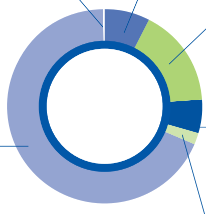
The systematic capture and monitoring of operational risk events is one of the most important requirements stated by the Basel Committee, whatever the approach chosen for the capital calculation (Standardised or Advanced Measurement Approach): "Data on a bank's historical loss experience could provide meaningful information for assessing the bank's exposure to operational risk and developing a policy to mitigate/control the risk".

The collection of operational risk event data enables Dexia Crédit Local to obtain valuable information in order to improve the quality of its internal control system. In terms of reporting, beyond the mandatory reporting threshold set at EUR 1,000, rules have been formulated and distributed at the level of Dexia Crédit Local, its subsidiaries and branches to ensure that the most important information is escalated in due time to senior management. The Management Board receives

(1) Covered bonds: generic term used to define bonds issued under a specific legal framework, a stock of assets (so-called "cover pool") guaranteeing the repayment of the bond issues thus covered. In Germany these are Pfandbriefe *and in France* obligations foncières *(real estate bonds).*

a report on the main events, including an action plan to reduce risk, defined by the bank's middle management.

Over the last three years, the split of the total amount of losses among standard event types is the following:



Typically, the main category represented is "Execution, delivery and process management", which covers the most straightforward and common errors and problems. The second biggest item is "Clients, products and commercial practices". The main events are subject to corrective actions approved by management bodies.

b. Self-assessment of risks and associated controls

In addition to building a history of losses, the exposure of Dexia Crédit Local to the main risks is determined through risk mapping. To do this, Dexia Crédit Local and its subsidiaries and branches perform bottom-up self-assessment exercises of risk in the light of the existing controls. The self assessments may give rise to the definition of risk limitation actions. They provide an overview of most of the risk areas in the different entities and activities, with the objective of reporting the results to management across the organisation. These exercises are repeated each year.

c. Definition and monitoring of action plans

The bank's middle management defines the corrective actions to deal with major incidents, deficient controls or notable risks identified. There is regular monitoring by operational risk management. By virtue of this process, the internal control system is continuously improved and the main risks appropriately mitigated over time.

d. Permanent control

The permanent control mechanism is aimed at checking the existence and quality of key controls in all activities and enabling major risks to be covered, whatever their nature. This involves first-level controls carried out by operations staff and second-level controls performed by non-operational support functions.

On the basis of a control plan updated each year, confirmation actions in relation to the accuracy of execution of those controls are organised quarterly, and give rise to a detailed report presented to the various governance bodies. Shortcomings always give rise to the definition of corrective actions.

e. Information systems security and business continuity management

Information systems security policy and the related guidelines, standards and practices aim to secure Dexia Crédit Local's information assets. Security programmes and well-defined responsibilities ensure that all activities are carried out in a secure environment.

As required by Dexia Crédit Local's policy on business continuity, business lines must establish impact analyses for vital activities in the event of an interruption. They must define and document recovery plans and ensure that business continuity plans are tested and updated at least once a year. On the basis of regular reporting, Dexia Crédit Local's senior management validates recovery strategies, residual risks, and action plans for continuous improvement.

f. Management of insurance policies

The operational risk to which Dexia Crédit Local is exposed is also reduced by taking out Group insurance policies, covering professional liability, fraud, theft and interruption of business activity. The global insurance policy establishes the principles of cover for the different risks incurred that are to be implemented at the parent company and subsidiary levels. It also provides a centralised framework for negotiations with brokers and insurance companies.

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

A software application implemented in 2010 covers most of the building blocks of the operational risk management framework and also offers some key functions (links between risks/controls/recommendations and action plans, automated data entry controls, traceability of modifications, etc,) to other central functions (internal audit, compliance, validation, permanent control and quality control). This software allows all of these functions to use a common language and reference systems, and generates consolidated information for the bank's middle management, in particular regarding any type of action plan or recommendation to be followed up over time.

h. Calculation of regulatory capital requirements

Dexia Crédit Local applies the Basel II standard approach for the calculation of regulatory capital within the framework of operational risk management.

The table below presents the capital requirements for the years 2011 and 2012:

(in EUR million)	2011	2012
Capital requirement	111	47

The 58% reduction compared to the year 2011 is due principally to the method of calculation, which is based on the three-year average of restated net banking income.

i. Operational risk management in the transitional period

2012 constituted a key phase in the implementation of the orderly resolution of the Dexia Group including the disposal of several operating entities and the development of a new structure for French local public sector finance activities. Such transitional phases by nature tend to encourage the development of certain operational risks, particularly due to recognised factors such as the departure of key people, the possible demotivation of staff members, processing changes when operational applications have to be replaced and so on.

Nevertheless, the main elements of the management systems described above remain valid. More particularly regarding the self-assessment of risks and controls, the bank's management was asked on several occasions during the year to assess the risk of discontinuity associated with the factors mentioned above. A map of critical tasks was gradually drawn up and action plans were systematically defined in the event of incidents occurring. The results of those analyses and the follow-up of action plans were regularly presented to the ORAC and to the Management Board and to Dexia Crédit Local's senior management for validation.

The separation of Dexia and Société de Financement Local (SFIL) was also subject to specific analysis, particularly from the point of view of the continuity of critical tasks.

Finally, psycho-social risks were the focus of preventative actions (information, awareness) and assistance (hotline, support of an independent external firm) at Dexia Crédit Local, particularly within the context of the ongoing orderly resolution plan.

4. Legal risk

Like a number of financial institutions, Dexia is facing several regulatory investigations and is a defendant in a number of disputes, including class action cases in the United States and Israel. Unless otherwise indicated, the status of the principal disputes and investigations summarised below is as at 31 December 2012 and based on the information available to Dexia at that date. According to the information available to Dexia at that date, other disputes and investigations in progress are not expected to have a material impact on the Group's financial position, or it is still too early to accurately assess whether they will have such an impact.

The consequences, as assessed by Dexia in accordance with the information available to it at the aforementioned date, of the principal disputes and investigations liable to have a material impact on the Group's financial position, performance or activities are reflected in the Group's consolidated financial statements. Subject to the general terms and conditions of professional indemnity and executive liability insurance policies taken out by Dexia, any negative financial consequences of some or all of these disputes and investigations may be covered, in full or in part, by those policies and, subject to the insurers in question accepting these risks, may be offset by any payments that Dexia may receive under the terms of those policies.

- Financial Security Assurance

Financial Security Assurance Holdings Ltd. (FSA Holdings) and its subsidiary, Financial Security Assurance Inc., (since renamed Assured Guaranty Municipal Corp., hereinafter referred to as "AGM"), previously 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 Securities and Exchange Commission (SEC) on the grounds that they violated the laws and regulations applicable to requests for proposals and the contracting of various transactions with local governments, including the marketing of guaranteed investment contracts (GICs)[1] entered into with issuers of municipal bonds. Several US States have initiated parallel, similar investigations.

In addition to the government investigations described above, a large number of banks, insurance companies and brokerage firms, including in some cases FSA Holdings, Dexia and/or AGM, have been subpoenaed in various civil cases relating to GICs and other transactions entered into with local governments. These civil claims are based on alleged breaches of antitrust laws and other laws and regulations. Almost all of these civil suits have been combined for the purposes of a preliminary ruling by 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 has retained the Financial Products business and agreed to indemnify AGM and Assured Guaranty Ltd. for any losses related to this activity that they may incur as a result of the investigations and lawsuits mentioned above.

On 27 July 2010, the US Department of Justice accused Steven Goldberg, a former employee of AGM, and two of his former colleagues at his previous employer in connection with a case involving bid rigging. The US Department of Justice did not charge either AGM or any other Dexia Financial Products Group entity in the indictment it issued against Goldberg. Goldberg was found guilty of fraud on 11 May 2012. At the end of October 2012, he received a custodial sentence and a criminal fine. Goldberg appealed the verdict.

Dexia is not presently in a position to reasonably comment on the length, outcome or potential financial consequences of these ongoing proceedings. Furthermore, due to the nature of the investigations carried out by the US Department of Justice and the SEC, as well as the civil claims in connection with the same case, any suggestion that a provision was being set aside in connection with these investigations or disputes or their subject and, as the case may be, the amount of any such provision, could prove seriously detrimental to Dexia's legal position or defence in connection with these lawsuits or any related proceeding

- Dexia banka Slovensko

In June 2009, a customer of Dexia banka Slovensko, who found himself unable to meet margin calls in connection with certain foreign exchange transactions, instituted legal proceedings against the bank, seeking EUR 162.4 million for breach of law and contractual obligations. Dexia banka Slovensko filed a counterclaim in the amount of EUR 92.2 million.

On 17 May 2010, the Court of First Instance (Magistrates' Court) of Bratislava returned a verdict in favour of the bank's former client, ordering Dexia banka Slovensko to pay a principal amount of EUR 138 million. By a separate order, the bank was also ordered to pay costs in the amount of EUR 15.3 million. Dexia banka Slovensko

(1) The guaranteed investment contracts (GICs) that are the subject of these investigations and subpoenas were issued by subsidiaries of FSA Holdings in exchange for funds invested by US municipalities, or in favour of issuers of securitised debt. 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 remains so subsequent to that company's acquisition by Assured Guaranty Ltd.

appealed both decisions to the Court of Appeal of Bratislava and, in response to these convictions, withdrew its counterclaim, which was still pending before the Court of First Instance, and filed it with the Permanent Chamber of Arbitration of the Slovak Banking Association.

On 25 January 2011, the Court of Appeal of Bratislava issued a ruling overturning both of the verdicts issued by the Court of First Instance of Bratislava. In its ruling, the Court of Appeal of Bratislava overturned virtually the entire argument put forward by the Court of First Instance, emphasising that the Court had not established the facts to a satisfactory degree and invalidating its legal argument. In theory, the case should have been referred back to the Court of First Instance, which is required to take into account the (binding) arguments put forward by the Court of Appeal.

However, the bank's former client appealed the Court of Appeal's ruling by submitting an extraordinary appeal to the Slovak Supreme Court, which was dismissed for procedural reasons in a ruling by the Supreme Court on 18 June 2012; the Supreme Court confirmed that there were no valid grounds to re-examine the decision reached by the Court of Appeal. The case has therefore been referred back to the Court of First Instance of Bratislava, which should issue a ruling in accordance with the instructions and arguments put forward in support of the decision returned by the Court of Appeal.

With regard to the sale of Dexia banka Slovensko at the beginning of 2011, the Dexia Group's residual exposure in connection with this lawsuit is capped at an undisclosed amount which, should Dexia be required to pay it, is guaranteed by funds held on deposit.

- Dexia Crediop

Dexia Crediop, like other banks in Italy, is the subject of legal proceedings regarding hedging transactions entered into in connection with debt restructuring agreements with local governments.

Under Italian law, debt may be restructured only if this lowers the cost borne by the community (known as the "economic interest criterion"). The legal question raised is whether or not the cost to be taken into consideration includes the cost of hedging transactions.

In September 2011, in a dispute between Dexia Crediop and the Province of Pisa, the Council of State ruled that the self-redress resolution adopted by the province complied with formal validity requirements and that hedging costs should be taken into account when testing for the economic interest criterion. The Council appointed a technical expert to perform this test.

Following two expert reports in Dexia Crediop's favour, the Council returned its final verdict on 27 November 2012. In summary, the Council of State ruled that (i) the initial fair value of a hedging transaction is not automatically equal to the theoretical average price on the swap market, but that it must take into account parameters specific to the hedging transaction, such as the loan and liquidity components; (ii) these components of hedging costs, where accurately assessed, are legitimate and do not constitute "implied costs"; (iii) the cost of the hedging transaction (after deducting the components in question) as it relates to the Province of Pisa is lower than the economic benefit generated by restructuring the debt for the province, and the restructuring as a whole fulfils the economic interest test; and (iv) Dexia Crediop was under no obligation to detail each individual component of the hedging cost for the Province of Pisa and Dexia Crediop administered the bond restructuring in connection with the Province of Pisa in a manner that was proper, transparent and in keeping with the client's interests. A proceeding before the Supreme Court and the Commercial Court in London regarding the rulings issued by the Council of State is still in progress.

Dexia Crediop is involved in various proceedings brought by 11 Italian regions, cities or provinces in connection with debt restructuring deals and associated hedging arrangements. Dexia Crediop is involved in a number of civil and administrative proceedings with the aim of protecting its rights in connection with hedging agreements. In three of these ongoing cases, criminal proceedings have been brought against employees of Dexia Crediop for alleged fraudulent acts which, if proven, could also incur Dexia Crediop's administrative liability for failing to take appropriate steps to prevent its employees from committing such offences. The employees in question and Dexia Crediop are contesting all charges brought against them in this regard. More recently, in one of these three current proceedings, the charges of fraudulent acts were dismissed on 14 January 2013.

Dexia is not presently in a position to reasonably comment on the length, outcome or potential financial consequences of these proceedings. As such, the financial statements for the year ended 31 December 2012 show only a provision for around EUR 5 million to cover the legal costs associated with these disputes.

- Dexia Crédit Local

Dexia Crédit Local is involved in a number of disputes with local governments to which it has proposed structured loans. As at 31 December 2012, 63 subpoenas had been issued against Dexia Crédit Local in connection with structured loans.

On 8 February 2013, the Nanterre Regional Court issued its verdicts on claims brought against Dexia by the Département de Seine-Saint-Denis in connection with three structured loans with a combined outstanding balance of EUR 177,534,631.90 as at 21 March 2013.

The Nanterre Regional Court dismissed the Département de Seine-Saint-Denis's request to cancel the three contested structured loan agreements and all its claims for damages. In particular, the Court considered that the loans were not speculative, that the Département was competent to enter into the loan agreements and that Dexia had fulfilled its duty to inform and advise the Département. The Nanterre Regional Court did, however, consider that faxes that preceded the signature of the final agreements could be described as "loan agreements", and that failure to include the annual percentage rate (APR) on these faxes implied that the statutory interest rate should be applied.

The loans to which the Court's decisions relate fall within the scope of disposal of Société de Financement Local. That being the case, this verdict, if upheld, will have no financial impact on the Group, since the assets being disposed of now belong to Société de Financement Local. If the Regional Court's decisions were to be upheld and were to constitute a legal precedent, their extension to other Dexia loans could however give rise to significant contingent liabilities.

Dexia Crédit Local intends to appeal these decisions.

- Dexia Israel

In May 2002, a class action complaint was filed concerning Dexia's purchase of shares held by the State of Israel and certain banks, based on an alleged breach of corporate law. In April 2009, the Central District Court dismissed the class action claim filed by the plaintiffs. In June 2009, the latter appealed their case to the Supreme Court. The hearing was held in November 2010.

On 17 June 2012, the Supreme Court returned its verdict, ruling that Dexia Crédit Local should have acquired the shares in question via a public tender offer. Consequently, the Supreme Court referred the entire case (recognition of the class action claim, existence of losses and, if applicable, appropriate compensation) to the Tel Aviv District Court. In January 2013, the Supreme Court dismissed requests for additional hearings filed by Dexia Crédit Local and the State of Israel following the ruling on 17 June 2012.

In December 2011, another class action suit was filed by nine individual shareholders against Dexia Crédit Local and the Union of Local Authorities in Israel (ULAI), in their capacity as shareholders, and against Dexia Israel. In particular, this case is based on an alleged failure to complete the process of equalising the rights attached to shares in Dexia Israel, which the applicants claimed was detrimental to them. In January 2013, the Tel Aviv District Court decided to defer its ruling until such time as a final ruling (including on appeal) had been returned in connection with the first class action case.

In July 2012, some minority shareholders also initiated a derivative action on behalf of Dexia Israel against Dexia Crédit Local and 20 of its current and past directors, with the aim, in particular, of securing the reimbursement of dividends paid by Dexia Israel to Dexia Crédit Local since the latter acquired its equity interest.

Dexia is not presently in a position to reasonably comment on the length, outcome or potential financial consequences of these proceedings.

- Dexia and Dexia Crédit Local S.A.: petitions for the cancellation of Belgian royal decrees extending a government guarantee

The Kingdom of Belgium was authorised to provide a guarantee to Dexia SA and Dexia Crédit Local by a Belgian royal decree dated 18 October 2011.This royal decree was amended by another royal decree dated 19 December 2012.

On 23 December 2011, three non-profit associations – the Comité pour l'annulation de la dette du Tiers-Monde (Committee for the Cancellation of Third World Debt/CADTM), the Association pour la Taxation des Transactions financières pour l'Aide au Citoyen, locale de Liège (Liège branch of the Association for a Tax on Financial Transactions for the Benefit of Citizens/ATTAC Liège) and ATTAC Bruxelles 2 – filed a petition for the cancellation of the Belgian royal decree of 18 October 2011 with the Belgian Council of State. These non-profit associations were joined by two Members of the Belgian federal parliament, who voluntarily joined in this proceeding to request that the royal decree of 18 October 2011 be cancelled. Dexia SA decided to join in the proceeding before the Belgian Council of State in order to assert its rights.

On 26 February 2013, these three non-profit associations and two Members of the Belgian federal parliament filed a petition for the cancellation of the royal decree of 19 December 2012. Dexia SA also intends to join in this proceeding before the Belgian Council of State in order to assert its rights.

These proceedings are pending before the Belgian Council of State.

- Disposal of Group operating entities

Having sold Dexia Banque Belgique SA to the Société Fédérale de Participations et d'Investissement SA in October 2011, in 2012 and early 2013 Dexia and Dexia Crédit Local S.A. finalised the disposal of a serie of other operating entities, in accordance with undertakings given from 2011 onwards and set out in the Group's revised resolution plan (see page 69 of this report).

The share transfer agreements pertaining to these disposals include warranties which are subject to the customary restrictions and limitations for these types of transactions, together with certain specific indemnities.

To date, with the exception of the case indicated above, no warranty or indemnity claims have been formally put forward by the buyers in connection with the aforementioned contracts.

5. Stress tests

Dexia has implemented the performance of stress tests in a Group-wide and integrated approach to the Group's risk management process taking account of the orderly resolution plan initiated in October 2011.

The aim of stress tests is to measure the bank's sensitivity to adverse shocks in terms of expected losses, weighted assets, liquidity needs and capital requirements.

In 2012, Dexia performed a series of stress tests (sensitivity analysis, scenario analysis, assessment of potential vulnerabilities) particularly based on macroeconomic scenarios reflecting crisis situations.

In addition to the stress tests for market and liquidity risks performed on a regular basis and meeting regulatory requirements, in 2012 Dexia performed stress tests on the majority of the credit portfolios. In particular, within the framework of Pillar 1 of Basel II, credit exposures covered by internal rating systems are tested for sensitivity and under adverse scenarios for macroeconomic variables.

Given the extent of Dexia's restructuring, a direct consequence of its orderly resolution plan, Dexia is no longer included in the sample of banks used by the EBA for the performance of stress tests. For the proper implementation of that plan, Dexia has the support of a guarantee granted by the Belgian, French and Luxembourg States.

6. Application and evolution of the regulatory framework

The Dexia Group has implemented all the mechanisms associated with the Basel II regulations and has adopted a mechanism for constant improvement, particularly by integrating provisions linked to CRD (evolution of the calculation of major risks, retention of a portion of securitised exposures) and CRD 3 (introduction of a stressed VaR, taking account of requirements for the calculation of capital consumption for securitisation and re-securitisation positions, which are nonetheless limited for Dexia Crédit Local). Dexia is also working actively on the introduction of CRD 4 and for that purpose has established a dedicated governance system involving close collaboration between the risk and finance teams in order to make all the changes necessary in respect of the new requirements for the calculation of capital consumption (Credit Valuation Adjustments, Asset Value Correlation, liquidity, definition of capital).

As for credit risk, since 1 January 2008 Dexia Crédit Local has used the Advanced Internal Rating Based Approach (AIRBA) to calculate its capital requirements and its solvency ratios. Following the disposal of certain Group entities and the sharp reduction of some portfolios, the Dexia Group nonetheless filed an application with the Belgian National Bank (BNB) and the French Prudential Control Authority (ACP) to migrate to the standard approach for certain portfolios which have become non-significant in terms of assets and number of counterparties, making the statistical approach associated with the internal model much less appropriate.

Pillar 2, applicable since 31 December 2008, imposes the need on banks to demonstrate to their regulators that they are sufficiently capitalised in light of their risk profile. To that end, they must in particular have internal systems for calculating and managing their risks that are capable of estimating their economic capital requirement (Internal Capital Adequacy Assessment Process – ICAAP). Consolidated within Dexia in 2010, this process is distinguished in particular by the capital adequacy process. Dexia has nonetheless commenced a project to adapt this mechanism in line with its new scope and to its activities which will be introduced in 2013 (see the "Internal capital adequacy" section).

Pillar 3, which defines a series of qualitative and quantitative risk-related disclosures to be disseminated to market operators, is applicable at the Dexia Group consolidated level and has been an integral part of its external communication since 2008 (*see document entitled Risk Report – Pillar 3 of Basel II available at www.dexia.com*).

7. Internal capital adequacy

During 2012, Dexia maintained its internal capital adequacy mechanism and at the same time launched a project to develop its approach and adapt it to the scope and activities of Dexia in 2013, in line with the orderly resolution plan. The adapted internal approach will be implemented during 2013 with the aim of simultaneously valuing the economic and regulatory capital requirement for different simulations of risk scenarios.

In accordance with the requirements of Pillar 2 of Basel II (capital adequacy in relation to the bank's risks, principally based on the economic capital approach), Dexia presented its regulators with the principles and guidelines of the approach which will be adopted in 2013, entitled Risk and Capital Adequacy. Dexia also submitted information about the progress and development of the transitional phase between the current approach, still in application at the end of 2012.

The process of quantifying economic capital rests on an exhaustive identification of risks. On that basis, the ability of Dexia Crédit Local to honour its future commitments and the adequacy of its capital are subject to numerous analyses sent to the various internal and external stakeholders, based on the Dexia Group orderly resolution plan.

8. Solvency monitoring

8.1. Weighted risk

Weighted risk has three components: credit risk, market risk and operational risk.

Dexia Crédit Local's weighted risk totalled EUR 50.49 billion as at 31 December 2012, compared with EUR 50.96 billion a year earlier – a fall of approximately EUR 500 million.

8.2. Regulatory capital adequacy

Tier 1 capital stood at EUR 8,656 million as at 31 December 2012, up 3.6% year on year, mainly as a result of the EUR 2 billion capital increase completed on 31 December 2012 and the buyback of T1 and T2 hybrid securities.

The Group's core Tier 1 capital totalled EUR 8,599 million as at 31 December 2012.

At that date, Dexia Crédit Local's Tier 1 hybrid instruments had a total nominal value of only EUR 56 million. This is explained by the public tender offer launched on 2 March 2012 for the purchase of EUR 700 million in perpetual non-cumulative securities issued by Dexia Crédit Local, at a purchase price of 24% of the par value of the securities in question.

Total regulatory capital stood at EUR 9,217 million, down 6.8% year on year, mainly as a result of a substantial reduction in fixed-term subordinated debt. This followed Dexia Crédit Local's tender offer for the purchase of redeemable subordinated debt securities (lower T2 hybrid) in the second half of 2012, intended to strengthen the Group's core capital.

The table below details the various buybacks of Tier 1 and Tier 2 capital undertaken in 2012:

Type	Amount issued (EUR millions)	Buyback amount (EUR millions -%)	Price	Buyback date
Tier 1 hybrid (Dexia Crédit Local)	700	643 – 91.86%	24%	March 2012
Lower Tier 2 2017	500	238 – 47.59%	65%	November 2012
Lower Tier 2 2019	300	174 – 57.87%	65%	November 2012

Calculated weighted risk is as follows:

(EUR millions)	31/12/2011	31/12/2012
Credit risk	48,035	48,632
Operational risk	1,392	589
Market risk	1,354	1,276
TOTAL	**50,961**	**50,497**

The table below sets out the various solvency ratios:

	31/12/2011	31/12/2012
Core Tier 1 ratio	15.02%	17.03%
Tier 1 ratio	16.40%	17.14%
Capital adequacy ratio	19.40%	18.25%

9. Payment systems security

Dexia Crédit Local uses the following payment systems:

- The SWIFT network is used for interbank settlements in connection with trades booked by front office traders in the Financial Markets activities department and any funds transfers requested by other Dexia Crédit Local departments (especially in connection with international business managed by Head Office and the settlement of foreign invoices);
- The French Ministerial Budget and Accounting Control Service (SCBCM) network is used for drawings and collections in connection with loans to public sector customers;
- The French Retail Clearing (CORE) and CRISTAL/TARGET2 systems are used for most payments to private sector customers;
- Finally, 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:

- the 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 5,000,000 initiated automatically by the Financial Markets information system, which require only one authorisation. Authorisation thresholds in foreign currencies are established and updated regularly;
- duties are effectively segregated 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 Company'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 auditing 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 regularly monitored to verify that they have been implemented.

Operating results

1. Consolidated financial statements

Dexia Crédit Local's parent company and consolidated financial statements for the year ended 31 December 2012 have been prepared in accordance with the applicable accounting treatment for going concerns. This assumed continuity of operations is underpinned by a revised business plan based on the initial plan described in the Dexia Group's 2011 annual report, but with some parameters changed to reflect the principal changes in regulatory requirements. This revised business plan is based on a number of critical assumptions, which are outlined below.

- The revised business plan includes a 2013 guarantee granted by governments, with no collateral requirement. This guarantee has been capped by the relevant governments at EUR 85 billion, taking into account the EUR 5.5 billion recapitalisation of Dexia SA, which included a EUR 2 billion recapitalisation of Dexia Crédit Local, completed in late December 2012. This guarantee, like all the assumptions in the revised business plan, received approval from the European Commission on 28 December 2012;

- The plan assumes that the Group's various entities will retain their banking licences and that both Dexia SA and Dexia Crédit Local will maintain their current credit ratings;

- The macroeconomic scenario underlying the revised business plan was put together using observable market data as at the end of September 2012, and assumes a worsening recession in 2013 followed by a gradual recovery from 2014 onwards. No major negative credit events are assumed to happen over the forecast period;

- Furthermore, the business plan is based on the assumption that confidence will be restored on capital markets, enabling the Dexia Crédit Local Group on the one hand to fund some of its assets via repos, and on the other hand to conduct short- and long-term placements of its guaranteed debt on the market, with amounts issued under the 2013 guarantee mechanism reaching as much as EUR 40 billion in 2015. Should the market not be able to absorb this amount of debt, the Dexia Crédit Local Group would have to turn to more expensive sources of funding, which would directly affect its profitability.

  The revised business plan concludes that the Dexia Crédit Local Group is viable on the basis of the assumptions and scenarios used. However, the successful implementation of the plan remains contingent upon a number of uncertainties; in particular, the plan is sensitive to interest rate trends and the credit environment. For example, a 10 basis point cut in ten-year interest rates would cause the cash collateral requirement to increase by EUR 1 billion, potentially generating an additional cost of EUR 135 million over the period 2013-2020 (assuming that the increased requirement was funded at the Emergency Liquidity Assistance (ELA) rate, since ELA represents the most expensive source of funding).

That being the case, the business plan will be regularly updated to take into account the most recent observable values of exogenous variables so as to accurately estimate their impact on projections and the likelihood of those projections being achieved.

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 2011 were as follows:

NEWLY CONSOLIDATED COMPANIES

- Dexia LdG Banque SA is fully consolidated as from 1 October 2012: it was acquired from Banque Internationale à Luxembourg under the terms of Dexia SA's sale agreements in connection with Banque Internationale à Luxembourg;

- Dexia Holdings Inc and Dexia FP Holdings Inc are consolidated within Dexia Crédit Local Group as from 31 December 2012. The two agreements, signed on 30 June 2011, which transferred control of these companies from Dexia Crédit Local to Dexia SA, were amended on 27 December 2012.

OTHER CHANGES

Following the decision by Banco Sabadell on 6 July 2012 to exercise its put option on its shares in Dexia Sabadell SA, Dexia Crédit Local increased its percentage interest in the company from 60% to 100% on 1 October 2012; however, the transfer of ownership of the shares covered by the put option had not been completed as at 31 December 2012.

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:

	2011	2012	2012/2011
Net banking income	(346)	(752)	(406)
Operating expenses	(339)	(380)	(41)
OPERATING INCOME (LOSS) BEFORE COST OF RISK	**(685)**	**(1,132)**	**(447)**
Cost of risk	(962)	(365)	597
OPERATING INCOME (LOSS)	**(1,647)**	**(1,497)**	**150**
Income from investments in associates	0	0	0
Capital gains (losses) on other assets	91	(22)	(113)
Amortisation and impairment of goodwill(1)	(141)	0	141
PRE-TAX INCOME (LOSS) FROM CONTINUING OPERATIONS	**(1,697)**	**(1,519)**	**178**
Corporate income tax	(21)	(4)	17
Net income from discontinued or held-for-sale operations	(1,005)	(541)	464
NET INCOME (LOSS)	**(2,723)**	**(2,064)**	**659**
Minority interests	(22)	(24)	(2)
NET INCOME (LOSS) – GROUP SHARE	**(2,701)**	**(2,040)**	**661**
Basic earnings (loss) per share (EUR)	*-31.03*	*-9.12*	NA
Diluted earnings per share (EUR)	*-31.03*	*-9.12*	NA

(1) In 2011, the goodwill on Dexia Crediop (EUR 129 million) and Dexia Israel Bank Ltd. (EUR 12 million) was written down in full.

The Dexia Crédit Local Group continued to report heavy losses in 2012. Performance was mainly characterised by the following:

- the continuing transformation of the Group's funding structure; and
- the loss linked to the fair value adjustment on the activities of Dexia Municipal Agency, which are considered discontinued operations.

NET BANKING INCOME

The consolidated net banking loss increased sharply from EUR 346 million in 2011 to EUR 752 million in 2012.

The net banking income line has two components: net interest income and other income.

(EUR millions)	2011	2012	Change
Net interest income	(14)	(971)	(957)
Other income	(332)	219	551
Net banking income	**(346)**	**(752)**	**(406)**

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 declined by EUR 957 million year on year, from a loss of EUR 14 million in 2011 to a loss of EUR 971 million in 2012. In particular, net interest income was adversely affected in 2012 by a EUR 678 million increase in funding costs to EUR 980 million (compared with EUR 302 million in 2011).

b. 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)	2011	2012	Change
Net fees and commissions	103	66	(37)
Gains (losses) on financial instruments at fair value through profit or loss	(13)	(250)	(237)
Gains (losses) on available-for-sale financial assets	(430)	390	820
Other income and expenses	8	13	5
OTHER INCOME (EXPENSES)	**(332)**	**219**	**551**

Net fee and commission income declined by EUR 37 million, mainly due to the discontinuation of the structured finance business.

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

In 2012, this item includes, in particular, EUR 302 million in gains on the redemption of subordinated debt (EUR 256 million for Dexia Crédit Local and EUR 46 million for Dexia Kommunalbank Deutschland AG). In 2011, substantial losses on disposals of assets (EUR 405 million) were recognised in connection with the Group's strategy of reducing its aggregate exposure.

Net losses on financial instruments at fair value through profit or loss increased by EUR 237 million, driven mainly by a change in own credit risk on liabilities measured at fair value at FSA Global Funding Ltd.: in 2012, the revaluation of these instruments resulted in the recognition in the income statement of a EUR 134 million loss, compared with income of EUR 51 million in 2011.

OPERATING EXPENSES

Operating expenses increased by 12.1% in 2012 to EUR 380 million, compared with EUR 339 million in 2011. This EUR 41 million increase was mainly due to the recognition in 2012 of a EUR 64 million provision for restructuring costs in connection with the Dexia Crédit Local Group.

(EUR millions)	2011	2012	Change
Payroll costs	(234)	(260)	11.1%
Other administrative expenses	(63)	(86)	36.5%
Amortisation, depreciation and impairment of tangible and intangible assets	(42)	(34)	-19.1%
TOTAL GENERAL OPERATING EXPENSES	**(339)**	**(380)**	**12.1%**
Net banking income	**(346)**	**(752)**	**NA**
Operating ratio	NA	NA	NA

a. Payroll costs

Payroll costs increased by EUR 26 million or 11.1%, primarily as a result of the EUR 57 million provision set aside in 2012 for Group restructuring costs, which was partly offset by a decrease in gross payroll costs caused by a reduction in employee headcount.

b. Other administrative expenses

Administrative expenses increased by EUR 23 million (36.5%) from EUR 63 million in 2011 to EUR 86 million in 2012. This increase was mainly driven by a change in provisions for restructuring costs over the two periods: a EUR 7 million expense was recognised in 2012, while a EUR 26 million reversal was recognised in 2011 as a result of the closure of the Tokyo and London branches.

COST OF RISK

Cost of risk includes two distinct components, the details of which are presented below:

(EUR millions)	2011	2012	Change
Impairment and losses on customer loans	(429)	(83)	346
Impairment of available-for-sale fixed income securities*	(533)	(282)	251
TOTAL	**(962)**	**(365)**	**597**

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

In 2012, cost of risk mainly consisted of the following:

- a EUR 152 million loss following the cancellation of securities in Kommunalkredit Austria Finanz;
- income of EUR 54 million on receivables against the Greek government covered by the debt exchange plan negotiated between the latter and private creditors; and
- a EUR 243 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:

	31/12/2011	31/12/2012
Impaired financial assets / Total financial assets	2.44%	0.82%
Specific impairment / Impaired financial assets	65.49%	34.62%
Specific impairment / Total financial assets	1.60%	0.29%

CAPITAL GAINS ON OTHER ASSETS

In 2012, the bank recognised EUR 22 million in capital losses on other assets (compared with gains of EUR 91 million in 2011).

CORPORATE INCOME TAX

The Group incurred corporate income tax of EUR 4 million in 2012 (compared with EUR 21 million in 2011).

INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX

The operations of Dexia Municipal Agency are considered to have been discontinued and, in accordance with IFRS 5, the components of its income statement are summarised on a separate line entitled "Income from discontinued operations, net of tax". This line showed a net loss of EUR 541 million in 2012, compared with a net loss of EUR 1,005 million in 2011.

In 2012, this line included:

- net income generated by the subsidiary: EUR 93 million in 2012 (compared with EUR 64 million the previous year);
- a EUR 4 million adjustment against 2011 income; and
- a EUR 638 increase in the loss on the fair value adjustment applied to held-for-sale operations, estimated at EUR 1,069 million as at 31 December 2011.

NET INCOME (LOSS)

In 2012, the Group's share of the net loss came to EUR 2,040 million (compared with a net loss of EUR 2,701 million the previous year).

Minority interests went from a EUR 22 million loss to a EUR 24 million loss.

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

	2011	2012
Return on equity	-39.98%	-25.45%

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). In 2012, it benefited from the positive effect of the capital increase completed by Dexia Crédit Local.

1.4. Consolidated balance sheet and equity as at 31 December 2012

The Group had total consolidated assets of EUR 356 billion as at 31 December 2012, compared with EUR 362 billion the previous year.

INTERBANK AND CENTRAL BANK OPERATIONS

As at 31 December 2012, the Group had net borrowings of EUR 73.7 billion on the interbank market and with central banks, down from EUR 85.20 billion a year earlier – a 13.5% reduction.

CUSTOMER LOANS AND ADVANCES

Total outstanding loans and advances to customers declined 3.9% in 2012 to EUR 149.1 billion (compared with EUR 155.2 billion as at 31 December 2011) as a result of the halt in new lending in 2012.

SECURITIES PORTFOLIO

Total investments in government paper, bonds and other fixed income securities and in equities and other variable income securities increased 19.1% year on year, from EUR 32.50 billion to EUR 38.70 billion. The EUR 6.20 billion increase in the securities portfolio in 2012 was mainly driven by the acquisition from the Banque Internationale à Luxembourg group of a securities portfolio with a nominal value of EUR 7.70 billion, at a discount of EUR 1.2 billion.

EQUITY AND RATIOS

The EUR 811 million year-on-year increase in Dexia Crédit Local Group's equity (excluding minority interests) to EUR 1,499 million as at 31 December 2012 (compared with EUR 688 million the previous year) was mainly driven by the following:

- a EUR 0.40 billion decrease in equity;
- a EUR 0.70 billion increase in the Group's share of net income; and
- a EUR 0.50 billion increase in unrealised or deferred gains and losses.

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)	2011	2012
Total capital	9,885	9,217
o.w. Tier 1 capital	8,355	8,656

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

In light of the application of the Basel II principles governing capital and risk volumes, the Tier 1 ratio came in at 17.14% (16.40% in 2011) and the capital adequacy ratio at 18.25% (19.40% in 2011).

2. Statutory financial statements

2.1. Income statement

(EUR millions)	2011	2012	Change
Net banking income	(2,262)	1,217	3,479
Operating expenses	(192)	(237)	(45)
OPERATING INCOME BEFORE COST OF RISK	**(2,454)**	**980**	**3,434**
Cost of risk	(529)	(363)	166
OPERATING INCOME	**(2,983)**	**617**	**3,600**
Capital gains (losses) on non-current assets	(916)	(1,534)	(618)
PRE-TAX INCOME FROM CONTINUING OPERATIONS	**(3,899)**	**(917)**	**2,982**
Corporate income tax credit (expense)	(536)	(16)	520
NET INCOME	**(4,435)**	**(933)**	**3,502**
Basic earnings (loss) per share (EUR)	*(50.95)*	*(4.17)*	
Diluted earnings per share (EUR)	*(50.95)*	*(4.17)*	

Dexia Crédit Local reported a net loss of EUR 933 million for fiscal 2012, compared with a net loss of EUR 4,435 million in 2011.

Performance was mainly characterised by the following:

- the continuing transformation of the Group's funding structure and the cost of refinancing; and
- losses arising from impairment charges on Dexia Crédit Local's investments in its subsidiaries.

Net banking income was positive at EUR 1,217 million, thanks to reversals of provisions across all investment portfolios and gains on the early redemption of subordinated debt:

- a EUR 1,538 million gain on the investment portfolio;
- a EUR 742 million gain on the redemption of subordinated debt.

Moreover, net banking income was adversely affected in 2012 by a EUR 688 million increase in guaranteed funding costs to EUR 967 million (compared with EUR 279 million in 2011).

Operating expenses increased by EUR 45 million in full year 2012. This increase was mainly driven by a provision for restructuring costs in connection with the closure of the French sales network and the project finance business.

The cost of risk totalled EUR -363 million (compared with EUR -529 million in 2011), and included the following:

- a EUR 152 million loss following the cancellation of securities in Kommunalkredit Austria Finanz;
- EUR 51 million in costs related to the sale of Dexia Municipal Agency;
- a EUR 90 million impairment provision against Dexia Kommunalkredit Bank subordinated debt; and
- a EUR 35 million provision for risks on the Dexia Mexico subsidiary in connection with losses subsequent to disposals of assets.

The "Capital gains (losses) on non-current assets" item showed a EUR 1,534 million loss. Impairment losses were recognised against equity investments in connection with the run-off or sale of certain subsidiaries.

In 2012, this item included, in particular, the following impairment losses on investments:

- EUR 160 million on Dexia Kommunalkredit Bank;
- EUR 382 million on Dexia Sabadell SA;
- EUR 581 million on Dexia Crediop; and
- EUR 395 million on Dexia Municipal Agency.

2.2. Balance sheet

The Company had total assets of EUR 172 billion as at 31 December 2012, down 4% from the EUR 180 billion reported the previous year.

ASSETS

a. Customer loans

Total outstanding loans and advances to customers declined 4.9% in 2012 to EUR 39 billion (compared with EUR 41 billion as at 31 December 2011) as a result of the halt in new lending in 2012.

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

The total value of these securities reached EUR 52 billion, compared with EUR 51 billion at the end of 2011. 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. The stabilisation in the securities portfolio was driven firstly by the acquisition from the Banque Internationale à Luxembourg group of a securities portfolio with a nominal value of EUR 7.7 billion, at a discount of EUR 1.2 billion, and secondly by disposals and natural run-off.

c. Long-term equity investments

Total long-term equity investments decreased by EUR 1.4 billion year on year from EUR 2.5 billion to EUR 1.2 billion as at 31 December 2012. This significant decline was the result of impairment losses on Dexia Crédit Local's equity investments. Dexia Crédit Local recognised provisions for impairment on its investments in Dexia Sabadell SA (EUR 382 million), Dexia Kommunalkredit Bank (EUR 160 million) and Dexia Crediop (EUR 581 million). These impairment losses were recognised in connection with the run-off of certain subsidiaries or the review of their value in use.

Also, following the disposal of Dexia Municipal Agency for EUR 1 on 31 January 2013, Dexia Crédit Local recorded an additional EUR 395 million provision for impairment against its investments in Dexia Municipal Agency.

Significant equity investments and takeovers are set out below.

New investments in 2012 Representing over 66% of capital
• DEXIA LdG BANQUE S.A. with capital of EUR 20,000,001

LIABILITIES

a. Banks and financial institutions

Dexia Crédit Local had total interbank debt of EUR 57 billion as at 31 December 2012, compared with EUR 78 billion a year earlier.

The reduction in this item was driven by issues carried out under the government guarantee mechanism.

As at 31 December 2012, central banks had provided total funding of EUR 17.4 billion, up from EUR 9.2 billion a year earlier.

b. Debt securities

Debt securities traditionally represent a significant portion of Dexia Crédit Local's total liabilities. As at 31 December 2012, they totalled EUR 90 billion (compared with EUR 72 billion a year earlier). It should be noted that this total includes EUR 74 billion in medium- and long-term debt issued under the government guarantee programme extended to Dexia Crédit Local in 2008 and 2011.

c. Supplier payment terms

In accordance with Articles L.441-6-1 and D.441-4 of the French Commercial Code, every year Dexia Crédit Local is required to publish an aged balance analysis of its trade accounts payable by due date. Dexia Crédit Local's trade accounts payable represent a non-material proportion 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 1.3 million as at 31 December 2012, all of which were due in less than 30 days.

3. Five-year financial summary

	2008	2009	2010	2011	2012
EQUITY					
Capital stock (EUR)	500,513,102	500,513,102	500,513,102	500,513,102(1)	1,286,032,212(2)
Number of shares	87,045,757	87,045,757	87,045,757	87,045,757	223,657,776
COMPREHENSIVE INCOME (EUR)					
Revenues	9,182,903,606	4,466,379,454	2,252,572,210	2,959,081,434	3,627,154,228
Earnings before income tax, depreciation, amortisation and net impairment charges	566,890,589	486,708,671	(825,474,016)	(2,433,312,349)	(2,617,452,491)
Corporate income tax	448,898,743	(90,171,250)	314,136,349	(536,307,767)	(15,803,247)
Earnings after income tax, depreciation, amortisation and net impairment charges	(4,936,685,153)	699,114,408	(1,530,340,831)	(4,435,388,577)	(932,703,020)
Dividends	NA	NA	NA	NA	NA
PER SHARE DATA (EUR)					
Revenues	105.50	51.31	25.88	33.99	16.22
Earnings after income tax and before depreciation, amortisation and net impairment charges	1.36	6.63	(6.07)	(34.12)	(11.7)
Corporate income tax	5.16	(1.04)	3.61	(6.16)	(0.07)
Earnings after income tax, depreciation, amortisation and net impairment charges	(56.71)	8.03	(17.58)	(50.95)	(4.17)
Dividends	0.00	0.00	0.00	0.00	0.00
EMPLOYEE DATA					
Employees as at 31 December	1,737	1,472	1,341	1,276	1,132
Managerial staff	1,267	1,123	1,004	955	885
Administrative staff	470	349	337	321	247
Gross payroll (EUR)	134,280,062	134,004,648	128,807,172	104,489,065	84,162,812
Payroll taxes and employee benefits (social security, employee benefit programmes, etc.) (EUR)	49,038,929	41,976,934	36,542,329	33,539,417	32,379,243

(1) By resolution of the Combined Shareholders' Meeting of 22 December 2011, Dexia Crédit Local increased its capital stock in cash by EUR 4.2 billion and reduced its capital stock by EUR 4.2 billion, leaving its total capital stock unchanged at EUR 500.5 million.

(2) The capital increase significantly changed the Group's ownership structure, with the Belgian and French governments respectively owning 50.02% and 44.40% of Dexia SA's capital stock following the issue of new shares.
This increase enabled Dexia SA to subscribe for the capital increase carried out by Dexia Crédit Local, whose Board of Directors decided at its meeting of 19 December 2012, in accordance with the authority granted to it at the Shareholders' Meeting held on 12 December 2012,to increase its capital by approximately EUR 2 billion including issue premiums.
This increased the capital stock of Dexia Crédit Local S.A.from EUR 500,513,102.75 to EUR 1,286,032,212.

Capital stock and share data

1. Capital stock and number of shares

At 31 December 2012, Dexia Crédit Local had capital stock of EUR 1,286,032,212 divided into 223,657,776 shares with a par value of EUR 5.75 each. Each share has one voting right and none of the shares has been pledged.

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

At a Combined Shareholders' Meeting held on 12 December 2012, the shareholders voted in favour, in principle, of a capital increase with preferential subscription rights up to a maximum total amount of EUR 2 billion, and authorised the Board of Directors to decide on its implementation and determine the associated procedures, as applicable.

On 19 December 2012, the Board of Directors, acting under the authority delegated to it at the Shareholders' Meeting, decided to carry out a capital increase with preferential subscription rights for existing shareholders, for a total amount of EUR 1,999,999,958.16 (issue premium included) by issuing 136,612,019 new shares with a par value of EUR 5.75 each for an issue price of EUR 14.64 per share. On 31 December 2012, Dexia SA, acting through its permanent establishment in Paris, subscribed for all 136,612,019 new shares issued under the terms of the aforementioned capital increase and paid up its entire subscription.

This increased the Company's capital from EUR 500,513,102 to EUR 1,286,032,212.

Apart from the authorisation granted by shareholders at the aforementioned Combined Shareholders' Meeting on 12 December 2012, which was fully used by the board, no other authorisations were granted to the board at Shareholders' Meetings.

2. Shareholder structure

Dexia Crédit Local's capital stock 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.

	2008	2009	2010	2011	2012
Capital stock (EUR)	500,513,102	500,513,102	500,513,102	500,513,102	1,286,032,212
Number of shares	87,045,757	87,045,757	87,045,757	87,045,757	223,657,776
Dexia SA	99.98%	99.98%	99.98%	99.99%	99.99%
Individual investors	0.02%	0.02%	0.02%	0.01%	0.01%

Indirectly, through Dexia SA, Dexia Crédit Local's capital is notably held by:

- the Belgian government holds 50.02% of the Company's capital;
- The French government holds 44.4% of the Company's capital;
- Caisse des Dépôts holds 1.11% of the Company's capital.

3. Dividends paid during the past three years

No dividends have been paid in respect of the past three years.

In light of the net loss of EUR 2.04 billion posted in respect of 2012, the Board of Directors will propose at the next Shareholders' Meeting that no dividend be paid to the shareholders in respect of 2012.

Human resources, environmental and social data

DEXIA CRÉDIT LOCAL'S SUSTAINABLE DEVELOPMENT APPROACH

Dexia Crédit Local and its subsidiaries and branches abide by the Dexia Group's sustainable development approach.

Since 2001, the Dexia Group has published a sustainable development report focused on its responsibilities in relation to its employees, the environment and society as a whole (CSR – corporate social responsibility). From now on, the report will be published by the operating entities.

THE FRENCH LEGAL AND REGULATORY FRAMEWORK GOVERNING CSR REPORTING

With effect from 2012, Article 22 of the July 2010 "Grenelle 2" Act, as amended by the March 2012 "Warsmann 4" Act, amends Article L.225-102-1 of the French Commercial Code as provided for in Article 116 of the 2001 "New Economic Regulations" Act. This section of the report sets out Dexia Crédit Local's CSR information as amended by the Act.

METHODOLOGY

As a company whose shares are admitted to trading on a regulated market, Dexia Crédit Local is required to set out in its management report the actions taken and strategies adopted to take account of the impact of its activities on its employees and the environment, and to fulfil its social commitments in favour of sustainable development.

The information to be reported covers 42 topics broken down into three categories: human resources data, environmental data and data on the Company's social commitments in favour of sustainable development.

The scope of CSR reporting is the same as that of the consolidated financial statements. The French subsidiaries of Dexia Crédit Local covered by CSR reporting requirements are Sofaxis, Domiserve and Public Location Longue Durée. The affected entities outside France are Dexia Crediop, Dexia Crédit Local Dublin, Dexia Crédit Local New York, Dexia Israel, Dexia Kommunalbank Deutschland AG and Dexia Kommunalkredit Bank AG.

It should be noted that certain topics are not relevant to Dexia Crédit Local and its subsidiaries and branches due to the nature of their activities or the Group's circumstances. The following topics are not included due to their being insignificant or non-material:

- the amount of provisions and guarantees for environmental risk;
- measures to prevent, reduce or remedy emissions to air, water and soil that cause serious damage to the environment;
- consideration of noise pollution and any other forms of pollution specific to a given activity;
- land use;
- steps taken to protect or develop biodiversity;
- other actions undertaken in support of human rights.

Changes in personnel (recruitment, dismissals, etc.), absenteeism, compensation, training and accident statistics are reported across the scope of the UES (*unité économique* et *sociale* – economic and employee unit, consisting of Dexia Crédit Local France including secondees to Dexia SA Paris and Dexia CLF Banque) but are not consolidated at global level.

Dexia Crédit Local has appointed Deloitte and Mazars to verify and confirm the non-financial information set out below in respect of 2012.

Confirmed figures are indicated by the symbol ✔.

1. Human resources data

1.1. Employment data

TOTAL EMPLOYEES AS AT 31 DECEMBER 2012 AND BREAKDOWN BY GENDER AND SOCIO-PROFESSIONAL CATEGORY

As at 31 December 2012, Dexia Crédit Local (Dexia Crédit Local France including secondees to Dexia SA Paris and Dexia CLF Banque) had a total of 1,170 employees, compared with 1,331 a year earlier. During the year, Dexia Crédit Local recruited a total of 77 employees (compared with 376 in 2011), with 23 of these on permanent contracts, 49 on fixed-term contracts and five on work-study contracts. In addition, eight interns worked for the Company as part of their studies.

(Average full-time equivalent)	2011	2012
Executive staff	9.0	7.0
Managers	1,081.9	993.2
Administrative staff	181.4	132.4
Non-administrative and other personnel	-	-
TOTAL	1,272.3	1,132.6

(Scope: UES Dexia Crédit Local France – Dexia CLF Banque)

Breakdown of employees by age and socio-professional category (✔: 2012 data)

2012	25 years old	25 to 29 years old	30 to 34 years old	35 to 39 years old	40 to 44 years old	45 to 49 years old	50 to 54 years old	55 to 59 years old	60 years old and over	Total
Executive staff	0	0	0	2	0	3	0	2	0	7
Managers	6	115	190	245	178	126	77	56	20	1,013
Administrative staff	17	18	22	28	15	24	14	9	3	150
Non-administrative and other personnel										
TOTAL	23	133	212	275	193	153	91	67	23	1,170

(Scope: UES Dexia Crédit Local France – Dexia CLF Banque)

Breakdown of employees by business sector (✔: 2012 data)

	2011	2012
Dexia Crédit Local UES France (excluding employees seconded to Dexia SA)	1,113	997
Dexia SA France (employees seconded to Dexia SA)	218	173
Dexia Sofaxis	450	458
Dexia Crediop	201	193
Other European businesses	257	236
Other non-European businesses	185	142
ALL CATEGORIES	**2,424**	**2,199**

(Scope: Dexia Crédit Local consolidated)

Breakdown of employees by geographical region (✔: 2012 data)

	2011	2012
France (including secondees to Dexia SA France)	1,781	1,628
Spain/Portugal	50	38
Italy	201	193
Rest of Europe	207	198
North America	183	141
Other regions outside Europe	2	1
TOTAL	**2,424**	**2,199**

(Scope: Dexia Crédit Local consolidated)

Breakdown of employees by gender (✔: 2012 data)

	2011	2012
Male	ND	1,084
Female	ND	1,115
TOTAL	**2,424**	**2,199**

(Scope: Dexia Crédit Local consolidated)

Agency staff

One member of agency staff as at 31 December 2012.

Changes in employees on permanent contracts (✔: 2012)

	2011	2012
New hires on permanent contracts	94	23
Terminations of permanent contract staff	28	22
Resignations by permanent contract staff	74	87
Staff moving from fixed-term to permanent contracts	ND	7
New hires on fixed-term contracts (incl. work-study contracts)	ND	54
Terminations of fixed-term contract staff	ND	1
Resignations by fixed-term contract staff	ND	4

(Scope: UES Dexia Crédit Local France – Dexia CLF Banque)

1.2. Structural measures/ Reduction in force plan

After being hit by the subprime crisis and the financial crisis in 2008, the Dexia Group experienced severe financial difficulties, forcing it to implement an orderly resolution plan from October 2011 onwards. Dexia will henceforth consist almost entirely of Dexia Crédit Local (whose subsidiaries are in the process of being either sold or run off), and is destined to become a hive-off company. At the same time, Dexia Crédit Local is involved in setting up a company intended to finance the local public sector that will be be sold to the French government and Caisse des Dépôts (including the transfer of the required resources and personnel) so that local public sector financing can resume.

The Dexia Group's resources should therefore be viewed in the context of the Group's extremely challenging financial situation and strict supervision by the European Commission as well as the French and Belgian governments.

From 28 September 2012 onwards, the restructuring project as a whole was presented first to employee representatives and second to employees themselves.

In keeping with the culture of employee dialogue that has always prevailed at Dexia, a process of close consultation was established.

In particular, the Reduction in Force Plan maintains employee support measures negotiated with all trade unions representing the company and enshrined within the following:

- the collective agreement on the human resources approach within the Dexia Crédit Local economic and employee unit (UES), dated 10 February 2012, ratifying the human resources measures negotiated as part of the 2009 Reduction in Force Plan;
- the 25 April 2012 agreement on restructuring the project finance business;
- the 5 October 2012 human resources management agreement together with two amendments dated 31 October and 18 December 2012.

Since February 2012, a chartered accountant has been working with the employee works council to clarify the project's economic and organisational aspects. On 18 December 2012, a report was presented in this regard at the employee works council's twelfth meeting on the project since 28 September 2012.

On 11 January 2013, the employee works council issued its opinion on the planned reorganisation of the Dexia Crédit Local/Dexia CLF Banque economic and employee unit (UES) in the context of the restructuring of the Dexia Group and the implementation of new funding arrangements for the French local public sector, planned voluntary redundancies and the Reduction in Force Plan.

On 15 February 2013, the Company noted that, of the 361 job cuts anticipated at the beginning of the human resources procedure, 190 had been avoided through vacant positions and new positions created as a result of negotiated measures (early and other internal redeployments and early and other voluntary redundancies as part of a successful career plan).

1.3. Salaries and benefits

COMPENSATION POLICY

Under Group procedures, Dexia SA's Appointments and Compensation Committee is responsible for preparing all matters relating to compensation policy. 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 Crédit Local for approval.

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

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

The policy applies to both the fixed (non-performance-related) and variable (performance-related) components of compensation, the general principles of which are applicable to all employees. 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.

In order to comply with rules and recommendations on good governance and sound compensation practices and to avoid in any way incentivising excessive risk-taking, the Dexia Group has sought to reduce the variable component of compensation for those of its employees who are contractually entitled to variable compensation. At the same time, exceptional additional non-variable compensation (known as a "salary supplement") has been offered to the employees in question in order to increase their non-performance-related compensation. This recurring supplement is subject to a continued employment requirement under which employees must be employed by Dexia Crédit Local on the last day of the quarter to which the salary supplement relates.

Furthermore, special provisions apply to a specifically identified population whose functions are most often likely to impact the risk profile of the Dexia Group. See page 52 of this report.

AVERAGE ANNUAL COMPENSATION OVER TIME AND BREAKDOWN BY GENDER AND SOCIO-PROFESSIONAL CATEGORY

Average annual compensation paid to staff in continuous employment (✔: 2012 data)

This consists of employees on permanent contracts who are employed by the Company for two consecutive years. Employees who have changed category are included in the category to which they belonged during the second year.

	2011			2012		
EUR	Male	Female	Total	Male	Female	Total
Executive staff	214,285	240,000	217,500	213,333	212,500	213,125
Managers	68,662	56,372	63,524	68,283	57,000	63,361
Non-administrative and other personnel	36,731	37,394	37,340	37,054	37,518	37,476
Operatives and other staff	-	-	-	-	-	-
AVERAGE	**69,897**	**52,832**	**61,429**	**69,277**	**53,308**	**61,430**

(Scope: UES Dexia Crédit Local France – Dexia CLF Banque)

GROSS PAYROLL

In 2012, gross annual payroll costs totalled EUR 83.98 million (compared with EUR 90.47 million in 2011).

EMPLOYER'S CONTRIBUTIONS

In 2012, annual employer's contributions totalled EUR 50.49 million (compared with EUR 53.16 million in 2011).

APPLICATION OF TITLE IV OF BOOK IV OF THE FRENCH LABOUR CODE: DISCRETIONARY AND COMPULSORY PROFIT-SHARING

Discretionary profit-sharing (*intéressement*)

Under the terms of the 28 June 2011 agreement, the amount of discretionary profit-sharing represents 4.50% of the consolidated gross operating income (GOI) of Dexia Crédit Local's Public and Wholesale Banking business line, multiplied by a coefficient K linked to the achievement of the budgeted volume target for deleveraging.

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 distinct criteria: 60% is proportional to the beneficiary's length of service, and 40% is proportional to the gross annual compensation paid for the year in question (capped at three times the annual social security ceiling as at 31 December of the year in question).

Amounts paid out under the discretionary profit-sharing scheme may be paid directly to beneficiaries and/or invested in the Group employee savings plan (PEG) and/or the Intercompany Collective Retirement Savings Plan (PERCOI). The employer makes a 100% matching contribution up to a maximum gross amount of EUR 1,000 for all sums invested in one or more of the funds offered by the PERCOI.

The following amounts of discretionary profit-sharing have been paid in respect of the past three years (gross amounts excluding matching contributions):

- 2010: the amount allocated totalled EUR 8 million (paid in 2011);
- 2011: the amount allocated totalled EUR 8.45 million (paid in 2012);
- 2012: the amount provisioned totalled EUR 500,000 (to be paid in 2013).

French compulsory profit-sharing (*participation*)

In accordance with the 28 June 2011 agreement, the amount set aside for the special reserve for French compulsory profit-sharing (RSP) is calculated using the statutory formula.

Eligibility for French compulsory profit-sharing is subject to the same length of service requirement as that imposed for discretionary profit-sharing.

The amount due is proportional to the employee's salary, 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.

Amounts paid out under the French compulsory profit-sharing scheme may be paid directly to beneficiaries and/or invested in the Group employee savings plan (PEG) and/or the Intercompany Collective Retirement Savings Plan (PERCOI) and/or deposited in the restricted current account.

The following amounts of French compulsory profit-sharing have been paid in respect of the past three years:

- 2010: in light of the Dexia Crédit Local Group's financial position, no French compulsory profit-sharing was paid;
- 2011: in light of the Dexia Crédit Local Group's financial position, no French compulsory profit-sharing was paid;
- 2012: in light of the Dexia Crédit Local Group's financial position, no French compulsory profit-sharing was paid.

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.

EMPLOYEE SAVINGS PLAN

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.

COMPENSATION PAID TO CORPORATE OFFICERS AND PERSONS WHOSE PROFESSIONAL ACTIVITIES HAVE A MATERIAL IMPACT ON THE COMPANY'S RISK PROFILE

The Dexia Group's compensation policy includes special provisions that apply to a specifically identified population whose functions are most often likely to impact the Dexia Group's risk profile.

This population mainly consists of 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 annum or whose variable pay during any one year exceeds 100% of their annual fixed compensation.

Where variable compensation is paid, it may not exceed 1.5 times fixed compensation.

The payment of a portion of variable compensation is 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 in principle amounts to 40%. It corresponds to rates ranging from 50% to 70%, according to the thresholds established for variable compensation in excess of EUR 700,000.

Variable remuneration is payable partly in cash (up to a maximum of 50%) and partly in the form of equity-linked instruments (equity securities or Tier 1 hybrid-type instruments within the meaning of CRD 3, at the choice of the beneficiary), which are subject to a holding period of at most one year.

In compliance with existing legal and contractual provisions, contractual termination benefits granted to an officer or financial market professional may not in principle exceed 12 months' fixed and variable compensation (18 months under special circumstances). Furthermore, the agreement providing for the granting of termination benefits must include a performance criterion.

1.4. Working hours

WORKING HOURS

Within Dexia Crédit Local and Dexia CLF Banque, in accordance with the master agreement of 14 November 2000, which entered into force on 1 January 2001, all full-time employees work an average of 35 hours a week, with the exception of managers required to work a fixed number of days per annum.

Within Dexia Crédit Local's French and foreign subsidiaries, the average number of hours worked per week ranges from 35 to 39. All subsidiaries comply with provisions laid down in collective bargaining agreements or local labour codes. Specific agreements have also been signed, in particular by Sofaxis and Domiserve.

PART-TIME EMPLOYEES

Within the scope of the employee and economic unit (UES), out of a total of 135 part-time employees (unchanged since 2011), 102 work four fifths of full-time hours, mainly to cover absences on Wednesdays. As at 31 December 2012, seven employees were on parental leave.

Special working time arrangements have been put in place within certain international entities. In Italy, for example, Dexia Crediop agrees to requests to work part time.

OVERTIME

Dexia Crédit Local makes little use of overtime. A total of 22,207 overtime hours were paid in 2012 (compared with 34,426 hours in 2011), equating to a gross amount of EUR 639,065 (compared with EUR 963,619 in 2011), worked by 448 employees, representing the equivalent of 38% of the Company's total employee headcount.

ABSENTEEISM

An absentee rate of 2.6% was recorded in 2012. ✔

The absentee rate takes into account sickness absence and maternity and paternity leave.

1.5. Employee relations

PROFESSIONAL RELATIONS AND EMPLOYEE REPRESENTATION

The Group recognises and respects freedom of association and the right to collective bargaining. All employees may establish or join a trade union of their choosing. The Group also recognises and respects, in accordance with applicable legislation and regulations, the right of its employees, as established through collective bargaining on labour relations, to be represented by their trade union(s).

Sofaxis has an employee works council, a Health and Safety Committee and employee representatives. The company has two trade unions with which it negotiates collective agreements and establishes an employee relations calendar each year.

In Germany, regular meetings are held between Dexia Kommunalbank Deutschland AG's management and trade unions. Management regularly hosts meetings with all employees to provide updates on the entity's circumstances. The trade unions also hold at least two meetings a year aimed at all employees. Various collective agreements covering operational matters have been signed at the initiative of the trade unions.

In Italy, Dexia Crediop's Employee Relations department is responsible for negotiations with trade unions and can be consulted by the company's employees. The department also manages administrative issues concerning access by bank employees to the solidarity fund, particularly following various changes to Italy's social security legislation.

Entities within which trade unions are not represented or which have no employee representatives (i.e. Dexia Crédit Local Dublin, Dexia Kommunalkredit Bank AG, Dexia Crédit Local New York and Dexia Israel) apply the provisions of their collective bargaining agreements.

AGREEMENTS ENTERED INTO

- On 27 January 2011, the Group's senior management and all trade unions signed an agreement reflecting the parties' desire to preserve employment via employment and skills forecasting and the establishment of an operating procedure to govern the necessary job moves and transitions for all employees affected by job cuts or redeployment.

  This agreement provides for a comprehensive strategy in support of employee mobility: information about the system; access to vacant positions; assessment of employees' profiles, skills and preferences; provision of required training; and post-transfer assistance in the new position.

  The agreement is intended to reorient employees towards an attractive career plan.

- Negotiations concerning the discretionary and French compulsory profit-sharing schemes were held during the second quarter of 2011. These negotiations were necessary because the discretionary profit-sharing agreement had been signed in 2008 for a three-year term and the French compulsory profit-sharing agreement was valid for fiscal 2010 only:

  – a three-year discretionary profit-sharing agreement was therefore renegotiated covering fiscal years 2011, 2012 and 2013;

– a French compulsory profit-sharing agreement was concluded solely for fiscal 2011: the agreement is based on the statutory profit-sharing formula and no longer uses, as it did in the past, a special calculation based on the Group's share of net income.

- In 2010, an Intercompany Collective Retirement Savings Plan (PERCOI) was set up, allowing the proceeds of the discretionary and French compulsory profit-sharing schemes to be invested in this savings plan in addition to other options, with an employer contribution equal to 100% of the amounts invested, up to a maximum of EUR 500 per employee. Management has committed to continue to allocate a portion of the budget to the two profit-sharing programmes in order to increase this cap from EUR 500 to EUR 1,000 as from 1 January 2012.

  Moreover, in accordance with pension reform Act no. 2010-1330 of 9 November 2011 targeting the expansion of resources for retirement savings plans in order to foster their growth, employees can now transfer amounts received in respect of unused days off into the PERCO. Such transfers are allowed up to a maximum of five days per annum.

  Days off are not limited to paid leave days: days earned under the terms of the official reduction of working hours programme, recovery days, six-monthly special days and fractional days can all be allocated to the PERCO. Only that portion of annual leave exceeding 24 working days can be allocated to the PERCO. An agreement regarding the allocation of unused days off to the PERCO was signed on 26 September 2011.

- The 21 October 2011 agreement on the employment of older workers includes the key components of the action plan on the employment of older workers put in place in December 2009. It has two main objectives:

  – to maintain the employment rate for employees aged 55 and over, with a growth target of 0.5% per annum (over three years);

  – to achieve a recruitment rate for employees aged 50 and over of 3% of Dexia Crédit Local's total recruitment volumes of permanent and fixed-term contract staff.

The following agreements were concluded and signed in 2012:

- agreements on discretionary and French compulsory profit-sharing – 29 June 2012: amounts in respect of discretionary and French compulsory profit-sharing are capped at EUR 8.50 million. Amounts paid under the discretionary and French compulsory profit-sharing schemes may be invested in the savings plan (PERCO), with matching employer contributions equal to 100% of the amounts invested, up to a maximum of EUR 1,000 per employee;

- a one-year French compulsory profit-sharing agreement using the statutory formula and introducing the option of transferring restricted assets from the restricted current account into the Group employee savings plan (PEG) and/or the Intercompany Collective Retirement Savings Plan (PERCOI);

- an amendment to the three-year discretionary profit-sharing agreement, making changes to the original calculation formula to cancel out the "booster" coefficient;

- agreement on professional gender equality – 13 April 2012: this three-year agreement adopts the main measures included in the previous agreement, such as the implementation of monitoring indicators covering the topics of communication, awareness-raising and recruitment, professional development, managing careers, mobility and promotions, work-life balance, and compensation.

INTENSIVE DIALOGUE WITH REPRESENTATIVE BODIES

Participation rate	**62.64%**	**Number of seats on works council**	
% representativeness		Incumbents	Deputies
CFDT	46.50%	6	6
Union list SNB-CFE/CGC-CFTC	29.70%	3	3
CGT	13.80%	1	1
FO	9.80%	1	1

- A European employee works council at Group level in Brussels.
- An employee works council with 11 standing and 11 substitute members (32 meetings in 2012).
- A trade union delegation of nine standing and six substitute trade union delegates (nine negotiation meetings in 2012).
- Employee representatives (12 meetings in 2012): a delegation representing the Ile-de-France region, with 12 standing and 12 substitute members, and another delegation representing the other French regions, with six standing and six substitute members.
- A Health and Safety Committee (CHSCT) with seven standing members (four ordinary and ten extraordinary meetings in 2012).

At Sofaxis, a number of collective agreements have been signed between management and labour representatives covering working hours, equality, jobs and skills forecasting and employment for older workers. Two agreements relating to employee savings (discretionary profit-sharing since 2011) have also been signed.

1.6. Health and safety

HEALTH AND SAFETY IN THE WORKPLACE

Health and safety policy

Working conditions within the Dexia Group must be such that employees are safe and their physical and mental health is protected. Rules governing health and safety in the workplace are in force within all Group entities.

In 2012, the Health and Safety Committee (CHSCT) held four ordinary meetings and ten extraordinary meetings in connection with the Reduction in Force Plan.

A framework on stress in the workplace was signed in 2010.

Dexia Crédit Local's French and foreign branches and subsidiaries all comply with applicable local regulations and apply specific procedures on health and safety in the workplace. Employees are provided with documentation on health and safety in the workplace, which they must sign when they first join the entity. This documentation is also available via local intranets, and is regularly updated.

- Sofaxis has a Health and Safety Committee responsible for health and safety conditions. It also has a cross-functional Safety and Security department, which includes members of employee representative bodies and members of management responsible for safety and security, human resources and the management of infrastructure, equipment and internal communications.
  An employment relations climate survey is undertaken annually, from which areas for improvement are identified, both at entity level in coordination with employee representative bodies and at departmental level within the entity. The survey covers issues including working conditions, organisational structure, management, human resources and safety and security.
  The Company is OHSAS 18001 certified for safety and security matters. As such, a comprehensive risk assessment document (*document unique*) is updated annually by the Safety and Security department.
  Sofaxis implements actions related to prevention and safety in the workplace, disability, physical strain, and the prevention of stress.

- In Germany, Dexia Kommunalbank Deutschland AG complies with the provisions of the *Bildschirmarbeitsplatzverordnung* law, which stipulates that each employee work station must be audited at least once by a specialist external firm accompanied by a representative of the Health and Safety Committee.
  Furthermore, Dexia Kommunalbank Deutschland AG is inspected several times a year by an external firm and the Health and Safety Committee. The Medical department is involved in one inspection a year. Inspections focus on checking health and safety conditions (with a particular focus on employees' health and, more specifically, eyesight), fire prevention, the alarm system, emergency exits, etc. New legislation has entered into force in relation to psycho-social risks and stress. Compliance with this legislation will be audited as part of future inspections.

- In accordance with Italian legislation, Dexia Crediop holds periodic health and safety training sessions delivered by professionals. Employees also have access to training information via a health and safety section on the intranet.

ACCIDENTS

- Number of accidents at or while travelling to or from the workplace: 7 ✔
- Number of days off work as a result of accidents at or while travelling to or from the workplace: 211 ✔
- Frequency rate: 3.00% ✔
- Severity rate: 0.09% ✔
- Number of occupational diseases: 0 ✔

1.7. Training and skills development

NUMBER OF EMPLOYEES TRAINED IN THE YEAR

In 2012, 786 employees benefited from continued professional development, equating to 67.2% of the Company's total workforce as at 31 December 2012, compared with 466 employees in 2011, equating to 35.0% based on 1,331[(1)] employees as at 31 December 2011.

Furthermore, internal training was delivered to 203 employees, compared with 125 in 2011.

NUMBER OF HOURS' TRAINING DELIVERED IN THE YEAR

In 2012, a total of 14,793.8 hours of internal and external training were delivered, dedicated entirely to training courses (compared with 24,689 hours in 2011), equating to 2.7 days' training per employee.

Finally, 317 employees received an Individual Training Entitlement (*Droit Individual à la Formation*), compared with 35 in 2011.

Percentage of gross payroll dedicated to continued professional development in 2012

Continued professional development (CPD)	% allocated to CPD	Gross payroll for year Y (EUR)
2012	2.94%	83,977,927
2011	3.46%	90,469,716
2010	3.89%	93,013,926

TRAINING POLICY

Dexia Crédit Local's French and foreign subsidiaries encourage all their employees to receive training or otherwise improve their skills through non-technical business skills, legal or regulatory training. Their aim is to ensure that every employee, including new entrants, has the skills required to properly perform his or her duties:

- every year, Sofaxis invests more than 3% of its gross payroll in training to support advances in its business areas and develop its employees' skills. Training covers topics such as the company's performance in terms of sustainability, safety, customer relations, insurance and services activities, adapting to regulatory and technological changes, and developing business skills, as well as training of a more cross-functional nature such as managing and integrating new employees. Finally, the company provides a training catalogue to promote use of the Individual Training Entitlement (DIF);

- Dexia Crediop has a proactive training policy. In particular, it has met the objectives set out in its three-year plan (2009-2011) aimed at developing its employees' non-technical skills and improving their expertise in change management.

(1) Of which 0.10% reserved for training for "senior" populations, in accordance with the company-wide agreement.

1.8. Equal treatment

AGREEMENT ON PROFESSIONAL GENDER EQUALITY – 13 APRIL 2012

This three-year agreement adopts the main measures included in the previous agreement, such as the implementation of monitoring indicators covering the topics of communication, awareness-raising and recruitment, professional development, managing careers, mobility and promotions, work-life balance, and compensation.

All of Dexia Crédit Local's French and foreign subsidiaries are committed to promoting gender equality:

- Sofaxis has been equality certified since 2005 and has had an equality charter since June 2005. It signed a company-wide agreement on 23 June 2009 and an amendment on 24 May 2012 setting out the company's equality commitments in the form of numerical targets. These commitments relate to compensation, recruitment, promotions and professional development;
- Domiserve, which signed the Parenthood Charter in 2010, demonstrates its desire to implement concrete actions in support of parents within the company;
- in Germany, in accordance with the provisions of the General Equal Treatment Act (AGG), all employees of Dexia Kommunalbank Deutschland AG are required to complete online training aimed at preventing all forms of discrimination. The company has also appointed a General Equal Treatment Act Officer;
- in the United States, Dexia Crédit Local New York operates a zero tolerance policy with respect to all forms of gender discrimination and harassment, both internally and externally in its relationships with clients and suppliers.

EMPLOYMENT FOR PEOPLE WITH DISABILITIES

Since 2008, Dexia Crédit Local's Disability Team has been implementing actions in favour of creating and maintaining employment opportunities for people with disabilities. As at 31 December 2012, the Company had 19 employees with disabilities, up from 16 a year earlier.

In 2012, Dexia Crédit Local:

- continued employee awareness and training activities (including an electronic survey to better understand disability, exhibitions organised by Sofaxis, ongoing collection of plastic caps to fund disabled sports equipment and involvement in activities organised by the "Club Être Handicap" association of 220 disability teams);
- encouraged use of the "sheltered sector" (appointment of a Disability Officer within the Purchasing department, identification of outsourceable services combined with the establishment of formal contracts for certain services, and support for the GESAT national network for employees with disabilities). It should be noted that new contracts have been signed with the sheltered sector in the first quarter of 2013;
- placed particular emphasis on maintaining employment for employees with disabilities in the prevailing context of restructures affecting the Bank (through joint actions between Human Resources teams and the Disability Team, in coordination with managers);
- optimised its recruitment procedures (recruitment of trainees with disabilities at head office and Domiserve, training for human resources staff in recruiting people with disabilities, diversification of recruitment channels, etc.).

Outside France, in Germany, Dexia Kommunalbank Deutschland AG complies with the provisions of the General Equal Treatment Act (AGG), and in the United States, Dexia Crédit Local New York operates a zero tolerance policy with respect to all forms of disability-related discrimination and harassment.

AGE DISCRIMINATION

Dexia Crédit Local's French and foreign subsidiaries comply with all locally applicable measures to prevent discrimination linked to an employee's age:

- Sofaxis fosters the promotion of diversity by seeking to take on more young people through strong growth in work-study programmes (where trainees alternate between study and work). Furthermore, under its action plan, which has now been in force for three years, it applies a policy of developing employment for older workers;
- in Germany, Dexia Kommunalbank Deutschland AG complies with the provisions of the General Equal Treatment Act (AGG) (see above).

2. Environmental data

As part of their policy of reducing direct environmental impacts, Dexia Crédit Local and its French and foreign subsidiaries have a primary objective of reducing CO_2 emissions linked to energy consumption associated with their buildings and their employees' business travel. The Bank pursues a proactive policy of reducing waste and responsibly using consumables.

A few local initiatives are worthy of particular mention:

- Sofaxis operates a process-based model, including a clearly identified environmental process. Moreover, Sofaxis is ISO 14001 certified and its employees are trained in the principles of sustainable performance. The company spends EUR 80,000 a year on various workstreams linked to safeguarding against environmental risk and pollution. Sofaxis measures its carbon footprint every two years and establishes a carbon emissions reduction plan.
- Dexia Crediop is a member of the Finance Durable (Sustainable Finance) association and the Agenda 21 coordinating committee, and takes part in environmental workshops organised by the Italian Bankers' Association (ABI).

2.1. Waste management and responsible management of consumables

Dexia Crédit Local's French and foreign subsidiaries have all put in place systems to selectively sort, collect and recycle paper and internal waste (toner, electrical waste, obsolete equipment, etc.). All printers are configured by default to print double-sided in black and white, and all offices have selective recycling bins.

As part of its policy of responsible purchasing and reducing paper consumption, Dexia Crédit Local has implemented a range of actions in relation to the types of paper used, such as decreasing the weight of paper and using only recycled, bleach-free virgin, PEFC-certified paper.

Sofaxis recycles 70% of all its waste, including paper and IT equipment.

The Company's United States branch sorts its waste both within its offices and at basement level to facilitate effective waste collection.

Dexia Kommunalkredit Bank AG and its employees abide by the Company's environmental protection approach. As such, Dexia Kommunalkredit Bank AG uses recycled paper and has appointed a waste management company that adheres to an environmental protection charter.

2.2. Sustainable use of resources

ENERGY CONSUMPTION

In order to limit its carbon footprint, Dexia is constantly seeking to improve the energy efficiency of its premises. The Bank is continuing with actions already initiated in this area by carrying out energy audits on several buildings and maintaining the proportion of its electricity consumption accounted for by green electricity.

Energy consumption is monitored within Dexia Crédit Local, Dexia Crediop and Sofaxis. Total electricity consumption in 2012 was 9,361,217 kWh.

Energy consumption (MWh) ✔	**2012**
Dexia Crédit Local[(1)]	
Electricity	6,354.8
Heating	1,182.9
Sofaxis	
Electricity	1,612
Dexia Crediop[(2)]	
Electricity	1,394.3

(Scope: Dexia Crédit Local, Dexia Crediop and Sofaxis)

Local initiatives have been put in place to improve energy efficiency:

- in France, Dexia Crédit Local has been using 100% green electricity to power its buildings since 1 January 2008.
- Sofaxis has controlled annual water consumption of 2,200 cubic metres. The subsidiary has replaced its heating and air conditioning systems and has set an annual target of reducing its energy consumption per full-time equivalent employee. In addition, 110 square metres of solar panels have been incorporated into its buildings, generating 10,300 kWh of electricity in 2012.
- Dexia Crédit Local New York's maintenance staff have been made aware of the Energy Star programme launched by the government and intended to promote energy savings in the United States. Low energy bulbs are used to light buildings, all products used are environmentally friendly and air conditioning units are inspected and cleaned every month. The branch uses a low sulphur – and therefore less polluting – diesel fuel for its building's generator.
- In Italy, Dexia Crediop uses hydroelectric power for virtually all of its energy needs.

2.3. Preventing global warming

For several years, Dexia has been working to reduce CO_2 emissions associated with business travel by its employees, focusing on two areas: reducing travel and minimising the impact of travel by encouraging the use of less polluting modes of transport.

(1) Reported consumption is for Dexia Crédit Local's head office (the Dexia Tower) only.
(2) Reported consumption is for Dexia Crediop's head office only.

CO_2 EMISSIONS BY TYPE OF TRANSPORT ✔

2012	Km travelled by air	CO_2 emissions in kilograms	Km travelled by train	CO_2 emissions in kilograms	Total CO_2 emissions in kilograms
Dexia Crédit Local	1,360,652	233,214	1,108,482	71,652	304,866
Sofaxis	284,321	41,577	441,898	18,746	60,323
Dexia Crediop	317,954	31,145	173,196	5,496	36,641

(Scope: Dexia Crédit Local, Dexia Crediop and Sofaxis)

N.B.: emissions are calculated using either information supplied by the service provider (CWT) or, where this is not available, emission factors from the GHG Protocol.

a. Commuting

In France, Dexia Crédit Local is making a commitment in the area of its employees' commuting needs by paying 60% of the cost of public transport passes for employees working at La Défense and 50% for those working at regional headquarters.

In Ireland, in accordance with the provisions of the government's "bike to work scheme", Dexia Crédit Local Dublin encourages its employees to cycle to work.

Dexia Crediop has paid a portion of commuting costs since 2007. Other concrete steps have been taken, such as the creation of a cycle parking area at head office and involvement in the European Mobility Week.

b. Optimising business travel

In order to reduce distances travelled, employees are encouraged to make use of videoconferencing and conference calls. Five videoconferencing units (including one mobile unit) have been installed in Dexia Crédit Local's building at La Défense, and two in the Dexia Crediop building in Rome.

Eco-driving lessons are offered to travelling sales staff working for Sofaxis and Public Location Longue Durée. Low insurance premium vehicles are also made available to sales staff at Public LLD.

Dexia Kommunalkredit Bank AG has opted to rent offices in central Vienna that can be easily accessed using the city's public transport network. The business expenses policy favours travel by train and metro rather than by air, car or taxi. Dexia Kommunalkredit Bank AG favours electronic forms of communication and meetings by conference call.

COMMERCIAL OFFERING AIMED AT HELPING PREVENT GLOBAL WARMING

Although Public Location Longue Durée's zero CO_2 offering no longer includes offsetting of CO_2 emissions, it should nevertheless be emphasised that more than 1,400 tonnes of CO_2 have been offset over the past six years. These 1,400 tonnes of CO_2 equate to a total distance travelled of 10,852,713 km.

In conjunction with Arval, Public Location Longue Durée maintains and develops responsible driving and eco-driving lessons. These lessons aim to help drivers drive more responsibly so as to reduce both accident rates and fuel consumption.

Public Location Longue Durée uses the TCO (total cost of ownership) approach for its long-term leases, under which the total cost of ownership is optimised for all vehicles. In calculating TCO, particular attention is paid to a vehicle's fuel consumption: low fuel consumption translates into a better utilisation rate.

3. Data on the social commitments in favour of sustainable development

3.1. Partnership and sponsorship activities

Dexia Crédit Local's commitment to society is reflected in policies and actions intended to benefit local stakeholders in the various countries in which the Company has a direct or indirect presence.

Through its corporate foundation, Dexia Crédit Local runs programmes to promote civic spirit among the most socially excluded youth, who come from neglected urban areas and rural regions in crisis. Almost a million young people are helped every year by Mission Locale local centres for the social and professional inclusion of young people. Seven thousand advisors across the country help these young people overcome their difficulties and support them in their efforts to seek employment and secure training, healthcare, housing, civic rights and French citizenship.

"COMMUNITY, CITIZENSHIP AND CULTURE IN YOUR TOWNS" CALL FOR PROJECTS

In 2012, the Dexia Crédit Local foundation recognised around 30 initiatives run by young people looking for work and supported by *mission locale* local youth support centres. These concrete actions, initiated by young people where they live, related to the issues of community, citizenship and culture.

In Perpignan, for example, the foundation supported a forum organised by young people entitled "Eco-citizenship and the green economy: new jobs in the offing". These forums gave young people in the Pyrénées-Orientales department the opportunity to identify eco-citizenship activities undertaken at European level that could be transferred to a local level. This initiative enabled them to raise awareness among local elected officials and the business community with the aim of creating local jobs linked to the green economy. In Fontenay-aux-Roses, young people produced a booklet entitled *How to find housing*. This guide was also distributed to young people in Bagneux, Clamart and Malakoff to provide them with more information about various ways of accessing housing.

In Cannes, young people at the *mission locale* youth support centre were recognised for a road safety campaign. It cannot be denied that young people aged 16-25 often have little awareness or knowledge of the highway code, and thus become victims of their own actions. This awareness campaign increased their awareness of the dangers of the road and encouraged a responsible attitude to driving.

CITIZENSHIP ACADEMY

The Citizenship Academy was created in 2007 by the Dexia Crédit Local foundation and the National Council of *missions locales* youth support centres. Its curriculum balances two needs: helping young people learn the principles of democracy and leading them towards a discussion-based culture. In 2012, eight one-week training sessions were held for a hundred or so young people living in urban and rural areas to help them take ownership of the principles of citizenship, discuss their everyday problems and learn about democracy. The Academy provided an opportunity for them to discuss civic engagement.

CORPORATE SKILLS SPONSORSHIP

The Dexia Crédit Local foundation has established a system that enables employees of Dexia Crédit Local to take two hours a month out of their work schedule to sponsor young people involved with Mission Locale youth support centres. In 2012, around 30 Dexia Crédit Local employees sponsored young people looking for jobs. Dexia Crédit Local is one of the first companies to have incorporated the sponsorship of skills-building into its social policy.

"CAPS OF HOPE": COLLECTION IN SUPPORT OF PEOPLE WITH DISABILITIES

In 2012, Dexia Crédit Local decided to collect plastic caps for charity within the Dexia building at La Défense. These plastic caps are donated to associations that fund sports equipment for people with disabilities, such as, for example, "Les Clayes Handisport", which aims to foster inclusion by forging links between people with disabilities and sports clubs for able-bodied people.

The programme covers rigid plastic caps (in polyethylene (PE) or polypropylene (PP)) used for food products (drinks, spreads, etc.) and household products. Six 100-litre bags were collected in 2012. This activity is continuing in 2013.

3.2. Social and environmental issues and purchasing policy

In France, Dexia Crédit Local has been using 100% green electricity to power its main buildings since 1 January 2008.

Sofaxis has replaced its heating and air conditioning systems and set an annual target of reducing its energy consumption per full-time equivalent employee. In addition, 110 square metres of solar panels have been incorporated into its buildings, generating 10,300 kWh of electricity in 2012.

In the United States, Dexia Crédit Local New York uses a low sulphur – and therefore less polluting – diesel fuel for its building's generator.

In Italy, Dexia Crediop uses hydroelectric power for virtually all of its energy needs.

3.3. Fair commercial practices

As a leading player in the financial services arena, Dexia is committed to running its business professionally and responsibly as regards all its products and services and in its relations with clients, other players in the financial sector, the authorities and all internal and external partners.

Any business activity gives rise to compliance risk. Failure to properly understand or manage this risk could lead to financial or commercial losses and tarnish Dexia's reputation. It could also result in administrative, legal or criminal penalties.

The purpose of Dexia's integrity policy is (i) to promote open, honest and ethical behaviour and (ii) to ensure compliance with legislation, regulations and other professional standards, as well as with Dexia's codes of ethics, codes of conduct and other Group policies, so as to promote and protect Dexia's reputation and that of its products, services and businesses.

The compliance charter sets out the compliance function's role and areas of competence and the governance principles underpinning Dexia's approach to compliance.

These principles are reflected in policies and procedures implemented by all Group entities including Dexia Crédit Local and its subsidiaries and branches.

PREVENTING CORRUPTION

The Dexia Group has established rules that apply to all Group employees and aim to prevent private sector corruption. These are included in the integrity policy, the Dexia Group Ethics and Compliance Code and the policy on gifts, favours and invitations.

As part of its efforts to prevent political corruption, Dexia has adopted a politically exposed persons (PEP) policy. In particular, this policy is aimed at safeguarding against the risk of money laundering based on corrupt activities. The Group's country policy also incorporates corruption risk as a critical factor in the country risk classification established by the compliance support line.

Other specific policies are also designed to limit risk in this area – namely the whistleblowing policy, principles on the prevention of money laundering and terrorist financing, the policy on conflicts of interest, Dexia's policy guaranteeing the independence of its statutory auditors and the policy on the prevention of market abuse.

PREVENTING MONEY LAUNDERING AND TERRORIST FINANCING

Dexia places the highest priority on effectively managing risk in relation to money laundering and terrorist financing and fully complying with associated domestic and international requirements.

In order to ensure a harmonised, consistent approach across the Group's various entities, Dexia has defined a series of broad policies (country policy, AML risk rating, politically exposed persons, OFAC policy, etc.), based on which Group entities have adopted procedures and instructions detailing applicable requirements and formalities in respect of the following:

- knowing and identifying clients, representatives, agents and beneficial owners;
- conducting checks against official lists of criminals, terrorists, proponents of nuclear proliferation, etc., issued by domestic and international authorities;
- monitoring account and business relationships throughout the relationship;
- monitoring transactions and detecting suspicious transactions; and
- cooperating with regulatory and judicial authorities in the event of suspected money laundering or terrorist financing, in accordance with applicable requirements.

MARKET ABUSE AND PERSONAL TRANSACTIONS

Dexia has put in place measures aimed at managing the risk of market abuse – i.e. insider trading and price manipulation in connection with financial instruments issued by Dexia or any other issuer.

These measures are primarily reflected in a policy aimed at preventing insider trading in connection with Dexia's financial instruments and a policy on personal transactions carried out by relevant persons. They also include measures governing confidentiality, insider lists and Chinese walls.

INTEGRITY AND PREVENTING CONFLICTS OF INTEREST

In accordance with the Markets in Financial Instruments Directive (MiFID), Dexia has put in place standards designed to guarantee a high level of investor protection, including, for example, its conflict of interest policy (updated in October 2011) and its policy on research in investment (updated in May 2010).

Internal rules have been adopted to govern external duties that might be performed by employees, in accordance with local rules and general principles on the prevention of conflicts of interest.

Dexia has a policy aimed at guaranteeing the independence of its statutory auditors.

One of the requirements of this policy is that, before an assignment not directly related to statutory audit work is assigned to the statutory auditors, checks should be undertaken to ensure that the assignment in question is not likely to affect the auditors' independence.

WHISTLEBLOWING

Dexia has put in place a whistleblowing system with the aim of reducing the risk of financial losses, penalties or reputational damage as a result of failing to comply with legal and regulatory requirements.

This system enables Dexia employees to report any violation, abuse or problem that could be seriously damaging to Dexia.

DATA PROTECTION AND PROFESSIONAL SECRECY

Discretion and compliance with professional secrecy requirements (including, where applicable, banking secrecy) are essential in protecting Dexia's reputation; in this regard, procedures have been put in place throughout the Dexia Group in accordance with domestic regulations.

DEXIA GROUP COMPLIANCE CHARTER IN RESPECT OF SUPPLIER RELATIONS

Article 2.1 of the Dexia Group's compliance charter in respect of supplier relations covers issues relating to human resources, environmental and social data.

"Depending on the existing environment, legislation and goods and services production methods in each country, Dexia intends to select those suppliers who apply best practice and the most exemplary principles of social and environmental responsibility by:

- not using, or allowing their own suppliers or subcontractors to use, child labour (children under 15) or forced labour;
- complying with all legislation and regulations aimed at providing staff with a safe and healthy working environment and working conditions in line with individual and collective freedoms, particularly as regards working hours, compensation, training, trade union representation, and health and safety;
- complying with all legislation and regulations on discrimination (on the basis of gender, race, religion or political affiliation) in relation to the recruitment and management of personnel;
- not practising or supporting any form of psychological or physical coercion or hurtful or humiliating verbal abuse;
- complying with the provisions of employment law both when recruiting personnel and throughout the term of their employment contracts;
- complying with domestic legislation on environmental protection and promoting environmental best practice, particularly as regards designing innovative products, improving product life cycles, recycling and recovering waste."

Copies of the compliance charter are always provided when issuing requests for proposals, and one of the criteria for selecting suppliers is compliance with social and environmental obligations.

Attestation of completeness and limited assurance report of the Statutory Auditors on selected social, environmental and other sustainable development information

Year ended 31 December, 2012

For the attention of the Executive Management

Pursuant to your request and in our capacity as Statutory Auditors of the company Dexia Crédit Local, we hereby present you with our attestation of completeness on the consolidated social, environmental and other sustainable development information present in the management report prepared for the year ended 31 December, 2012 pursuant to Article L.225-102-1 of the French Commercial Code (Code du commerce) as well as our limited assurance report on a selection of such information identified by the sign (✔).

Responsibility of the company

The Board of Directors is responsible for preparing a management report including the consolidated social, environmental and corporate information provided for in Article R.225-105-1 of the French Commercial Code (hereinafter the "Information"), prepared in accordance with the reporting criteria used by the Dexia Crédit Local Group and available from the Human Relations and Environment Executive Management teams.

Independence and quality control

Our independence is defined by regulatory texts, the profession's Code of Ethics as well as by the provisions set forth in Article L.822-11 of the French Commercial Code. Furthermore, we have set up a quality control system that includes documented policies and procedures that aim to ensure compliance with rules of conduct, professional standards and the applicable laws and regulations.

Responsibility of the Statutory Auditors

It is our responsibility, based on the work performed, to:

– certify that the required Information is presented in the management report or, in the event of an omission, that an explanation is given pursuant to the third paragraph of Article R.225-105 of the French Commercial Code and Decree no. 2012-557 of 24 April, 2012 (Attestation of completeness);

– express limited assurance on the fact that certain information selected by the Dexia Crédit Local Group and identified by the sign (✔) is presented fairly, in all material respects, in accordance with the Reporting Criteria (limited assurance report).

To assist us in conducting our work, we referred to the corporate responsibility experts of our firms.

1. ATTESTATION OF COMPLETENESS

We conducted the following procedures in accordance with professional standards applicable in France:

– We compared the Information presented in the management report with the list set forth in Article R.225-105-1 of the French Commercial Code;

– We verified that the Information covered the consolidated scope, i.e., the Company and its subsidiaries within the meaning of Article L.233-1 of the French Commercial Code and the companies that it controls within the meaning of Article L.233-3 of the French Commercial Code, subject to the limits set forth in the methodological notes presented in the section of the management report on social, environmental and other sustainable development information;

– In cases where certain consolidated information has been omitted, we verified that explanations were provided in accordance with Decree no. 2012-557 of 24 April 2012.

Based on our work, we attest to the completeness of the required Information in the management report.

2. LIMITED ASSURANCE REPORT ON A SELECTION OF CONSOLIDATED SOCIAL, ENVIRONMENTAL AND CORPORATE INFORMATION IDENTIFIED BY THE SIGN (✔)

Nature and scope of procedures

We conducted our procedures in accordance with ISAE 3000 (International Standards on Assurance Engagements) and professional guidelines applicable in France.

- We carried out the following work to obtain limited assurance on the fact that the Information selected by the Dexia Crédit Local Group and identified by the sign (✔) does not contain any material misstatements that would call into question its fairness, in all material respects, in accordance with the Reporting Criteria. A higher level of assurance would have required more extensive work.

We performed the following procedures:

– We assessed the appropriateness of the Reporting Criteria with respect to their relevance, completeness, neutrality, clarity and reliability, taking into consideration, when relevant, the sector's best practices;

– We verified that a process has been put in place within the Dexia Crédit Local Group to collect, compile, process and check the selected information with regard to its completeness and consistency. We familiarised ourselves with the internal control and risk management procedures relating to the compilation of the information. We conducted interviews with individuals responsible for social, environmental and other sustainable development reporting.

Concerning the selected quantitative information:

- For the consolidating entity and controlled entities, we performed analytical procedures and verified, using sampling techniques, the calculations as well as the consolidation of this information;
- At the sites that we selected based on their activity, their contribution to consolidated indicators, their location and a risk analysis, we:
  - – conducted interviews to verify the proper application of procedures and obtained information to enable us to carry out our audits;
  - – conducted detailed tests, using sampling techniques, to verify the calculations performed and reconcile data with supporting evidence.

The sample thus selected represents between 57% and 100% of the tested information.

Conclusion

Based on our work, we did not identify any material anomaly likely to call into question the fact that the information selected by the Dexia Crédit Local Group and identified by the sign (✔) has been presented fairly, in all material aspects, in accordance with the Reporting Criteria.

Neuilly-sur-Seine and La Défense, 2 April 2013

The Statutory Auditors

MAZARS

Charlotte Vandeputte
Partner

Eric Dugelay
Partner in charge of Corporate Social Responsibility Services

DELOITTE & ASSOCIÉS

Virginie Chauvin
Partner

Emmanuelle Rigaudias
Partner in charge of the CSR and Sustainable Development department

Terms of office and compensation paid to directors and officers

In accordance with Article L.225-102-1 of the French Commercial Code, a list is provided below of the terms of office and duties performed by each corporate officer between 1 January and 31 December 2012, as well as the compensation paid to them during the same period. The composition of the Board of Directors as at 31 March 2013 is set out on page 6 of this report.

1. Duties and terms of office

CHAIRMAN OF THE BOARD OF DIRECTORS

Jean-Luc Dehaene (until 29 June 2012)

72 years old

- Chairman of the Board of Directors of Dexia SA (until June 2012)
- Director of Thrombogenics
- Director of Novovil
- Interim Chairman of the Board of Directors of Dexia Crédit Local (29 June to 10 October 2012)
- Statutory manager of White Art Center CV
- Chairman of the Board of Directors of Allegro Investment Fund
- Chairman of the Board of Directors of Boek.be
- Director of ASWEBO
- Member of the Supervisory Board of Willemen Group

Robert de Metz (since 10 October 2012)

61 years old

- Chairman of the Board of Directors of Dexia SA (since 2 August 2012)
- Executive director of La Fayette Investment Management (UK) Ltd
- Executive director of La Fayette Management (UK) Ltd
- Member of the Supervisory Board of Canal+ France
- Director of Média-Participations
- Chief Executive Officer of Bee2Bees SA
- Member of the Executive Committee of Fondation pour les Monuments Historiques

CHIEF EXECUTIVE OFFICER AND DIRECTOR

Karel De Boeck (director since 30 May 2012; Chief Executive Officer since 10 October 2012)

63 years old

- Chairman of the Management Board of Dexia SA
- Managing Director, Dexia SA (since 2 August 2012)
- Interim Chairman of the Board of Directors of Dexia SA (1 July to 2 August 2012)

EXECUTIVE VICE-PRESIDENTS AND DIRECTORS

Alain Clot (Executive Vice-President since 10 October 2012)

56 years old

- Member of the Group Committee of Dexia SA
- Chief Executive Officer of Dexia Crédit Local (until 10 October 2012)
- Director and Vice-President of Dexia Crediop (until December 2012)
- Chairman of the Board of Directors of Dexia Sabadell (until November 2012)
- Permanent representative of Dexia Crédit Local and member de SOFCA-GIE
- Chairman of the Board of Directors of Sofaxis (formerly Dexia Sofaxis)
- Permanent representative of Dexia Crédit Local and member of the Supervisory Board of Dexia Municipal Agency (until January 2013)
- Permanent representative of Dexia Crédit Local and director of Dexia CLF Banque
- Director of Dexia Holdings, Inc. (until November 2012)
- Director of Dexia FP Holdings, Inc. (until November 2012)

- Director of Dexia Financial Products Services LLC (until November 2012)
- Director of FSA Asset Management LLC (until November 2012)
- Director of FSA Capital Markets Services LLC (until November 2012)
- Director of FSA Capital Management Services LLC (until November 2012)

Claude Piret (director since 29 June 2012 and Executive Vice-President since 10 October 2012)

61 years old

- Member of the Management Board of Dexia SA
- Director of Dexia SA
- Director of Dexia Participation Belgique SA
- Director of Dexia Holdings, Inc. (until November 2012)
- Director of Dexia FP Holdings, Inc. (until November 2012)
- Director of Dexia Financial Products Services LLC (until November 2012)
- Director of FSA Asset Management LLC (until November 2012)
- Director of FSA Capital Markets Services LLC (until November 2012)
- Director of FSA Capital Management Services LLC (until November 2012)
- Director of Dexia Participation Belgique
- Non-executive director of Clinique Saint Pierre

Philippe Rucheton (Executive Vice-President since 10 October 2012)

64 years old

- Member of the Management Board of Dexia SA
- Director of Dexia SA
- Director of Dexia Crediop (since December 2012)
- Chairman of the Supervisory Board of Dexia Municipal Agency (until January 2013)
- Director of Dexia Asset Management Luxembourg
- Director of DenizBank AS (until September 2012)
- Director and Chairman of the Board of Directors (since November 2012) of Dexia Holdings, Inc.
- Director of Dexia FP Holdings, Inc.
- Director of Dexia Financial Products Services LLC
- Director of FSA Asset Management LLC
- Director of FSA Capital Markets Services LLC
- Director of FSA Capital Management Services LLC
- Director of of Banque Internationale à Luxembourg (formerly Dexia Banque Internationale à Luxembourg) (until October 2012)
- Director of Dexia Participation Belgique SA
- Permanent representative of Dexia SA and director of Dexiarail (since May 2012)
- Permanent representative of Dexia SA and director of DCL Investissements (since May 2012)
- Director of Dexia Sabadell (September to November 2012)
- Director of Bernard Controls SA

MEMBERS OF THE BOARD OF DIRECTORS

Fédération Nationale des Travaux Publics represented by Patrick Bernasconi

57 years old

- Chairman of Fédération Nationale des Travaux Publics
- Chairman of Bernasconi TP
- Chairman of Science et Industrie
- 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 and member of the Supervisory Board of BTP Banque
- Permanent representative of Fédération Nationale des Travaux Publics and Vice-Chairman of SMA BTP
- Joint statutory 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

Fédération Française du Bâtiment represented by Didier Ridoret (until 14 January 2013)

61 years old

- Chairman of Fédération Française du Bâtiment
- Joint statutory manager of Elibois SARL
- Joint statutory manager of France Menuisiers SARL
- Joint statutory manager of Menuiseries Niortaises SARL
- Chief Executive Officer of Ridoret Menuiserie SA

- Joint statutory manager of Roche Alu SARL
- Joint statutory manager of Ridoret Distribution (formerly Roche France SARL)
- Joint statutory manager of Roche PVC SARL
- Chief Executive Officer of SAG SAS
- Joint statutory manager of Pont de la Reine SCI
- Vice-Chairman of the Supervisory Board of BTP Banque SA
- Permanent representative of Fédération Française du Bâtiment and director and member of the Steering Committee of Union des caisses de France du réseau Congés intempérie du BTP
- Permanent representative of Fédération Française du Bâtiment and non-voting board member of ECOFI Investissements SA
- Permanent representative of Fédération Française du Bâtiment and Vice-Chairman of SMA BTP
- Permanent representative of Fédération Française du Bâtiment and Vice-Chairman of SMAVIE BTP
- Joint statutory manager of DIFRAHEL
- Chairman of the Board of Directors of SICAV BTP Obligations
- Non-voting board member of SICAV BTP Associations
- Non-voting board member of SICAV BTP Rendements
- Director of Société de Groupe d'Assurance Mutuelle du Bâtiment et des Travaux Publics (SGAM BTP)
- Chairman of the Supervisory Board of Caisse de Garantie Immobilière du Bâtiment (CGI Bâtiment)
- Chairman of the Supervisory Board of Société Anonyme Générale d'Assurances (SAGENA)

Julien Brami (until 24 September 2012)

38 years old

- Member of the Board of Directors of CDC Entreprises (until September 2012)
- Member of the Board of Directors of Fonds de Garantie des Assurances Obligatoires de Dommages (FGAO) (until September 2012)
- Director of EGIS Projects SA (until September 2012)
- Director of CDC Climat (until September 2012)
- Representative of Caisse des Dépôts on the Board of Directors of CDC Infrastructure

Jean-Pierre Brunel

69 years old

- Statutory manager of Tradanimes

Delphine de Chaisemartin (24 September 2012 to 14 January 2013)

42 years old

Jean-Pol Henry (until 10 May 2012)

69 years old

Honorary Vice Chairman of the House of Representatives

Pierre Mariani (until 2 August 2012)

56 years old

- Chief Executive Officer of Dexia SA (until August 2012)
- Director of Banque Internationale à Luxembourg (formerly Dexia Banque Internationale à Luxembourg) (until August 2012)
- Director of DenizBank (until September 2012)
- Director and Chairman of the Audit Committee of EDF
- Chairman of the Board of Directors of Dexia Asset Management Luxembourg (since August 2012)
- Director of Etablissement Public de la Réunion des Musées Nationaux et du Grand Palais des Champs-Elysées

Édouard Philippe (until 19 November 2012)

42 years old

Mayor of Le Havre and member of Seine-Maritime General Council

- Member of the Supervisory Board of Grand Port Maritime du Havre
- Chairman of Le Volcan
- Chairman of the Supervisory Board of Groupe Hospitalier du Havre
- Chairman of the Board of Directors of Groupe Gériatrique Desaint Jean

Francine Swiggers (until 10 November 2012)

60 years old

- Chairman of the Management Board of the Arco Group (in liquidation)
- Director of Dexia SA (until December 2012)
- Liquidator of Arcofin CVBA
- Liquidator of Arcopar CVBA
- Liquidator of Arcoplus CVBA
- Chairman of the Board of Directors of Auxipar NV
- Chairman of the Board of Directors of Interfinance CVBA
- Liquidator of Arcosyn BV

- Director of Aquafin NV
- Liquidator of VDK – Caisse d'Épargne (until March 2012)
- Member of the Board of Directors of Hogeschool Universiteit Brussel

René Thissen (until 10 May 2012)

66 years old

Member of Parliament and member of Waimes Municipal Council

- Director of Centre Hospitalier Chrétien
- Director of Unio Bruxelles ASBL
- Chairman of the Board of Directors of SAGIMA SA

Koenraad Van Loo (since 10 May 2012)

40 years old

- Director of Dexia SA
- Chief Executive Officer of Société fédérale de Participations et d'Investissement
- Director of Zephyr FIN
- Director of Certi-Fed
- Director of Bel to mundial ASBL
- Director of Société Belge d'Investissement International
- Director of Capricorn Health Tech Fund
- Director of Ginkgo Management Fund SARL
- Director of BILOBA Investment

EMPLOYEE WORKS COUNCIL REPRESENTATIVES

Isabelle Lourenço

Philippe Keravel

2. Compensation and regulated agreements

2.1. Regulatory context

Executive compensation in the financial sector has been the subject of much regulation in recent years.

The Board of Directors has undertaken to comply with this regulatory framework as it has evolved on the basis of domestic and international provisions aimed at strengthening corporate governance, particularly in terms of compensation, and circulars and recommendations issued by supervisory authorities.

The Dexia Group has adopted a global compensation policy in accordance with Belgian, French and European regulations as well as recent principles on sound compensation practices. These have been submitted to the supervisory authorities.

Dexia's compensation policy has been prepared by the Human Resources support line in cooperation with the audit, risk and Compliance, Legal and Tax departments and submitted to Dexia SA's Appointments and Compensation Committee.

Proposals from the Appointments and Compensation Committee were submitted to the Board of Directors of Dexia SA, which approved the Group compensation policy.

The applicable compensation policy firstly sets out general principles applicable to all Dexia Group employees. In line with the principle of proportionality, it also contains specific provisions that apply solely to a population identified as liable to impact the risk profile of the Dexia Group in view of the nature or level of their duties and/or compensation.

The compensation policy and its enforcement are regularly assessed to identify provisions that need to be adjusted as a result, in particular, of the entry into force of new legislation or regulations.

The specific provisions of the compensation policy – which apply to senior management, market professionals whose professional activities have a significant impact on the Dexia Group's risk profile and other members of staff who, given their income, are considered "risk-takers" – are published on the Dexia corporate website, in accordance with the Royal Decree of 22 February 2011 approving the Regulation of 8 February 2011 of the Banking, Finance and Insurance Commission concerning financial institutions' compensation policy.

In accordance with applicable regulations, Dexia Crédit Local provides information on its compensation policy and the relevant personnel both in this report and on its website.

2.2. Compensation paid to members of the Management Board[1]

PROCEDURE

Compensation paid to members of Dexia SA's Management Board – including the Chief Executive Officer and two of the three Executive Vice-Presidents of Dexia Crédit Local – is set by Dexia SA's Board of Directors on the basis of proposals by the Appointments and Compensation Committee.

The Appointments and Compensation Committee analyses the levels of compensation paid to members of the Management Board in comparison with compensation paid by other companies in the sector.

In this context, compensation consultants may be used to obtain information on market salaries in the financial sector.

On the basis of benchmarking analyses, the Appointments and Compensation Committee proposes potential changes in compensation paid to members of Dexia SA's Management Board to the Board of Directors, where such changes are justified by market developments, taking into account the Company's circumstances.

FIXED AND VARIABLE COMPENSATION

Compensation paid to members of the Management Board of Dexia SA consists of a fixed (non-performance-related) component, which may be accompanied by a performance-related variable component. Where variable compensation is paid, it may not exceed 1.5 times fixed compensation and is spread across at least three years.

Both the law and Dexia's compensation policy provide for the adjustment of deferred variable compensation that has not yet vested.

Moreover, in the event that fraud is detected after variable compensation has been granted, and in the event that variable compensation has been granted on the basis of intentionally false information, the Dexia Group's compensation policy provides for the possibility of withholding any deferred variable compensation not yet paid and taking the necessary steps to recover any variable compensation already paid.

Fixed and variable compensation paid to members of the Management Board constitutes a total amount from which, unless the Board of Directors decides otherwise on the basis of proposals from the Appointments and Compensation Committee, are deducted any directors' attendance fees or management bonuses paid to a member of the Management Board by a company in the Dexia Group or by a third party company in which corporate office is held for and on behalf of Dexia.

It should be noted that, under the behavioural obligations discussed with governments and the European Commission, Dexia has undertaken no longer to pay any variable compensation to members of its Management Board.

(1) This term is used within this section to mean members of Dexia SA's Management Board, some of whom are directors of Dexia Crédit Local.

COMPENSATION IN RESPECT OF 2012

a. Fixed compensation

Since 2010, fixed compensation has consisted of basic compensation and a quarterly retention bonus.

Basic compensation in respect of 2012

In determining basic compensation, consideration is given to the nature and importance of the responsibilities performed by each individual (as well as market benchmarks for comparable positions).

Summary of basic compensation and other benefits

(EUR)	Basic compensation paid in 2012	Entertainment expenses	Cars[1]
Pierre Mariani[2]	590,579	3,734	4,705
Karel De Boeck	245,652	2,589	-
Alain Clot[3]	250,000	-	2,481
Philippe Rucheton	500,000	6,324	6,342
Claude Piret	480,000	6,324	9,233

Retention bonus in respect of 2012

Summary of retention bonuses

(EUR)	
Pierre Mariani	116,666
Karel De Boeck	-
Alain Clot[3]	50,000
Philippe Rucheton	100,000
Claude Piret	96,000

b. Variable compensation in respect of 2012

In light of the Group's 2012 results, the Board of Directors, at the recommendation of the Appointments and Compensation Committee, accepted the Management Board's proposal that no variable compensation should be paid to members of Dexia SA's Management Board in respect of 2012.

DEFERRED VARIABLE COMPENSATION IN RESPECT OF 2010 PAYABLE IN 2013

We refer to pages 60 and following of the 2010 Annual Report for an explanation of deferral principles and other terms and conditions applicable to variable compensation in 2010.

At the recommendation of the Appointments and Compensation Committee, Dexia SA's Board of Directors accepted the Management Board's proposal and decided to avail itself of the option of reducing deferred variable compensation after the fact. Neither the deferred cash component of 2010 variable compensation nor the deferred component of 2010 variable compensation in the form of instruments with a lock-in period of one year (vesting in 2013 and payable in 2014) will be granted in 2013.

Moreover, in accordance with the undertakings given by Dexia under the terms of the independent guarantee agreement entered into with the Belgian and French governments, and for as long as covered bonds exist or are liable to be issued, and unless agreed by the aforementioned governments, Dexia shall not make:

- any grant of options to subscribe for or purchase shares or bonus shares; or
- any grant or payment of components of variable compensation, allowances or benefits indexed to performance, or deferred compensation paid to the following: Chairman of the Board of Directors, Chief Executive Officer(s) or members of the Board of Directors.

UNDEFERRED VARIABLE COMPENSATION IN RESPECT OF 2010, PAYABLE IN 2012

Variable compensation granted in the form of financial instruments, payable after a one-year lock-in period following expiry of the vesting period, was paid in April 2012. The amounts in question were EUR 180,000 for the Chief Executive Officer, EUR 11,011 for Claude Piret and EUR 60,000 for Philippe Rucheton. Alain Clot did not receive any compensation in this form.

2.3 Discretionary pensions

Some members of the Management Board of Dexia SA are eligible for a supplementary discretionary pension put in place by Dexia.

CHARACTERISTICS OF APPLICABLE DISCRETIONARY PENSION SCHEMES

The discretionary pension scheme for members of the Management Board of Dexia SA with Belgian employment contracts entitles those covered by the scheme, upon retirement, to receive the capital amount formed by annual contributions paid. These annual contributions represent a fixed percentage of a capped annual amount of fixed compensation.

a. Amounts paid under supplementary pension schemes

Annual premiums of EUR 332,690 were paid in 2012 in respect of members of the Management Board with Belgian employment contracts. The breakdown of this amount is presented hereafter.

b. Supplementary cover for death, permanent disability and medical costs

Annual group premiums of EUR 204,701 were paid in 2012 for members of the Management Board with Belgian employment contracts in respect of supplementary cover for death, permanent disability and the costs of medical treatment broken down as follows:

(1) These amounts correspond to the tax benefit associated with the provision of a company car available for personal use. In 2012, Karel De Boeck opted not to exercise his right to be provided with a company car.
(2) Chairman of the Management Board of Dexia SA until 2 August 2012.
(3) Amount paid while a position on Dexia SA's Management Board was held, i.e. until 30 June 2012.

(EUR)		
Pierre Mariani		
Discretionary schemes	Death/orphan benefits	24,947
	Disability	19,154
	Hospitalisation	267
	Pension	87,832
Karel De Boeck		
Discretionary schemes	Death/orphan benefits	24,780
	Disability	8,750
	Hospitalisation	334
	Pension	49,752
Philippe Rucheton		
Discretionary schemes	Death/orphan benefits	50,150
	Disability	17,556
	Hospitalisation	803
	Pension	98,332
Claude Piret		
Discretionary schemes	Death/orphan benefits	40,096
	Disability	16,660
	Hospitalisation	1,204
	Pension	96,774

Annual group premiums of EUR 3,250 were paid in 2012 for Management Board members with French employment contracts in respect of compulsory and supplementary cover for death, permanent disability and medical costs.

2.4. Option plan

During 2012, no options were exercised, matured or were granted to members of the Management Board.

2.5. Conditions relating to departure

PROVISIONS OF DEXIA'S COMPENSATION POLICY

In accordance with Dexia's compensation policy, total termination benefits may not exceed 12 months' fixed and variable compensation. Under specific circumstances, the Appointments and Compensation Committee may, on the basis of a substantiated opinion, propose to the Board of Directors the payment of termination benefits in excess of 12 months' but not exceeding 18 months' fixed and variable compensation. Termination benefits in excess of 18 months' fixed and variable compensation may only be agreed under exceptional circumstances, and must be approved at the first Shareholders' Meeting thereafter.

Moreover, the agreement providing for the payment of termination benefits must contain a performance condition such that any contractual termination benefits may be reduced if the executive's performance is found to have deteriorated significantly over the two years preceding his or her termination. This ensures that termination benefits are not paid as a reward for failure.

These principles will be applied in compliance with collective agreements and legal provisions.

Any agreement affecting termination benefits entered into with a member of the Management Board of Dexia SA since the Dexia Group adopted its compensation policy must comply with the aforementioned provisions.

DEPARTURES IN 2012

Pierre Mariani left Dexia SA, effective 2 August 2012. He did not receive any termination benefits.

PROVISIONS RELATING TO TERMINATION BENEFITS INCLUDED IN MANAGEMENT AGREEMENTS WITH MEMBERS OF THE MANAGEMENT BOARD

Karel De Boeck will be entitled, if his contract is terminated by Dexia on grounds other than gross misconduct, to a single lump sum payment equal to three months' compensation. Should Mr De Boeck wish to terminate his contract under the same conditions, he is required to give Dexia three months' advance notice.

If Dexia terminates Philippe Rucheton's contract before he reaches the age of 65 and within 12 months of a change of control, he will be entitled to compensation equal to 18 months' fixed and variable compensation, not exceeding the number of months until the date on which he reaches the age of 65 and notwithstanding the rules of common law that might be applicable.

If either party to the contract between Claude Piret and Dexia wishes to terminate that contract in mid-term for any reason other than a serious breach of contract by the other party, the terminating party will be required to provide one month's advance notice.

PROVISIONS RELATING TO TERMINATION BENEFITS INCLUDED IN EMPLOYMENT CONTRACTS HELD BY MEMBERS OF THE MANAGEMENT BOARD

Termination of Claude Piret's employment contract (the performance of which is suspended throughout his term of office on the Management Board of Dexia SA) is governed by Belgian legislation on employment contracts. Furthermore, Mr Piret's employment contract stipulates that, without prejudice to mandatory statutory provisions, if Dexia terminates his contract before he reaches the age of 65, he will be entitled to compensation equal to 24 months' fixed and variable compensation and other benefits

Alain Clot will be entitled, if his contract is terminated by Dexia on grounds other than gross misconduct, to a single lump sum indemnity equal to 12 months' fixed and variable compensation. This indemnity may be increased to 18 months' compensation if such termination arises as a result of a change of control. These single lump sum indemnities of 12 or 18 months' compensation will be reduced by 50% if the average assessment of business and individual performance is less than 55% over the last two years. If the average assessment of business and individual performance is less than 35% over the last two years, the indemnity in lieu of notice will be equal to the statutory indemnity.

2.6. Directors' fees paid by Dexia Crédit Local

Board member (EUR)	**Directors' fees paid in respect of 2011**	**Directors' fees paid in respect of 2012**
Julien Brami	15,000	15,000(1)
Jean-Pierre Brunel	21,000(2)	21,000(2)
Alain Clot	0	0
Karel De Boeck	/	0(3)
Delphine de Chaisemartin	/	12,000(4)
Robert de Metz	/	0
Jean-Luc Dehaene	0(5)	0(5)
Philippe Duron	0(6)(7)	/
FFB (Didier Ridoret)	15,000	15,000
FNTP (Patrick Bernasconi)	21,000(2)	19,500(2)
Jean-Pol Henry	11,250(8)	7,875(8)(9)
Pierre Mariani	0	0
Philippe Rucheton	0	0
Édouard Philippe	0(10)	0(10)(11)
Claude Piret	/	0
Francine Swiggers	14,625(12)(13)	14,625(12)(13)(14)
René Thissen	11,250(8)	9,000(8)(15)
Koenraad Van Loo	/	11,250(8)(16)(17)

(1) Julien Brami advised the Board of Directors of his resignation from his duties as a director on 13 September 2012.
(2) Includes amount paid for participating in the Audit Committee.
(3) Dexia SA paid Karel De Boeck total directors' fees of EUR 15,667.32 in respect of 2012 in connection with his duties as a non-executive director until 1 August 2012.
(4) Delphine de Chaisemartin was a board member from 24 September to 31 December 2012.
(5) On 12 October 2011, Jean-Luc Dehaene announced his decision to forego any compensation owed in respect of his duties as a member and Chairman of the Board of Directors of Dexia SA.
(6) Philippe Duron asked not to be reappointed when his term of office expired on 12 May 2011.
(7) Philippe Duron stated that he did not wish to receive any directors' fees in respect of board meetings held in 2011.
(8) Net of withholding tax.
(9) Jean-Pol Henry advised the Board of Directors of his resignation from his duties as a director on 10 May 2012.
(10) Édouard Philippe stated that he did not wish to receive any directors' fees in respect of board meetings held in 2011 or 2012.
(11) Édouard Philippe advised the Board of Directors of his resignation from his duties as a director on 19 November 2012.
(12) Includes amount paid for participating in the Audit Committee, and is net of withholding tax.
(13) Dexia SA paid Francine Swiggers directors' fees in respect of her duties at Dexia SA totalling EUR 72,000 in respect of 2011 and EUR 58,000 in respect of 2012.
(14) Francine Swiggers advised the Board of Directors of her resignation from her duties as a director on 10 November 2012.
(15) René Thissen advised the Board of Directors of his resignation from his duties as a director on 10 May 2012.
(16) Dexia SA paid Koenraad Van Loo directors' fees in respect of his duties at Dexia SA totalling EUR 72,000 in respect of 2012.
(17) Koneraad Van Loo was appointed a director of Dexia Crédit Local on 10 May 2012.

Significant events and outlook

1. Significant events

In spite of the significant progress made by the Dexia Group since 2008 in reducing the serious financial imbalances that weakened it at that time, 2011 was a very challenging crossroads for the Group as a result of the renewed market decline. The accelerating eurozone sovereign debt crisis cast doubt on the assumptions underpinning the transformation plan initially put in place in 2008 and its successful completion[1].

In response to this deteriorating environment, from October 2011 onwards the Dexia Group announced and implemented an orderly resolution plan designed to prevent a rapid decline in its liquidity position and the materialisation of systemic risk for the Belgian and French governments, as well as for the European banking sector as a whole.

This orderly resolution plan, under which the Group's assets are to be managed on a run-off basis, is primarily based on the following pillars: the disposal of Dexia's main operating entities and the provision of a funding guarantee by the Belgian, French and Luxembourg governments. The orderly resolution plan was revised in autumn 2012, giving rise to the need for a capital increase restricted to the Belgian and French governments to allow the Group to successfully complete the resolution process.

The main developments in 2012 revolved around the implementation of the various components of this plan and its consequences in terms of changes in the scope, purpose and governance of the Dexia Group.

1.1. 2012: decisive progress in implementing the orderly resolution plan

1.1.1. EUROPEAN COMMISSION APPROVAL OF THE PLAN

The Dexia Group's resolution plan, which was submitted for review to the European Commission by the Belgian, French and Luxembourg governments in March 2012, and subsequently on 14 December 2012 in a revised version reflecting key macroeconomic developments, was approved by the Commission on 28 December 2012. It replaced the restructuring plan approved by the European Commission on 26 February 2010.

The approval of the revised orderly resolution plan brought an end to the in-depth investigation launched by the Commission on 21 December 2011[2] in connection with government aid received by the Group in October 2011[3]. The European Commission's approval of the Group's revised resolution plan represented a decisive step in implementing that plan. It enabled Dexia SA to complete its capital increase and validated the tripartite liquidity guarantee mechanism granted by the Belgian, French and Luxembourg governments.

Under the terms of this plan, Dexia gave a number of undertakings relating to the sale of its commercial franchises and restrictions on new lending. The resolution strategy approved by the Commission thus led the Group to withdraw from all the markets in which it operated.

Dexia also gave behavioural undertakings that were detailed in a press release issued by the Group on 31 December 2012.

These various undertakings will all be monitored by an independent expert.

1.1.2. PROGRESS UPDATE ON THE DISPOSAL OF OPERATING ENTITIES

In accordance with its undertakings, from the end of 2011 onwards the Group began to dispose of its principal operating entities, including in particular Dexia Banque Belgique (now Belfius Banque et Assurances), to the Belgian government in October 2011.

The disposals process advanced significantly in 2012, contributing to a substantial reduction in the size of the Group's balance sheet. The following transactions were finalised in 2012 and early 2013:

- On 27 July 2012, Dexia's entire investment in the commercial joint venture RBC Dexia Investor Services (initially jointly owned on an equal basis by Banque Royale du Canada and Dexia) was sold to the Banque Royale du Canada group for EUR 837.5 million, generating a EUR 38 million gain for the Dexia Group;
- On 28 September 2012, Dexia sold its entire investment in Turkish bank DenizBank to Russian bank Sberbank for a value of EUR 3,024 million[4], resulting in a EUR 801 million loss for Dexia;
- On 5 October 2012, Dexia sold its entire investment in Banque Internationale à Luxembourg, representing 99.906% of that company's share capital, to the Luxembourg government (10%) and Precision Capital (90%), for a total of EUR 730 million[5]. The scope of the transaction did not include the entity's legacy portfolio or Dexia LdG Banque SA, a subsidiary governed by Luxembourg law specialising in funding for public sector assets, or its investments in Dexia Asset Management, RBC Dexia Investor Services, Popular Banca Privada and Parfipar. These investments were either taken back by Dexia Group or sold on the market. In accordance with the undertakings given to buyers, Dexia completed a EUR 204 million capital increase for Banque Internationale à Luxembourg prior to its disposal. This transaction resulted in a EUR 205 million loss for Dexia in 2012;
- On 12 December 2012, the Group agreed to sell Dexia Asset Management to GCS Capital[6] for EUR 380 million. This sale price could be adjusted, as is commonly the case for such transactions, when the transaction is finalised. The transaction remains subject to approval by the regulatory authorities and the European Commission, which could be forthcoming in the first half of 2013.

(1) See Dexia SA's 2011 annual report – Significant events, pp. 12-17 – for a review of the 2008-2011 plan and details of decisions made in October 2011.
(2) See European Commission press releases IP/11/1592 dated 21 December 2012 and IP/12/253 dated 31 May 2012.
(3) See Dexia press release dated 10 October 2011.
(4) Consisting of EUR 2,789 million at closing, EUR 185 million in post-closing adjustments and a foreign exchange hedging gain of approximately EUR 50 million.
(5) Subject to any potential adjustments.
(6) GSC Capital is a strategic investor based in Hong Kong with offices also in London and Beijing. It is backed by Chinese and Qatari institutional investors.

This disposal covers the entire scope of Dexia Asset Management. It will not have a material effect on the Group's consolidated results;

- Finally, on 31 January 2013, Dexia finalised the sale of Société de Financement Local (SFIL), the holding company that owns Dexia Municipal Agency, to a consortium of buyers consisting of the French government as the majority shareholder together with Caisse des Dépôts and La Banque Postale. Dexia Municipal Agency, previously the Dexia Group's mortgage credit company, has been renamed Caisse Française de Financement Local.

  The selling price was set at EUR 1, resulting in a total loss for the Dexia Group of EUR 1.8. billion[1]. As at the date of disposal, SFIL accounted for estimated total balance sheet assets of EUR 95 billion.

  The sale of Dexia Municipal Agency forms part of plans by its buyers to create a funding mechanism for the local public sector in France. The purpose of this new mechanism is to remedy the significant and lasting deficit in long-term funding for local governments and public hospitals, which are key players in the French economy.

  As announced in the 2012 nine-month and Q3 interim statement, sensitive loans on Dexia Municipal Agency's balance sheet fell within the scope of the disposal, and neither Dexia nor Dexia Crédit Local extended any guarantee in respect of these assets; Dexia Crédit Local remains liable for any breach of its own legal, regulatory and contractual bligations in respect of these loans.

  This disposal represented the sale of Dexia's last large-scale commercial franchise, and was therefore a decisive step in the Group's orderly resolution plan.

Dexia SA allocated virtually all the proceeds from these disposals of Dexia Banque Belgique and RBS Dexia Investor Services and the cash generated by the sale of SFIL to the early repayment of loans extended to the Group and to Dexia Crédit Local by Belfius Banque et Assurances, in accordance with undertakings given by the Dexia Group, and to the repayment of emergency liquidity assistance (ELA)[2].

In accordance with undertakings given under its orderly resolution plan, Dexia is continuing with the disposal of its investments in Popular Banca Privada and Sofaxis. Dexia will also either sell or place into run-off Dexia CLF Régions Bail, Dexia Bail, Public Location Longue Durée and Dexia Flobail. Finally, Dexia is required to dispose of its investment in Dexia Israel within 12 months of a final decision in the various legal proceedings brought against Dexia Israel and Dexia Crédit Local as its shareholder.

1.2. Provision of a funding guarantee mechanism by the Belgian, French and Luxembourg governments

The 2013 guarantee mechanism was approved by the European Commission on 28 December 2012. This several but not joint guarantee mechanism replaces the temporary guarantee mechanism approved by the European Commission on 21 December 2011 for a maximum principal amount of EUR 45 billion and subsequently extended twice in 2012 for a maximum principal amount of EUR 55 billion.

The provision of this guarantee should enable the Group to successfully complete its resolution plan. This would enable Dexia Crédit Local to borrow from investors qualifying for the guarantee a principal amount of up to EUR 85 billion[3], including funding already covered by the 2011 temporary guarantee (the total principal outstanding was EUR 53.6 billion as at 18 January 2013). This guarantee was granted to Dexia by governments with no collateral requirement.

This 2013 guarantee is split as follows: 51.41% for Belgium (i.e. a maximum of EUR 43.6985 billion), 45.59% for France (i.e. a maximum of EUR 38.7515 billion) and 3% for Luxembourg (i.e. a maximum of EUR 2.55 billion). It covers funding raised in the form of securities, financial instruments, deposits and borrowings up to 31 December 2021, with a maximum maturity of ten years.

Interest payable to governments in respect of this guarantee is set at 0.05% (5 basis points) per annum, compared with the 85 basis points paid by Dexia in respect of the temporary guarantee, together with a commitment fee of 50 basis points calculated on a total amount of EUR 85 billion, after deducting the EUR 225 million commitment fee already paid in respect of the 2011 temporary guarantee.

After reviewing the terms of the funding guarantee granted by the Belgian, French and Luxembourg governments on 24 January 2013, the three main rating agencies allocated ratings to the relevant issues in early 2013. Guaranteed certificate of deposit and medium-term note issues carried out by Dexia Crédit Local SA have been provisionally rated A-1+ and AA respectively by Standard & Poor's, P1 and (P) Aa3 with negative outlook respectively by Moody's, and F1+ and AA, F1+ respectively by Fitch Ratings. These ratings will be confirmed upon receipt of the final documentation for each completed issue. The negative outlook applied by Moody's reflects the outlook for the Belgian government.

Petitions for cancellation of the royal decrees granting the temporary guarantee and the 2013 guarantee have been submitted to the Council of State in Belgium (see the section "Legal risk" on page 35).

1.3. Recapitalisation of the Dexia Group

Negotiations during the summer between the Belgian, French and Luxembourg governments and the European Commission resulted in changes being made to a number of principles and assumptions underpinning the business plan that had served as a basis for the plan notified by those governments to the European Commission on 21 March 2011. The revised orderly resolution plan and the associated financial simulations postulate funding costs that severely impair Dexia Crédit Local's earnings outlook, particularly as a result of restrictions on its access to central bank funding. The revised plan also incorporates changes made during the year to the initial arrangements for the disposal of Dexia Municipal Agency.

1) Including EUR 1.1 billion recorded in 2011. See press release from 31 January 2013.
(2) Emergency Liquidity Assistance: emergency liquidity facilities made available by central banks.
(3) Considering that the amounts of interest and incidentals due on the principal amounts would be guaranteed above this maximum limit. However, refer to the last paragraph in the present section.

These changes in Dexia's outlook forced Dexia SA's Board of Directors, at its meeting of 7 November 2012, to officially write down the value of Dexia SA's investment in Dexia Crédit Local. This write-down triggered a heavy loss for Dexia SA, resulting in negative shareholders' equity of EUR -2,685 billion and thus a need to recapitalise. The Belgian and French governments once again demonstrated their support by participating in a restricted capital increase for Dexia SA in the amount of EUR 5.5 billion. Under this capital increase, the Belgian and French governments were allotted preference shares granting them priority over any potential dividends paid by Dexia SA, up to a maximum of 8% of the par value of those shares per annum. The total shortfall in dividends relative to this 8% per annum limit constitutes a liquidation supplement giving the Belgian and French governments priority rights in respect of any net assets that might be distributed in the event that Dexia SA is wound up.

This amount of EUR 5.5 billion was calibrated to ensure that Dexia SA will be able to cope with future changes in the economic and financial environment to the extent that such changes might be considered foreseeable (including, in particular, new conditions for accessing funding imposed by central banks) once it has discharged all its contractual undertakings to Dexia Crédit Local and/or its subsidiaries, and once Dexia Crédit Local has completed a EUR 2 billion recapitalisation.

In accordance with Article 633 of the Belgian Companies Code, Dexia SA's shareholders were invited to discuss and vote on Dexia SA's continued operation or winding-up, as well as the capital increase restricted to the Belgian and French governments, at an Extraordinary Shareholders' Meeting held on 21 December 2012. The vast majority of shareholders voted in favour of Dexia SA's continued operation.

The Group therefore has the resources it needs to optimally manage its residual assets and carry those assets to maturity, subject to there being no significant deterioration in credit risk and in normal market conditions in line with current projections.

1.4. Changes in the Group's governance

The Board of Directors was substantially reorganised in 2012. The various changes are described in the "Governance and internal control" section of this registration document.

The configuration of Dexia SA's Board of Directors was adjusted to fit the Group's new scope. While Dexia SA and Dexia Crédit Local have maintained the same legal structure, the Group's management has been simplified and unified, in particular by placing the Group's main two entities under common management. On 10 October 2012, Karel De Boeck, Chief Executive Officer of Dexia SA, was appointed Chief Executive Officer of Dexia Crédit Local and Robert de Metz, already Chairman of the Board of Directors of Dexia SA, was appointed Chairman of the Board of Directors of Dexia Crédit Local. Similarly, the Group committee now includes all members of management from both entities as well as support lines heads. This expanded committee, which provides the Group with the expertise needed to properly manage it, replaces the Executive Committee.

1.5. Exercise by Banco Sabadell of its option to sell its interest in Dexia Sabadell

On 6 July 2012, Dexia announced that, pursuant to a shareholders' agreement dating back to 2001, Banco Sabadell had informed Dexia that it intended to exercise its option to sell its 40% interest in Dexia Sabadell to Dexia. Upon completion of this process, Dexia Sabadell would be wholly owned by Dexia Crédit Local.

Dexia noted Banco Sabadell's decision, which initiated a process laid down in the contract in force.

At the same time, Dexia Crédit Local increased Dexia Sabadell's capital by EUR 230 million in order to meet the domestic regulator's regulatory capital requirements.

1.6. Verdicts on proceedings brought against Dexia Crédit Local by the Département de Seine-Saint-Denis

On 8 February 2013, the Nanterre Regional Court issued its verdicts on claims brought against Dexia Crédit Local by the Département de Seine-Saint-Denis in connection with three structured loans representing a total outstanding amount of EUR 177,534,631.90 as at 21 March 2013.

The Nanterre Regional Court dismissed the Département de Seine-Saint-Denis's request to cancel the three contested structured loan agreements and all its claims for damages. In particular, the Court considered that the loans were not speculative, that the Département was competent to enter into the loan agreements and that Dexia had fulfilled its duty to inform and advise the Département. The Nanterre Regional Court did, however, consider that faxes that preceded the signature of the final agreements could be described as "loan agreements", and that failure to include the annual percentage rate (APR) on these faxes meant that the statutory interest rate should be applied.

The loans to which the Court's decisions relate fall within the scope of disposal of Société de Financement Local. That being the case, these verdicts, if confirmed, would have no financial impact on the Group, since the assets being disposed of now belong to Société de Financement Local. If the Regional Court's decisions were to be confirmed and constitute a legal precedent, their extension to other Dexia loans could give rise to significant contingent liabilities. Dexia Crédit Local intends to appeal these decisions.

1.7. Continued operations and revised business plan

As in 2011, Dexia Crédit Local's parent company and consolidated financial statements for the year ended 31 December 2012 have been prepared in accordance with the applicable accounting treatment for going concerns. This assumed continuity of operations is underpinned by a revised business plan based on the initial plan described in the Dexia Group's 2011 annual report, but with some assumptions changed to reflect the principal changes in regulatory requirements. This revised business plan was approved by Dexia SA's Board of

Directors at its meeting held on 14 December 2012. It is based on a number of critical assumptions, which are outlined below.

Like the initial business plan, the revised business plan includes a guarantee granted by governments with no collateral requirement[1]. This guarantee has been capped by the relevant governments at EUR 85 billion, taking into account the EUR 5.5 billion recapitalisation completed in late December 2012. As previously stated, this guarantee, like all the assumptions in the revised business plan, received approval from the European Commission on 28 December 2012. This was one of the central assumptions in the initial business plan presented to various stakeholders including the Commission.

The plan assumes that the various entities' banking licences will be maintained, irrespective of any potential failure to comply with certain regulatory liquidity ratios. It also assumes that Dexia SA and Dexia Crédit Local will maintain their current credit ratings.

The macroeconomic scenario underlying the revised business plan was put together using observable market data as at the end of September 2012, and assumes a worsening recession in 2013 followed by a gradual recovery from 2014 onwards.

Credit margins are assumed to remain constant until 2014 before declining towards their historical (2004-2011) average until 2018 and staying at that level in subsequent years. The macroeconomic scenario also provides for credit rating downgrades in 2013 for various sectors, including in particular the local public sector, followed by a return to September 2012 levels in 2014. No major negative credit events are assumed to happen over the forecast period.

The business plan is sensitive to changes in interest rates and the credit environment, including in particular the following:

- a 10 basis point cut in ten-year interest rates would cause a EUR 1 billion increase in cash collateral requirements, i.e. deposits or securities submitted by Dexia to its counterparties to guarantee currency or interest rate swaps. These requirements would generate an additional cost of EUR 135 million over the period 2013-2020 (assuming that the increased requirement was funded at the ELA rate, since ELA represents the most expensive source of funding);

- the projections are also sensitive to margins between Eonia, the ECB's key policy rate and 3-month Euribor.

- more conservative assumptions involving improvements in credit ratings and/or tightening in credit margins from 2014 onwards would have a negative effect on both the income statement and available liquidity reserves and would increase the required level of regulatory capital with effect from 2014.

Furthermore, the business plan is based on the assumption that confidence will be restored on capital markets, enabling Dexia on the one hand to fund some of its assets via repos, and on the other hand to conduct short- and long-term placements of its guaranteed debt on the market, with amounts issued under the 2013 guarantee mechanism reaching as much as EUR 40 billion in 2015.

Should the market not be able to absorb this amount of debt, Dexia would have to turn to more expensive sources of funding, which would directly affect the profitability forecasts included in the business plan. For example, funding of EUR 1 billion a year at the rate used for emergency liquidity assistance (ELA) rather than the rate applicable to short-term guaranteed funding would have a negative impact on profit of around EUR 90 million over the period 2013-2020. Conversely, if market appetite for Dexia's guaranteed debt were such that a larger amount of debt could be placed, thus reducing or eliminating Dexia's dependence on ELA, this would have a positive effect on business plan profitability. A EUR 1 billion increase in the short-term guaranteed debt issue limit would thus reduce funding costs by EUR 65 million over the period 2013-2020.

As well as volume assumptions, the business plan includes assumptions as to the costs of various sources of funding. As an illustration, a 10 basis point reduction in the cost of issuing government-guaranteed debt relative to business plan projections would improve the Group's funding costs by around EUR 180 million over the period 2013-2020. Similarly, improved repo market conditions and the tightening in credit margins on sovereign debt observed in the final quarter of 2012 suggest that the scenario used in the business plan is currently relatively conservative.

The revised business plan concludes that the Dexia Group is viable on the basis of the assumptions and scenarios used. However, its delivery remains subject to certain uncertainties, including in particular those described above. That being the case, the business plan will be regularly updated to take into account the most recent observable values of exogenous variables so as to accurately estimate their impact on projections and the likelihood of those projections being achieved.

2. Outlook[2]

2.1. Local government finances and investment still under pressure in Europe

The relative recovery in the economic and social environment in the first half of 2011, together with efforts by local public authorities to optimise their receipts and better control their expenditure, led to a consolidation in key fiscal balances in the European Union's subnational public sector in 2011. However, certain individual countries or local governments saw their situations become more strained.

The subnational public sector deficit fell from 0.8% of GDP in 2010 to 0.7% in 2011. This reduction in the funding requirement was largely a result of a surge in subnational tax receipts, which increased by 5.5% in volume terms after contracting sharply under the impact of the crisis. This upturn in tax receipts, together with the increase in income from assets and tariff revenue, made up for a 4.9% drop in transfers to local governments resulting from cost-saving measures implemented by central governments under national fiscal consolidation plans. Aggregate subnational receipts remained stable in 2011 (up 0.2%).

1) However, reference is made to the last paragraph of point 1.2 above.
(2) The forward-looking elements presented in this section must not be interpreted as guarantees that the forward-looking information will prove accurate or that the desired results will be achieved. The forward-looking statements include a certain number of risks, which may or may not be known or established, but remain subject to contingencies, notably resulting from changes in the macroeconomic environment within which the Dexia Group operates. If they were to materialise, these risks could result in the Group's future development, performance and results being different from the objectives suggested and set out.

After slowing in 2010, subnational expenditure continued to decline slightly in 2011 (down 0.2%), falling to EUR 2,109 billion, equating to 16.7% of GDP and 34% of public spending. Personnel costs and purchases of goods and services fell for the first time in 11 years. Growth in social benefits, which had grown rapidly since the crisis under the impact of automatic stabilisers and discretionary solidarity measures, began to ease as unemployment fell in several European countries.

This fall in expenditure was also driven by a sharp decline in subnational direct investment (down 6.6% in 2011), which had already declined significantly in 2010, resulting in a total fall of almost 14% over two years and bringing investment back to 2006 levels. At EUR 204 billion in 2011, investment nevertheless continued to represent two thirds of European public investment.

Growth in subnational debt slowed (to 3.1%), with outstanding subnational debt totalling EUR 1,563 billion in 2011, representing 12.4% of GDP and 15.0% of public debt. Taking local debt on its own (i.e. excluding federal and quasi-federal entities), this amount falls to EUR 743 billion, equating to 5.9% of GDP and 7.1% of public debt. It should be noted that, under the golden rule – a veritable "dogma" of local finance for decades in many European countries – local debt is almost exclusively used to fund investment.

In an environment which has since 2012 been characterised by a return to severe economic and social crisis, uncertainty generated by institutional and territorial reforms, ever-harsher austerity packages and, finally, increased difficulty in accessing external sources of funding, local finance and investment are likely to once again come under pressure over the next few years.

2.2. Local investment undermined by constraints on French local governments and public hospitals

In 2012, French local finances were marked by an increasing scarcity of resources. In addition to the freeze on transfers from central government and the squeeze on credit, which were already having an effect in 2011, fiscal resources grew at a low rate.

Resources intended to replace the *taxe professionnelle* local business tax have proven less dynamic: a proportion has been offset by freezing transfers at current levels, and new taxes are more sensitive to economic conditions, which remain fragile. In addition, fiscal reform has had a profound effect on local governments' ability to determine tax rates. Fiscal leverage has thus disappeared for the regions and been seriously eroded for Départements, while at municipal level, a greater share of the weight is now carried by households. It is therefore becoming increasingly complicated for local governments to give themselves financial room for manoeuvre by raising tax rates, especially as rates are nearing high levels in some regions and local elections are approaching.

In addition to this weak momentum in direct contributions, property transfer duties declined by an estimated 10%.

At a time when the population's needs remain unchanged or are even increasing (social welfare, training, alternatives to road travel, etc.), severe constraints on resources are having an impact on local government spending.

For example, in 2012 local governments continued with their policy, adopted in 2011, of seeking to control current expenditure, in particular by limiting growth in personnel costs.

In spite of these efforts to manage costs, gross savings by local governments (that part of the operating segment that serves to finance debt repayment and investment) are likely to decline in 2012 across all categories of local government, in contrast with the growth seen in 2011.

As regards investment expenditure, the estimated increase in 2012 (1.6%) is well below the expected level, especially in light of the municipal electoral cycle: as the penultimate year in the current cycle (with elections due in 2014), 2012 should have been a year in which investment recovered.

The Départements, which are most severely affected by a squeeze caused by rising expenditure and declining resources leading to a drop in gross savings, are likely to see their investment fall by more than 3%, while investment by regions is likely to increase only marginally. The burden of current and future growth in investment therefore lies with the municipal segment, even though concerns over local councils' cash flow and funding arrangements could limit or delay their projects in 2013.

In spite of current sluggish investment expenditure, local governments have made considerable efforts since 2008. Assuming that capital expenditure is maintained in 2013, municipal councils will have invested almost EUR 180 billion in volume terms over their last term of office.

In 2012, the scale of these investments and a further increase in local government cash balances at the year-end resulted in similar levels of borrowing (i.e. a net positive flow of debt) to those seen in 2011 (just under EUR 5 billion), causing total outstanding debt to increase by around 3% in the year.

In an environment marked by the consequences of the economic crisis and pressure on public finances, disparities between the various regions are expected to persist or even widen, justifying the current equalisation programme. Various horizontal equalisation mechanisms (i.e. between local governments) have been put in place for each level of local government. In 2012, the first year of the equalisation programme between municipalities and within municipal councils, the amounts at stake are relatively small (EUR 150 million) and wealth disparities cannot, therefore, be optimally corrected for the time being. Not until 2016, when the mechanism has fully ramped up and any adjustments made over the intervening years have taken effect, will it be possible to analyse the mechanism's true effects.

The landscape of public health institutions is also very mixed, with several institutions still faced with large cumulative deficits and severe cash flow shortages. Some institutions' circumstances have become more strained since 2011 as a result of a combination of tightening budgetary constraints and increasingly scarce short- and long-term bank lending. After several consecutive years of sustained growth, hospital investment declined 5% in 2010 to EUR 6.5 billion. The momentum injected by the 2007 Hospitals Plan appears to have now slowed, and the 2012 Hospitals Plan is not generating the same volume of investment. As such, hospital investment could continue to decline over the next few years.

2.3. Profound changes in local government and hospital funding arrangements

The crisis has also changed the funding landscape for the local public sector and its investment projects: the supply of funding for the sector has been permanently reduced and made more expensive by the withdrawal of Dexia, the sector's leading lender until 2008, liquidity and refinancing problems experienced by various institutions, the withdrawal of most foreign banks, issues over structured loans, difficulties faced by some local governments and hospitals in honouring debt repayments, and the need for financial institutions to strengthen their capital bases and improve their liquidity ratios ahead of the implementation of Basel III.

Fears of a credit crunch have been very real for several years, leading Caisse des Dépôts to introduce emergency mechanisms that related to total funding of EUR 5 billion in 2012. The most significant result of this situation has been to call into question the sector's funding arrangements. What appears to be a new equilibrium in local public sector financing is set to emerge in 2012 and particularly 2013-2014.

In particular, this period will see the rise of a major new player in the sector, in the form of a joint venture owned 65% by La Banque Postale and 35% by Caisse des Dépôts, backed by a new banking institution – Société de Financement Local (SFIL) – in turn jointly owned by the French government (75%), Caisse des Dépôts (20%) and La Banque Postale (initially 5%). The European Commission approved these arrangements on 28 December 2012 as part of the Dexia Group's orderly resolution plan (see section 1.4 below).

Furthermore, Caisse des Dépôts should continue to invest directly, backed by its deposit funds, concentrating on local governments' long-term funding requirements.

Finally, local governments have made increasing use of bond issues, which totalled EUR 2.5 billion in 2012. Time will reveal both the role of this form of funding, which has historically been marginal in France, and the details of how it is used: single local, national or international issues, grouped issues or issues under the aegis of a funding agency, the principle of which has also recently been approved by public authorities.

2.4. Positioning of Dexia Crédit Local

On 28 December 2012, the European Commission approved Dexia's orderly resolution plan presented by the Belgian, French and Luxembourg governments. The plan redefines the role of Dexia Crédit Local, which will implement the following actions:

- asset disposals: under the revised plan, Dexia will sell Dexia Crédit Local's interest in Sofaxis and either sell or place into run-off Dexia CLF Régions Bail, Dexia Bail, Public Location Longue Durée and Dexia Flobail;
- the disposal of Dexia Municipal Agency to form a new government-defined funding mechanism for the local public sector: under arrangements defined by the French government for giving local governments and public health institutions access to long-term funding, as approved by the European Commission, Dexia Crédit Local was required to sell its entire interest in Dexia Municipal Agency to SFIL for EUR 1. This sale was completed on 31 January 2013, in accordance with the undertakings given. At the date on which this sale was completed, the new group's shareholders provided it with the liquidity required for Dexia Municipal Agency to repay funding granted by Dexia Crédit Local. Operational links between Dexia Crédit Local and Dexia Municipal Agency will be unwound within six months of the sale, with the exception of IT links, which will take 24 to 30 months to unwind. DMA's balance sheet, which carried total assets of EUR 94.3 billion as at 30 September 2012, including EUR 72.1 billion in hedging assets, was transferred to the new entity in full;
- management of outstanding loans on a run-off basis and desensitisation of sensitive structured loans. In this regard, in order to desensitise certain structured loans still in its portfolio, Dexia Crédit Local may, under certain conditions, extend a maximum of EUR 600 million in new loans over the period 2013-2014. This new lending should serve to reduce the risk profile and volatility of collateral linked to derivatives associated with these loans and to limit operational risk arising from their management. The plan also provides for the possibility of Dexia Crediop continuing to write new lending up to a maximum of EUR 200 million;
- provision of a liquidity guarantee: the Belgian, French and Luxembourg governments have undertaken to grant a several but not joint funding guarantee to Dexia Crédit Local, capped at EUR 85 billion, with the three governments accepting respective shares of 51.41%, 45.59% and 3%. The governments have set the cost of this guarantee at 5 basis points per annum, payable to the guarantors monthly on the basis of the total outstanding amount issued under the guarantee.

As such, Dexia Crédit Local will no longer have a commercial presence in the French public sector financing market. Under the planned arrangements, funding for local authorities and public health institutions will be provided by the joint venture majority owned by La Banque Postale and Caisse des Dépôts.

3 – 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 2012 fiscal year.

For the preparation of the present report, as a credit institution, Dexia Crédit Local refers to French Banking Regulatory Committee (CRBF) 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

In terms of corporate governance, Dexia Crédit Local notably refers to the provisions of its parent company (Dexia SA) and certain principles from 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.

In March 2013, the Board of Directors was composed of 13 members, selected for their expertise and the contribution that they can make to the administration of the Company. Robert de Metz has served as Chairman of the Board of Directors since 10 October 2012, replacing Jean-Luc Dehaene. 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 is dissociated from the chairmanship, has been entrusted to Karel De Boeck, who was appointed as Chief Executive Officer by the Board of Directors on 10 October 2012, replacing Alain Clot. At the same Board meeting, Alain Clot, Claude Piret and Philippe Rucheton were appointed as Executive Vice-Presidents. 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.

During 2012, and up until 19 March 2013, the board comprised four representatives of Dexia SA, the Company's virtually exclusive shareholder, and four other directors, two 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.

During its meeting on 24 February 2011, the Board took into consideration the new legal provisions for balanced representation of women and men among its members. However, the Board is currently unable to fulfil the legal obligations that will apply to it from 1 January 2020 since, to ensure compliance with the requirements set out in Appendix 6 to the guarantee issue agreement, the make-up of Dexia Crédit Local's Board of Directors must be similar to that of Dexia SA.

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.

Updated in early 2012, this charter – one of several documents available for viewing in the Company's registered office – reminds members notably how important it is that they participate actively in the board's work. The charter also specifies that members of the Board of Directors are considered to play sensitive roles, and therefore are subject to the strictest requirements with regard to 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 2012, it met 17 times, with a 78% 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.

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 2012, in addition to the issues relating to the management of the Company and within its authority, the Board of Directors notably addressed the liquidity and capital situations, the group's orderly restructuring plan, the State guarantee and the rollout of a new governance framework.

The board convened two Shareholders' Meetings: the Ordinary Shareholders' Meeting on 10 May 2012 to approve the financial statements and the Extraordinary Shareholders' Meeting on 12 December 2012, having decided in principle on a capital increase with preferential subscription rights maintained, within an overall limit of EUR 2 billion, and having delegated its authority to the Board of Directors to decide on the implementation and set the terms of the proposed capital increase.

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.

In this manner, an Audit Committee helps the Board of Directors carry out its functions in overseeing the management of Dexia Crédit Local.

In 2012, the Audit Committee comprised 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 compromise the exercising of his or her free 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 four times a year. In 2012, the Audit Committee met five times. The meetings were spent reviewing the financial statements, monitoring the liquidity position, monitoring the deleveraging programme, measuring and monitoring risk, examining business reviews of internal audit and permanent control issues and monitoring audits by the regulators. In view of the importance of the Audit Committee's role 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 Appointments and 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, Dexia Crédit Local which, in accordance with the existing regulations, employs the services of the Dexia SA Appointments and Compensation Committee, approved the compensation policy of the Dexia Group for Dexia Crédit Local and the conditions applicable to the employees of the Company.

During its meeting on 20 February 2013, the Board of Directors approved the creation of a single Audit Committee for Dexia Crédit Local and Dexia SA, in accordance with Article L.823-20 of the French Commercial Code.

2. Internal control

2.1. Organisation of the internal control function

2.1.1 ROLE OF THE INTERNAL CONTROL FUNCTION AND 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 CRBF 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 CRBF Regulation 97-02 as amended states that several control processes should be established to ensure notably:

- compliance of transactions and internal procedures;
- accuracy and reliability of accounting and financial information;
- security of information systems;

(1) Mr Jean-Pierre Brunel, Chairman, Mrs Francine Swiggers (until 10 November 2012) and Mr Patrick Bernasconi.
(2) For both the Dexia Group and the Dexia Crédit Local Group, the notion of "Group" used in this report covers the parent company and all the various consolidated companies.

- effectiveness of systems used to measure and monitor risks and results;
- 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 must 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 information flows, 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 with the business line and support entities that also measure these initiatives using indicators and 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 that the Company will achieve its 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 support line, 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 specific to the activities of credit institutions are continuously applied and that the Company runs no risk of administrative, disciplinary, financial or reputational sanctions 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 support line the Dexia Group, is responsible for monitoring the efficient and 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.

2.1.2. CHIEF EXECUTIVE OFFICER

The Chief Executive Officer 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 perform this assignment, the Chief Executive Officer is assisted by three Executive Vice-Presidents, who, along with the members of the management team, 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 Executive Officer of Dexia Crédit Local is the Chairman of Dexia's Management Board. In coordination with the Executive Vice-Presidents, two of whom are also members of Dexia SA's Management Board, 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 support line is responsible for establishing independent and integrated risk metrics for the various types of risks, monitoring and managing those risks and actively identifying and signalling all such risks to the relevant committees, proposing corrective measures, as well as deciding on the amount of provisions required.

The Risk Management department is responsible for all of the risks generated by the banking activity, as defined by CRBF Regulation 97-02 as modified, namely credit, market, liquidity and operational risks.

The general organisation of Dexia Crédit Local's risk support line is aligned with that of Dexia. This changed in several phases during 2012 in order to adapt to the Group's new scope and the locations of Dexia's teams. Firstly, the risk support line has had to adapt to the transfer of many Dexia SA Brussels staff to Belfius Banque et Assurance. The activities managed by these teams have had to be recreated in order to manage all of the bank's risks. However, the transferred teams ensured that continuity of service was maintained during this transition period.

Subsequently, the risk support line was reorganised in line with the main strategic priorities of the orderly restructuring plan and following the changes to the Group's scope, particularly in France, in anticipation of the creation of Société de Financement Local, whose risk teams are taken from the Paris-based staff of Dexia and Dexia Crédit Local. A transition period ensuring continuity of service and based on service level agreements (SLAs), ran through to the end of July 2013 between these two entities. More specifically, this reorganisation has been reflected in the consolidation of the risk teams from Dexia SA and Dexia Crédit Local, the recreation of part of the risk teams following the transfer of certain staff to Société de Financement Local and the creation of a restructuring and workout team tasked with ensuring the active restructuring or repayment of certain loans.

Since the end of 2012, the risk support line has been based around two main departments: the Risk Management department, in charge of credit, financial market activity-related and operational risks, along with permanent control; and the "Risk Reporting, Validation, Measurement and Quantification" department, which groups together two cross-business functions: "Risk Reporting, Measurement and Quantification" (all the support functions for the risk support line), and "Quality Control and Validation". This organisation is also based on pooling the existing risk management teams from Dexia SA and Dexia Crédit Local, organised into knowledge centres supporting the Risk Management departments in Dexia Crédit Local subsidiaries.

The organisation and governance presented below correspond to the structure in place on the date the report was published.

Dexia Crédit Local's Chief Risk Officer, who is also Chief Risk Officer for Dexia, is a member of the Group Committee, which brings together the heads of the main support lines led by the Management Board. The Chief Risk Officer reports to the member of Dexia's Management Board and Dexia Crédit Local's Executive Vice-President in charge of risks. The Chief Risk Officer has no reporting relationship with the other units, and carries out his assignments free from any intervention by the operating support lines.

All of the CROs in Dexia Crédit Local's foreign and French subsidiaries and branches 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.

2.1.5. COMMITTEES

a. General risk governance

To adapt to its new business scope, Dexia Crédit Local has embarked on a process to overhaul and simplify its governance in terms of risk management. The number of committees has been scaled down, reflecting the merger of committees with similar responsibilities or fields, made possible by the reduction in business. This new governance framework is built around the Risk Committee, made up of the members of Dexia SA's Management Board, in addition to the other members of Dexia Crédit Local's management team for the Dexia Crédit Local scope. More specifically, this committee is responsible for reviewing all the transactions with the most significant impacts for Dexia Crédit Local (credit risk, liquidity risk, profit and loss impact, or impact on the level of equity capital), as well as the various policies and directives.

b. Credit risk management

Credit risk management is organised around the Risk Committee, which approves the risk policies for the entire Group and decides on the most significant transactions in terms of credit risk. The Risk Committee delegates its decision-making authority to the various credit committees. This delegation is subject to specific rules, depending on the type of counterparty, their credit rating and the value of the consolidated exposure to credit risk.

The Risk 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 presenting the main risk indicators and a qualitative analysis of the transaction. In general, the level of activity for the credit committees was very limited in 2012 as a result of the majority of Dexia Crédit Local's portfolio being placed in run-off.

Alongside the process for approving lines of credit, various committees are responsible for monitoring specific risks. These committees, which meet on a quarterly basis, are as follows:

- Watchlist Committee, which monitors assets considered to be "sensitive" that have been placed on watch:
- Default Committee, which qualifies and monitors all counterparties in default in accordance with the Basel II regulatory framework, employing the prevailing rules applied by Dexia Crédit Local;
- Reserves Committee, which approves the amounts of reserves set aside and monitors the cost of risk;
- Credit Ratings Committee, which ensures that the internal credit rating system is applied correctly and that the credit rating process is compliant with the principles that have been established and that the same process is applied by all of the various entities.

The Credit Risk Management department in each Dexia Crédit Local subsidiary and branch focuses on managing the specific credit risks for its domestic market and is responsible for analysing and monitoring local counterparties.

c. Market risk management

The Market Risk Committee (MRC) meets monthly to address the following topics: definition and revision of approval limits, analysis of risk and profit and loss trigger[1] reports and related decisions, discussion of risk-related directives, governance and standards, risk concepts and risk measurement methods and the quality of valuation processes.

A Valuation and Collateral Market Risk Committee (V&C MRC) meets each quarter to analyse the collateral management indicators and examine the quality of valuations for structured products.

The Risk Committee (RC) and the Risk Executive Committee validate all material changes to be made to the risk profile or to the governance of risk.

d. Balance sheet risk management

Balance Sheet Management (BSM) risks are managed through Dexia Crédit Local's Assets and Liabilities Committee (ALCO), which has been merged with Dexia's ALCO committee. It meets on a quarterly basis. The ALCO committee establishes the overall framework for risk, sets limits, guarantees the consistency of the strategy and delegates its execution to the ALCO committees in the various international entities. The ALCO committee also decides on the overall level of exposure, in line with the Management Board's decisions. The ALCO committees in the various international entities manage the specific risks for their balance sheets within the framework defined by and under the responsibility of the ALCO committee.

By delegation from the ALCO committee, 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, ensuring that all needs are covered by short-, medium- and long-term resources. It monitors the attainment of the liquidity targets set by the Management Board and helps develop funding and divestiture strategies to enable the Group to pass all stress tests, be they internal or at the request of the regulators. It validates the transfer pricing mechanisms employed within the Dexia Group. The FLC, which meets on a weekly basis, takes all measures possible to improve the liquidity profile of the Dexia Group and Dexia Crédit Local.

e. Operational risk management

The management of operational risk within Dexia Crédit Local is based on a governance framework with clearly defined responsibilities and roles.

- The Management Board regularly examines changes in the risk profile of Dexia Crédit Local's various activities.
- The Risk Committee approves the policy for all Dexia Crédit Local entities.

(1) Profit and loss triggers warn of a deterioration in earnings and are expressed as a percentage of the limits.

- The quarterly Operational Risk Approval Committee (ORAC) examines the main risks identified, decides whether or not they are acceptable and which if any corrective actions to implement. It also validates the proposed preventive or improvement measures in relation to the various components of the process (permanent control, information security, insurance programme, etc.). It is chaired by the Chief Risk Officer, who is a member of the Management Board.

- Line management has primary responsibility for managing operational risk. For each area of activity, it appoints an operational risk correspondent who coordinates the collection of data and evaluates the risks, with the help of the local operational risk management function.

- The IT Security Committee reviews and decides on actions to be taken to ensure business continuity, in addition to putting in place the IT security policy.

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 their degree of 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. Examples of these SPEs include the leasing companies and Dexia Municipal Agency up until 31 January 2013.

Other French subsidiaries, such as Sofaxis and Dexia CLF Banque, have a far more extensive scope of activity and use their own staff for 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 their local market.

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 support line. Specifically, under the new organisation of the risk support line 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 Operational Risk Manager of Dexia Crédit Local has oversight over all permanent controls other than compliance.

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 Operational Risk and Permanent Control department 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 functions to guarantee consistency of 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 this report.

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 business process mapping and the mapping of risks and controls implemented for operational risk management purposes. 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 defined is monitored by the Operational Risk department, 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. This 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 support line, 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 and is given responsibility for compliance dealings with the Prudential Control Authority. 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 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.

With rare exceptions[(1)], each Dexia Crédit Local Group entity has its own Compliance Officer or compliance correspondent. 2012 saw a change of Compliance Officers in several entities (Paris, New York and Dublin). 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 observance 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. 2012 was characterised by ongoing work to build on the main accomplishments from 2011 (structured loans, conflicts of interest, fight against money-laundering), as well as the strengthening of control arrangements for all entities in the Dexia Crédit Local scope, set against the backdrop of the implementation of the Dexia Group's orderly restructuring plan, with certain entities closed or transferred to run-off. Each employee attends compliance training sessions, as laid out in a two-year plan established with the Human Resources department.

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 fight against money laundering and the financing of terrorism is accessible to all employees. 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 contributes towards the system for monitoring structured loans: the Chief Compliance Officer chairs the Evaluation of Commercial Risks Committee (CERC) 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.

The Compliance department performs a regulatory watch activity, continuously updating all the applicable laws and regulations; more specifically, the Compliance department is involved in defining the arrangements relating to the new standards applicable for Dexia Crédit Local, such as the Dodd-Frank Act and European Market Infrastructure Regulation (EMIR).

2.1.9. PERIODIC CONTROL

Dexia Crédit Local's periodic control function includes both internal audit and inspection. A total of 37 auditors and inspectors worked in the Dexia Crédit Local Group internal audit support line as at 31 December 2012 (with 40 positions budgeted for).

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 the Dexia Group management team and Board of Directors concerning the quality, efficiency and effectiveness of its internal control and risk management framework, as well as its governance procedures and systems, contributing towards protecting the Group's interests and reputation.

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 Group and suggests to management any actions needed 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, describing its aims, role, responsibilities and operating procedures. This charter was updated at the beginning of 2013 to factor in the Group's new configuration and the Basel Committee's recommendations.

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 has been published on the Dexia website (www.dexia.com).

Guidelines

The strategy, level of requirement and operating procedures of the Dexia Group internal audit function are defined by the Management Board of Dexia SA, within a framework approved by the Board of Directors of Dexia SA, through its Audit Committee. This framework takes account of the requirements, local laws and regulations and instructions issued by supervisory authorities.

The audit function's independence, efficiency and effectiveness are ensured through the application of the following principles:

- having each internal audit department report directly to the highest level of authority within the entity for which it is responsible;
- not being involved in the operational management and organisation of Group entities. On an exceptional basis, the Group's Management Boards may turn to the internal audit function for an opinion, advice or assistance.
- ensuring unconditional and immediate access to information: under the terms 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

(1) For entities without a Compliance function, there is no regulatory requirement to have such a function in place.

reports and the minutes of and information packages prepared for any advisory and decision-making bodies. The Dexia Group Internal Audit department has access to all information in all Group entities. Any failure to comply with these principles may be reported to the Management Board and, when relevant, the Audit Committee;

- providing the resources required to successfully carry out its assignment: the Group's 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.

Individually, each auditor must demonstrate the utmost professionalism and receive ongoing training that ensures full understanding of the rapid changes taking place in auditing, banking, financial, information technology and fraud techniques. Training needs are assessed during regular appraisals and annual reviews. Auditors are required to comply with the Dexia Group's rules of conduct, as well as the specific compliance codes for their profession. This requires the following fundamental principles to be upheld:

- integrity: the integrity of internal auditors represents the foundation required for their judgements to be considered credible and trustworthy;

- objectivity: auditors demonstrate the utmost professional objectivity in collecting, evaluating and reporting information relating to the activity or process being reviewed. Internal auditors fairly assess all relevant elements and do not allow themselves to be influenced by their own interests or other parties in terms of their judgements;

- confidentiality: internal auditors are bound by a duty of professional secrecy, respect the value and ownership of the information they receive and disclose such information only when authorised, unless legally or professionally obliged to do so,

- competence: internal auditors use and apply the knowledge, know-how and experience required for the performance of their work.

Scope of intervention

All of the Dexia 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. Essential outsourced activities are also included in the audit scope, while the operating departments are responsible for organising the conditions for audits to be able to take place by including audit clauses in service delivery agreements.

Except, for example, in cases when the intervention of the internal control function has been requested by supervisory authorities, the audit scope does not include the operations of companies in which the Dexia Group holds only a non-controlling interest. However, Dexia's representative on the Board of Directors is responsible for obtaining information concerning the state of the internal control arrangements and, if necessary, notifying the Management Board and Audit department of the entity holding this interest.

Organisation of the function

Internal audit is an integrated support line: its organisational structure is aligned with the Group's own organisation by segments (Management of Existing Outstanding Loans; Financial Markets, Balance Sheet Management, Risk Management and Finance; Operations and Information Systems and other support functions). Like the rest of the Dexia Group, this support line's organisation is changing in order to adapt to the new environment and to the Group's new objectives.

The Dexia Group internal audit support line is headed by the Chief Auditor of Dexia SA, who is also the Chief Auditor of Dexia Crédit Local. He is assisted in his duties by the supervisors and an Audit Management Office (AMO) unit.

Each supervisor is responsible for various segments. Liaising with the relevant operational managers, the supervisors are responsible for identifying and monitoring all risks relating to the segments assigned to them and overseeing all the relevant audit assignments carried out within these segments. Supervisors are assisted in their duties by "correspondents", audit managers or senior auditors, who are more specifically in charge of monitoring a subset of activities.

The AMO unit defines, maintains and organises the implementation of audit methodologies, liaising with the Audit Management Committee (AMC). Transversally, it oversees implementation of support tools for the main audit processes. It coordinates the work and/or develops the various types of reporting produced by the internal audit support line. It is responsible for planning all of the assignments included in the audit plan, as well as any ad hoc assignments.

An Audit Management Committee (AMC) was formed to manage the support line. It is made up of the Chief Auditor of Dexia SA, who is also the Chief Auditor of Dexia Crédit Local, and the various supervisors. The AMC is charged with:

- managing the support line's human and financial resources;

- defining and ensuring the proper application of the internal audit methodology applicable within the Dexia Group;

- defining and updating the Dexia Group's audit universe;

- establishing a global Group audit plan for presentation to the various committees of Dexia SA and the operating entities for approval, in addition to monitoring its implementation;

- ensuring optimal planning of audit assignments;

- validating the various reports produced by the support line, including follow-up reports on recommendations and reports on the implementation of the audit plan.

Management guidelines

The internal audit function of Dexia SA and Dexia Crédit Local is headed by a Chief Auditor. Following the Dexia Group's reorganisation, the positions of Chief Auditor of Dexia SA and Dexia Crédit Local have been combined and held by one person.

The Chief Auditor of Dexia SA and Dexia Crédit Local ensures that all risks are covered adequately within the entire scope of Dexia Crédit Local – Head Office and the French commercial network, as well as subsidiaries and branches in France and abroad – liaising with the local audit departments when they exist. The Chief Auditor monitors the supervisory bodies of the entities and their subsidiaries/branches and all assignments carried out by local regulators.

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 it is deemed inappropriate to establish an internal audit function, 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 the case of the French subsidiaries, such as Dexia CLF Banque and Sofaxis, as well as the leasing and other specialised subsidiaries. Dexia Municipal Agency's audit function was also performed by Dexia Crédit Local's internal audit function up until 31 January 2013.

The Internal Audit departments in the subsidiaries and branches are overseen by a Chief Auditor or internal audit manager. The Chief Auditors of Group subsidiaries report to the Chief Auditor of Dexia SA/Dexia Crédit Local. More specifically, liaising with the CEO of the entity concerned, the Chief Auditor of Dexia SA/Dexia Crédit Local is responsible for their appointment, the setting of their objectives and their annual appraisals. Auditor recruitment plans and the preparation of audit department budgets for the main entities are also reviewed jointly. The managers in charge of the branch-level internal audit teams report to the Chief Auditor of Dexia SA/Dexia Crédit Local.

Each Internal Audit department is responsible for fulfilling its duty towards the Chairman of the Management Board depending on local regulations and towards the Board of Directors of the entity or subsidiary, with the potential support of 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 presenting an audit report or (iii) at his own request, when he wishes to raise a 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.

Operational guidelines

The work performed by the internal audit function is based on proven methods based 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.

The internal audit function works based on an annual audit plan that has been approved by the Management Board, as well as by the Audit Committee and the Board of Directors. The risk analysis method aims to clearly target assignments on critical audit units that are linked to key risks or support controls that are key to the objectives of the business lines and support functions.

All Dexia Group entities apply the same methodology to perform audit assignments. The various stages of the process (preparation, fieldwork, audit report, monitoring of recommendations, etc.) and the formats of the documents 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 mission and the archiving of all necessary documents.

The Dexia Group's audit methodology is built around four main phases: preparation phase, fieldwork, reporting and follow-up on recommendations.

Preparation:
Following a review of the subject being audited, when the aim is to collate and analyse the various items of information available that may be useful for effectively understanding the activities, the audit team prepares a programme of work that notably includes the processes, risks and expected controls covering the risks identified, as well as tests to be carried out in order to give an opinion on the configuration, efficiency and effectiveness of the controls in place to cover the risks identified. An engagement letter informs those involved of the assignment's programme, objectives and scope.

Fieldwork:
Each assignment must be carried out based on working documents, which follow a set format and are organised into an audit file. They clearly reflect the work carried out, as well as the operational methods and techniques used to reach justified conclusions. An audit opinion is expressed concerning adequate cover for the risks identified. Any shortcomings that have been identified are subject to a causal analysis and the residual risk is assessed. Audit activities are supervised and documents reviewed by the assignment leaders (Supervisor and/or Chief Auditor).

Reporting:
Each assignment is covered by a written report for the people audited and the management team. This report includes an assessment of the various risks identified, along with recommendations concerning the measures to mitigate such risks. The Audit function assigns a level of criticality for each recommendation made.

The recommendations made by Internal Audit are submitted to the operating departments concerned, which may either accept the recommendations or request a "risk acceptance" from the Management Board. Recommendations that have been accepted by the operating departments are presented in a detailed action plan, and the department concerned should also specify the estimated implementation dates. Internal Audit may add comments for the attention of the Management Board concerning risk acceptance requests, in addition to the suitability of the action plans and the deadlines proposed.

The action plans and risk acceptance requests are set out in the draft audit report which is presented to the Management Board. The Management Board takes decisions concerning the recommendations, the action plans and their timeframes, as well as any risk acceptance requests. The definitive report incorporates the Management Board's decisions, particularly those made in the event of disagreements between the Audit function and the departments concerned in relation to the recommendations. Once approved, the recommendations must be implemented.

Follow-up on recommendations:
Recommendations are drawn up for each assignment and broken down into action plans, overseen by the auditee managers. Beneficiary departments are responsible for the implementation of recommendations that have been approved by the Management Board These departments are required to report on the implementation of action plans based on progress reports and supporting documents submitted to Internal Audit via the systems it makes available to them.

On this basis, Internal Audit regularly reviews each action plan. Internal Audit keeps a database of all the recommendations from audit reports and has defined a formal procedure for monitoring the implementation of these recommendations. This procedure involves at least two quantitative and qualitative follow-up reviews, with the findings presented to the Management Board and Audit Committee. The Management Board and Audit Committee validate any requests to cancel proposed recommendations during the follow-up period (i.e. recommendations that are no longer relevant).

Training

In addition to the training sessions organised by the Human Resources department, a specific training plan has been established for the audit function. The plan includes several different training pathways, depending on the role and seniority of the auditor.

a. Dealings with supervisory authorities and the Statutory Auditors

Internal Audit maintains regular dialogue with the banking supervisory authorities and external auditors (independent auditors, statutory auditors) concerning subjects of common interest.

Internal Audit is responsible for coordinating and centralising exchanges – incoming or outgoing – with the various banking supervisory authorities, covering all support lines. Internal Audit is also responsible for the coordination of monitoring audits by the various supervisory authorities. Within this framework, the Chief Auditor or the entity's audit manager is the point of contact for the supervisory authorities. They coordinate the data collection process within the entity, as well as responses to inspection reports or requests for additional information. Internal Audit also ensures that any recommendations made by the supervisory authorities are followed up on, under the same conditions as for recommendations made by the Internal Audit department.

To avoid any duplication of tasks, Internal Audit maintains regular communication with the external auditors concerning internal control issues. These exchanges aim to share the findings of both parties in relation to internal control issues, while ensuring that the various elements of work fit together effectively.

b. General overview of internal audit function activities in 2012

In 2012, Internal Audit assignments covered all of the Group's main support lines: financial markets activities (TFM), with a Cash and Liquidity Management audit, as well as an audit of the Trading and Structuring desk; accounting, with an audit of accounting for Balance Sheet Management activities; risk, with an audit of the quality of participant and exposure data used for RWA calculations and the production of risk reports ("Fermat Data Quality"); information systems and operations, with an audit of information system security governance; Public and Wholesale Banking, with structured loan management audits or an audit of Portfolio Management activities for outstanding project financing (Dexia Crediop, Dexia Sabadell and the New York branch). Compliance aspects are regularly reviewed in connection with "business line" audits. In addition, a specific assignment has been set up for Legal and Tax Compliance aspects in the Group's subsidiaries. Various providers of essential outsourced services, including Thales and SFR, have also been audited. Dexia Crédit Local's insurance brokerage subsidiary Sofaxis was also subject to several audits in 2012.

In 2012, the audit plan completion rate came to 85% for the Dexia SA/ Dexia Crédit Local scope. Overall, the local audit plans for Dexia Crédit Local branches and subsidiaries (carried out partly with Head Office auditors) also showed satisfactory completion rates.

Internal audit staff continued to spend a considerable portion of their time in 2012 dealing with the Dexia Crédit Local Group's various regulators, whether in the course of bank inspections or in meetings. 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 both these action plans and those developed in response to its own recommendations.

The bank inspections carried out by the supervisory authorities concerning Dexia Crédit Local focused on the credit risk relating to the international public sector, ALM management, operational risks and governance, as well as Dexia Crédit Local's leasing subsidiary, Dexia Flobail.

c. Inspection unit

Role

Dexia Crédit Local's inspection unit is responsible for independently and objectively contributing towards effective fraud risk management. It is involved in awareness-raising, prevention and dissuasion, detection and investigation actions, in addition to proposing and monitoring corrective measures.

Organisation and governance

The inspection unit carries out its assignments as part of the Internal Audit department and is accountable to the Chief Auditor of Dexia Crédit Local and Dexia SA.

The inspection unit performs this function for Dexia SA and Dexia Crédit Local, as well as all the branches, subsidiaries and lower-tier subsidiaries that depend on them, which do not have their own inspection functions. When relevant, this function is provided working closely with the head of internal audit in the entity concerned.

An inspection charter lays out the basic principles that govern the function by describing the objectives, roles, powers, duties and responsibilities, operating procedures and basic rules governing its activities.

The inspection charter also defines the control performed by the Compliance support line in terms of rules governing access to personal data in the various entities.

General overview of inspection activities in 2012

The organisation of inspection activities was modified in 2012 after the Dexia SA team stopped performing activities for all the Group's entities.

Since June 2012, the function has been performed on a full-time basis by a Dexia Crédit Local inspector reporting to the Chief Auditor. The Dexia Crédit Local inspector also acts on behalf of Dexia SA.

In accordance with the principles set out in the charter, the inspection assignments carried in 2012 focused on awareness-raising, prevention and dissuasion, fraud detection and monitoring actions, investigating cases of suspected fraud, and handling judicial and legal support matters, and data extraction.

2.1.10. THE DEXIA GROUP

The executive management body of the Dexia Group is the Management Board of Dexia SA.

The Dexia SA Management Board is responsible for oversight of the Dexia Group and coordination of its various business lines and the specialised activities that support them.

The members of the Management Board of Dexia SA have been delegated specific Group-wide powers that they share amongst themselves.

After making good progress with the implementation of the orderly restructuring plan announced in autumn 2011, Dexia SA and Dexia Crédit Local rolled out an integrated management team on 10 October 2012, in keeping with the Group's new scale. While the legal structures remain in place for Dexia SA and Dexia Crédit Local, the Group's management has been simplified and consolidated, including a common steering framework for the two main entities. The new governance structure came into effect immediately, subject to approval by the regulators, while the integrated steering approach will be deployed gradually for the various support lines.

Within the framework of the general policy defined by the Board of Directors, the Management Board is responsible for the effective management of the company and the Group, in addition to overseeing the various activities involved. It also follows up on the Board of Directors' decisions.

Made up of three members appointed for four years, Dexia SA's Management Board is chaired by the Chief Executive Officer. The Management Board meets each week and takes its decisions on a collegial basis. It has a set of internal regulations which determine its operating procedures and remits.

At 31 December 2012, Dexia Crédit Local's management team consisted of the following:

- the Chief Executive Officer and Chairman of the Management Board of Dexia SA and Chief Executive Officer of Dexia Crédit Local;
- Dexia Crédit Local's two Executive Vice-Presidents.

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.

CRBF 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

The Accounting department plays a central role in the organisation of Dexia Crédit Local, reporting to the company's Chief Financial Officer.

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. It is in regular contact with its local correspondents to ensure that all Group principles have been properly received and that the instructions transmitted have been interpreted correctly. The department is involved 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 support line established three knowledge centres at the Dexia SA level related to the activities of the Accounting department. 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 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 their duties 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 employed in the Finance support line.

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.

Preparation of the financial statements

In order to prepare the financial statements of the parent company, data is largely automatically posted 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 generate accounting entries automatically. 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 in each 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 at least once a quarter, and analytical tests are performed to verify the comparability of periods. Explanations of the main changes must be provided. During the past year, much of staff time was devoted to analysing these reconciliations. The automation of this work, developed in 2011 and delivered to the teams in early 2012, has made it possible to focus on the analytical phases, enabling the level of analysis to be maintained and the main changes explained.

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 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 annual 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.

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 and 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* (registration document) 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 announced in a financial notice and/or 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 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 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 (Thomson Reuters).

The Accounting and Communication departments and the Secretary General 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 assessment 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 misstatements.

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 during 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 people drafting the annual report by the Strategic Planning and Controlling department. Like the Accounting department, the latter reports to the member of the Dexia Crédit Local Management Board responsible for Finance. The Strategic Planning and Controlling department contributes to the preparation of financial information in two main ways:

a. Monitoring of business line activities

Public and Wholesale Banking (PWB)

Every month, a series of key commercial indicators (margins, fees and commissions, volumes, terms) is used to monitor all of the activities and products of the Public and Wholesale Banking business line, including notably short- and long-term financing, deposit-taking, debt structuring, derivatives and any diversification activity. The report is compiled based on information collected from the information system of the PWB Strategic Planning and Controlling department for France and from the international entities. Written comments on the various figures explaining the business environment are prepared in collaboration with the PWB France, Project Finance and PWB International departments.

This monitoring of commercial results is summarised in several different formats:

- the management report on the commercial results of the French network, presented to the Management Board each month;
- the contribution of the PWB activity to the business review presented to the Board of Directors after each quarterly closing;
- the half-yearly business review presented to the Management Board for validation.

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 Public and Wholesale Banking, 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 Strategic Planning and Controlling 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 Strategic Planning and Controlling department by compiling data from the general accounting system – such as average outstanding loans and the interest margin rate – that is generated automatically in 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 (reports to Risk Management department) and the Balance Sheet Management department (reports to the Finance department) using the internal bill-back system present in each profit centre in the financial activities area;
- liquidity costs (including the transformation margin generated by applying internal transfer rates between assets and liabilities, the cost of central government guarantees and the interest on debt securities issued) are allocated to the various business lines using allocation rules defined by the Dexia Group Strategic Planning and Controlling 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.

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 monitor the activity of the Public and Wholesale Banking business line and results by business line themselves, 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 is used throughout the entire Dexia Group.

Dexia Crédit Local's Strategic Planning and Controlling 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.

The principles set out above will be subject to various changes in 2013.

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 executive management team 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

a. Definition

Credit risk represents the potential loss, reflected in a decrease in the value of an asset or a 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.

b. 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. It is important to note that, as a result of Dexia's situation, Dexia Crédit Local's level of activity in terms of new commitments remained very limited in 2012, in accordance with the European Commission's demands.

c. Establishment of credit limits

To control Dexia Crédit Local's general credit risk profile and limit any concentrations of risk, credit risk limits are set for each counterparty, establishing the maximum acceptable credit risk exposure for a given counterparty. Limits by business sector and by product may also be imposed by the Risk Management department. The latter actively tracks limits in advance, operation by operation, before any credit decision.

These limits are also controlled retrospectively in the exposure reports provided to the regulatory authorities and the bank's decision-making bodies. The Risk Management department may reduce them at any time, based on changes in the corresponding risks.

d. 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 risk support line already described is responsible for the consolidated monitoring of risk within the subsidiaries and branches.

e. Internal credit ratings

As Dexia Crédit Local operates with an Advanced AIRBA approach, credit risk measurement is based primarily on the internal rating systems put in place in connection with Basel II: with the Advanced approach, each counterparty is assigned an internal credit rating by the analysts in charge of credit risk, using specialised rating applications. This internal 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 approval process. Credit ratings are reviewed at least once a year, which allows all counterparties requiring regular monitoring by the Watchlist Committee to be identified proactively, based on objective criteria or expert judgements. The Standard Basel II portfolio is also monitored on a regular basis.

The Quality Control unit verifies that the internal rating system is used correctly, and regularly reviews the quality of the data and the results.

f. 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. Collective reserves are calculated and maintained as required by IFRS regulations, in order to protect the bank from any unexpected losses.

2.3.2. MARKET RISKS

a. Definition

Market risk reflects exposure to changes in market parameters such as interest and exchange rates.

Interest rate risk includes both a structural interest rate risk and a specific risk on the particular issuer. The latter is generated by changes in the credit margin (spread) of a specific issuer within a rating category. Currency risk reflects the potential decline in value due to fluctuations in foreign exchange rates against the euro.

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 interest rate risk is presented in the notes to the consolidated financial statements.

b. Organisation of monitoring

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

- a comprehensive approach to the measurement of risk, which constitutes an important part of Dexia Crédit Local's process for monitoring and controlling its risk profile;
- a structure of limits and procedures governing the acceptance of risk, consistent with the entire risk measurement and management process.

The Dexia Group 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 and currency risk, using a technique based on the assumption of a normal distribution of the yields on risk factors;
- historical VaR is used to measure the specific interest rate risk and other risks found in the trading portfolio. The distribution of historical VaR is built by applying historical scenarios for the risk factors affecting the current portfolio.

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

VaR techniques are being improved continuously. The Market Risk Engine project now provides an historical VaR (standard in many banks) that covers all risk factors.

In addition to VaR and loss trigger metrics, Dexia uses a wide range of other metrics to assess the risks associated with its different businesses and portfolios (limits for maturities, authorised markets and products, sensitivity to the various risk factors, etc.).

Stress testing enhances the risk management process by examining a range of events not within the probability-based framework 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 analyses are presented once a quarter to the MRC and RC.

Bonds in the bond portfolio are not subject to VaR limits, due to their different investment horizon, but they are subject to regular stress tests.

2.3.3. STRUCTURAL RISKS: INTEREST RATE, CURRENCY AND LIQUIDITY

a. Definition

The Balance Sheet Management (BSM) department is responsible for hedging all structural risks relating to the banking book, i.e. interest rate, currency, liquidity and earnings risk.

The Cash and Liquidity Management (CLM) department is responsible for managing cash and hedging for short-term interest-rate risks.

Detailed definitions of the structural and specific interest rate risk and the currency risk are provided in the section on market risk.

Liquidity risk measures Dexia Crédit Local's ability to satisfy all of its current and future cash needs, both expected and unexpected in the event of a deterioration in the situation, with Dexia Crédit Local working on various stress scenarios.

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 are presented in the notes to the consolidated financial statements ("Liquidity risk" and "Currency risk").

b. Organisation of monitoring

The primary objective with Dexia's balance sheet management is to minimise earnings volatility by "immunising" operating profits and protecting the overall creation of value within Dexia Crédit Local. The Bank seeks to stabilise its overall income, not to create additional income through the voluntary assumption of interest rate risk, safeguarding Dexia Crédit Local's overall value.

Interest rates

All Dexia Crédit Local subsidiaries and branches use the same methods to measure balance sheet risk. Risk sensitivity measurements reflect the exposure of the balance sheet to a 1% parallel shift in the yield curve. The primary risk metric used to set limits and monitor risk is the sensitivity of the net present value of BSM positions to changes in interest rates.

The key risk metrics used by the ALM Committees (ALCO) to manage this risk are still the global and partial sensitivity by time interval.

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's assets and liabilities after interest rate risk hedging.

Currency risk (structural)

Dexia Crédit Local's consolidation currency is the euro, but its assets, liabilities, revenues and costs are also denominated in other currencies. The ALCO committee takes risk hedging decisions linked to changes in these results in foreign currencies. A systematic hedging policy is applied on an ongoing basis for these areas of exposure.

The structural risks relating to financing for equity investments with capital in foreign currencies (limited to the US dollar) and the volatility of Dexia Crédit Local's capital adequacy ratio are also monitored on a regular basis.

Liquidity

Dexia measures and manages the liquidity risk in line with an internal management process which was redefined in 2011. The cornerstone for this management process is the Funding and Liquidity Committee (FLC), the central committee that brings together all the parties involved in liquidity and financing, in addition to coordinating their actions. In 2012, it met each week to closely monitor changes in liquidity for the Dexia Group and Dexia Crédit Local and, as tasked by the ALCO, to take structuring decisions with a view to improving the liquidity position.

The liquidity management process aims to cover Dexia Crédit Local's funding needs. Funding needs are assessed in a conservative, dynamic and exhaustive manner, factoring in all existing and planned transactions (both on- and off-balance sheet); reserves consist of assets that qualify for the funding programmes of those central banks to which Dexia has access.

Information channels have been set up for the management bodies:

- weekly FLC meetings during which changes in the liquidity position are reviewed and analysed in detail;
- regular meetings of the Audit Committee and the Board of Directors.

In view of the pressures affecting the liquidity position in 2012, specific means of providing information on this subject on a regular basis have been put in place:

- a daily, weekly and monthly report for the members of the Management Board, the state shareholders, guarantors and regulators. This information is also intended for all liquidity management participants within the Dexia Group and Dexia Crédit Local, i.e. BSM, BSM Risk Management and TFM;
- the monthly distribution of the annual funding plan to the state shareholders and guarantors, central banks and regulators;
- a conference call with the French and Belgian central banks and regulators (BDF, ACP, BNB).

2.3.4. OPERATIONAL RISKS

a. Definition

Operational risk represents 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 information systems, legal and compliance risks.

b. Organisation and monitoring

Dexia Crédit Local'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 such is not the case, the system of governance that has been set in place must lead to the rapid development of corrective actions or improvements that will return the situation to an acceptable level. This system is supplemented by a prevention policy that concerns notably data security, business continuity and, when necessary, the transfer of certain risks through the use of insurance.

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".

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 for Dexia Crédit Local as well as its subsidiaries and branches to ensure that crucial information is passed on in due time (a mandatory reporting threshold has been set at EUR 1,000). The Management Board receives a report of all major operational events, including the action plans defined by the line management to reduce the risks.

Self-assessment of risk and related controls

In addition to building a history of losses, Dexia Crédit Local's exposure to the main risks has been mapped. This is achieved by Dexia Crédit Local, its subsidiaries and its branches performing bottom-up exercises in self-assessment of risk in the light of existing controls. The self assessments may result in the definition of initiatives to reduce these risks. They provide an overview of most of the risk areas in the different entities and activities, and allow results to be reported to management at every level of the organisation. These exercises are repeated every year.

Definition and monitoring of action plans

Line management defines the corrective measures that must be taken to correct any major risk events, deficient controls or significant risks identified. This is monitored regularly by the operational risk management function. This process promotes the continuous improvement of the internal control system and reduction of risk in an appropriate fashion over time.

Strong coordination with other functions involved in the internal control system

A software application implemented in 2010 covers most of the components of the operational risk management system and provides certain key features (links between risks/controls/recommendations and action plans, automated input controls, traceability of modifications, etc.) for other central functions (internal audit, compliance, validation, permanent control and quality control). This software allows all of these functions to use a common language and common reference systems, and consolidated information to be produced for the bank's line management, in particular in respect of any action plans and recommendations to be followed over time.

c. Information systems security

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. The security programmes and well-defined responsibilities in place enable all activities to be carried out in a secure environment.

As required by Dexia Crédit Local's business continuity policy, the business lines must perform impact studies for all critical activities in the event of an interruption. 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 regular reports, the Management Board validates all recovery strategies, residual risks and action plans in an effort to achieve continuous improvement.

d. Legal risk

The General Secretariat performs six main functions:

- in-house advisory services;
- drafting and verification of legally binding 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.

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 support line.

e. Insurance of operational risk

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 SA has 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 Dexia Group entities, including Dexia Crédit local and the French and foreign entities controlled by the latter.

2.4. Control and monitoring of internal controls

2.4.1. MANAGEMENT

The Chief Executive Officer, assisted by the Executive Vice-Presidents, performs a vital role in the assessment of internal control. They have access to several sources of information to enable them to accomplish all of their duties in this area. There are no potential conflicts of interest between the duties of the Chief Executive Officer or Executive Vice-Presidents with respect to Dexia Crédit Local and their personal interests or other duties.

The members of the management team have each been assigned 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, the Executive Vice-Presidents and the Management Board. They receive all audit reports, which are discussed and commented on during meetings, and approve all recommendations and action plans. The Chief Auditor reports to the management team on the monitoring of audit recommendations. The Chief Executive Officer and Executive Vice-Presidents may also ask the Internal Audit department to perform assignments that are not scheduled in the annual audit plan on topics that they feel 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 AND BOARD OF DIRECTORS

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.

Following regulatory developments with regard to the role and responsibility of the Audit Committee, the Audit Committee's rules of procedure were updated in May 2011. In addition to regulatory changes, the new document also reflects the changing composition, role and authority of the Audit Committee. The functioning of the Audit Committee was also spelled out in the rules of procedure; this included the frequency with which the Committee meets, which was increased from two meetings per year to the four meetings per year currently observed.

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, prior to their approval by the board and their publication, the quarterly, half-year and annual financial statements;
- examines the findings, comments and recommendations of the Statutory Auditors and may suggest any additional assignments it finds appropriate;
- ensures that appropriate internal control and risk management procedures exist and have been implemented, notably with regard to credit, market and operational risk;
- is informed of the liquidity position;
- 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;
- is consulted on all audit-related regulations in effect within Dexia Crédit Local;
- reviews the situation as regards compliance, and is consulted on the rules relating to the integrity and professional ethics policy in force, particularly in terms of protecting the image of the bank and the Group;
- is informed of permanent control work (excluding compliance);
- makes recommendations concerning the statutory auditors proposed for appointment at Shareholders' Meetings.

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 authorities and by the Internal Audit department within the Dexia Crédit Local Group (scope of the assignment, progress 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.

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 Dexia Crédit Local's Chief Executive Officer or Executive Vice-Presidents about internal control issues. Lastly, he has direct access to the Chief Auditor and may request audit assignments if he feels this is warranted.

Considering the similarities between the Board of Directors of Dexia Crédit Local and that of Dexia SA, and with a view to simplifying governance, Dexia Crédit Local's Board of Directors no longer has an Audit Committee within it since the Audit Committee set up for Dexia SA also satisfies the legal criteria under French law, with French legislation permitting Dexia Crédit Local to no longer have its own Audit Committee.

Robert de Metz
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 a report issued in French and is provided solely for the convenience of English-speaking readers. 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 our capacity as Statutory Auditors of Dexia Crédit Local and in accordance with Article L.225-235 of the French Commercial Code, we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L.225-37 of the French Commercial Code for the financial year ended 31 December 2012.

The Chairman is responsible for preparing and submitting for the approval of the Board of Directors, a report describing the internal control and risk management procedures implemented by the Company and disclosing other information as required by Article L.225-37 of the French Commercial Code dealing in particular with corporate governance.

It is our responsibility to:

- communicate to you any observations we may have as to the information contained in the Chairman's report in respect of the Company's internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- attest that the report includes the other disclosures required by Article L.225-37 of the French Commercial Code. It should be noted that we are not responsible for verifying the fair presentation of those other disclosures.

We have performed our work in accordance with the professional standards applicable in France.

Information relating to the Company's internal control and risk management procedures in the area of the preparation and processing of financial and accounting information

Professional standards require the application of procedures designed to assess the fair presentation of the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information.

Those procedures involve in particular:

- obtaining an understanding of the underlying internal control and risk management procedures relating to the preparation and processing of financial and accounting information presented in the Chairman's report, and of the existing documentation;
- obtaining an understanding of the work performed as a basis for preparing that information and the existing documentation;
- determining whether any major weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information identified by us during the course of our engagement have been appropriately disclosed in the Chairman's report.

On the basis of the procedures performed, we have nothing to report on the information relating to the Company's internal control and risk management procedures relating to the preparation and processing of financial and accounting information contained in the report of the Chairman of the Board of Directors prepared in accordance with Article L.225-37 of the French Commercial Code.

Other disclosures

We hereby attest that the report of the Chairman of the Board of Directors includes the other disclosures required by Article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine and Courbevoie, 2 April 2013

The Statutory Auditors

MAZARS		**DELOITTE & ASSOCIÉS**	
Hervé HELIAS	Virginie CHAUVIN	José-Luis GARCIA	Charlotte VANDEPUTTE

4 – Consolidated financial statements

Consolidated balance sheet

Assets

(EUR millions)		Note	As at 31 December 2010	As at 31 December 2011	As at 31 December 2012
I.	Cash, central banks and postal checking accounts	*2.0*	424	3,056	1,048
II.	Financial assets at fair value through profit or loss	*2.1*	16,686	21,554	23,379
III.	Hedging derivatives	*4.1*	12,317	7,879	9,371
IV.	Financial assets available for sale	*2.2*	39,083	29,560	36,060
V.	Interbank loans and advances	*2.3*	22,625	12,534	10,806
VI.	Customer loans and advances	*2.4*	239,982	155,180	149,109
VII.	Fair value revaluation of portfolio hedges		2,144	3,020	3,526
VIII.	Financial assets held to maturity	*2.5*	839	561	453
IX.	Current tax assets	*2.6*	93	47	33
X.	Deferred tax assets	*2.6*	1,541	715	18
XI.	Accruals and other assets	*2.7*	24,316	38,181	37,473
XII.	Non current assets held for sale	*4.6*	19	89,185	84,095
XIII.	Investments in associates	*2.8*	0	0	0
XV.	Tangible fixed assets	*2.9*	529	506	499
XVI.	Intangible assets	*2.10*	60	46	43
XVII.	Goodwill	*2.11*	200	59	59
TOTAL ASSETS			**360,858**	**362,083**	**355,972**

Liabilities

(EUR millions)		Note	As at 31 December 2010	As at 31 December 2011	As at 31 December 2012
I.	Central banks and postal checking accounts	3.0	18,517	27,315	50,590
II.	Financial liabilities at fair value through profit or loss	3.1	19,256	24,780	27,831
III.	Hedging derivatives	4.1	31,048	32,114	35,760
IV.	Interbank borrowings and deposits	3.2	78,070	73,425	34,971
V.	Customer borrowings and deposits	3.3	13,457	7,172	10,727
VI.	Debt securities	3.4	190,068	104,892	109,825
VII.	Fair value revaluation of portfolio hedges		1,984	445	372
VIII.	Current tax liabilities	3.5	52	9	17
IX.	Deferred tax liabilities	3.5	9	26	45
X.	Accruals and other liabilities	3.6	3,659	3,080	3,941
XI.	Liabilities included in disposal groups held for sale	4.6	0	85,830	79,169
XIII.	Provisions	3.7	137	62	121
XIV.	Subordinated debt	3.8	4,319	1,762	707
XV.	Equity	3.9	282	1,171	1,896
XVI.	Equity, Group share		32	688	1,499
XVII.	Capital stock and additional paid-in capital		2,702	6,071	3,227
XVIII.	Reserves and retained earnings		4,708	4,859	7,314
XIX.	Unrealised or deferred gains and losses		(6,682)	(7,541)	(7,002)
XX.	Net income for the period		(696)	(2,701)	(2,040)
XXI.	Minority interests		250	483	397
TOTAL LIABILITIES			**360,858**	**362,083**	**355,972**

Consolidated income statement

(EUR millions)		Note	2010	2011	2012
I.	Interest income	*5.1*	21,409	21,635	16,890
II.	Interest expense	*5.1*	(21,058)	(21,649)	(17,861)
III.	Fee and commission income	*5.2*	162	143	113
IV.	Fee and commission expense	*5.2*	(46)	(40)	(47)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	*5.3*	(59)	(13)	(250)
VI.	Net gains (losses) on financial assets available for sale	*5.4*	(491)	(430)	390
VII.	Other income	*5.5*	52	53	55
VIII.	Other expenses	*5.6*	(48)	(45)	(42)
IX.	**NET BANKING INCOME**		**(79)**	**(346)**	**(752)**
X.	Operating expenses	*5.7*	(377)	(297)	(346)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	*5.8*	(49)	(42)	(34)
XII.	**GROSS OPERATING INCOME**		**(505)**	**(685)**	**(1,132)**
XIII.	Cost of risk	*5.9*	(438)	(962)	(365)
XIV.	**OPERATING INCOME**		**(943)**	**(1,647)**	**(1,497)**
XV.	Income (losses) from associates	*5.10*	0	0	0
XVI.	Net gains (losses) on other assets	*5.11*	31	91	(22)
XVII.	Impairment of goodwill	*5.12*	0	(141)	0
XVIII.	**INCOME BEFORE TAX**		**(912)**	**(1,697)**	**(1,519)**
XIX.	Income tax	*5.13*	73	(21)	(4)
XX.	Income from discontinued operations, net of tax	*4.6*	112	(1,005)	(541)
XXI.	**NET INCOME**		**(727)**	**(2,723)**	**(2,064)**
XXII.	Minority interests		(31)	(22)	(24)
XXIII.	**NET INCOME, GROUP SHARE**		**(696)**	**(2,701)**	**(2,040)**
	Earnings per share, Group share				
	– Basic (in EUR)		(7.99)	(31.03)	(9.12)
	– of which, related to ongoing activities		(9.28)	(19.49)	(6.70)
	– of which, related to discontinued activities		1.29	(11.54)	(2.42)
	– Diluted (in EUR)		(7.99)	(31.03)	(9.12)
	– of which, related to ongoing activities		(9.28)	(19.49)	(6.70)
	– of which, related to discontinued activities		1.29	(11.54)	(2.42)

Net income and unrealised or deferred gains and losses through equity

	(EUR millions)	2010	2011	2012
I.	**NET INCOME**	**(727)**	**(2,723)**	**(2,064)**
II.	Translation adjustments	76	66	6
III.	Unrealised or deferred gains and losses on financial assets available for sale	(664)	85	1,229
IV.	Unrealised or deferred gains and losses on cash flow hedges	91	(381)	165
VII.	Unrealised or deferred gains and losses of associates	0	0	0
VIII.	Taxes	(403)	(497)	(755)
IX.	**TOTAL UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY(1)**	**(900)**	**(727)**	**645**
X.	**NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY**	**(1,627)**	**(3,450)**	**(1,419)**
XI.	Of which, Group share	(1,512)	(3,560)	(1,501)
XII.	Of which, minority interests	(115)	110	82
	(1) Of which, related to non current assets held for sale	*0*	*(252)*	*110*

Unrealised or deferred gains and losses on the portfolio of financial assets available for sale increased during the year: the Group share, after tax, came to a loss of EUR 6,141 million in 2012 compared with a loss of EUR 6,684 million in 2011. This improvement of EUR 543 million includes the following negative non-recurring items:

- EUR 465 million due to the consolidation of Dexia Holdings Inc, Dexia FP Holdings Inc and Dexia LdG Banque SA,
- EUR 111 million due to the change in the percentage interest in Dexia Sabadell SA,
- EUR 558 million due to the provisioning, in 2012, of deferred tax assets on the fair value reserves on the securities portfolios of various Group companies.

Stripping out these non-recurring items, unrealised or deferred gains and losses on the portfolio of financial assets available for sale increased substantially due to the improvement in spreads.

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 financial assets available for sale, 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 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 financial assets available for sale 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 financial assets available for sale 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	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**

(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 financial assets available for sale, 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 2010	**2,702**	**4,012**	**6,714**	**(6,069)**	**(569)**	**(44)**	**(6,682)**	**32**	**503**	**(253)**	**250**	**282**
Movements during the period												
Changes in capital	0	0	0				0	0	7		7	7
Changes in additional paid-in capital	3,369	831	4,200				0	4,200	0		0	4,200
Dividends		0	0				0	0	0		0	0
Translation adjustments			0	79	12	55	146	146	0	11	11	157
Changes in fair value of financial assets available for sale through equity			0	(2,481)			(2,481)	(2,481)		109	109	(2,372)
Changes in fair value of derivatives through equity			0		(344)		(344)	(344)		1	1	(343)
Changes in fair value of financial assets available for sale through profit or loss			0	1,787			1,787	1,787		10	10	1,797
Changes in fair value of derivatives through profit or loss			0		33		33	33		0	0	33
Net income for the period		(2,701)	(2,701)				0	(2,701)	(22)		(22)	(2,723)
Other movements	0	16	16	0	0	0	0	16	117	0	117	133
As at 31 December 2011	**6,071**	**2,158**	**8,229**	**(6,684)**	**(868)**	**11**	**(7,541)**	**688**	**605**	**(122)**	**483**	**1,171**
Movements during the period												
Changes in capital	785	0	785				0	785	0		0	785
Changes in additional paid-in capital	(2,985)	4,200	1,215				0	1,215	0		0	1,215
Dividends		0	0				0	0	0		0	0
Translation adjustments			0	7	2	6	15	15		0	0	15
Changes in fair value of financial assets available for sale through equity			0	271			271	271		0	0	271
Changes in fair value of derivatives through equity			0		(10)		(10)	(10)		4	4	(6)
Changes in fair value of financial assets available for sale through profit or loss			0	265			265	265		103	103	368
Changes in fair value of derivatives through profit or loss			0		(2)		(2)	(2)		0	0	(2)
Net income for the period		(2,040)	(2,040)				0	(2,040)	(24)		(24)	(2,064)
Other movements[1]	(644)	956	312	0	0	0	0	312	(169)	0	(169)	143
As at 31/12/2012	**3,227**	**5,274**	**8,501**	**(6,141)**	**(878)**	**17**	**(7,002)**	**1,499**	**412**	**(15)**	**397**	**1,896**

(1) Other movements are all discussed in note 3.9.c.

Consolidated financial statements

Consolidated cash flow statement

(EUR millions)	2010	2011	2012
Cash flow from operating activities			
Net income	(727)	(2,723)	(2,064)
Adjustments for:			
• Depreciation, amortisation and other impairment	81	213	64
• Impairment on bonds, equities, loans and other assets	444	2,790	77
• Net (gains) or losses on investments	42	(23)	76
• Changes in provisions	(206)	24	183
• Unrealised gains and losses	(6)	53	(38)
• Income (losses) from associates	0	0	0
• Dividends from associates	0	0	0
• Deferred taxes	(37)	137	(12)
• Other adjustments	0	0	0
Changes in operating assets and liabilities	(1,962)	(4,155)	(1,172)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**(2,371)**	**(3,684)**	**(2,886)**
Cash flow from investing activities			
Purchases of fixed assets	(118)	(101)	(83)
Sales of fixed assets	18	38	33
Acquisitions of unconsolidated equity shares	(15)	(23)	(14)
Sales of unconsolidated equity shares	39	83	52
Acquisitions of subsidiaries	0	0	10
Sales of subsidiaries	0	(11)	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(76)**	**(14)**	**(2)**
Cash flow from financing activities			
Issuance of new shares	640	4,207	2,000
Redemption of capital	0	0	(158)
Issuance of subordinated debt	0	26	4
Redemption of subordinated debt	(661)	(2,570)	(1,059)
Purchases of treasury stock	0	0	0
Sales of treasury stock	0	0	0
Dividends paid	(6)	0	0
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(27)**	**1,663**	**787**
Net cash provided (used)	**(2,474)**	**(2,035)**	**(2,101)**
Cash and cash equivalents at the beginning of the period	**14,961**	**13,122**	**10,733**
Cash flow provided (used) by operating activities	(2,371)	(3,684)	(2,886)
Cash flow provided (used) by investing activities	(76)	(14)	(2)
Cash flow provided (used) by financing activities	(27)	1,663	787
Effect of exchange rate changes and changes in consolidation scope on cash and cash equivalents	635	(354)	(6)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**13,122**	**10,733**	**8,626**
Additional information			
Income tax paid	(120)	102	(26)
Dividends received	8	6	7
Interest received	26,127	25,776	21,132
Interest paid	(25,525)	(25,486)	(21,456)

Cash and cash equivalents

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

Analysis by nature (EUR millions)	**As at 31 December 2010**	**As at 31 December 2011**	**As at 31 December 2012**
Cash, central banks and postal checking accounts (note 2.0)	424	3,056	1,048
Interbank loans and advances (note 2.3)	11,249	5,124	2,845
Financial assets available for sale (note 2.2)	1,449	356	2,158
Non current assets held for sale	0	2,197	2,575
TOTAL	**13,122**	**10,733**	**8,626**

Of which, restricted cash (EUR millions)	**As at 31 December 2010**	**As at 31 December 2011**	**As at 31 December 2012**
Mandatory reserves(1)	353	1,007	1,015
Other	0	0	0
TOTAL	**353**	**1,007**	**1,015**

(1) Minimum reserve deposits credit institutions must maintain with the European Central Bank (ECB) or other central banks.

Consolidated financial statements

Notes to the consolidated financial statements

1. Accounting methods and consolidation scope – accounting policies and valuation methods

As in 2011, Dexia Crédit Local's consolidated financial statements for the year ended 31 December 2012 were prepared in accordance with the accounting rules applicable to a going concern situation. This going concern assumption is supported by a revised business plan, which is based on the first plan described in the Dexia Crédit Local Group's 2011 annual report but with changes being made to certain assumptions in order to incorporate the key changes in the regulators' instructions. This revised business plan was approved by Dexia SA's Board of Directors at its meeting on 14 December 2012. It is based on a number of fundamental assumptions, the main features of which are described below:

- Like the first business plan, the revised business plan includes a 2013 guarantee extended by the States and with no collateral requirement. This guarantee has been capped by the States at EUR 85 billion, taking into account the EUR 5.5 billion recapitalisation of Dexia SA, including EUR 2 billion for Dexia Crédit Local, in late December 2012. This guarantee, like all the assumptions underpinning the revised business plan, was approved by the European Commission on 28 December 2012, which represented one of the key assumptions of the first business plan presented to the stakeholders, including the European Commission[1].
- The plan assumes that the various entities will retain their banking licences, despite, where applicable, the possible non-compliance with certain regulatory ratios. It also assumes that the ratings of Dexia SA and Dexia Crédit Local will remain unchanged.
- The macroeconomic scenario underpinning the revised business plan is constructed on actual market data at end-September 2012 and assumes that the recession will deepen in 2013 before a gradual recovery as from 2014. No major negative credit events have been assumed for the period covered by the projections.
- The business plan assumes, amongst other things, that confidence in the capital markets is restored, thus enabling the Dexia Crédit Local Group to fund some of its assets via secured borrowings (repos) and facilitating the short- and long-term placement on the market of its guaranteed debt, the amount issued under the 2013 guarantee scheme reaching up to EUR 40 billion in 2015. In the event that the market's absorption capacity is lower, the Dexia Crédit Local Group will have to resort to costlier sources of funding that would directly impact the profitability forecast in the business plan.

The business plan thus revised concludes that the Dexia Crédit Local Group is viable, on the basis of the assumptions and scenarios used. However, there are still some uncertainties surrounding its realisation, including those presented above: this plan is particularly sensitive to changes in interest rates and the credit environment. For example, a 10-basis point decline in 10-year interest rates would increase the cash collateral requirement by EUR 1 billion, which, financed at the Emergency Liquidity Assistance rate (the most expensive source of funding), could generate an additional cost of EUR 135 million for the period 2013-2020.

As such, the business plan will be updated regularly by taking into account the latest actual values of external variables so as to accurately estimate their impact on the projections and the likelihood that those projections will be achieved.

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 consolidated financial statements;
- 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 financial statements of the Group, 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 EUR 20.6 million in 2012) are considered to be below the materiality threshold. At 31 December 2012, 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 2011

The main changes in the consolidation scope are shown below:

(1) Note that the royal decrees granting the temporary guarantee and the 2013 guarantee are subject to annulment proceedings with the Belgian Council of State.

- Newly consolidated companies:
  - Dexia LdG Banque SA is fully consolidated as from 1 October 2012: it was purchased from Banque Internationale à Luxembourg in connection with Dexia SA's agreements for the disposal of Banque Internationale à Luxembourg;
  - Dexia Holdings Inc. and Dexia FP Holdings Inc. became part of the Dexia Crédit Local consolidation scope as from 31 December 2012. The two agreements, signed on 30 June 2011, transferring control of these two companies from Dexia Crédit Local to Dexia SA were modified on 27 December 2012.

- Other movements:
  - Following the decision taken by Banco Sabadell on 6 July 2012 to exercise its put option on its shares in Dexia Sabadell SA, Dexia Crédit Local's percentage interest in this company was increased from 60% to 100% on 1 October 2012, even though transfer of ownership of the shares covered by the put option had not taken place as at 31 December 2012.

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

The changes in scope that have a material impact on the 2012 consolidated financial statements are described below in significant events in 2012.

d. Significant events in 2012

Significant events during the fiscal year included:

- On 28 December 2012, the European Commission announced its approval of Dexia's revised orderly restructuring plan which the Belgian, French and Luxembourg States submitted on 14 December 2012, further to the Group's refinancing difficulties in autumn 2011. This approval paved the way for the three-way guarantee scheme to be set up by the Belgian, French and Luxembourg States, within an overall limit of EUR 85 billion, based on the following allocation: 51.41% for Belgium, 45.59% for France and 3% for Luxembourg. This guarantee, awarded on 24 January 2013, should cover financing raised as financial instruments and securities, deposits or borrowings through to 31 December 2021, with a maximum maturity of 10 years. The cost of the guarantee has been set at 5 basis points per annum, combined with a EUR 425 million arrangement fee.
  Under the temporary guarantee previously awarded for EUR 55 billion, the Dexia Crédit Local Group had issued EUR 54 billion of medium-term notes at 31 December 2012.
  For its issues through to 30 June 2010, Dexia will also continue to benefit from the State guarantee mechanism put in place in October 2008. At 31 December 2012, the instruments covered by this guarantee represented a total of EUR 19.7 billion.
  The total expense recognised by Dexia Crédit Local and its branches in respect of payments for these guarantees came to EUR 967 million at 31 December 2012 (versus EUR 279 million at 31 December 2011).

- The royal decrees granting the temporary guarantee and the 2013 guarantee are subject to annulment proceedings in 2011 the Belgian Council of State.

- The European Commission's approval also covers a EUR 5.5 billion capital increase for Dexia SA, including EUR 2 billion for Dexia Crédit Local. In this way, as decided by the Board of Directors on 19 December 2012, under the delegation of authority awarded to it by the Shareholders' Meeting on 12 December 2012, Dexia Crédit Local increased its capital stock by EUR 2 billion (including additionl paid-in capital), paid in cash. Dexia SA conducted this capital increase by subscribing for 136,612,019 new shares with a par value of EUR 5.75, representing a total capital increase of EUR 785,519,109.25, issued at a unit price of EUR 14.64. This operation raised Dexia Crédit Local's capital stock from EUR 500,513,102.75 to EUR 1,286,032,212, split into 223,657,776 shares with a par value of EUR 5.75.

- The Dexia Group's orderly restructuring plan includes provisions to sell off commercial franchises that may be divested within a short timeframe. In this way, Dexia Crédit Local made a commitment to sell its subsidiary Dexia Municipal Agency under an agreement in principle signed in March 2012. On 28 December 2012, the European Commission approved the principle behind the arrangements which the French State wanted to put in place in order to ensure continued access to sources of financing for local authorities and health institutions.
  In accordance with these arrangements:
  - on 31 January 2013, Dexia Crédit Local sold its entire interest in Dexia Municipal Agency for EUR 1 to a new credit institution (Société de Financement Local), owned by the French State (75%), Caisse des Dépôts (20%) and La Banque Postale (5%),
  - commercial relationships with local authorities and public health institutions are managed through a commercial joint-venture between La Banque Postale (65% interest) and Caisse des Dépôts (35%).
  - In compliance with IFRS 5, Dexia Crédit Local applies the following treatment in its consolidated financial statements:
  - Dexia Municipal Agency's assets and liabilities are presented in a separate line on the consolidated balance sheet,
  - Dexia Municipal Agency's business is considered to be a discontinued activity and its income statement items are presented in a separate line in the consolidated income statement,
  - the difference between the equity sold and the sale price is recognised in "Income from discontinued operations, net of tax": the loss, estimated at EUR 1,069 million at end-2011, now stands at EUR 1,707 million, representing a charge of EUR 638 million in 2012.

- Under Dexia SA's agreements to sell Banque Internationale in Luxembourg, Dexia Crédit Local acquired a securities portfolio with a nominal value of EUR 7.7 billion from the Banque Internationale group in Luxembourg, with a EUR 1.2 billion write-down. Dexia Crédit Local also purchased the subsidiary Dexia LdG Banque SA, which had a positive effect of EUR 130 million on core equity at 31 December 2012 and EUR 158 million on consolidated net income.

- In connection with the simplification of the Dexia Group's entities, Dexia Holdings Inc. and Dexia FP Holdings Inc. were added to Dexia Crédit Local's consolidation scope at 31 December 2012, with a favourable effect of EUR 171 million on core equity. The two agreements transferring control of these two companies to Dexia SA on 1 April 2011 (call option on the participating interests held by Dexia Crédit Local, and guarantee on the two companies' future losses) were modified on 27 December 2012.

- In 2012, as part of the exchange plans negotiated by the Greek State, Dexia Crédit Local sold or exchanged all its Greek sovereign exposure, with a positive impact of EUR 90 million on profit and loss. The debt held on Dexia SA under the guarantee received for part of the Greek securities portfolio was adjusted accordingly and repaid by Dexia SA on 31 December 2012 for EUR 1,942 million.

- Dexia Crédit Local recorded a EUR 152 million loss on Kommunalkredit Austria Finanz securities following their cancellation, as decided by Kommunalkredit Austria Finanz's general meeting on 25 April 2012.

- On 2 March 2012, Dexia Crédit Local launched a public cash-tender offer for all its outstanding EUR 700 million of super subordinated notes issued on 18 November 2005, based on a purchase price of 24% (expressed as a percentage of the par value). This offer was open to institutional investors from 2 to 14 March 2012. In total, EUR 644 million were tendered for the offer by investors, representing 92% of the issue's nominal amount. This redemption offer was settled on 19 March 2012, with the total outstanding now representing EUR 56 million. The capital gain relating to this redemption (i.e. EUR 486 million net of fees) was recognised in profit and loss.
  Dexia Crédit Local also redeemed EUR 712 million of subordinated redeemable notes, recording a EUR 256 million gain in earnings for 2012.

- Dexia Crédit Local is involved in a certain number of disputes with local governments that were awarded structured loans. At 31 December 2012, Dexia Crédit Local had been issued with 63 summons relating to issues with structured loans.

  On 8 February 2013, the Nanterre high court (*Tribunal de Grande Instance de Nanterre*) handed down its judgements on the Département de Seine-Saint-Denis's claims against Dexia Crédit Local concerning three structured loans, with the total outstanding amount representing EUR 177,534,631.90 at 21 March 2013.

  The Nanterre high court rejected the Département de Seine-Saint-Denis's petitions for the cancellation of three disputed loan agreements, in addition to all its claims for damages. More specifically, the court found that these loans were not speculative, that the Département was competent in terms of entering into these loan agreements, and that Dexia acted in accordance with its duty to provide information and advice for the Département. However, the Nanterre high court ruled that the faxes preceding the signature of the definitive agreements could be qualified as "loan agreements" and that the legal interest rate would be applied as the annual percentage rate (APR) was not indicated in these faxes.

  As the loans concerned by the court's ruling are included in the scope for the disposal of Société de Financement Local, these rulings, if confirmed, would not have any financial impacts for the Dexia Group, as the assets disposed of are now held by Société de Financement Local. If the high court's rulings were confirmed and set a legal precedent, their extension to other Dexia financing facilities would be likely to introduce potentially significant risks.

  Dexia Crédit Local intends to appeal these decisions.

1.2. Scope of the Dexia Crédit Local Group as at 31 December 2012

DEXIA CRÉDIT LOCAL

Branches:

Dexia Crédit Local Dublin branch
Dexia Crédit Local New York branch

FRENCH SUBSIDIARIES

- DEXIA CLF BANQUE 100%
- DEXIA FLOBAIL 100%
- DEXIA CLF RÉGIONS-BAIL 100%
- CLF IMMOBILIER 100%
- SOFAXIS 100%
- SISL (Luxembourg) 100%
- PUBLIC LOCATION LONGUE DURÉE 49%
- DEXIA BAIL 100%
- DEXIA MUNICIPAL AGENCY(1) 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 KOMMUNALKREDIT BANK POLSKA (Poland)(2) 100%
- DEXIA CREDIOP GROUP (Italy) 70%
  - DEXIA CREDIOP IRELAND (Ireland) 100%
- DEXIA HOLDINGS Inc. (United States) 100%
  - DEXIA FP HOLDINGS INC. (United States) 100%
  - FSA GLOBAL FUNDING Ltd (United States) 100%
- DEXIA REAL ESTATE CAPITAL MARKETS (UNITED STATES) 100%
- DEXIA CRÉDITO LOCAL MÉXICO SA de CV (Mexico) 100%
- DEXIA ISRAEL BANK Ltd (Israel) 65.31%
- DEXIA SABADELL SA (Spain) 100%
  - DEXIA SABADELL SA (Portugal branch)
- DEXIA DELAWARE LLC (United States) 100%
- DEXIA CAD FUNDING LLC (United States) 100%
- SUMITOMO MITSUI SPV (Japan) 100%
- DEXIA MANAGEMENT SERVICES Ltd (United Kingdom) 100%
- WISE 2006 - 1 PLC (Ireland) 100%
- DEXIA LDG BANQUE SA (Luxembourg) 100%

Fully consolidated (solid box)

Proportionally consolidated (dotted box: DOMISERVE, DOMISERVE +)

(1) On 20 October 2011, 13 February and 15 March 2012, the Board of Directors of Dexia Crédit Local approved the terms of an agreement providing notably for the sale of Dexia Municipal Agency. In the light of these factors, the activities of Dexia Municipal Agency have been presented as being held for sale since 31 December 2011.
(2) On 7 November 2012, Dexia Kommunalkredit Bank AG signed an agreement for the sale of its subsidiary Dexia Kommunalkredit Bank Polska to Getin Noble Bank. The activities of Dexia Kommunalkredit Bank Polska are thus presented as being held for sale at 31 December 2012.

a. Fully-consolidated subsidiaries

Name	Head office	% interest
Dexia CLF Banque	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	100
CLF Immobilier	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	100
Dexia CLF Régions Bail	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 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, 92913 La Défense France	100
SISL	180 rue des Aubépines – L1145 Luxemburg	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 SRL[(1)]	Via Eleonora Duse, 53 – 00197 Rome Italy	100
Crediop per le Obbligazioni Bancarie Garantite SRL[(1)]	Via Eleonora Duse, 53 – 00197 Rome Italy	90
Dexia Kommunalkredit Bank AG	Fischhof 3 – A-1010 Vienna – Austria	100
Dexia Kommunalkredit Bank Polska[(2)]	Ul. Sienna 39 – 00-121 Warsaw – Poland	100
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
Public Location Longue Durée (formerly Dexia Location Longue Durée)[(4)]	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	49
Dexia Bail	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	99.93
Dexia Municipal Agency[(5)]	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	100
Dexia Israel Bank Ltd.[(6)]	19 Ha'arbaha str., Hatichon building – Tel Aviv PO BOX 709 – Tel Aviv 61200 – Israel	65.31
Dexia Sabadell SA[(7)]	Calle Mahonia, 2 – 4ª planta, 28043 Madrid Spain	79.01
CBX.IA 1	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	100
CBX.IA 2[(8)]	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	100
Dexia Delaware LLC	15, East North Street – Dover, Delaware 19901 – USA	100
Dexia Crédito Local México SA de CV Sofom Filial	Protasio Tagle 104 Colonia San Miguel Chapultepec – 11850 Mexico DF	100
Dexia Holdings Inc.	445 Park Avenue, 5th floor 10022 NY – United States	100
Dexia FP Holdings Inc.[(9)]	445 Park Avenue, 5th floor 10022 NY – United States	100
Dexia Financial products Services LLC (formerly HF Services LLC)[(10)]	445 Park Avenue, 5th floor 10022 NY – United States	100
FSA Asset Management LLC[(10)]	445 Park Avenue, 5th floor 10022 NY – United States	100
FSA Portfolio Asset Limited (UK)[(10)]	Shackleton House 4 Battle Bridge Lane London SE1 2 RB United Kingdom	100
FSA Capital Markets Services LLC[(10)]	445 Park Avenue, 5th floor 10022 NY – United States	100
FSA Capital Management Services LLC[(10)]	445 Park Avenue, 5th floor 10022 NY – United States	100

(1) Companies consolidated by Dexia Crediop.
(2) On 7 November 2012, Dexia Kommunalkredit Bank AG signed an agreement for the sale of its subsidiary Dexia Kommunalkredit Bank Polska to Getin Noble Bank. As a result, the activities of Dexia Kommunalkredit Bank Polska are presented as being held for sale at 31 December 2012.
(3) Companies consolidated by Sofaxis.
(4) Public Location Longue Durée is fully consolidated due to the contractually-defined relationships existing between the shareholders.
(5) On 20 October 2011, 13 February and 15 March 2012, the Board of Directors of Dexia Crédit Local approved the terms of an agreement providing notably for the sale of Dexia Municipal Agency. In the light of these factors, the activities of Dexia Municipal Agency have been presented as being held for sale since 31 December 2011.
(6) 65.99% of voting rights held.
(7) Following capital increases fully subscribed by Dexia Crédit Local, the portion of the capital held in Dexia Sabadell SA increased to 79.01%. Furthermore, as a result of the exercise of a put option on its shares by Banco Sabadell on 6 July 2012, not yet executed, the percentage interest in the company is now 100%.
(8) CBX.IA2 is 70.85%-held by Dexia Crédit Local and 29.15% by CBX.IA 1.
(9) Companies consolidated by Dexia Holdings Inc.
(10) Companies consolidated by Dexia FP Holdings Inc.

Name	Head office	% interest
FSA Capital Markets Services (Caymans) Ltd.[10]	PO Box 1093 GT, Boundary Hall, Cricket square, Grand Cayman, Cayman Islands, KY1-1102, Cayman Islands	0
FSA Global Funding Ltd.[9]	PO Box 1093 GT, Boundary Hall, Cricket square, Grand Cayman, Cayman Islands, KY1-1102, Cayman Islands	100
Premier International Funding Co.[11]	PO 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 – New York New York 10022 United States	100
Cypress Point Funding Limited (Cayman)[11]	PO Box 1093 GT, Boundary Hall, Cricket square, Grand Cayman, Cayman Islands, KY1-1102, Cayman Islands	23
Dexia Real Estate Capital Markets	1180 NW Maple St., Suite 202 – Issaquah, WA 98027 United States	100
Artesia Mortgage CMBS Inc.[12]	1013 Centre Road, Wilmington, New Castle, 19801 Delaware – United States	100
Artesia Properties Inc.[12]	1209 Orange Street, Wilmington, New Castle, 19801 Delaware – United States	100
Sumitomo Mitsui SPV (ex-Chuo Mitsui Asset Trust and Banking Company Ltd.)	Sumitomo Mitsui Trust Bank, Limited 1-4-1 Marunouchi Chiyoda-ku Tokyo 100-8233 Japan	100
Dexia Management Services Ltd.	200 Aldersgate Street, 13th floor London EC1A 4HD, United Kingdom	100
Dexia LdG Banque SA	69, route d'Esch, L-1470 Luxembourg	100
WISE 2006-1 PLC	Custom House Plaza Block 6 – IFSC Dublin 1-Ireland	100

(9) Companies consolidated by Dexia Holdings Inc.
(10) Companies consolidated by Dexia FP Holdings Inc.
(11) Companies consolidated by FSA Global Funding Ltd.
(12) Companies consolidated by Dexia Real Estate Capital Markets.

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 Participations	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	99.94	3,689	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	74	Below materiality threshold
Guide Pratique de la Décentralisation	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	99.74	45	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 Bucuresti, Romania	100	290	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	48	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	84	Below materiality threshold
Genebus Lease	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	99.89	97	Below materiality threshold
Dexia Crédit Local Projets	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	100	42	Below materiality threshold

Name	Head office	% interest	Carrying amount of shares including fair-value adjustment (EUR thousands)	Reason for exclusion
Dexia Carbon Capital SARL	69 route d'Esch L 1470 Luxembourg	100	3,557	Below materiality threshold
SAS Qualnet	Route de Créton 18110 Vasselay France	86	1,824	Below materiality threshold
Floral	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	100	363	Below materiality threshold
European Carbon fund	12 av. de la Liberté L 1930 Luxembourg	55	508	Below materiality threshold
DCL Structure	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	99.76	40	Below materiality threshold
DCL Évolution	1 passerelle des Reflets, Tour Dexia, La Défense 2, 92913 La Défense France	99.76	40	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	233	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
Impax New Energy Investor	67, rue Ermesinde L – 1469 Luxemburg	24.99	15,330	Below materiality threshold
European Public Infrastructure Managers	4, rue Jean-Pierre-Brasseur L – 1258 Luxemburg	20.0	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	413	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

Name	Head office	Fraction du capital détenue % interest	Carrying amount of shares including fair-value adjustment (EUR thousands)	Reason for exclusion
Alma Mater Fund	54 Lombard Street, London EC3P 3AH, United Kingdom	18.52	12,416	Below materiality threshold

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 consolidated financial statements have therefore been prepared in accordance with all IFRS as adopted and endorsed by the European Commission up to 31 December 2012, including the conditions of application of interest rate portfolio hedging and the possibility of hedging 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.

Dexia Crédit Local's 2012 financial statements have been prepared on a going concern basis in line with IAS 1 criteria based on the items described previously in note 1 "Accounting methods and consolidation scope – accounting policies and valuation methods".

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the 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 for financial instruments measured at fair value;
- consolidation (control, including special-purpose entities);
- identification of non-current assets 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 fair value for financial instruments measured at fair value;
- determination of the recoverable amount of impaired financial assets;
- determination of fair value less costs to sell for non-current assets held for sale;
- 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 policies since the previous annual publication that may impact the Dexia Crédit Local Group

IASB and IFRIC texts endorsed by the European Commission and applied as from 1 January 2012

- Amendment to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets. The impact of this amendment on Dexia Crédit Local's financial statements relates to disclosures.

IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from 1 January 2012

- IFRS 13 Fair Value Measurement. This standard describes how to measure fair value under IFRS and introduces new and enhanced disclosure requirements. This standard is effective as from 1 January 2013 and its impact on the financial statements of Dexia Crédit Local is currently being assessed.
- A "package of five" new or revised standards on the accounting treatment and disclosure requirements for interests in other entities. These new or revised standards are effective as from 1 January 2014 and comprise the following:
  - IFRS 10 Consolidated Financial Statements introduces a single consolidation model for all entities, based on control and regardless of the nature of the investee. Dexia Crédit Local does not expect this standard to have a material impact on its financial statements.
  - IFRS 11 Joint Arrangements will no longer permit the proportional consolidation method when accounting for jointly-controlled entities. Dexia Crédit Local does not expect this standard to have a material impact on its financial statements.
  - IFRS 12 Disclosure of Interests in Other Entities will require enhanced disclosures on Dexia Crédit Local's interests in subsidiaries, joint arrangements, associates and non-consolidated structured entities in which Dexia Crédit Local has an involvement.
  - IAS 27 Separate Financial Statements, which supersedes IAS 27 Consolidated and Separate Financial Statements (as amended in 2008), continues to be a standard dealing solely with separate financial statements: the existing guidance is unchanged.
  - IAS 28 Investments in Associates and Joint Ventures, which supersedes IAS 28 Investments in Associates (as revised in 2003), is amended to reflect the changes stemming from the issuance of IFRS 10, IFRS 11 and IFRS 12.
- Amendment to IAS 32 Financial instruments: Presentation. This amendment provides clarification on the rules for offsetting financial assets and financial liabilities. This amendment is effective

as from 1 January 2014 and Dexia Crédit Local does not expect this amendment to have a material impact on its financial statements.

- Amendment to IFRS 7 Financial instruments: Disclosures on offsetting financial assets and financial liabilities. This amendment is effective as from 1 January 2013 and will impact the notes to Dexia Crédit Local's financial statements.

- Amendment to IAS 19 Employee Benefits. This amendment principally changes the recognition and measurement of post-employment defined benefit plans (including removal of the corridor mechanism) and enhances the disclosure requirements for these plans. This amendment is effective as from 1 January 2013. Dexia Crédit Local does not expect this amendment to have a material impact on its financial statements.

- Amendment to IAS 1 Presentation of Items of Other Comprehensive Income. This amendment clarifies the requirements on the presentation of the statement of comprehensive income and introduces a presentation of items in other comprehensive income (OCI) on the basis of recyclability. This amendment is effective as from 1 January 2013 and will impact Dexia Crédit Local's presentation of unrealised or deferred gains or losses through equity.

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. This interpretation is effective as from 1 January 2013 and will not impact the financial statements of Dexia Crédit Local.

- Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets. This amendment is effective as from 1 January 2013 and will not impact the financial statements of Dexia Crédit Local as Dexia Crédit Local measures these assets at amortised cost.

- Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters. This amendment is effective as from 1 January 2013 and will not impact the financial statements of Dexia Crédit Local, which is no longer a first-time adopter.

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

- Amendment to IFRS 1 Government Loans (issued by the IASB in March 2012). This amendment is effective as from 1 January 2013 and will not impact the financial statements of Dexia Crédit Local, which is no longer a first-time adopter.

- Annual Improvements 2009-2011 cycle (issued by the IASB in May 2012), which are a collection of amendments to existing International Financial Reporting Standards. These amendments are effective as from 1 January 2013. Dexia Crédit Local does not expect these amendments to have a material impact on its financial statements.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (issued by the IASB in June 2012). These amendments are effective as from 1 January 2013 and the impact on Dexia Crédit Local's financial statements is currently being assessed.

- Investment entities – Amendments to IFRS 10, IFRS 12 and IAS 27 (issued by the IASB in October 2012). These amendments are effective as from 1 January 2014 and will not impact the financial statements of Dexia Crédit Local.

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 subsidiaries. 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 in the 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 the equity 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 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 (the euro) at average exchange rates for the year or 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 a cumulative translation adjustment in 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 may 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 shall be 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;
- 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 loans and advances initially at fair value plus transaction costs and subsequently at amortised cost, less any allowance for impairment. Interest is measured based on the effective interest rate method and recognised in 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.

Held-to-maturity financial assets

Quoted 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 (including 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 in net interest income.

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 "financial assets available for sale" (AFS).

Available-for-sale assets are initially recognised at fair value (including transaction costs). Interest is recognised based on the effective interest rate method and is recognised in net interest income. Dividend income from variable-income securities is recognised in "Net gains (losses) on financial assets available for sale" 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 in equity. When assets are disposed of, the related accumulated fair value adjustments are reversed to the income statement in "Net gains (losses) on financial assets available for sale".

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 in 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 in net 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 the 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 paragraph on "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 as regards their recording date (see paragraph on "Trade date and settlement date accounting").

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 paragraph on "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 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 (see paragraph on "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, cash flow models or 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 through profit or loss.

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 the financial asset or financial liability is received or delivered 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 (paragraphs 58-70). The impairment represents management's best estimate of losses in the value of the asset or group of 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 the 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 is 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 experience and historical patterns of losses in each segment, the credit ratings assigned to the borrowers, 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 are based on Basel II data and risk models, consistent with the incurred loss model.

• Accounting treatment of the 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 frozen AFS reserve will be taken to profit or loss in "Cost of risk".

In the event 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.

Financial assets available for sale
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 financial assets are subject only to specific impairment.

• Determination of the impairment
- **Equities:** For equities quoted on an active market, a significant decline in their price compared with 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 the impairment
When available-for-sale financial assets are impaired, the AFS reserve is recycled through 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 financial assets available for sale" (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 classified as impaired if the 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 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 investments 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 the changes in the credit 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 receivables 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 receivables.

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 costs or amortised costs of the investments. The cost is systematically determined using the "First In, First Out" approach (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 indemnities

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 indemnities, 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 indemnities 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 indemnity 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 indemnity is recognised immediately in the income statement.

Case of early repayment without refinancing
When the loan has been extinguished, the early repayment indemnity, as well as any gains or losses arising from an unamortised premium or discount, is recognised in the income statement 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 financial instruments on an accrual basis using the effective interest rate method based on initial carrying value including transaction costs for 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

Commissions and fees 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 the 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); or
- 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 the 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; and

- 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 change 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 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 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 the 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 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 in "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 Risk Management, 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 Risk Management, the day one profit or loss is amortised on a straight line basis 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 non-current assets

Tangible non-current 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 non-current 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 types of tangible non-current 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

A tangible non-current asset 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 non-current 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 tangible non-current assets 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 use.

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 the quality of computer software or extends its life 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; and
- their sale is highly probable within one year.

Dexia Crédit Local measures a non-current asset (or disposal group) 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.

A discontinued operation is defined as a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations. Post-tax profit or loss from discontinued operations is presented in a separate line in the income statement.

Goodwill

Goodwill is 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; and
- (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 the liabilities assumed.

Changes in the percentage of ownership in fully-consolidated companies are considered as transactions between 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 of 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, i.e. to a combination of business segment/country/legal entity). When specific 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 (reinsurance, insurance premiums receivable, 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 operating and finance 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 the present value of the minimum lease payments and fair value. 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 borrowings and 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 price and the 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 unlikely that the difference will 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 are 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 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 healthcare 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 (the greater of 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, less 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 on 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 comply 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 raised 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 has a firm commitment 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 option 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 litigations 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 ordinary shares in issue at the year end.

Related-party transactions

Two parties are considered to be related if one has the ability to control the other or exercises significant influence over the other party's financial policy or operational decisions. 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.

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 financial assets available for sale.

2. Notes on the assets

2.0. Cash, central banks and postal checking accounts (Item I – assets)

(EUR millions)	2011	2012
Cash	1	1
Mandatory reserve deposits with central banks	1,007	1,015
Other central bank deposits and balances with postal checking accounts	2,048	32
TOTAL	**3,056**	**1,048**
of which, included in cash and cash equivalents	*3,056*	*1,048*

2.1. Financial assets at fair value through profit or loss (Item II – assets)

This line includes both the portfolio held for trading and all financial assets at fair value through profit or loss (see point regarding "Financial assets at fair value through profit or loss" in note 1.3 "Accounting policies and valuation methods").

(EUR millions)	2011	2012
Loans and securities	2,377	2,224
Derivatives (see note 4.1.b)	19,177	21,155
TOTAL	**21,554**	**23,379**

a. Analysis by counterparty

	2011			2012		
(EUR millions)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Public sector	0	6	6	0	6	6
Banks	21	0	21	8	0	8
Other sectors	2,318	32	2,350	2,190	20	2,210
TOTAL	**2,339**	**38**	**2,377**	**2,198**	**26**	**2,224**
of which, included in finance leases	*0*	*0*	*0*	*0*	*0*	*0*

b. Analysis by nature

	2011			2012		
(EUR millions)	Held for trading	Designated at fair value	Total	Held for trading	Designated at fair value	Total
Loans	0	17	17	0	4	4
Bonds issued by public bodies	0	0	0	0	0	0
Other bonds and fixed-income instruments	2,339	21	2,360	2,198	22	2,220
Equities and other variable-income instruments	0	0	0	0	0	0
TOTAL	**2,339**	**38**	**2,377**	**2,198**	**26**	**2,224**

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

(EUR millions)	2011	2012
TOTAL	**0**	**0**

d. Securities pledged under repurchase agreements (repos)

(EUR millions)	2011	2012
Included in bonds issued by public bodies	0	0
Included in other bonds and fixed-income instruments	0	0

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", in the paragraph "Fair value of financial instruments".

g. Reclassification of financial assets (IAS 39 amended)

See note 2.14

2.2. Financial assets available for sale (Item IV – assets)

a. Analysis by counterparty

(EUR millions)	2011	2012
Public sector	13,904	16,999
Banks	9,673	12,771
Other sectors	5,041	6,159
Performing assets(1)	**28,618**	**35,929**
Impaired loans	0	0
Impaired bonds issued by public bodies(2)	3,273	48
Other impaired bonds and fixed-income instruments	236	112
Impaired equities and other variable-income instruments	177	129
Impaired assets	**3,686**	**289**
Total assets before impairment	**32,304**	**36,218**
Specific impairment(2)	(2,744)	(158)
Collective impairment	0	0
TOTAL	**29,560**	**36,060**
of which, included in cash and cash equivalents	*356*	*2,158*

(1) As part of the plan for the orderly resolution of the Dexia Group, Dexia Crédit Local purchased from the Banque Internationale à Luxembourg group a portfolio of securities with a nominal value of EUR 7.7 billion, at a discount of EUR 1.2 billion.
(2) In 2012, in connection with the debt swap plans negotiated by the Greek State, Dexia Crédit Local sold or swapped all its exposures to Greek sovereign debt.

b. Analysis by nature

(EUR millions)	2011	2012
Loans	0	0
Bonds issued by public bodies	13,601	13,278
Other bonds and fixed-income instruments	18,178	22,411
Equities and other variable-income instruments	525	529
TOTAL	**32,304**	**36,218**

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)	2011	2012
Nostro accounts	795	1,070
Reverse repurchase agreements (reverse repos)	0	116
Other interbank loans and advances(1)	8,837	5,873
Debt instruments	2,911	3,754
Performing assets	**12,543**	**10,813**
Individually impaired loans and advances	0	0
Impaired assets	**0**	**0**
Total assets before impairment	**12,543**	**10,813**
Specific impairment	0	0
Collective impairment	(9)	(7)
TOTAL	**12,534**	**10,806**
of which, included in cash and cash equivalents	*5,124*	*2,845*
of which, included in finance leases	*0*	*0*

(1) The decline in other interbank loans and advances essentially relates to the unwinding of relationships within the Dexia Group.

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)	2011	2012
Public sector	95,965	93,095
Other sectors	58,832	55,505
Performing assets	**154,797**	**148,600**
Impaired loans and advances	725	937
Impaired debt instruments	312	377
Impaired assets	**1,037**	**1,314**
TOTAL ASSETS BEFORE IMPAIRMENT	**155,834**	**149,914**
Specific impairment	(352)	(389)
Collective impairment	(302)	(416)
TOTAL	**155,180**	**149,109**
of which, included in finance leases	*1,853*	*1,782*

b. Analysis by nature

(EUR millions)	2011	2012
Reverse repurchase agreements *(reverse repos)*	0	0
Loans and advances	99,579	92,157
Debt instruments	55,218	56,443
Performing assets	**154,797**	**148,600**
Impaired loans and advances	725	937
Impaired debt instruments	312	377
Impaired assets	**1,037**	**1,314**
TOTAL ASSETS BEFORE IMPAIRMENT	**155,834**	**149,914**
Specific impairment	(352)	(389)
Collective impairment	(302)	(416)
TOTAL	**155,180**	**149,109**
of which, included in finance leases	*1,853*	*1,782*

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. Financial assets held to maturity (Item VIII – assets)

a. Analysis by counterparty

(EUR millions)	2011	2012
Public sector	439	361
Banks	26	77
Other sectors	15	15
Performing assets	**480**	**453**
Impaired bonds issued by public bodies(1)	234	0
Other impaired bonds and fixed-income instruments	0	0
Impaired assets	**234**	**0**
TOTAL ASSETS BEFORE IMPAIRMENT	**714**	**453**
Specific impairment(1)	(153)	0
TOTAL	**561**	**453**

(1) In 2012, in connection with the debt swap plans negotiated by the Greek State, Dexia Crédit Local sold or swapped all its exposures to Greek sovereign debt.

b. Analysis by nature

(EUR millions)	2011	2012
Bonds issued by public bodies	406	333
Other bonds and fixed-income instruments	308	120
TOTAL	**714**	**453**

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)	2011	2012
Current income tax	47	33
Current tax assets	**47**	**33**
Deferred tax assets (see note 4.2)	**715**	**18**

2.7. Accruals and other assets (Item XI – assets)

(EUR millions)	2011	2012
Other assets(1)	2,583	856
Cash collateral	35,598	36,617
Accruals and other assets	**38,181**	**37,473**

(1) The receivable due from Dexia SA by virtue of the guarantee received in 2011 in respect of part of the Greek securities portfolio was reimbursed at the end of 2012 for an amount of EUR 1,942 million.

Other assets

(EUR millions) Analysis by nature	2011	2012
Accrued income	8	9
Deferred expenses	9	21
Other accounts receivable[(1)]	2,543	804
Plan assets	1	3
Long-term construction contracts	0	0
Inventories	3	3
Other taxes	7	5
Performing assets	**2,571**	**845**
Impaired assets[(2)]	**27**	**29**
TOTAL ASSETS BEFORE IMPAIRMENT	**2,598**	**874**
Specific impairment[(2)]	(15)	(18)
TOTAL	**2,583**	**856**

(1) The receivable due from Dexia SA by virtue of the guarantee received in 2011 in respect of part of the Greek securities portfolio was reimbursed at the end of 2012 for an amount of EUR 1,942 million.
(2) Impaired assets consist of derivative transactions with banking and customer counterparties.

2.8. Investments in associates (Item XIII – assets)

None.

2.9. Tangible fixed assets (Item XV – assets)

a. Movements

(EUR millions)	Tangible fixed assets – Land and buildings – Own use-owner	Land and buildings – Own use-finance lease	Office furniture and other equipment – Own use-owner	Office furniture and other equipment – Own use-finance lease	Office furniture and other equipment – Operating lease	Total
Acquisition cost as at 1 January 2011	**435**	**1**	**111**	**0**	**190**	**737**
• Acquisitions	1	0	3	0	65	69
• Post-acquisition adjustments	0	0	0	0	0	0
• Disposals and retirements	(1)	0	(5)	0	(41)	(47)
• Change in consolidation scope (in)	0	0	0	0	0	0
• Change in consolidation scope (out)	(34)	0	(28)	0	0	(62)
• Transfers to non-current assets held for sale	0	0	0	0	0	0
• Other transfers	0	0	0	0	0	0
• Translation adjustments[(1)]	0	0	0	0	0	0
• Other movements	0	0	0	0	7	7
Acquisition cost as at 31 December 2011	**401**	**1**	**81**	**0**	**221**	**704**
Accumulated depreciation and impairment as at 1 January 2011	**(65)**	**(1)**	**(81)**	**0**	**(61)**	**(208)**
• Post-acquisition adjustments	0	0	0	0	0	0
• Additions	(8)	0	(8)	0	(31)	(47)
• Disposals and retirements	1	0	4	0	18	23
• Change in consolidation scope (in)	0	0	0	0	0	0
• Change in consolidation scope (out)	13	0	21	0	0	34
• Transfers to non-current assets held for sale	0	0	0	0	0	0
• Other transfers	0	0	0	0	0	0
• Translation adjustments[(1)]	0	0	0	0	0	0
• Other movements	0	0	0	0	0	0
Accumulated depreciation and impairment as at 31 December 2011	**(59)**	**(1)**	**(64)**	**0**	**(74)**	**(198)**
NET CARRYING AMOUNT AS AT 31 DECEMBER 2011	**342**	**0**	**17**	**0**	**147**	**506**

(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 average and year-end exchange rates on movements for the year.

(EUR millions)	Tangible fixed assets – Land and buildings – Own use-owner	Land and buildings – Own use-finance lease	Office furniture and other equipment – Own use-owner	Office furniture and other equipment – Own use-finance lease	Office furniture and other equipment – Operating lease	Total
Acquisition cost as at 1 January 2012	**401**	**1**	**81**	**0**	**221**	**704**
• Acquisitions	1	0	6	0	60	67
• Post-acquisition adjustments	0	0	0	0	0	0
• Disposals and retirements	(1)	0	(3)	0	(53)	(57)
• Change in consolidation scope (in)	0	0	1	0	0	1
• Change in consolidation scope (out)	0	0	0	0	0	0
• Transfers to non-current assets held for sale	0	0	0	0	0	0
• Other transfers	0	0	0	0	0	0
• Translation adjustments(1)	0	0	0	0	0	0
• Other movements	0	0	0	0	0	0
Acquisition cost as at 31 December 2012	**401**	**1**	**85**	**0**	**228**	**715**
Accumulated depreciation and impairment as at 1 January 2012	**(59)**	**(1)**	**(64)**	**0**	**(74)**	**(198)**
• Post-acquisition adjustments	0	0	0	0	0	0
• Additions	(8)	0	(5)	0	(30)	(43)
• Disposals and retirements	0	0	3	0	23	26
• Change in consolidation scope (in)	0	0	(1)	0	0	(1)
• Change in consolidation scope (out)	0	0	0	0	0	0
• Transfers to non-current assets held for sale	0	0	0	0	0	0
• Other transfers	0	0	0	0	0	0
• Translation adjustments(1)	0	0	0	0	0	0
• Other movements	0	0	0	0	0	0
Accumulated depreciation and impairment as at 31 December 2012	**(67)**	**(1)**	**(67)**	**0**	**(81)**	**(216)**
NET CARRYING AMOUNT AS AT 31 DECEMBER 2012	**334**	**0**	**18**	**0**	**147**	**499**

(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 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 fixed assets

None.

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

None.

2.10. Intangible assets (Item XVI – assets)

(EUR millions)	2011			2012		
	Internally developed software	Other intangible assets[2]	Total	Internally developed software	Other intangible assets[2]	Total
Acquisition cost as at 1 January	**211**	**154**	**365**	**155**	**121**	**276**
• Acquisitions	12	7	19	12	4	16
• Post-acquisition adjustments	0	0	0	0	0	0
• Disposals and retirements	(68)	(13)	(81)	0	0	0
• Change in consolidation scope (in)	0	0	0	0	1	0
• Change in consolidation scope (out)	0	(27)	(27)	0	0	0
• Transfers to non-current assets held for sale	0	0	0	0	0	0
• Other transfers	0	0	0	0	0	0
• Translation adjustments[1]	0	0	0	0	0	0
• Other movements	0	0	0	0	0	0
Acquisition cost as at 31 December	**155**	**121**	**276**	**167**	**126**	**292**
Accumulated depreciation and impairment as at 1 January	**(176)**	**(129)**	**(305)**	**(125)**	**(105)**	**(230)**
• Post-acquisition adjustments	0	0	0	(12)	(7)	(19)
• Additions	(17)	(9)	(26)	0	0	0
• Disposals and retirements	68	12	80	0	0	0
• Change in consolidation scope (in)	0	0	0	0	0	0
• Change in consolidation scope (out)	0	21	21	0	0	0
• Transfers to non-current assets held for sale	0	0	0	0	0	0
• Other transfers	0	0	0	0	0	0
• Translation adjustments[1]	0	0	0	0	0	0
• Other movements	0	0	0	0	0	0
Accumulated depreciation and impairment as at 31 December	**(125)**	**(105)**	**(230)**	**(137)**	**(112)**	**(249)**
NET CARRYING AMOUNT AS AT 31 DECEMBER	**30**	**16**	**46**	**30**	**14**	**43**

(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 average and year-end exchange rates on movements for the year.
(2) Other intangible assets include primarily purchased software.

2.11. Goodwill (Item XVII – assets)

a. Movements

(EUR millions)	2011	2012
Acquisition cost as at 1 January	**350**	**269**
• Acquisitions	0	0
• Post-acquisition adjustments	0	0
• Disposals	0	0
• Change in consolidation scope (in)	0	0
• Change in consolidation scope (out)	(81)	0
• Transfers	0	0
• Transfers to non-current assets held for sale(2)	0	(2)
• Translation adjustments(1)	0	0
• Other movements	0	0
Acquisition cost as at 31 December	**269**	**267**
Accumulated amortisation and impairment as at 1 January	**(150)**	**(210)**
• Post-acquisition adjustments	0	0
• Additions	(141)	0
• Disposals, recoveries and reversals	0	0
• Change in consolidation scope (in)	0	0
• Change in consolidation scope (out)	81	0
• Transfers	0	0
• Transfers to non-current assets held for sale(2)	0	2
• Translation adjustments(1)	0	0
• Other movements	0	0
Accumulated amortisation and impairment as at 31 December	**(210)**	**(208)**
CARRYING AMOUNT AS AT 31 DECEMBER	**59**	**59**

(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 average and year-end exchange rates on movements for the year.
(2) Fully impaired goodwill of EUR 2 million in respect of Dexia Kommunalkredit Bank Polska.

b. Analysis of net goodwill by company

(EUR millions)	Year of acquisition	Goodwill
Dexia Sofaxis	1999	**59**

This goodwill was tested for impairment at 31 December 2012: no adjustment was required.

2.12. Leases

a. Group as lessor

Finance leases

Gross investment in finance leases (EUR millions)	2011	2012
Less than 1 year	138	122
1 year to 5 years	441	418
Over 5 years	1,265	1,240
Sub-total (1)	**1,844**	**1,780**
Unearned future finance income on finance leases (2)	0	0
NET INVESTMENT IN FINANCE LEASES (1)-(2)	**1,844**	**1,780**

Additional information (EUR millions)	**2011**	**2012**
Contingent lease payments recognised in the income statement 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	1,846	1,780
Accumulated impairment for uncollectible minimum lease payments receivable	0	0

Operating leases

Future net minimum lease receivables under operating leases (EUR millions)	**2011**	**2012**
Less than 1 year	38	38
1 year to 5 years	53	48
Over 5 years	2	1
TOTAL	**93**	**87**

	2011	**2012**
Amount of contingent rents recognised in the income statement during the period	2	3

b. Group as lessee

Finance leases

None.

Operating leases

Future net minimum lease payments under non-cancellable operating leases (EUR millions)	**2011**	**2012**
Less than 1 year	11	12
1 year to 5 years	50	52
Over 5 years	45	43
TOTAL	**106**	**107**

	2011	**2012**
Future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date	**1**	**1**

Lease and sublease payments recognised as expenses during the year (EUR millions)	**2011**	**2012**
Minimum lease payments	12	5
Contingent lease payments	0	0
Sublease payments	0	0
TOTAL	**12**	**5**

2.13. Quality of financial assets

(EUR millions)	2011	2012
Analysis of performing financial assets		
Interbank loans and advances	12,543	10,813
Customer loans and advances	154,797	148,600
Financial assets held to maturity	480	453
Financial assets available for sale	28,618	35,929
of which, fixed-income instruments	*28,270*	*35,529*
of which, variable-income instruments	*348*	*400*
Other accounts receivable and other assets (note 2.7)	2,543	804
Total performing financial assets	**198,981**	**196,599**
Collective impairment	(311)	(423)
NET TOTAL PERFORMING FINANCIAL ASSETS	**198,670**	**196,176**

	Gross amount		Specific Impairment		Net amount	
(EUR millions)	2011	2012	2011	2012	2011	2012
Analysis of non-performing financial assets						
Interbank loans and advances	0	0	0	0	0	0
Customer loans and advances	1,037	1,314	(352)	(389)	685	925
Financial assets held to maturity	234	0	(153)	0	81	0
Financial assets available for sale	3,686	289	(2,744)	(158)	942	131
of which, fixed-income instruments	*3,509*	*160*	*(2,662)*	*(119)*	*847*	*41*
of which, variable-income instruments	*177*	*129*	*(82)*	*(39)*	*95*	*90*
Other accounts receivable and other assets (note 2.7)	27	29	(15)	(18)	12	11
Total	**4,984**	**1,632**	**(3,264)**	**(565)**	**1,720**	**1,067**
Analysis of total financial assets						
Interbank loans and advances	12,543	10,813	0	0	12,543	10,813
Customer loans and advances	155,834	149,914	(352)	(389)	155,482	149,525
Financial assets held to maturity	714	453	(153)	0	561	453
Financial assets available for sale	32,304	36,218	(2,744)	(158)	29,560	36,060
of which, fixed-income instruments	*31,779*	*35,689*	*(2,662)*	*(119)*	*29,117*	*35,570*
of which, variable-income instruments	*525*	*529*	*(82)*	*(39)*	*443*	*490*
Other accounts receivable and other assets (note 2.7)	2,570	833	(15)	(18)	2,555	815
Total financial assets	**203,965**	**198,231**	**(3,264)**	**(565)**	**200,701**	**197,666**
Collective impairment					(311)	(423)
TOTAL NET FINANCIAL ASSETS	**203,965**	**198,231**	**(3,264)**	**(565)**	**200,390**	**197,243**

2.14. Reclassification of financial assets (IAS 39 amended)

The Dexia Crédit Local Group decided to apply the amendment of IAS 39 and IFRS 7 Reclassification of Financial Assets for some assets, and opted to reclassify certain assets from "Financial assets held for trading" to "Financial assets available for sale" or "Loans and advances", as well as from "Financial assets available for sale" to "Loans and advances".

IMPACT OF RECLASSIFICATIONS ON 2012 EQUITY AND NET INCOME

a. Transfer from "Financial assets held for trading" to "Loans and advances" and "Financial assets available for sale"

The difference between the carrying amount at the reclassification date and the reimbursement amount is amortised over the remaining life of the reclassified asset. The impact of this amortisation on net income for the period is shown in the column "Premium/discount amortisation through profit or loss".

The difference between the carrying amount of reclassified assets as at 31 December 2012 and their fair value represents the cumulative changes in fair value from reclassification date until 31 December 2012. It also includes the cumulative amortisation of the premium or discount since reclassification. The difference is negative in 2012 as spreads have increased.

b. Transfer from "Financial assets available for sale" 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.

Due to the reclassification of assets, an additional expense of EUR 29 million is recognised in "Cost of risk" in 2012 (this amount is an estimate of the net allocations and utilisations of collective and specific impairments).

When there is objective evidence of impairment for a financial asset initially classified in "Financial assets available for sale" but reclassified in "Loans and advances" in accordance with the amended IAS 39, any difference between the 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 unamortised amount recognised in the available-for-sale 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.

The difference between the carrying amount of a reclassified asset and its fair value reflects the evolution of credit and liquidity spreads on the markets.

c. Impact of reclassifications on the interest margin

For assets transferred from "Financial assets available for sale" to "Loans and advances", the amortisation of the premium/discount on the asset is offset by the amortisation of the fair value reserve frozen at the time of reclassification, with no resulting impact on net interest income.

For assets transferred from "Financial assets held for trading" to "Financial assets available for sale" or "Loans and advances", the impact on net interest income in 2012 amounts to EUR 17 million.

	2012						
Ongoing activities (EUR millions)	Carrying amount of assets reclassified as at 1 October 2008	Carrying amount of reclassified assets as at 31 December 2012	Fair value of reclassified assets as at 31 December 2012	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 "Financial assets held for trading" to "Loans and advances"	3,565	1,978	1,780	(198)		17	
From "Financial assets held for trading" to "Financial assets available for sale"	2,264	4	4	0		0	
From "Financial assets available for sale" to "Loans and advances"	49,504	45,564	45,687		123		140

Consolidated financial statements

2.15. Transfer of financial assets

The Dexia Crédit Local Group has entered into transactions, such as repurchase agreements, securities lending agreements and total return swaps, in which it transfers previously recognised financial assets, mainly loans and debt securities, but retains substantially all of the associated risks and rewards of those assets.
Due to this retention, the transferred financial assets remain recognised on the balance sheet.

(EUR millions)	2012 Carrying amount of assets	2012 Carrying amount of associated liabilities
Loans and advances not derecognised due to the following transactions:		
Repurchase agreements	13,033	12,765
Securities lending agreements	2,218	
Total return swaps	0	0
TOTAL	**15,251**	**12,765**
Financial assets held to maturity not derecognised due to the following transactions:		
Repurchase agreements	48	51
Securities lending agreements	0	
Total return swaps	0	0
TOTAL	**48**	**51**
Financial assets available for sale not derecognised due to the following transactions:		
Repurchase agreements	3,215	2,751
Securities lending agreements	1,058	
Total return swaps	386	516
TOTAL	**4,659**	**3,267**
Financial assets held for trading not derecognised due to the following transactions:		
Repurchase agreements	266	208
Securities lending agreements	289	
Total return swaps	0	0
TOTAL	**555**	**208**
Financial assets designated at fair value not derecognised due to the following transactions:		
Repurchase agreements	0	0
Securities lending agreements	0	
Total return swaps	0	0
TOTAL	**0**	**0**
TOTAL	**20,513**	**16,291**

3. Notes on the liabilities

3.0. Central banks, postal checking accounts (Item I – liabilities)

(EUR millions)	2011	2012
Central banks(1)	27,315	50,590
Postal checking accounts	0	0
TOTAL	**27,315**	**50,590**

(1) Given the scarcity of interbank liquidity, the Dexia Crédit Local Group continued to use in 2012 the refinancing facilities offered by central banks.

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

(EUR millions)	2011	2012
Liabilities held for trading	0	0
Liabilities designated at fair value(1)	1,764	3,931
Derivatives (see note 4.1.b)	23,016	23,900
TOTAL	**24,780**	**27,831**

(1) The increase in financial liabilities at fair value through profit or loss is due to the consolidation of Dexia FP Holdings Inc. and Dexia LdG Banque SA for EUR 2,158 million.

a. Analysis by nature of liabilities held for trading

None.

b. Analysis by nature of liabilities designated at fair value

(EUR millions)	2011	2012
Non-subordinated liabilities(1)	1,764	3,931
Subordinated liabilities	0	0
Total	**1,764**	**3,931**

(1) The increase in financial liabilities at fair value through profit or loss is due to the consolidation of Dexia FP Holdings Inc. and Dexia LdG Banque SA for EUR 2,158 million.

c. Analysis by maturity and interest rate

See notes 7.7 and 7.4

d. Analysis of the 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 FSA Global Funding Ltd, Dexia FP Holdings Inc. and Dexia LdG Banque SA for financial liabilities for which the hedge accounting conditions are not met or may not be met.

The credit spread used to revalue theses liabilities is Dexia's long-term funding spread.

An expense of EUR 134 million was recognised in 2012 on changes in value linked to the credit spread.

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", in the section "Fair value of financial instruments".

3.2. Interbank borrowings and deposits (Item IV – liabilities)

a. Analysis by nature

(EUR millions)	2011	2012
Demand deposits	594	569
Repurchase agreements	17,101	19,307
Other debts	55,730	15,095
TOTAL	**73,425**	**34,971**

Following implementation in 2012 of the decision to terminate relations between the Dexia Crédit Local Group and the former entities of the Dexia Group (essentially Belfius Banque et Assurance) the refinancing of certain assets is provided by the central banks (see note 3.0).

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of the fair value

See note 7.1

3.3. Customer borrowings and deposits (Item V – liabilities)

a. Analysis by nature

(EUR millions)	2011	2012
Demand deposits	1,010	2,314
Saving deposits	1	1
Term deposits(1)	3,661	4,938
Repurchase agreements	8	805
Other debts	2,492	2,669
TOTAL	**7,172**	**10,727**

(1) The increase in term deposits is due to the consolidation of Dexia FP Holdings Inc for EUR 969 million.

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of the fair value

See note 7.1

3.4. Debt securities (Item VI – liabilities)

a. Analysis by nature

(EUR millions)	2011	2012
Certificates of deposit	23,424	27,382
Savings bonds	0	0
Non-convertible bonds	81,468	82,443
Convertible debts	0	0
Other dilutive instruments	0	0
TOTAL	**104,892**	**109,825**

Debt securities include issues guaranteed by the States (EUR 74 billion at 31 December 2012), including EUR 14 billion acquired or subscribed by companies in the Dexia Crédit Local Group.

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of the fair value

See note 7.1

3.5. Tax liabilities (Items VIII and IX – liabilities)

(EUR millions)	2011	2012
Current income tax	9	17
Current tax liabilities	**9**	**17**
Deferred tax liabilities (see note 4.2)	**26**	**45**

3.6. Accruals and other liabilities (Item X – liabilities)

(EUR millions)	2011	2012
Other liabilities[1]	600	801
Cash collateral	2,480	3,140
TOTAL	**3,080**	**3,941**

(1) Other taxes have been transferred from "Tax liabilities".

Other liabilities

(EUR millions)	2011	2012
Accrued expenses	76	247
Deferred income	64	52
Grants	92	90
Other assistance received	2	1
Salaries and social charges (payable)	16	23
Dividends payable to shareholders	0	0
Other taxes	23	23
Long-term construction contracts	0	0
Other accounts payable and other liabilities	327	365
TOTAL	**600**	**801**

3.7. Provisions (Item XIII – liabilities)

a. Analysis by nature

(EUR millions)	2011	2012
Litigation claims	29	28
Restructuring	5	71
Defined benefit plans	12	10
Other post-retirement obligations	0	0
Other long-term employee benefits	3	2
Provision for off-balance sheet credit commitments	5	2
Onerous contracts	3	4
Other provisions	5	4
TOTAL PROVISIONS	**62**	**121**

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 2011	**84**	**34**	**15**	**2**	**0**	**2**	**137**
Additions	25	0	4	4	0	4	37
Unused amounts reversed and amounts utilised during the year	(20)	(29)	(6)	(1)	0	(1)	(57)
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)	(57)	0	0	0	0	0	(57)
Transfers to non-current assets held for sale	0	0	0	0	0	0	
Other transfers	0	0	2	0	3	0	5
Translation adjustments(1)	(3)	0	0	0	0	0	(3)
Other movements	0	0	0	0	0	0	0
As at 31 December 2011	**29**	**5**	**15**	**5**	**3**	**5**	**62**

(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 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 2011	**29**	**5**	**15**	**5**	**3**	**5**	**62**
Additions	1	70	2	2	2	3	80
Unused amounts reversed and amounts utilised during the year	(2)	(4)	(5)	(5)	(1)	(4)	(21)
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 to non-current assets held for sale	0	0	0	0	0	0	0
Other transfers	0	0	0	0	0	0	0
Translation adjustments(1)	0	0	0	0	0	0	0
Other movements	0	0	0	0	0	0	0
As at 31 December 2011	**28**	**71**	**12**	**2**	**4**	**4**	**121**

(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 average and year-end exchange rates on movements for the year.

c. Provisions for defined benefit pension plans and long-service awards

Provisions for defined benefit pension plans and long-service awards represent a liability of EUR 12 million in 2012 (EUR 15 million in 2011).

Given their immateriality, the information used in the actuarial calculation of these provisions is not presented.

3.8. Subordinated debt (Item XIV – liabilities)

a. Analysis by nature

Convertible subordinated debt
None.

Non-convertible subordinated debt (EUR millions)	**2011**	**2012**
Perpetual subordinated notes	0	0
Other subordinated notes	1,762	707
TOTAL	**1,762**	**707**

(EUR millions)	**2011**	**2012**
Hybrid capital and redeemable preference shares	0	0

b. Analysis by maturity and interest rate

See notes 7.7 and 7.4

c. Analysis of the 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 (%)
EUR	01/12/2014	100.0	a) No early repayment b) No specific conditions c) No conversion	93.25% CMS
EUR	12/02/2019	126.4	a) Repayment possible at each due date for interest payments beginning 12/02/2014 with the approval of 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	TF 4.375 From 12/02/2014 3M Euribor + 72bp
EUR	09/07/2017	262.0	a) Repayment possible at each due date for interest payments beginning 09/07/2012 with the approval of 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 + 0.15 From 09/07/2012. 3M Euribor + 0.65
EUR	30/06/2013	0.9	a) No early repayment b) No specific conditions c) No conversion	6.600
EUR	01/07/2013	4.1	a) No early repayment b) No specific conditions c) No conversion	6M Euribor + 2.10
EUR	07/03/2013	10.0	a) No early repayment b) No specific conditions c) No conversion	5.280
EUR	30/06/2014	8.9	a) No early repayment b) No specific conditions c) No conversion	6.250
EUR	30/06/2014	8.1	a) No early repayment b) No specific conditions c) No conversion	6.450
EUR	02/06/2014	16.3	a) No early repayment b) No specific conditions c) No conversion	6.250
EUR	01/06/2017	12.4	a) No early repayment b) No specific conditions c) No conversion	5.080

** Renamed in March 2010 as the Prudential Control Authority (ACP)*

Currency	Due	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
EUR	01/06/2017	18,0	a) No early repayment b) No specific conditions c) No conversion	4.875
EUR	01/06/2018	17,7	a) No early repayment b) No specific conditions c) No conversion	5.570
EUR	01/06/2018	17,7	a) No early repayment b) No specific conditions c) No conversion	5.625
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, the obligations under the Notes may be satisfied only after the non-subordinated claims of creditors have been satisfied. c) No conversion	3M Euribor + 4.75
ILS	01/01/2019	150,0	a) No possibility for the early repayment of the bonds (except following prior and written agreement of the local regulator, the Bank of Israel). In case of default, there is an acceleration clause for the investors but subject to the subordination clause. b) The subordinated securities shall not be considered as deposits and the rights attached to them are subordinated to the claims of all other creditors except for the rights of creditors with similar subordinated securities. The subordinated securities shall not be pledged as collateral for a loan granted by Dexia Israel Bank Ltd. or any of its subsidiaries and they may not be guaranteed by collateral. No early redemption and no changes in the financial terms can be implemented unless prior and written agreement was received from the local regulator, the Bank of Israel. c) No conversion	4.85% linked to CPI
GBP	15/10/2058	11,5	a) **Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: at the option of the Issuer following the occurrence of a Tax Redemption Event; at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early Redemption in Part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) N/A	*Libor + 0.3%* *From 15/01/2022:* *Libor + 0.58%*

Currency	Due	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
GBP	15/10/2058	5,5	a) **Early Redemption in whole** The Notes are redeemable in whole in any of the following circumstances: at the option of the Issuer following the occurrence of a Tax Redemption Event; at the option of the Issuer if the aggregate Adjusted Principal Balance of the outstanding Notes is less than 10% of the initial Principal Balance of all of the Notes; (iii) following early termination of the Credit Default Swap; (iv) following the early termination of the Cash Collateral Agreement or the Repo Agreement (if any) in circumstances where it is not replaced with an arrangement satisfactory to the Rating Agencies; or following the occurrence of a Note Event of Default and declaration by the Trustee that the Notes are due and repayable, the date designated for the redemption of the Notes upon the occurrence of such circumstances being an Early Redemption Date. **Early redemption in part** If the Actual Reference Portfolio Amount is an amount less than the then aggregate Adjusted Principal Balance of the Notes (such shortfall being the "Difference"), then the Issuer on any Note Payment Date, and provided that the Difference is a positive number equal or greater than GBP 1,000,000 (one million) may elect to redeem the Notes, in Order of Seniority, in part in an amount equal to such Difference. b) After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. After enforcement of the security for the Notes under the Security Documents, payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes. c) N/A	*Libor + 0.39%* *From 15/01/2022:* *Libor + 0.76%*

3.9. Information on Equity

a. Capital stock

On 1 January 2012, Dexia Crédit Local had capital stock of EUR 500,513,102 divided into 87,045,757 shares.

By a decision taken by the Board of Directors on 19 December 2012, acting in accordance with the delegated authority granted to it by the Shareholders' Meeting of 12 December 2012, Dexia Crédit Local increased its capital by means of a cash contribution of EUR 2 billion (including additional paid-in capital).

This capital increase was realised by Dexia SA by subscribing to 136,612,019 new shares with a par value of EUR 5.75 per share, i.e. a capital increase of EUR 785,519,109.25, issued at the price of EUR 14.64 per share.

Dexia Crédit Local's share capital thus increased from EUR 500,513,102.75 to EUR 1,286,032,212, divided into 223,657,776 shares with a par value of EUR 5.75 per share.

b. Super-subordinated perpetual notes

In the last quarter of 2005, Dexia Crédit Local issued EUR 700 million in super-subordinated perpetual notes.

On 2 March 2012, Dexia Crédit Local launched a tender offer for the entire outstandings on the super-subordinated notes at a purchase price of 24% (expressed as a percentage of the nominal value).

This offer was opened to institutional investors from 2 to 14 March 2012. A total amount of EUR 644 million was contributed by investors to the offer, i.e. 92% of the issue's nominal amount.

This tender offer was settled on 19 March 2012 and the amount in issue now stands at EUR 56 million.

In accordance with IFRS, the gain relating to this redemption (i.e. EUR 486 million net of costs) is recognised in equity, Group share.

c. Other movements

Other movements in core equity in 2012 comprise:

- the effects of the transaction involving the redemption of super-subordinated notes (see point b above),
- the impact of the consolidation of Dexia Holdings Inc., Dexia FP Holdings Inc. and Dexia LdG Banque SA for EUR 301 million,
- the impact of the change in the percentage interest in Dexia Sabadell SA for EUR 169 million.

4. Other notes on the balance sheet

4.1. Derivatives

a. Analysis by nature

(EUR millions)	2011		2012	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss (see notes 2.1 and 3.1)	**19,177**	**23,016**	**21,155**	**23,900**
Derivatives designated as fair value hedges	5,467	25,941	6,745	28,743
Derivatives designated as cash flow hedges	267	1,040	319	1,059
Derivatives designated as hedges of a net investment in a foreign entity	0	0	0	0
Derivatives designated as portfolio hedges	2,145	5,133	2,307	5,958
Hedging derivatives	**7,879**	**32,114**	**9,371**	**35,760**
TOTAL DERIVATIVES	**27,056**	**55,130**	**30,526**	**59,660**

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

	2011				2012			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
(EUR millions)	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	**26,941**	**27,320**	**1,319**	**1,064**	**24,424**	**24,378**	**1,463**	**621**
Foreign exchange forward	2,194	2,190	1	39	1,761	1,755	57	15
Foreign exchange future	0	0	0	0	0	0	0	0
Cross currency swap	6,252	6,140	1,294	726	6,917	6,826	1,406	591
Foreign exchange option	454	444	6	2	413	412	0	2
Foreign exchange forward rate agreement	0	0	0	0	0	0	0	0
Other foreign exchange	18,041	18,546	18	297	15,333	15,385	0	13
Interest rate derivatives	**202,153**	**201,295**	**16,981**	**21,739**	**176,139**	**176,251**	**18,893**	**23,077**
Option-Cap-Floor-Collar-Swaption	2,130	1,019	208	49	1,017	855	124	29
Interest rate swap	200,023	200,229	16,773	21,690	175,117	174,392	18,769	23,047
Interest future	0	0	0	0	5	1,001	0	1
Other interest rate	0	47	0	0	0	3	0	0
Equity derivatives	**157**	**157**	**2**	**2**	**110**	**111**	**1**	**1**
Equity option	14	14	0	0	0	0	0	0
Other equity	143	143	2	2	110	111	1	1
Credit derivatives	**6,336**	**1,793**	**875**	**211**	**6,302**	**1,650**	**798**	**201**
Credit default swap	6,336	1,793	875	211	6,302	1,650	798	201
Commodity derivatives	**4**	**4**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL	**235,591**	**230,569**	**19,177**	**23,016**	**206,975**	**202,390**	**21,155**	**23,900**

c. Detail of derivatives designated as fair value hedges

(EUR millions)	2011				2012			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	**11,120**	**13,232**	**489**	**5,199**	**11,047**	**12,564**	**375**	**3,947**
Cross currency swap	11,120	13,232	489	5,199	11,047	12,564	375	3,947
Foreign exchange forward rate agreement	-	0	0	0	0	0	0	0
Interest rate derivatives	132,977	132,940	4,858	20,717	123,862	123,671	6,271	24,794
Option-Cap-Floor-Collar-Swaption	291	189	0	8	236	142	0	9
Interest rate swap	132,686	132,751	4,858	20,709	123,626	123,529	6,271	24,785
Equity derivatives	**2,750**	**2,637**	**120**	**25**	**1,612**	**1,521**	**99**	**2**
Equity option	91	0	54	0	91	0	58	0
Autres	2,659	2,637	66	25	1,521	1,521	41	2
Credit derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Credit default swap	0	0	0	0	0	0	0	0
Commodity derivatives	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL	**146,847**	**148,809**	**5,467**	**25,941**	**136,521**	**137,756**	**6,745**	**28,743**

d. Detail of derivatives designated as cash flow hedges

(EUR millions)	2011				2012			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	**1,773**	**1,800**	**14**	**204**	**1,256**	**1,397**	**28**	**186**
Cross currency swap	1,773	1,800	14	204	1,256	1,397	28	186
Interest rate derivatives	13,364	13,379	253	836	6,611	6,611	291	873
Interest rate swap	13,364	13,379	253	836	6,611	6,611	291	873
TOTAL	**15,137**	**15,179**	**267**	**1,040**	**7,867**	**8,008**	**319**	**1,059**

(EUR millions)	2011	2012
Amount removed from equity and included in the carrying amount of a non-financial instrument, in the case of a cash flow hedge on a highly probable transaction	0	0

e. Detail of derivatives designated as hedges of a net investment in a foreign entity

None.

f. Detail of derivatives designated as portfolio hedges

(EUR millions)	2011				2012			
	Notional amount		Assets	Liabilities	Notional amount		Assets	Liabilities
	To receive	To deliver			To receive	To deliver		
Foreign exchange derivatives	0	0	0	0	0	0	0	0
Interest rate derivatives	124,675	124,693	2,145	5,133	115,241	115,241	2,307	5,958
TOTAL	**124,675**	**124,693**	**2,145**	**5,133**	**115,241**	**115,241**	**2,307**	**5,958**

4.2. Deferred taxes

a. Analysis by nature

(EUR millions)	2011	2012
Deferred tax assets before impairment	3,260	2,801
Impairment on deferred tax assets	(2,545)	(2,783)
Deferred tax assets (see note 2.6)[1]	**715**	**18**
Deferred tax liabilities (see note 3.5)[1]	**(26)**	**(45)**
TOTAL	**689**	**(27)**

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

The effects of movements in deferred tax on net income and on unrealised or deferred gains and losses are analysed in notes 5.13 "Income tax" and "Net income and unrealised or deferred gains and losses through equity" respectively.

b. Movements

(EUR millions)	2011	2012
As at 1 January	**1,532**	**689**
Charge/credit recognised in the income statement: "Income tax" (see note 5.13)	(133)	(1)
Charge/credit recognised in the income statement: "Income from discontinued operations, net of tax" (see note 4.6)	(4)	
Effect of change in tax rates – impact on the income statement (see note 5.13)	0	0
Movements recognised directly in shareholders' equity	(443)	(692)
Effect of change in tax rates – impact on shareholders' equity	0	0
Change in consolidation scope	(173)	0
Transfer to non-current assets held for sale	(112)	
Translation adjustments	(14)	1
Other movements	36	(24)
As at 31 December	**689**	**(27)**

c. Deferred taxes arising on balance sheet assets

	2011		2012	
(EUR millions)	Total	Of which, change through profit or loss	Total	Of which, change through profit or loss
Loans (and loan loss provisions)	(1,473)	(660)	(1,101)	375
Securities	(24)	(712)	(329)	(123)
Derivatives	172	17	(545)	(876)
Investments in associates	0	(8)	0	0
Tangible fixed assets and intangible assets	(22)	0	(24)	(5)
Accruals and other assets	5	(17)	4	(1)
TOTAL	**(1,342)**	**(1,380)**	**(1,995)**	**(630)**

d. Deferred taxes arising on balance sheet liabilities

	2011		2012	
(EUR millions)	Total	Of which, change through profit or loss	Total	Of which, change through profit or loss
Derivatives	1,621	631	2,126	506
Borrowings, deposits and issues of debt securities	1,182	587	1,498	317
Provisions	54	46	96	21
Pensions	7	0	6	(1)
Regulatory provisions	(283)	(215)	(195)	88
Accruals and other liabilities	(66)	17	(47)	17
TOTAL	**2,515**	**1,066**	**3,484**	**948**

e. Deferred taxes arising on other items

(EUR millions)	2011 Total	2011 Of which, change through profit or loss	2012 Total	2012 Of which, change through profit or loss
Tax losses carried forward [(1)]	2,121	761	1,300	(852)
Entities with special tax status	(60)	22	(33)	27
TOTAL	**2,061**	**783**	**1,267**	**(825)**

(1) The Belgian and French States significantly increased their percentage holdings in the Dexia Group as a result of the capital increase of 31 December 2012. This change of shareholder structure renders non-deductible certain losses previously recognised in the United States. The deferred tax relating to these losses was provisioned: an equal and opposite reversal of provision is also recognised.

4.3. Related-party transactions

Analysis by nature

(EUR millions)	Directors and key management 2011	Directors and key management 2012	Parent company (Dexia) 2011	Parent company (Dexia) 2012	Entities exercising joint control or significant influence over the entity[(2)] 2011	Entities exercising joint control or significant influence over the entity[(2)] 2012	Subsidiaries[(3)] 2011	Subsidiaries[(3)] 2012	Associates[(3)] 2011	Associates[(3)] 2012	Joint ventures in which the entity has an interest[(3)] 2011	Joint ventures in which the entity has an interest[(3)] 2012	Other related parties[(4)] 2011	Other related parties[(4)] 2012
Loans [(1)]	1	0	1 969	415	2	0	0	0	0	0	1	2	3 608	0
Interest income on loans	0	0	15	64	0	0	0	0	0	0	0	0	28	0
Asset disposals			0	140	0	0	0	0	0	0	0	0	600	0
Losses on asset disposals			0	(14)	0	0	0	0	0	0	0	0	(84)	0
Borrowings	0	0	136	841	4 451	0	0	0	0	0	0	0	2 189	0
Interest expense on borrowings	0	0	(4)	(2)	(98)	0	0	0	0	0	0	0	(62)	0
Net commissions	0	0	0	0	33	0	0	0	0	0	0	0	4	1
Guarantees issued by the Group	0	0	0	0	0	0	0	0	0	0	0	0	11 461	0
Guarantees received by the Group	0	0	2 268	0	2 714	0	0	0	0	0	0	0	6 213	0

(1) Loans to key management personnel were granted at general market conditions.
(2) This refers to the main shareholders of Dexia, i.e. in 2011: Arco group, Holding Communal, Caisse des Dépôts group and CNP, and in 2012: the federal Belgium State through Société Fédérale de Participations et d'Investissement, and the French State, through Société de Prise de Participation de l'Etat. Transactions with the Belgium and French States are not shown in the above table, but described later in the section "Transactions with the Belgium, French and Luxembourg States".
(3) This includes the non-consolidated investments listed in notes 1.2.b "Non consolidated subsidiaries", 1.2.d "Jointly-owned companies not consolidated by the proportional method", and 1.2.f "Associated companies not accounted for by the equity method".
(4) In 2011, this item essentially included loans with entities of the Belgian and Luxemburg sub-groups consolidated by Dexia, the parent company of Dexia Crédit Local.

TRANSACTIONS WITH THE BELGIAN, FRENCH AND LUXEMBOURG STATES

a. Guarantee mechanism in favour of Dexia's financing

2011 Temporary Guarantee Agreement

On 16 December 2011, the Belgian, French and Luxembourg States and Dexia SA ("Dexia") and Dexia Crédit Local entered into a First Demand Guarantee Agreement pursuant to the Belgian royal decree of 18 October 2011 "granting a State guarantee for certain loans of Dexia SA and Dexia Crédit Local", the French law no. 2011-1416 of 2 November 2011 (the "amending finance bill for 2011") (the "French Enabling Law"), and the Luxembourg law of 16 December 2011 "concerning the state's budget of revenues and expenses for the 2012 financial year" (the "Luxembourg Enabling Law") (the "Temporary Guarantee Agreement").

Pursuant to this Temporary Guarantee Agreement, the three States guarantee severally, but not jointly, the performance by Dexia and Dexia Crédit Local of their repayment obligations resulting from certain financings provided by central banks, credit institutions and other institutional or professional investors, provided that these obligations arise from certain financings (with a maturity of up to three years) contracted or issued between 21 December 2011 and 31 May 2012. This initial deadline was first extended until 30 September 2012, with the consent of the Parties and the European Commission pursuant to Amendment no. 1 of 30 May 2012, and subsequently until 31 January 2013, pursuant to Amendment no. 3 of 28 September 2012.

The States guarantee the repayment obligations in the following proportions:

(i) 60.5% for the Belgian State;

(ii) 36.5% for the French State; and

(iii) 3.0% for the Luxembourg State.

The States' guarantee commitment pursuant to this Temporary Guarantee Agreement may not exceed a maximum limit of EUR 45 billion in principal (increased to EUR 55 billion pursuant to Amendment no. 2 of 5 June 2012), it being understood that the amounts which are so capped include outstanding guaranteed obligations at any time during the term of this Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described below.

On 21 December 2011, the European Commission authorised this guarantee mechanism on a temporary basis for an initial period ending on 31 May 2012, pending a decision to be taken by the Commission in connection with a new investigation into State aid. This decision was taken on 28 December 2012: the temporary guarantee mechanism was authorised until such time as the 2013 Guarantee Agreement described below comes into force.

Besides the Temporary Guarantee Agreement, in 2011, the three States, Dexia and Dexia Crédit Local entered into a "Supplemental Agreement" on the obligation to collateralise the issue of guaranteed obligations, subject to exceptions, as well as on allocation priorities for the proceeds of such guaranteed obligations. This Supplemental Agreement was terminated on 24 January 2013 pursuant to the 2013 Guarantee Issuance Agreement described below, which also provides for the release of first-ranking security interests granted by Dexia and Dexia Crédit Local in favour of the States. Second-ranking security interests granted by Dexia Crédit Local on assets already provided as security for repayment obligations under ELA (Emergency Liquidity Assistance) lending granted by Banque de France to Dexia Crédit Local are maintained.

In early 2012, the three States, Dexia and Dexia Crédit Local entered into a "Supplemental Agreement on Alert Mechanics" with a view to, among other things, supplementing the Temporary Guarantee Agreement on information to be provided to the States on Dexia's liquidity position. This supplemental agreement provides for, among other things, the weekly delivery of a consolidated financing plan including Dexia, Dexia Crédit Local and its subsidiaries, covering a one-month period. Also in early 2012, the three States, Dexia and Dexia Crédit Local entered into an "Operational Memorandum" and a "Reporting Protocol" supplementing the Temporary Guarantee Agreement. These agreements remain applicable in the context of the 2013 Guarantee Agreement described below.

Pursuant to the Temporary Guarantee Agreement, Dexia must pay the following remuneration to the States:

(i) an upfront commission equal to 0.50% of the EUR 45 billion limit, i.e. EUR 225 million, increased by EUR 50 million as a supplemental fee for the increase of the limit to EUR 55 billion pursuant to Amendment no. 2 of 5 June 2012;

(ii) a monthly fee, calculated on the amount of guaranteed fundings outstanding, comprising a fixed or variable amount depending on the maturity of the guaranteed obligation, plus a supplement depending on Dexia and/or Dexia Crédit Local's ratings in relation to fundings with an initial maturity of less than 12 months, less a deduction in the event of collateralisation of the States' guarantee commitment.

As at 31 December 2012, the total outstanding amount of obligations guaranteed by the three States pursuant to the 2011 Temporary Guarantee Agreement was EUR 54.0 billion.

In 2012, the Dexia Crédit Local Group paid total monthly remuneration of EUR 368.5 million in respect of this guarantee. Furthermore, as part of the Dexia Group's reorganisation, Dexia SA and Dexia Crédit Local rescinded the contract providing for the recharging of the arrangement fee on this guarantee pro rata to the issues made by Dexia Crédit Local. As a result, Dexia Crédit Local recorded a charge of EUR 275 million in its income statement in 2012.

2013 Guarantee Agreement

On 24 January 2013, the Belgian, French and Luxembourg States and Dexia SA ("Dexia") and Dexia Crédit Local entered into a Guarantee Issuance Agreement and granted a First Demand Guarantee (the "Guarantee") pursuant to said Guarantee Issuance Agreement in favour of Dexia Crédit Local (the Dexia Group's main operating entity and issuer) pursuant to the Belgian royal decree of 19 December 2012 "amending the royal decree of 18 October 2011 granting a State guarantee for certain loans of Dexia SA and Dexia Crédit Local", the French Enabling Law, as amended by law no. 2012-1510 of 29 December 2012 (the "amending finance bill for 2012") and the Luxembourg Enabling Law. Pursuant to this 2013 Guarantee Agreement, the three States should garantee severally, but not jointly, the performance by Dexia Crédit Local (acting via its head office or branches) of its repayment obligations resulting from certain financings provided by qualified, institutional or professional investors (within the meaning of the Guarantee), in the form of securities or financial instruments, deposits or borrowings, between 24 January 2013 and 31 December 2021 and with a maximum maturity of ten years.

This Guarantee is effective immediately. It replaces the 2011 Temporary Guarantee Agreement, which is terminated without retroactive effect and without prejudice to any rights arising pursuant to the guaranteed obligations entered into or issued prior to the coming into force of the Guarantee.

The States' guarantee commitment pursuant to this Guarantee may not exceed a cap of EUR 85 billion in principal, it being understood that the amounts which are so capped include outstanding guaranteed obligations pursuant to the Guarantee, the 2011 Temporary Guarantee, and any other guarantee granted pursuant to the Guarantee Issuance Agreement but exclude outstanding guaranteed obligations pursuant to the 2008 Guarantee Agreement described hereinafter.

The States guarantee the repayment obligations in the following proportions:

(i) 51.41% for the Belgian State (corresponding to a maximum amount of EUR 43.6985 billion);

(ii) 45.59% for the French State (corresponding to a maximum amount of EUR 38.7515 billion); and

(iii) 3.0% for the Luxembourg State (corresponding to a maximum amount of EUR 2.55 billion).

Pursuant to the Guarantee Issuance Agreement, Dexia must pay the following remuneration to the States:

(i) an upfront commission equal to 0.50% of the EUR 85 billion limit, less the upfront commission already paid in connection with the 2011 Guarantee i.e. a balance of EUR 150 million. As the plan for the orderly resolution of the Dexia Group as well as the ratification by the States of this guarantee were concluded prior to 31 December 2012, Dexia Crédit Local recorded this arrangement fee in its income statement in 2012.

(ii) a monthly fee, calculated at a rate of 0.05% per annum on the amount outstanding under the guaranteed obligations, both on the pre-existing guaranteed amounts outstanding under the 2011 Temporary Guarantee and the new guaranteed amounts outstanding under guarantees issued in accordance with the Guarantee Issuance Agreement, it being understood that such monthly fee shall continue to be calculated, with respect to any portion of the outstanding

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amount of the guaranteed obligations held by Banque de France Gestion, Banque de France or the National Bank of Belgium, in accordance with the 2011 Temporary Guarantee Agreement (provided that the ECB accepts the all-in fee principle).

Like for the 2011 Temporary Guarantee, the outstanding amount of the guaranteed debt under the 2013 Guarantee Agreement will be disclosed on a daily basis on the National Bank of Belgium's website: (http://www.nbb.be/DOC/DQ/warandia/index.htm).

Note that the royal decrees awarding the temporary guarantee in 2011 and the 2013 guarantee from the Belgian, French and Luxembourg States are subject to annulment proceedings with the Belgian Council of State.

2008 Guarantee Agreement

On 9 December 2008, the Belgian, French and Luxembourg States and Dexia SA 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 (including certain of their branches and issuance vehicles) of their repayment obligations resulting from certain financings granted by central banks, credit institutions and other institutional or professional investors, provided that these obligations arise from certain financings contracted or issued between 9 October 2008 and 31 October 2009 and maturing 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 SA entered into an Operational Memorandum. This memorandum provides, among other things, for daily monitoring of the guaranteed amounts, 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 Agreement.

On 19 November 2008, the European Commission authorised this guarantee mechanism for a period of six months with effect from 3 October 2008, with an automatic extension of this period until the Commission's definitive decision on any restructuring plan 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.

On 14 October 2009, by an Addendum to the above-mentioned Guarantee Agreement of 9 December 2008, the Belgian, French and Luxembourg States and Dexia SA agreed to renew the guarantee scheme for a period of one year, covering certain financings contracted or issued no later than 31 October 2010. This extension was accompanied by certain changes to the guarantee scheme aimed at limiting the States' intervention to a bare minimum and facilitating an orderly exit from the guarantee scheme within a credible timeframe. The changes include notably:

(i) a reduction in the cap on guaranteed financings from EUR 150 billion to EUR 100 billion, with a commitment by Dexia to do its very best to limit utilisation of the guarantee to EUR 80 billion;

(ii) the extension to four years of the maximum duration of the new financings contracted or issued under the revised guarantee; and

(iii) the waiver by Dexia SA of the benefit of the guarantee, with effect from 16 October 2009, for all new contracts with a maturity of less than one month and all contracts with an indefinite term.

Under the terms of the Guarantee Agreement, Dexia must pay the following remuneration to the States:

(i) for financings with a maturity of less than 12 months: 0.50% per annum of the average amount of guaranteed financings outstanding;

(ii) for financings with a maturity of 12 months or more: 0.50% per annum, plus the lower of (i) the median of Dexia's 5-year CDS spread calculated for the period from 1 January 2007 to 31 August 2008; and (ii) the median of 5-year CDS spreads for all credit institutions with the same long-term rating as Dexia, calculated on the average amount of guaranteed financings outstanding.

The guarantee renewal and changes 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 such time as the European Commission's new decision, if made prior to the end of said four-month period, in connection with the State aid enquiry opened on 13 March 2009.

By a separate agreement dated 17 March 2010, the Belgian, French and Luxembourg States and Dexia SA amended and supplemented the above-mentioned Addendum to the Guarantee Agreement of 14 October 2009 to reflect the terms of the European Commission's decision in connection with the State aid enquiry of 26 February 2010. The changes include:

(i) extension of the latest issue dates 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 12 months or more);

(ii) extension of the expiry date for the guarantee on deposits (and equivalents) to 1 March 2010;

(iii) a banded increase in the remuneration payable by Dexia under the guarantee if the outstanding amount of guaranteed financings exceeds certain thresholds (0.50% on the portion of guaranteed financings between EUR 60 billion and EUR 70 billion, 0.65% on the portion of guaranteed financings between EUR 70 billion and EUR 80 billion, and 0.80% on the portion of guaranteed financings over EUR 80 billion).

All outstanding instruments issued prior to 30 June 2010 pursuant to the 2008 Guarantee Agreement, as amended, will continue to benefit from said guarantee in accordance with their terms and conditions.

As at 31 December 2012, the total outstanding amount of repayment obligations guaranteed by the States pursuant to the 2008 Guarantee Agreement, as amended, was EUR 19.7 billion.

In 2012, Dexia paid total remuneration in respect of this guarantee of EUR 173.4 million, borne in full by the Dexia Crédit Local Group.

All the above-mentioned agreements, as well as the total outstanding amount of guaranteed obligations and the list of certified bond issues are available on the website www.dexia.com.

b. Guarantee for the Financial Products portfolio

Reminder of existing guarantees

On 14 November 2008, Dexia entered into an agreement 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. The Financial Products activity of FSA, managed by FSA Asset Management (FSAM), was carved out of the transaction and remains under Dexia's ownership.

In this context, the Belgian and French States agreed to provide a guarantee on the Financial Products asset portfolio.

The terms of this guarantee are set out in two agreements, the First Demand Guarantee Agreement relating to FSA Asset Management LLC's Financial Products portfolio and the Guarantee Reimbursement Agreement, entered into by the Belgian and French States and Dexia. The main terms of these agreements were described in the 2011 Annual Report (note 4.3 "Transactions with the Belgian, French and Luxembourg States", paragraph b. "Guarantee for the Financial products portfolio").

Pursuant to these agreements, the Belgian and French States agreed to guarantee, severally but not jointly, the obligations of Dexia SA pursuant to a put option agreement that gave FSAM the right to sell to Dexia and/or Dexia Crédit Local certain assets (the Put Portfolio Assets) included in the FSAM portfolio as at 30 September 2008 upon the occurrence of certain trigger events up to an aggregate amount of USD 16.98 billion and up to 62.3711% for the Belgian State and 37.6289% for the French State.

Sale of the guaranteed portfolio

In 2011, with the consent of the Belgian and French States, FSAM sold to Dexia Crédit Local all the remaining Put Portfolio Assets. Dexia Crédit Local subsequently sold substantially all of these assets to third parties. As at 31 December 2011, FSAM no longer held any Put Portfolio Assets that could be sold to Dexia SA or Dexia Crédit Local and (if those Dexia entities did not pay the required amount to FSAM) that would require the States to make a payment to FSAM. Also, Dexia is no longer liable to the States for any guarantee fees with respect thereto.

Guarantee received from Dexia SA

As a result of the signing, on 30 June 2011, of a put option contract on the Dexia Holdings Inc. securities held by Dexia Crédit Local and a guarantee contract with Dexia SA, control of Dexia Holdings Inc. and Dexia FP Holdings Inc. was transferred from Dexia Crédit Local to Dexia SA, with effect from 1 April 2011. These two contracts were cancelled effective 27 December 2012 as part of the Dexia Group's reorganisation following implementation of the orderly resolution plan (see note 4.5 "Acquisitions and disposals of consolidated companies", paragraph c "Information on Dexia Holdings Inc. and Dexia FP Holdings Inc.").

For a more detailed description of the guarantee for the Financial Products portfolio, see the Special Board Report of 12 May 2009, as last updated by Dexia's Special Board Report of 18 March 2011 relating to the re-issue of warrants. Both these reports are available on Dexia's website (www.dexia.com).

4.4. Compensation of key management personnel

(EUR millions)	2011	2012
Short-term benefits(1)	4.3	4.7
Post-retirement benefits(2)	0	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 given on capital increases reserved for employees.

4.5. Acquisitions and disposals of consolidated companies

a. Acquisitions

In connection with Dexia SA's agreements for the disposal of Banque Internationale à Luxembourg, Dexia Crédit Local purchased Dexia LdG Banque SA from Banque Internationale à Luxembourg for EUR 1 on 20 September 2012.
Dexia LdG Banque SA thus formed part of Dexia Crédit Local's consolidation scope as from 30 September 2012.

Given that this was a transaction between entities under the common control of Dexia SA, carried out as part of the Dexia Group's restructuring, the acquisition of Dexia LdG Banque SA falls outside the scope of application of IFRS 3 "Business combinations": the difference between the equity acquired and the acquisition price is thus recognised in equity, for EUR 130 million.

1. Balance sheet

	Dexia LdG Banque SA	
	As at 30/09/2012	
(EUR millions)	Assets and liabilities	Contribution to the consolidated financial statements
Derivatives	116	116
Financial assets available for sale	813	813
Interbank loans and advances	1,791	30
Customer loans and advances	1,217	1,217
Deferred tax assets	0	0
Other assets	0	0
Intercompany transactions: net liabilities		(49)
Financial liabilities at fair value through profit or loss	1,147	824
Derivatives	362	362
Interbank borrowings and deposits	988	0
Debt securities	1,399	899
Tax liabilities	6	6
Other liabilities	1	2
Unrealised or deferred gains and losses on financial assets available for sale and cash flow hedges	(96)	(96)
NET ASSETS	**130**	**130**

2. Income statement

Only the net income of the fourth quarter of 2012 contributes to the formation of the Dexia Crédit Local Group's consolidated income in 2012: the net income for the first three quarters of the year is effectively included in equity. Dexia LdG Banque SA's 2012 net income is presented for information purposes in the table below.

	Dexia LdG Banque SA	
(EUR millions)	4th quarter 2012	2012
Net banking income	**2**	**53**
Operating expenses	(1)	(2)
Cost of risk	1	(5)
Income before tax	**2**	**46**
Income tax	0	(1)
Net income	**2**	**45**

b. Disposals

No disposals with a material impact on the consolidated financial statements were made in 2012.

c. Information on Dexia Holdings Inc. and Dexia FP Holdings Inc.

In connection with the simplification of the Dexia Group's entities, Dexia Holdings Inc. and Dexia FP Holdings Inc. were added to Dexia Crédit Local's consolidation scope at 31 December 2012. Beforehand, on 27 December 2012, Dexia SA recapitalised Dexia Holdings Inc. for an amount of USD 1,755 million to enable it to deal with its negative net position and future losses, and sold Dexia Crédit Local its 10% stake in Dexia Holdings Inc. for EUR 1.

Given that this was a transaction between entities under the common control of Dexia SA, carried out as part of the Dexia Group's restructuring, the addition of the two companies to Dexia Crédit Local's consolidation scope falls outside the scope of application of IFRS 3 "Business combinations", and had a positive impact of EUR 171 million on core equity. The two agreements transferring control of these two companies to Dexia SA on 1 April 2011 (call option on the participating interests held by Dexia Crédit Local, and guarantee in respect of the two companies' future losses) were modified on 27 December 2012.

1. Balance sheet

(EUR millions)	Dexia Holdings Inc. et Dexia FP Holdings Inc. – As at 31/03/2011 – Assets and liabilities	As at 31/03/2011 – Contribution to the consolidated financial statements	As at 31/12/2012 – Assets and liabilities	As at 31/12/2012 – Contribution to the consolidated financial statements
Derivatives	590	498	955	797
Financial assets available for sale	1,663	1,663	3,196	3,196
Interbank loans and advances	384	240	397	145
Customer loans and advances	4,963	4,963	993	993
Deferred tax assets	157	157	0	0
Other assets	6	0	1	1
Tangible and intangible assets	2	2	1	1
Intercompany transactions: net liabilities		(2,579)		(1,648)
Financial liabilities at fair value through profit or loss	2,793	2,390	2,272	1,845
Derivatives	471	418	825	744
Interbank borrowings and deposits	5,520	3,166	1,458	8
Customer borrowings and deposits	1,824	1,824	969	969
Other liabilities	64	53	232	132
Provisions	57	57	0	0
Unrealised or deferred gains and losses on financial assets available for sale and cash flow hedges	(1,481)	(1,481)	(384)	(384)
NET ASSETS	**(1,483)**	**(1,483)**	**171**	**171**

2. Income statement

The 2012 net income of Dexia Holdings Inc. and Dexia FP Holdings Inc. is included in equity. It is presented for information purposes in the table below.

(EUR millions)	Dexia Holdings Inc. and Dexia FP Holdings Inc. 2012
Net banking income	60
Operating expenses	**(20)**
Cost of risk	(69)
Net gains (losses) on other assets	91
Income before tax	**62**
Income tax	(3)
Net income	**59**

4.6. Information on activities held for sale

A. DEXIA MUNICIPAL AGENCY

Dexia Crédit Local committed to sell its subsidiary Dexia Municipal Agency in connection with an agreement in principle signed in March 2012.

On 28 December 2012, the European Commission approved the principle of the mechanism that the French State sought to implement in order to provide local authorities and healthcare institutions with ongoing access to sources of funding.

In accordance with this mechanism:

- on 31 January 2013, Dexia Crédit Local sold at a price of EUR 1, its entire stake in Dexia Municipal Agency to a new credit institution (Société de Financement Local), owned by the French State (75%), Caisse des Dépôts (20%) and La Banque Postale (5%),
- commercial relations with local authorities and public healthcare institutions are managed by a commercial joint venture owned by La Banque Postale (65%) and Caisse des Dépôts (35%).

In compliance with IFRS 5, Dexia Crédit Local applies the following treatment in its consolidated financial statements:

- Dexia Municipal Agency's assets and liabilities are presented in a separate line on the consolidated balance sheet,
- Dexia Municipal Agency's business is considered to be a discontinued activity and its income statement items are presented in a separate line in the consolidated income statement,
- the difference between the equity sold and the sale price is recognised in "Income from discontinued operations, net of tax": the loss, estimated at EUR 1,069 million at end-2011, now stands at EUR 1,707 million, representing a charge of EUR 638 million in 2012.

a. Balance sheet

(EUR millions)	Dexia Municipal Agency As at 31/12/2011	Dexia Municipal Agency As at 31/12/2012
Cash, central banks and postal checking accounts	2,198	2,400
Financial assets at fair value through profit or loss (derivatives)	2,217	2,301
Hedging derivatives	7,975	9,192
Financial assets available for sale	649	1,125
Interbank loans and advances	2,556	1,101
Customer loans and advances	73,238	67,681
Fair value revaluation of portfolio hedges	875	1,444
Tax assets	210	112
Other assets	24	3
Intercompany transactions: net liabilities	(3133)	(5116)
Central banks and postal checking accounts	2,700	0
Financial liabilities at fair value through profit or loss (derivatives)	844	970
Hedging derivatives	8,996	9,183
Debt securities	68,411	62,477
Fair value revaluation of portfolio hedges	2,340	2,873
Tax liabilities	34	10
Other liabilities	2,505	3,515
Unrealised or deferred gains and losses on financial assets available for sale and cash flow hedges	(156)	(128)
NET ASSETS	**1,135**	**1,343**
Net assets held for sale	(1,135)	(1,343)
Recognition of prior years' intercompany profit or loss, net of tax	(178)	(178)
Sale price	380	0
Incidental sale expenses	(136)	(186)
Loss arising from the fair value adjustment of activities held for sale	**(1,069)**	**(1,707)**

b. Income statement

(EUR millions)	Dexia Municipal Agency 2011	Dexia Municipal Agency 2012
Net banking income	**200**	**258**
Operating expenses	(93)	(91)
Cost of risk	(8)	(22)
Income before tax	**99**	**145**
Income tax	(35)	(48)
Net income	**64**	**97**
Loss arising from the fair value adjustment of activities held for sale	(1,069)	(638)
Income from discontinued operations, net of tax	**(1,005)**	**(541)**
Earning per share		
Basic (in EUR)	(11.54)	(2.42)
Diluted (in EUR)	(11.54)	(2.42)

c. Net cash flows

(EUR millions)	Dexia Municipal Agency 2011	Dexia Municipal Agency 2012
Net cash provided (used) by operating activities	(45)	139
Net cash provided (used) by investing activities	0	0
Net cash provided (used) by financing activities	(110)	(15)
TOTAL	**(155)**	**124**

B. DEXIA KOMMUNALKREDIT BANK POLSKA

On 7 November 2012, Dexia Crédit Local entered into an agreement with Getin Noble Bank for the sale of Dexia Kommunalkredit Bank Polska, the Polish subsidiary of Dexia Kommunalkredit Bank.

Dexia Crédit Local considers performance of this agreement highly likely, and, in accordance with IFRS 5, applies the following accounting treatment in its consolidated financial statements:

- Dexia Kommunalkredit Bank Polska's assets and liabilities are presented in a separate line on the consolidated balance sheet;
- Dexia Kommunalkredit Bank Polska's business is not considered to be a discontinued activity (no restatement of the income statement presentation);
- the loss in value between the equity sold and the sale price, estimated at 31 December 2012 at EUR 10 million, is recognised in "Net gains (losses) on other assets".

The amount of Dexia Kommunalkredit Bank Polska's assets presented in the line "Non-current assets held for sale" comes to EUR 77 million at 31 December 2012.

C. OTHER NON-CURRENT ASSETS HELD FOR SALE

The item "Non-current assets held for sale" also includes assets obtained as a result of the restructuring of leasing operations in the United States within Dexia Real Estate Capital Markets, for EUR 17 million as at 31 December 2012 (EUR 19 million as at 31 December 2011).

4.7. Share-based payments

	2011	2012
Dexia stock option plans (number of options)		
Outstanding at the beginning of the period	14,645,557	11,602,339
Granted during the period	0	0
Forfeited during the period	(3,856,830)	(735,110)
Exercised during the period	0	0
Adjustments	813,612	0
Outstanding at the end of the period	**11,602,339**	**10,867,229**
Exercisable at the end of the period	**9,279,137**	**10,867,229**

2011				2012			
Range of exercise prices	Number of outstanding options	Weighted average exercise price (EUR)	Weighted average remaining contractual life (years)	Range of exercise prices	Number of outstanding options	Weighted average exercise price (EUR)	Weighted average remaining contractual life (years)
10.28 – 10.73	1,120,443	10.28	1.56	10.28 – 10.73	1,120,443	10.28	0.56
10.74 – 12.35	4,703,477	12.16	4.19	10.74 – 12.35	3,968,367	11.78	3.86
12.36 – 16.29	0	0.00	0.00	12.36 – 16.29	0	0.00	0.00
16.30 – 16.46	1,655,993	16.30	3.50	16.30 – 16.46	1,655,993	16.30	2.49
16.47 – 19.21	1,756,602	16.83	4.50	16.47 – 19.21	1,756,602	16.83	3.50
19.21 – 21.02	2,365,824	21.02	5.50	19.21 – 21.02	2,365,824	21.02	4.50
TOTAL	**11,602,339**			**TOTAL**	**10,867,229**		

Amounts included in expenses for the year

None.

4.8. Capital stock

	2011	2012
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(2)	730,434,780	136,612,019
Number of shares cancelled	(730,434,780)	0
In issue as at 31 December	**87,045,757**	**223,657,776**
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 shares that are granted to employees.
(2) 136,612,019 new cash shares with a par value of EUR 5.75 per share were issued in connection with the capital increase decided by the Board of Directors on 19 December 2012, acting in accordance with the delegated authority granted to it by Dexia Crédit Local's Shareholders' Meeting of 12 December 2012.

4.9. Exchange rates

The primary exchange rates are presented in the following schedule.

		2011		2012	
		Closing rate(1)	Average rate(2)	Closing rate(1)	Average rate(2)
Australian dollar	AUD	1.27080	1.34155	1.27350	1.24521
Canadian dollar	CAD	1.32200	1.37982	1.31690	1.29097
Swiss franc	CHF	1.21685	1.23176	1.20735	1.20398
Czech koruna	CZK	25.51184	24.56275	25.10950	25.15411
Danish krone	DKK	7.43270	7.44947	7.46075	7.44484
British pound sterling	GBP	0.83589	0.86983	0.81370	0.81151
Hong Kong dollar	HKD	10.08014	10.89544	10.24505	10.02161
Hungarian forint	HUF	313.93782	280.29986	291.10000	288.15491
Israeli shekel	ILS	4.96447	5.00787	4.93880	4.96869
Japanese yen	JPY	100.13825	111.32128	114.21500	103.45775
Korean won	KRW	1504.46079	1546.37826	1405.91500	1446.51339
Mexican peso	MXN	18.09860	17.42265	17.17020	16.97177
Norwegian krone	NOK	7.75695	7.78118	7.35300	7.46580
New Zealand dollar	NZD	1.67206	1.75106	1.60405	1.58694
Swedish krona	SEK	8.89992	8.99483	8.59820	8.67939
Singapore dollar	SGD	1.68279	1.75303	1.61460	1.60737
New Turkish lira	TRY	2.45305	2.35000	2.35750	2.31076
US dollar	USD	1.29775	1.40012	1.32195	1.29213

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

5. Notes on the income statement

Following the announcement of the Group's restructuring, comparative information on discontinued operations is disclosed separately, in accordance with IFRS 5 (see note 4.6 "Information on activities held for sale").

5.1. Interest income – Interest expense (Items I and II – income statement)

(EUR millions)	2011	2012
INTEREST INCOME	**21,635**	**16,890**
a) Interest income on assets not measured at fair value	**6,958**	**6,266**
Cash, central banks and postal checking accounts	10	4
Interbank loans and advances	407	382
Customer loans and advances	4,919	4,539
Financial assets available for sale	1,199	1,166
Financial assets held to maturity	35	25
Impaired assets	25	4
Other	363	146
b) Interest income on assets measured at fair value	**14,677**	**10,624**
Loans and securities held for trading	59	47
Loans and securities designated at fair value	6	2
Derivatives held for trading	7,936	6,354
Hedging derivatives	6,676	4,221
INTEREST EXPENSE	**(21,649)**	**(17,861)**
a) Interest expense on liabilities not measured at fair value	**(5,262)**	**(5,374)**
Interbank borrowings and deposits	(1,707)	(1,359)
Customer borrowings and deposits	(266)	(179)
Debt securities	(2,901)	(2,822)
Subordinated debt	(75)	(15)
Preference shares and hybrid capital	0	0
Amounts covered by sovereign guarantees	(302)	(980)
Other	(11)	(19)
b) Interest expense on liabilities measured at fair value	**(16,387)**	**(12,487)**
Liabilities held for trading	0	0
Liabilities designated at fair value	(124)	(85)
Derivatives held for trading	(7,881)	(6,288)
Hedging derivatives	(8,382)	(6,114)
NET INTEREST INCOME	**(14)**	**(971)**

5.2. Fees and commissions (Items III and IV – income statement)

	2011			2012		
(EUR millions)	Income	Expense	Net	Income	Expense	Net
Lending activity	52	(10)	42	31	(8)	23
Insurance activity and broking	42	(2)	40	45	(2)	43
Purchase and sale of securities	0	(2)	(2)	0	(4)	(4)
Purchase and sale of mutual fund units	2	0	2	1	0	1
Management of mutual funds	0	0	0	0	0	0
Administration of mutual funds	0	0	0	0	0	0
Payment services	1	(3)	(2)	0	(3)	(3)
Commissions paid to business providers	0	0	0	0	0	0
Financial engineering	8	0	8	1	0	1
Services on securities other than custodial services	0	(4)	(4)	0	(2)	(2)
Custodial services	5	(1)	4	4	(1)	3
Issuance and underwriting of securities	2	0	2	2	0	2
Securitisation commissions	0	0	0	0	0	0
Private banking	0	0	0	0	0	0
Clearing and settlement-delivery	0	0	0	0	0	0
Intermediation on repos and reverse repos	3	(5)	(2)	6	(18)	(12)
Other	28	(13)	15	23	(9)	14
TOTAL	**143**	**(40)**	**103**	**113**	**(47)**	**66**

5.3. Net gains (losses) on financial instruments at fair value through profit or loss (Item V – income statement)

(EUR millions)	2011	2012
Net trading income	(4)	(94)
Net result of hedge accounting	(60)	11
Net result of financial instruments designated at fair value through profit or loss (*)	(4)	3
Change in own credit risk	51	(134)
Net result of foreign exchange transactions	4	(36)
TOTAL	**(13)**	**(250)**
(*) of which trading derivatives included in a fair value option strategy	37	(12)

All interest received and paid on assets, liabilities and derivatives is recorded in the 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 portfolio held for trading.

Analysis of net result of hedge accounting

(EUR millions)	2011	2012
Fair value hedges	**(1)**	**19**
Change in fair value of hedged items attributable to the hedged risk	5,707	1,173
Change in fair value of hedging derivatives	(5,708)	(1,154)
Cash flow hedges	**(57)**	**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)	(57)	0
Hedges of net investments in a foreign operation	**0**	**0**
Change in fair value of hedging derivatives – ineffective portion	0	0
Portfolio hedges	**(2)**	**(8)**
Change in fair value of hedged items	1,023	515
Change in fair value of hedging derivatives	(1,025)	(523)
TOTAL	**(60)**	**11**
Discontinuation of cash flow hedge accounting (cash flows still expected to occur) – amounts recorded in interest margin)	*7*	*2*

5.4. Net gains (losses) on financial assets available for sale (Item VI – income statement)

(EUR millions)	2011	2012
Dividends on securities available for sale	6	7
Net gain (loss) on disposals of loans and securities available for sale (1)	(436)	91
Impairment of variable-income securities available for sale	(9)	(8)
Net gain (loss) on disposals of securities held to maturity	0	0
Net gain (loss) on disposals of debt securities (2)	9	300
TOTAL	**(430)**	**390**

(1) Following the consolidation of Dexia LdG Banque SA in 2012, the discount on the securities acquired earlier by the Dexia Crédit Local Group was immediately recorded in profit or loss with a positive impact of EUR 191 million. The remainder of this item essentially comprises losses on disposals of loans pertaining to the closure of certain activities.
(2) In 2012, this item notably includes gains on the redemption of subordinated issues for EUR 302 million (EUR 256 million at Dexia Crédit Local and EUR 46 million at Dexia Kommunalbank Deutschland AG).

5.5. Other income (Item VII – income statement)

(EUR millions)	2011	2012
Operating taxes	0	0
Lease income	38	41
Other banking income	0	0
Other income	15	14
TOTAL	**53**	**55**

5.6. Other expenses (Item VIII – income statement)

(EUR millions)	2011	2012
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	(45)	(41)
TOTAL	**(45)**	**(42)**

5.7. Operating expenses (Item X – income statement)

(EUR millions)	2011	2012
Payroll costs	(234)	(260)
General and administrative expenses	(63)	(86)
TOTAL	**(297)**	**(346)**

a. Payroll costs

(EUR millions)	2011	2012
Compensation and salary expense	(164)	(148)
Social security and insurance expense	(39)	(40)
Employee benefits	(14)	(11)
Restructuring costs	1	(60)
Other	(18)	(1)
TOTAL	**(234)**	**(260)**

Restructuring costs relate to the run-off management of the Dexia Crédit Local Group.

Employee information

(Average full time equivalent)	2011			2012		
	Fully consolidated	Proportionally consolidated	Total	Fully consolidated	Proportionally consolidated	Total
Executive staff	35	3	38	38	3	41
Administrative staff	2,329	22	2,351	2,156	24	2,180
Non-administrative and other personnel	14	0	14	6	0	6
TOTAL	**2,378**	**25**	**2,403**	**2,200**	**27**	**2,227**

(Average full time equivalent)	2011						
	France	Italy	Spain	Rest of Europe	U.S.	Rest of world	Total
Executive staff	20	2	1	7	4	4	38
Administrative staff	1,757	199	51	144	160	40	2,351
Non-administrative and other personnel	0	0	0	5	4	5	14
TOTAL	**1,777**	**201**	**52**	**156**	**168**	**49**	**2,403**

(Average full time equivalent)	2012						
	France	Italy	Spain	Rest of Europe	U.S.	Rest of world	Total
Executive staff	17	2	1	7	10	4	41
Administrative staff	1,625	192	40	143	142	38	2,180
Non-administrative and other personnel	0	0	0	0	1	5	6
TOTAL	**1,642**	**194**	**41**	**150**	**153**	**47**	**2,227**

b. General and administrative expenses

(EUR millions)	2011	2012
Cost of premises	(4)	(5)
Rent expense [1]	(12)	(13)
Fees	(28)	(28)
Marketing, advertising and public relations	(8)	(5)
IT expense	(23)	(23)
Software, research and development	(10)	(7)
Maintenance and repair	(5)	(4)
Restructuring costs	26	(6)
Insurance (except related to pensions)	(4)	(4)
Stamp duty	(2)	(2)
Other taxes	(30)	(32)
Other general and administrative expenses	(49)	(40)
Sub-total	**(149)**	**(169)**
Income from the recharging of general expenses to Dexia Municipal Agency	86	83
TOTAL	**(63)**	**(86)**
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 fixed assets and intangible assets (Item XI – income statement)

Depreciation and amortisation (EUR millions)	**2011**	**2012**
Depreciation of land and buildings, office furniture and other equipment	(8)	(8)
Depreciation of computer equipment	0	0
Depreciation of other tangible fixed assets	(6)	(5)
Amortisation of intangible assets	(22)	(20)
TOTAL	**(36)**	**(33)**

Impairment (EUR millions)	**2011**	**2012**
Impairment of land and buildings, office furniture and other equipment	0	0
Impairment of other tangible fixed assets	(2)	0
Impairment of intangible assets	(4)	0
TOTAL	**(6)**	**0**

Losses and gains (EUR millions)	**2011**	**2012**
TOTAL	**0**	**(1)**

TOTAL	**(42)**	**(34)**

5.9. Cost of risk (Item XIII – income statement)

(EUR millions)	**2011**			**2012**		
	Collective impairment	**Specific impairment and losses**	**Total**	**Collective impairment**	**Specific impairment and losses**	**Total**
Credit (loans, commitments and securities held to maturity)	(45)	(384)	(429)	(104)	21	(83)
Fixed-income securities available for sale		(533)	(533)		(282)	(282)
TOTAL	**(45)**	**(917)**	**(962)**	**(104)**	**(261)**	**(365)**

In 2012, cost of risk mainly comprises:

- a loss of EUR 152 million following the cancellation of Kommunalkredit Austria Finanz securities;
- income of EUR 54 million on receivables due from the Greek State having benefited from the debt swap plan negotiated between the Greek State and private creditors;
- a charge of EUR 243 million on the Group's banking activities.

Detail of collective and specific impairment

Collective impairment (EUR millions)	**2011**			**2012**		
	Additions	**Recoveries**	**Total**	**Additions**	**Recoveries**	**Total**
Loans and securities held to maturity	(219)	174	(45)	(329)	225	(104)
Off-balance sheet commitments	0	0	0	0	0	0
TOTAL	**(219)**	**174**	**(45)**	**(329)**	**225**	**(104)**

Specific impairment (EUR millions)	2011				**Total**
	Additions	**Recoveries**	**Losses**	**Collections**	
Interbank loans and advances	0	0	0	0	0
Customer loans and advances	(313)	81	(52)	2	(282)
Financial assets held to maturity	(149)	0	0	0	(149)
Accruals and other assets	0	50	0	0	50
Off-balance sheet commitments	(4)	1	0	0	(3)
Total credit	**(466)**	**132**	**(52)**	**2**	**(384)**
Fixed-income securities	**(2,565)**	**98**	**0**	**1,934**	**(533)**
TOTAL	**(3,031)**	**230**	**(52)**	**1,936**	**(917)**

Specific impairment (EUR millions)	2012				**Total**
	Additions	**Recoveries**	**Losses** [1]	**Collections**	
Interbank loans and advances	0	0	0	0	0
Customer loans and advances	(155)	185	(155)	2	(123)
Financial assets held to maturity	0	141	0	0	141
Accruals and other assets	(2)	2	0	0	0
Off-balance sheet commitments	(3)	6	0	0	3
Total credit	**(160)**	**334**	**(155)**	**2**	**21**
Fixed-income securities	**(335)**	**2,884**	**(2,899)**	**68**	**(282)**
TOTAL	**(495)**	**3,218**	**(3,054)**	**70**	**(261)**

(1) The increase in this item in 2012 relates mainly to losses on Greece covered by provisions.

5.10. Income (losses) from associates (Item XV – income statement)

None.

5.11. Net gains (losses) on other assets (Item XVI – income statement)

(EUR millions)	**2011**	**2012**
Net gains (losses) on disposals of buildings	0	0
Net gains (losses) on disposals of other fixed assets	(230)	2
Net gains (losses) on disposals of consolidated equity investments[1]	321	(24)
TOTAL	**91**	**(22)**

(1) In 2012, this item includes:
– a loss of EUR 10 million relating to the fair valuation of Dexia Kommunalkredit Bank Polska's activities held for sale,
– a value adjustment for Dexia Bail representing a loss of EUR 14 million, based on the expected cash flows from this activity.

5.12. Impairment of goodwill (Item XVII – income statement)

(EUR millions)	**2011**	**2012**
Impairment of goodwill	(141)	0
TOTAL	**(141)**	**0**

In 2011, the goodwill on Dexia Crediop and Dexia Israel Bank Ltd. were fully impaired, with write-downs of EUR 129 million and EUR 12 million respectively.

5.13. Income tax (Item XIX – income statement)

Detail of tax expense (EUR millions)	**2011**	**2012**
Current taxes	115	(4)
Deferred taxes	(133)	(14)
Tax on prior years' income	0	2
Deferred taxes on prior years	0	13
Provision for tax litigation	(3)	(1)
TOTAL	**(21)**	**(4)**

2012 effective tax expense

The corporate tax rate in France is 36.10%, after taking into account the additional contribution passed in late 2011 and reapproved in late 2012. Given that this additional contribution applies only to 2012 to 2014 earnings, and since the deferred taxes are expected to be recovered after 2014, the deferred tax rate for Dexia Group companies governed by French law remains 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 2012 was -0.26%.

The variance compared with the French tax rate can be analysed as follows:

(EUR millions)	2011	2012
Income before income taxes	**(1,697)**	**(1,519)**
Net income from associates	0	0
Impairment of goodwill	(141)	0
Tax base	**(1,556)**	**(1,519)**
Applicable tax rate at the period end	34.43%	34.43%
Theoretical corporate income tax at the standard rate	**536**	**523**
Impact of differences between foreign tax rates and the standard French tax rate	(14)	(9)
Tax effect of non-deductible expenses	(40)	(55)
Tax effect of non-taxable income	71	23
Impact of items taxed at a reduced rate	129	1
Other additional taxes or tax savings(1)	(131)	(992)
Impairment of deferred tax assets(1)	(569)	506
Liability method	0	0
Provision for tax litigation	(3)	(1)
Corporate income tax recorded in the income statement	**(21)**	**(4)**
EFFECTIVE TAX RATE	**-1.37%**	**-0.26%**

(1) The Belgian and French States significantly increased their percentage holdings in the Dexia Group as a result of the capital increase of 31 December 2012. This change of shareholder structure renders non-deductible certain losses previously recognised in the United States. The deferred tax relating to these losses was provisioned: an equal and opposite reversal of provision is also recognised.

Tax consolidation group

Dexia SA *établissement stable* in France is the head of the tax group consolidating the following companies:

- Dexia Crédit Local
- Floral
- CLF Immobilier
- CLF Marne-la-Vallée Participation
- Dexia Editions
- 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
- Dexia Crédit Local Investissements
- Dexia Crédit Local Projets
- Dexiarail
- Dexia CLF Banque
- Dexia DS Formation
- Dexia DS Services
- Publiservices

Tax savings made by the tax group, as a result of losses, are recorded by the Dexia SA *établissement stable* (outside the scope of Dexia Crédit Local).

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.

	2011	2012
Net income, Group share (EUR millions)	(2,701)	(2,040)
Weighted average number of ordinary shares (millions)	87	224
Basic earnings per share (EUR)	(31.03)	(9.12)
- of which, related to ongoing activities	*(19.49)*	*(6.70)*
- of which, related to discontinued activities	*(11.54)*	*(2.42)*

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 are no financial instruments convertible into Dexia Crédit Local shares.

	2011	2012
Net income, Group share (EUR millions)	(2,701)	(2,040)
Weighted average number of ordinary shares (millions)	87	224
Adjustment for stock options (millions)	0	0
Weighted average number of ordinary shares used for the calculation of diluted earnings per share (millions)	87	224
Diluted earnings per share (EUR)	(31.03)	(9.12)
- of which, related to ongoing activities	*(19.49)*	*(6.70)*
- of which, related to discontinued activities	*(11.54)*	*(2.42)*

6. Notes on off-balance sheet items

6.1. Regular way trades

	2011		2012	
(EUR millions)	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale
Assets to be delivered	4,731	0	1,758	0
Liabilities to be received	2,772	0	1,479	0

6.2. Guarantees

	2011		2012	
(EUR millions)	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale
Guarantees given to credit institutions	456	0	438	1
Guarantees given to customers	8,694	0	2,851	0
Guarantees received from credit institutions	9,177	21	1,370	79
Guarantees received from customers	11,856	4,786	15,918	4,491
Guarantees received from the States	44,942	0	74,377	0

6.3. Loan commitments

(EUR millions)	2011 Ongoing activities	2011 Activities held for sale	2012 Ongoing activities	2012 Activities held for sale
Loan commitments given to credit institutions	206	0	7	0
Loan commitments given to customers	18,397	660	7,127	317
Loan commitments received from credit institutions	3,458	149	2,082	0
Loan commitments received from customers	0	0	0	0

6.4. Other commitments

(EUR millions)	2011 Ongoing activities	2011 Activities held for sale	2012 Ongoing activities	2012 Activities held for sale
Banking activity - Commitments given	68,003	3,037	88,837	0
Banking activity - Commitments received	36,215	238	17,136	230

7. Notes on exposure to risk as at 31 December 2012

7.0. Risk exposure and hedging strategy

RISK FACTORS AND MANAGEMENT

1. GOVERNANCE

The task of the risk support line is to implement independent and integrated risk measures for the various types of risks, to monitor and manage them, to identify risks, to propose corrective measures, to alert the relevant committees proactively and to decide on the amount of provisions necessary.

The general organisation of the risk support line of Dexia Crédit Local follows that of Dexia. It evolved through a number of stages during 2012 in order to adapt to the Group's new scope and the location of the Dexia teams. First, the risk support line had to adapt to the transfer of a large portion of the Dexia SA Brussels-based team members to Belfius Bank et Assurance. The activities managed by these teams have had to be recreated in order to manage all of the bank's risks. The teams transferred during this transitional period have however provided continuity of service.

Secondly, the risk support line was reorganised in line with the major strategic priorities of the orderly resolution plan and the new scope of the Group, particularly in France, ahead of the creation of Société de Financement Local, whose risk management teams come from Dexia and Dexia Crédit Local's Paris staff. A transitional period ensuring continuity of service in accordance with a number of Service Level Agreements (SLA) has been established between the two entities until end-July 2013. In particular, this change in organisation has been driven by the pooling of the Dexia SA and Dexia Crédit Local risk teams, by the reforming of some of the risk teams following the transfer of team members to Société de Financement Local and the creation of a "restructuring and workout" team in charge of the active restructuring or repayment of certain debts.

In order to adapt to its new business scope, Dexia Crédit Local commenced an overhaul and simplification of its risk governance system. The number of committees was reduced, reflecting the amalgamation of committees with similar responsibilities or fields of activity made possible by the reduced number of business activities. This new governance revolves around the Risk Committee, composed of the members of Dexia SA's Management Board, which is attended by the other members of Dexia Crédit Local's senior management for matters related to Dexia Crédit Local. This committee has responsibility in particular for ruling on all transactions with a major impact on Dexia Crédit Local (credit risk, liquidity risk, impact on income or the level of capital) as well as various policies and directives.

Since the end of 2012, the risk support line has been structured around two units: the Risk Management department in charge of credit risk, market risk and operational risk and permanent control and the "Risk Quantification, Measurement, Validation and Reporting" department, which brings together two Group-wide functions: "risk quantification, measurement and reporting" (all of the support functions to the risk support line), and "validation and quality control". This organisation also relies on the pooling of existing risk teams at the Dexia SA and Dexia Crédit Local level, organised into a knowledge centre supporting the risk management departments of Dexia Crédit Local's subsidiaries.

The heads of these two departments, along with the member of the Management Board in charge of risk, are the members of the Risk Management Executive Committee (Risk Excom). The role of this committee is to determine the overall risk management strategy, oversee the organisation of the risk support line, follow up on major regulatory issues, methodologies and the various projects and review key risk issues.

The organisation and governance presented below correspond to the structure in place on the date of publication of the report.

1.1. Credit Risk

Definition

Credit risk represents the potential loss, reflected in a reduction in the value of an asset or by repayment arrears, which Dexia Crédit Local may suffer as a result of a deterioration of a counterparty's solvency.

Organisation

Risk Management supervises Dexia Crédit Local's credit risk, under the aegis of Dexia Crédit Local's senior management. It is in charge of defining the Group's credit risk policy, which encompasses the credit approval process, the supervision of processes for rating counterparties, the analysis of credit files and the monitoring of exposures.

Committees

Credit risk management revolves around the Risk Committee, which approves risk policies for the entire Group and rules on larger transactions from a credit risk perspective. The Risk Committee delegates its decision-making power to credit committees. This delegation is governed by specific rules, by type of counterparty, on the basis of their level of rating and the amount of the consolidated exposure.

The Risk Committee remains the decision-making body of last resort for larger credit files or those presenting a level of risk considered sensitive. For each file presented to the credit committee, an independent analysis is performed, presenting the main risk indicators, as well as a qualitative analysis of the transaction. In general, the activity of the credit committees was extremely limited in 2012 in view of the fact that most of Dexia Crédit Local's portfolio has been placed in run-off.

In parallel with the oversight of the lending process, several committees are in charge of supervising specific risks. These committees meet on a quarterly basis and include in particular:

- the Watchlist Committee, which supervises assets considered to be "sensitive" that have been placed on watch;
- the Default Committee, which classifies and monitors counterparties in default applying rules prevailing at Dexia Crédit Local and in compliance with the Basel II regulatory framework;
- the Impairment Committee, which decides on the amount of impairments set aside and monitors the cost of risk;
- the Credit Ratings Committee, which ensures that the internal credit rating system is applied correctly and that the credit rating process is in keeping with the principles that have been established and that the same process is applied by all of the various entities.

The Credit Risk Management department of each Dexia Crédit Local subsidiary and branch focuses on its own domestic market and is responsible for analysing and monitoring local counterparties.

1.2. Market Risk

Definition

Market risk represents the Group's exposure to variations in market parameters, such as interest rates and exchange rates.

Interest rate risk consists of a structural interest rate risk and a specific interest rate risk associated with the issuer. The latter arises from variations in the credit spread of a specific issuer within a rating class. As for exchange risk, this represents the potential decrease in value due to the fluctuation of exchange rates of currencies against the euro.

Organisation

Financial Market Risk Management (FMRM) monitors market risk under the aegis of Dexia Crédit Local's senior management. Backed by its global risk management approach, it is responsible for identifying, analysing, monitoring and reporting risks and results (including the valuation of financial instruments) associated with market activities.

Policies, directives and procedures documenting and governing each of the market activities are applied across Dexia Crédit Local. Central teams assembled within the knowledge centres have the task of defining methods of calculating the income statement and measuring risks, as well as guaranteeing the consolidated measurement, reporting and monitoring of the risks and results of each of the activities for which they are responsible.

Established in the operating entities, local FMRM teams are in charge of monitoring daily activity, i.e. inter alia the implementation of policies and directives defined at a Group level, as well as the assessment and monitoring of risks at a local level (calculating risk indicators, controlling limits and triggers, supervising new activities/new products, etc.), as well as reporting, and reconciliation with local management control, accounts and information systems. Each operating entity is also responsible for monitoring and reporting to local management committees as well as to local supervisory and regulatory bodies.

Committees

The Market Risks Committee (MRC) meets each month and deals with the following matters: definition and revision of limits, analysis of ratios in relation to risks and profit and loss triggers(1) and decisions relating to them, discussion of directives, governance and standards with regard to risks, risk concepts and methods for measuring risks, and the quality of the valuation process.

A Valuation and Collateral Market Risk Committee (V&C MRC) meets each quarter to analyse indicators relating to the management of collateral and to examine the quality of valuations of structured products.

The Risks Committee (RC) and the Risk Management Executive Committee validate all major changes to be made to the risk profile or risk governance.

(1) Loss triggers warn of 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.

1.3. Balance Sheet Management

Definition

Balance Sheet Management (BSM) is in charge of hedging all structural risks associated with the banking book, i.e. interest rate risks, exchange risks, liquidity risks and profit and loss risks.

Cash and Liability Management (CLM) is in charge of managing cash and hedging short-term interest rate risks.

The definitions of structural and specific interest rate risk and exchange risk are detailed in the section on market risk.

Liquidity risk measures Dexia Crédit Local's ability to satisfy its current and future cash requirements, both expected and those that would apply should conditions deteriorate, with Dexia Crédit Local working on the basis of various stressed scenarios.

Organisation

Balance Sheet Management (BSM) is under the responsibility of the finance support line and has the task of managing the structural risks of all Dexia Crédit Local entities.

Within Risk Management, a dedicated team, called BSM Risk Management, is in charge of defining the risk framework under which risk management may be conducted by BSM Finance (risk factors, limits, investment universe, parameters), validating models used in the effective management of this risk, monitoring exposures and ensuring that they comply with Group standards, defining stresses to be applied to different risk factors and validating risk management by the finance support line and ensuring that the framework complies with external regulations in force.

Committees

ALM risks (Balance Sheet Management – BSM) are managed within the Dexia Crédit Local ALCO (Assets & Liabilities Committee), which was amalgamated with the Dexia ALCO. It meets on a quarterly basis. The ALCO decides on the global risk framework, sets limits, guarantees the consistency of strategy and delegates operational implementation to the ALCOs of international entities. The ALCO decides on the overall level of exposures, in line with the decisions of the Management Board. The ALCOs of international entities manage the risks specific to their balance sheet within the framework defined by and under the responsibility of the Group ALCO.

The Funding and Liquidity Committee (FLC), by delegation from the Dexia ALCO committee, centralises and coordinates the decision-making process concerning liquidity matters. The FLC is responsible for monitoring the Group's liquidity position, its evolution and its cover by short, medium and long-term resources. It monitors the achievement of liquidity targets set by the Management Board and helps to develop strategies for funding and the disposal of assets which will enable the Group to overcome adverse scenarios developed internally or at the request of the regulators. It validates price mechanisms for internal disposals within the Dexia Group. The FLC, which meets on a weekly basis, is doing everything possible to improve the Group's liquidity profile.

1.4. Operational risk and permanent control

Definition

Operational risk represents the risk of financial or non-financial impact arising from a shortcoming or failure of internal processes, personnel or systems, or from external factors. This definition includes IT, legal and compliance risks.

Permanent Control (excluding compliance) has the task of checking that the risk control mechanism in place is robust and effective, and of ensuring the quality of accounting and financial information and the quality of information systems.

Organisation

The operational risk management framework within Dexia Crédit Local is based on a system of governance involving clearly defined responsibilities and roles.

- The Management Board regularly examines changes in the risk profile of the various Dexia Crédit Local activities.
- The Risk Committee approves the policy for all Dexia Crédit Local entities.
- The Operational Risk Acceptance Committee (ORAC), meeting on a quarterly basis, examines the main risks identified, decides on whether they are acceptable or not, and which if any corrective actions to be taken. It also validates proposed prevention or improvement measures in relation to the various elements of the mechanism (permanent control, IT security, insurance programmes and so on). It is chaired by the member of the Management Board in charge of risk management.
- Middle management has primary responsibility for managing operational risk. In each field of activity, it appoints an operational risk correspondent whose role is to coordinate the collection of data and to assess risks, with support from the local operational risk management function.
- The information systems security committee examines and decides on actions to be taken to ensure business continuity and the implementation of information systems security policy.

Permanent Control excluding compliance in Dexia Crédit Local is run by the Dexia Crédit Local Operational Risk Manager. In order to ensure consolidated oversight, permanent control relies on the use of decentralised risk measurement and monitoring teams within departments, subsidiaries and branches, and the use of consultation procedures within the framework of permanent control committees.

2. RISK MONITORING

2.1. Credit risk

Dexia Crédit Local's credit risk policy

In order to manage credit risk, the Risk Management department has put a general framework of policies and procedures in place. This framework guides the credit risk management function in its risk analysis, decision-making and monitoring functions.

Risk Management manages the lending process by delegating authority to different committees and heads of the support line, within the limits put in place by the bank's senior management and by chairing credit committees. Within the context of its credit risk monitoring function, Risk Management, and more particularly the different teams in charge of credit risk, control changes in the credit risk of its portfolios by regularly analysing credit files and reviewing ratings. It also defines and implements reserve policy. It classifies files in default, and decides on specific and collective reserves.

Risk measurement

As Dexia Crédit Local has adopted IRBA Advanced approach, the assessment of credit risk relies principally on internal rating systems established within the context of Basel II: under the Advanced approach, each counterparty is assigned an internal rating by credit risk analysts using dedicated rating tools. This internal rating corresponds to an assessment of the level of the counterparty's risk of default, expressed through an internal rating scale, and is a key element in the credit approval process. Ratings are revised at a minimum annually, and this permits proactive identification of the counterparties necessitating regular monitoring by the Watchlist Committee, on the basis of objective criteria or expert judgement. In the Basel II Standard approach, the portfolio is also subject to regular monitoring.

In order to control Dexia Crédit Local's general credit risk profile, and to limit the concentration of risk, credit risk limits are defined for each counterparty, setting the maximum exposure deemed acceptable for a given counterparty. Limits by business sector and by product may also be imposed by Risk Management. The latter proactively monitors limits, and may reduce them at any time depending on changes in the associated risks.

Fundamentals of Dexia Crédit Local credit risk in 2012

Macroeconomic environment

In 2012, the continuing crisis, linked to uncertainty over public finances in the euro zone, its consequences on the entire global economy, and also a less strong recovery than expected in the United States, led the IMF to revise its global growth forecasts downwards during the year, from 3.5% to 3.3%.

No real recovery is expected in 2013 given the persistence of the pressures observed in 2012. The IMF expects growth of 3.6%. However, this forecast is liable to be significantly adjusted, as there is a strong possibility of a deterioration of the situation: global growth will be extremely sensitive to the evolution of the crisis in the euro zone as well as the effects of a possible deterioration of the state of public finances in the United States.

In the euro zone, the financial markets continue to doubt the capacity of peripheral countries to cope with their high levels of deficit and public debt and also the effectiveness of the responses from European institutions. The implementation in the majority of member states of fiscal austerity policies weighs on levels of demand and investment. As a consequence, the euro zone again entered recession in 2012, with negative growth of 0.4% according to the IMF. The low growth levels observed in Germany and France could not offset the negative performances recorded in countries in Southern Europe. For 2013, the IMF anticipates a slight improvement of the situation from the second half-year, with economic growth rising to 0.2%. This forecast is relatively optimistic compared with the expectations of several forecasters, many of which expect another recession.

In 2012, within the euro zone, market concerns related mainly to the so-called "peripherals", i.e. Portugal, Italy, Ireland, Greece and Spain. Outside the euro zone, Hungary was also an increasing worry as a result of the adoption of several economic policy measures weakening the financial sector and in view of the unpredictable nature of the institutional environment.

Although the risk of a departure from the euro zone has lessened, the situation in Greece remains extremely worrying. The country saw a fifth consecutive year of recession in 2012 and the level of public debt now exceeds 160% of GDP. Significant financial aid was granted to the country. This second rescue package (2012) includes aid of EUR 130 billion paid by the European Union and the IMF as well as the write-off by private investors of 53.5% of the value of their sovereign Greek securities. In exchange, Athens undertook to reduce the deficit and to control public debt by adopting a series of drastic structural reforms. Finally, in view of the efforts made, Athens was given two more years in which to complete its fiscal adjustment, deferring until 2016 the date on which the country has to have the public deficit down to 3% of GDP. Public debt should be at 124% of GDP by 2020. Doubts persist however as to the country's ability to recover. As at 31 December 2012, Dexia Crédit Local no longer had any sovereign exposure to Greece.

In Spain, the conservative government of Prime Minister Mariano Rajoy succeeded in 2012 in avoiding a call for rescue by the European Union. Nevertheless, the country continues to face a lack of confidence on the markets with the result that the cost of debt has increased severely. Although it eased considerably at the end of the year, the cost of debt seems unable to reverse sustainably without major intervention by the European institutions. The reaction of investors to the introduction at the end of 2012 of the European Stability Mechanism (ESM) will be crucial in this regard. Initial aid of EUR 39.5 billion dedicated to recapitalisation of the Spanish banking sector was granted by the ESM. This operation is part of a broader plan to support the financial sector which also includes the creation in December 2012 of a bad bank (SAREB) charged with the hive-off of toxic real estate assets. Moreover, Spain is still facing immense unemployment (25% at the end of 2012), a high public deficit (the official target of 6.3% for 2012 will clearly not be achieved) and worrying local authority debt.

In Italy, the reforms implemented since the end of 2011 by the government of Mario Monti brought the public deficit down to 2.6% of GDP in 2012. However, its public debt remains one of the highest in the euro zone (exceeding EUR 2,000 billion in October 2012) and market confidence is still far from completely restored, as illustrated by significant fluctuations of refinancing conditions for the Italian State observed during 2012. In addition, the prospect of the resignation of Mario Monti aroused fears as to the country's ability to complete its schedule of reforms, whilst the effects of austerity measures are feeding popular opposition and harming the chances of economic recovery. The country's future will depend on the formation of the new government and the decisions it takes, following the legislative elections on 24 February.

In Portugal, the reforming government of Prime Minister Pedro Passos Coelho which came to power at the beginning of 2011 continued to implement a programme in compliance with the requirements of the IMF and the European Union. The refinancing conditions granted to the country softened (with 10-year bond yields approaching 8%) although they remain high. However, in 2013 Portuguese decision-makers will have to deal with growing resistance to reforms among the population as well as a weakening of political consensus regarding austerity policies.

Ireland is continuing to implement reforms and an internal devaluation policy enabling it to return to a positive growth rate from 2011 (+1.4%) and to avoid recession in 2012 (+ 0.4%). The government remains firmly in favour of continuing the programme agreed with the IMF and the European Union with the agreement thus far of the population. More generally, as Ireland is an open economy, it remains seriously exposed to an economic slowdown in the euro zone, the United Kingdom and the United States.

Hungary has seen its economic activity slow sharply from 2007, thus distinguishing it from the trends in other countries in Central Europe. Since its accession to power in 2010, the right-wing nationalist government of Viktor Orbán has implemented a series of provisional measures aimed at halting the effects of the severe economic crisis affecting the country, such as the nationalisation of private retirement funds and the introduction of taxes which, although described as "exceptional", were continued into 2013. Although a stabilisation of the deficit and public debt was to be observed in 2012, the relatively unpredictable nature of economic policy and the absence of structural reforms resulted in a severe depreciation of the forint (despite a rebound in 2012) considerably increasing the household debt burden, a significant proportion of which (close to 60%) is denominated in foreign currencies. The government reacted by introducing a plan to ease household debt which resulted in significant costs for financial organisations, further drying up the supply of credit. Remaining the most heavily indebted country in Central Europe (public debt represented just under 80% of GDP in 2012), in 2011 Hungary called, for the second time in four years, upon the assistance of the IMF and the ECB by way of a credit line of EUR 15 billion. In recession in 2012, Hungary is likely to experience stagnant economic activity in 2013 (+0.8% according to the IMF).

In general, all sovereign securities from "peripheral" countries and Hungary are subject to specific and regular monitoring by the Institutional Credit, ABS and Countries expert centre and the Watchlist Committee.

In the United States, the recovery continued modestly in 2012 (+2.2% according to the IMF). Whilst the real estate market is stabilising, job creation seems to be marking time. In 2013, US growth, which should reach 2.1% according to the IMF, remains threatened by a deterioration of the situation in the euro zone but, above all, a risk of sharp budget tightening particularly following the debt ceiling being reached. In the meantime, at the beginning of January 2013, policymakers succeeded in avoiding the "fiscal cliff", which would have involved an automatic triggering at the very beginning of the year of a series of tax rises and public expenditure cuts, and which could have resulted in an estimated contraction of 4% of GDP and very likely put the United States into recession with significant repercussions on the global economy. Nevertheless, the agreement obtained is deemed insufficient by the IMF, which thinks that concerns have only been addressed in the short term and that new measures must be adopted in order to guarantee the viability of US public finances.

Situation of the local public sector and Dexia Crédit Local commitments

Against the background of the sovereign debt crisis, it is important not to extrapolate the risk of default by a sovereign state to that of its local authorities.

Nevertheless, the financial data available for local authorities show an alteration of performances in the majority of European countries and in the United States as a consequence of a tense economic climate, leading to a fall in tax receipts; savings capacities are restricted and pressures are being placed on cash. This general deterioration, which Dexia Crédit Local has responded to by setting aside collective reserves since 2011 against in particular the local public sector in Spain, Italy and North America, has proved to be contained and at this stage is not reflected in an increase of defaults. Situations differ however from one country to another.

- France

In France, in 2012 local finances suffered from a scarcity of means. In fact, the freezing of state aid and the problems of credit drying up, which were already present in 2011, combined with a low increase in tax resources.

Indeed, resources from the replacement of the local business tax are proving to be less dynamic: a part was offset by grants frozen in time and the new taxes are more sensitive to the economic situation, which remains weak. In addition, fiscal reform profoundly altered the local authorities' power over rates. Therefore the creation of financial room to manoeuvre by increased rates is increasingly complicated, all the more since rates are today reaching high levels in certain regions and local elections are approaching.

To the low momentum of direct contributions can be added the fall in transfer duties (droits de mutation à titre onéreux - DMTO), which can be estimated at almost 10%.

Although the needs of the population are increasing (social welfare, training, alternatives to road travel and so on), the strong constraints weighing on resources have consequences on local authority expenditure.

Indeed, as they had already begun to in 2011, in 2012 local authorities showed a desire to control their current expenditure, in particular by limiting the growth of personnel expenses.

Despite these efforts by management, gross savings by local authorities1 should show a decline in 2012, whatever the category of authority, in contrast to the rise observed in 2011.

As for investment expenditure, the estimated increase in 2012 (+1.6%) is well below what was expected, particularly with regard to the electoral cycle in the municipal sector: 2012, the penultimate year of the current cycle (elections in 2014), should in fact have been a year of investment rebound.

Overall, local authorities are victims of a scissor effect between the evolution of their expenditure and their resources resulting in a fall in the level of their gross savings. Nevertheless, in 2012, the appearance of an increase of the cash balances of authorities at the end of the financial year necessitated recourse to debt (positive net flows of debt) comparable to that in 2011 (a little less than EUR 5 billion) resulting in a rise of outstanding debt in the order of 3% over that year.

Despite the increase observed in State governance and supervision via the Regional Health Agencies with the HPST (Hospitals, Patients, Health and Territories) Act, the health sector presents a negative outlook considering (i) pressures on resources against the background of restrictive national budgets, (ii) the necessary adaptation of establishments to the needs of their health area and (iii) the deterioration of access to bank finance. This deterioration is reflected in a rise in the number of health establishment files monitored on the watchlist and by payment arrears following the bank's non-renewal

(1) Balance of the operating portion used to finance debt repayments and investments.

of matured credit lines. At the end of the year, the majority of payment arrears had been settled however, by virtue in particular of one-off financial support from Regional Health Agencies to those establishments.

On the Dexia Crédit Local portfolio, payment arrears on the French local public sector rose moderately in 2012. This situation does not result so much from a general deterioration of the financial situation of local authorities, which remains satisfactory, as from the following factors: (i) more difficult access to credit which penalises the weaker, (ii) a one-off liquidity problem associated with the non-renewal of Dexia Crédit Local credit lines and (iii) some clients contesting the conditions of their structured loans. In the majority of cases, payment arrears on structured loans do not result from clients' inability to pay their arrears. The policy followed by Dexia Crédit Local not to renew short-term credit lines to the local public sector has contributed significantly to the fall of Dexia Crédit Local's outstanding loans to the French local public sector.

- **Germany**

In Germany, 2010 saw a clear economic recovery with a growth rate of 4.2%. Similarly, the unemployment rate fell slightly from 8.2% to 7.7%. Despite this improvement of the economy, the Länder posted a fall in their savings, with expenditure growth remaining relatively sustained, although some States posted savings severely in deficit. Overall, the debt ratio remains high, and slightly up, at 209%, but this average hides contrasting situations.

Although 2011 data are not yet known, initial figures show an improvement, with receipts up, expenditure stable and deficits before borrowing well down at EUR -9.4 billion against EUR -20.8 billion in 20102.

Some German cities seem to be facing tense situations which the robustness of the adjustment system does not reveal. Social expenditure represents a quarter of their budget and it is trending sharply upwards. In order to cope with this burden, cities use Kassenkredite (short-term facilities) to finance their operations (EUR 45 billion in 2011). In order to curb this development and in the spirit of the principle of solidarity between levels of authorities, more and more Länder establish aid schemes for municipalities and encourage them to take measures to regulate their finances. These schemes fall fully within the framework of the responsibilities of regions to the local level.

Furthermore, the two major measures taken by the government in 2009 and 2010 continue to have impacts today:

- "Debt Brake" aimed at reducing and limiting public debt and deficits with two targets to be reached by 2019, namely a deficit of 0.35% of GDP for the Federal State and zero new borrowing for Federated States;

- Introduction of a Stability Council responsible for checking budget discipline and particularly for monitoring the five Länder in difficulty (Berlin, Bremen Saarland, Saxony-Anhalt and Schleswig-Holstein). During the last meeting of the Council, in May 2012, it was stressed that the drastic stabilisation plans put in place by these Länder had achieved results and their undertakings had been met for the year 2011.

- Dexia internal ratings of Dexia Crédit Local's outstanding loans to the German local public sector remain at a very good level, ranging from AAA to AA (82% of outstanding loans rated AA), and are stable for the Länder. The portfolio is healthy, despite some operations to desensitise structured products, which represent an extremely marginal proportion of German outstanding loans.

- **Italy**

In Italy, reform of fiscal federalism continues to be implemented and is increasing the fiscal autonomy of local authorities (re-introduction of land tax in favour of municipalities, and an increase in the proportion received from income tax, profits tax, VAT, and so on). As a consequence, transfers from the state to local authorities fell by EUR 9.1 billion in 2012 for the regions and EUR 6.6 billion for municipalities.

As a complement to the internal stability pact, which was established prior to the crisis in order to regulate public expenditure and is still applicable, new government measures aimed at reducing the weight of debt are now imposed on regional authorities: debt interest must be less than 8% of current receipts of local authorities in 2012, then 6% in 2013 and 4% in 2014; for the regions, debt servicing (capital + interest) must remain at a maximum of 20% of actual fiscal receipts from 2012 and for coming years. In addition, 2013 will see the extra obligation on local and regional authorities to observe a new debt ratio per inhabitant.

According to the 2010 accounts, provinces posted relatively stable savings levels (13% of current receipts) but an average debt which had increased to 109% of current receipts (105% in 2009). The financial ratios of municipalities have improved slightly: management savings rose from 9% to 9.4% and debt fell from 90% to 86% of current receipts. Trends differ between regions although on average management savings improved slightly from 6% to 7% of current receipts.

To assist local authorities with strained liquidity situations, the government is implementing a multiyear financial rebalancing procedure which will enable loans to be granted to local authorities with structural imbalances on their balance sheets.

For the Italian local public sector, the 2012 financial year saw further developments in a series of court cases associated with simple derivatives transactions: an increase of objections on the grounds that transactions bring no economic advantage to the authority, then at the end of the year a first major judgement, on appeal, dismissing the claim.

Beyond these cases, there are no defaults of payment associated with borrower insolvency. The portfolio is relatively stable in terms of credit quality, with the exception of some regions due to the increase of health expenditure. It should be noted that the financial regulation of municipalities and provinces is protective for bank creditors. In fact, in the event that the authority is unable to provide essential services and/or to pay expenditure due for payment, loan maturities come with a payment delegation which makes them a priority and immunises them from any restructuring proceedings.

- **Spain**

In Spain, Spanish local authorities have suffered since 2010 from the extension of the economic crisis which affects some of their resources linked to the economy. Spain adopted drastic austerity measures and set its authorities strict targets in terms of deficits or debt. As a consequence, local authorities also implemented austerity programmes (rationalisation of the public sector, reduction of grants, decrease in investments).

In 2010[1] management savings by the regions deteriorated to -6% of current receipts, and debt amounted to 86% of receipts. The savings of provinces stood at 15% and debt at 80%. For municipalities, management savings fell slightly to 9% of current receipts whilst debt rose a little, to 74% of receipts. In 2011, the current receipts of the regions fell by 5%, and debt rose by 17%; for municipalities and provinces, the level of receipts and debt remained stable.

All of the measures adopted enabled the regions to contain their deficits better: for 2012, the target deficit for the regions is -1.5% of GDP, and as at Q3 2012, the regional deficit had reached -0.93% against -2.20% as at Q3 2011, a saving of EUR 13.6 billion made by the regions.

Before the closure of the markets, to aid certain authorities that had been drained of liquidity and in order to revive local economies, the government introduced two mechanisms:

- a fund to wipe out supplier debts which enabled such debts to be converted into bank debts (benefiting from a pledge of certain transfers from the State);

- a Regional Liquidity Fund (Fundo de Liquidez Autonomica - FLA) with EUR 18 billion to enable the regions to deal with their debt payments in the second half of 2012: 10 regions (out of 17) took this up (including Catalonia, Valencia, the Balearic Islands and Andalucia). The FLA will be renewed in 2013.

In 2012, the difficulties of Spanish local authorities led to a reduction in Dexia's internal rating. No loan or obligation borne by the regions suffered from payment arrears. On the other hand, the instalments of four Spanish cities which had been poorly rated for several financial years were settled in arrears or remain unpaid.

- **Portugal**

In Portugal, the situation remains relatively stable: the occurrence of credit events on certain players enabled Dexia Sabadell to open negotiations with the Portuguese government and the authorities concerned to optimise the portfolio. It should be noted that the fiscal policy of Portuguese authorities is more strongly controlled by central government which has increased its supervision over the regions and introduced programmes to provide aid to municipalities in exchange for the adoption of drastic savings measures.

- **Great-Britain**

Great Britain is still marked, at a local organisation level, by a low degree of decentralisation and fiscal autonomy, and in the field of social housing by a division between local authorities and housing associations, the latter forming a sector strictly administered by the public powers in view of the considerable state subsidies for their investments. The result is a reduced level of credit risk, as the budget of each authority has to be ratified each year by the government, and as the management of housing associations may, at the first signs of difficulties and as is current practice, be subject to intervention by the supervisory authority and they may even be forced to amalgamate with another housing association if the difficulties are severe.

Beyond the strict framework for them and for local authorities, for two years housing associations have suffered from a marked reduction in the investment grants that they receive from the government, and this has led to less investment and therefore to an improvement of their individual financial profiles. As a result, and indeed every year since it began its activity in Great Britain, in 2012 Dexia Crédit Local experienced no payment incidents in either sector.

(1) Latest available accounts.

- **Central and Eastern Europe**

Dexia outstanding loans to Central and Eastern Europe are considerably lower than those to Western European countries, and all the more since the majority of the Poland portfolio was sold in 2012.

Overall, and taking into account the economic situation of Hungary and Romania, the loan portfolio to Eastern Europe is principally classified as "non-investment grade", with a slight downgrading of ratings. Although Romanian counterparties cause no particular concern in terms of credit risk, Hungarian cities are subject to close monitoring, in particular considering the deep changes impacting the organisation of the local public sector and its finances as well as some cases of financial stress.

In Hungary, there are numerous changes to report in local administrative organisation, with a recentralisation of competences. At the end of 2011, the debts of counties were taken over by the state. Since 2012, the responsibilities of cities have been undergoing redefinition: education and health services, until now provided by the cities, will in the future be provided by the state. As a consequence, the expenditure of cities will be reduced considerably, as will their receipts in a proportion not yet fully known, with the state retaining a portion of the resources previously transferred to deliver those public services. In this transitional phase and in view of the difficulties faced by certain cities, particularly in terms of liquidity, the government increased the budget for discretionary grants (Ohniki). Finally, at the end of October it announced the take-over of HUF 600 billion in municipal debts (54% of total municipal debts) under conditions to be discussed with the banks concerned.

In Poland, the institutional framework is relatively stable: the principal measure adopted recently involves setting an individual debt limit for each authority depending on its average savings capacity over the last three fiscal years.

In Romania, there have been few changes over recent years in terms of responsibilities. On the other hand, in view of the crisis affecting the Romanian economy, the state reduced the proportion of fiscal receipts it reserved for local authorities and strengthened its control over the local public sector: debt levels are limited, with debt servicing costs that must not exceed 30% of average receipts over three financial years and, since 2011, any authority in arrears is no longer authorised to borrow.

Despite the reduction of the portion of income taxes passing to them, the reduction of current receipts of cities and counties has been contained. Austerity measures have resulted in a notable fall in current expenditure. Management savings have therefore improved, to 25% of current receipts on average for cities and 21% for counties. Debt has stabilised to a level of 65% on average for cities and 52% for counties.

- **United States**

In the United States, the institutional framework of the Federated States, although varying from one State to another, remains rather protective: autonomy in setting receipts, obligatory budget balance, and an obligation to set aside reserves. Nevertheless, as State receipts are very directly linked to the economic situation (40% approximately coming from personal income tax, 30% from sales tax and 8% from corporate income tax), the States have been impacted from 2009 by the clear slowdown of economic activity and the sharp rise of unemployment. A recovery has been observed however since the beginning of 2011: tax receipts posted a rise of 9% without however reaching their pre-crisis level. Confronted by recession, the States drastically reduced their expenditure and, above all, dipped into their reserves: for the best rated counterparties this only reached one half of the level observed before the crisis and for others was practically zero or even negative. This enabled the level of debt service to be kept at a stable level: 2.8% of receipts from personal income tax against 2.5% the previous financial year.

It should be noted that there were several cases of cities filing for bankruptcy (under Chapter 9) such as Stockton and San Bernardino in California, or being bailed out such as Woonsocket, Central Falls and East Providence in the State of Rhode Island (the only Dexia Crédit Local outstanding loan to these cities is to Woonsocket for USD 28.5 million covered by a guarantee from Assured).

- The last rating review saw some 15 cases of downgrade, the majority limited to one notch. More than one half of the Dexia Crédit Local portfolio to Federated States retains a rating of at least AA. Although cities, counties and school districts also remain well rated as a whole, ten or so counterparties in Dexia Credit Local's portfolio out of 120 have been downgraded.

- **General conclusion on Dexia Crédit Local's local public sector portfolio:**

Despite pressures observed on the local public sector, the Dexia Crédit Local portfolio remains of a very good quality since almost 90% of outstanding loans, all countries combined, remain investment grade and the number of files requiring monitoring by the Watchlist Committee did not increase much during 2012.

Liabilities on Project and Corporate Finance

This portfolio of approximately EUR 24.6 billion as at 31 December 2012 is two-thirds composed of project finance, i.e. transactions without recourse to their sponsors the repayment of which is only on the basis of their own cash flows analysed at origination and strongly secured in favour of the bank (asset sureties, contracts, dividend limitation and so on). The remainder consists of corporate finance (acquisition finance, commercial transactions or corporate bonds).

The project finance portfolio, at approximately EUR 16 billion, is 49% made up of PPP (public-private partnerships), principally in the United Kingdom and France, 29% energy (including approximately 60% renewable energies: onshore and offshore wind farms and thermodynamic and photovoltaic solar energy), 14% traffic risk and 8% other sectors (water, environment, telecoms, etc). 63% of the portfolio is situated in Western Europe, 24% in the United States, Canada and Australia and the remainder in the rest of the world. Portfolio quality remains sound with 70% of the portfolio rated investment grade. The main difficulties encountered this year involved projects associated with a traffic risk in the United States and Spain. This led Dexia Crédit Local to increase its level of reserves against the motorway sector, which amounted to EUR 72.9 million at the end of 2012.

The corporate portfolio is smaller, at approximately EUR 8.6 billion. It is made up of enterprises in the infrastructure sector (motorway or car park operators and building and public works companies) (39%), the utilities sector (water/environment/energy or gas distribution and transmission) (24%), energy (including hydrocarbons) (17%), real estate (11%) and miscellaneous (9%). 80% of the portfolio is located in Western Europe, 15% in the United States, Canada and Australia and the remainder in the rest of the world. Portfolio quality remains sound with 73% of the portfolio rated investment grade. The main difficulties encountered involved over-leveraged acquisition finance that was arranged prior to the crisis and which is difficult to refinance under current market conditions.

In order to guarantee the active management of files presenting difficulties and more particularly those necessitating restructuring, in 2012 Dexia Crédit Local established a dedicated "restructuring and workout" unit reporting directly to Credit Risk Management. Over-leveraged acquisition financing is included in the loans that this unit is likely to manage in the future.

Bond portfolio

As at 31 December 2012, the Dexia Crédit Local bond portfolio amounted to EUR 100.2 billion.

The strategy of deleveraging the residual bond portfolio of Dexia Credit Local in 2012 was no longer focused on an accelerated reduction of the size of the balance sheet, but rather on asset disposals, which did not adversely affect the Group's solvency, based on market conditions and opportunities, in line with the Dexia orderly resolution plan approved by the European Commission at the end of 2012. In this regard, the volume of bond sales amounted to approximately EUR 2.8 billion, of which 48% relating to sovereigns, 30.7% to banking bonds and 11% to ABS/MBS. Among these disposals, it is worth noting the sale of all Greek sovereign securities (approximately EUR 800 million in nominal value) at the end of 2012 in an auction launched by the Greek authorities following the Public Sector Involvement. It should also be noted that 62% of the asset sales were for bonds denominated in currencies (USD and JPY) other than the euro and for which refinancing conditions were more difficult.

Credit risk exposure

Exposure to credit risk is described in note 7.2.A "Credit risk exposure".

2.2. Market risk

Dexia Crédit Local's policy regarding market risk

In order to ensure integrated market risk management, Dexia Crédit Local has developed a framework based on the following elements:

- A complete risk measurement approach which is an important part of the process of monitoring and control of the Dexia Crédit Local risk profile;

- A structure of limits and procedures governing the acceptance of risk, consistent with the entire process for measuring and managing risk.

Risk measurement

The Dexia Group has adopted the Value at Risk (VaR) measurement methodology as one of its main risk metrics. VaR measures the potential loss expected with a 99% confidence level and for a holding period of 10 days. Dexia applies multiple VaR approaches to obtain a precise measurement of the inherent market risk of its various activities and portfolios.

- General interest-rate and forex risks are measured through a parametric VaR approach, the methodology of which is based on the assumption of a normal distribution of yields of risk factors.

- Specific interest-rate risk and other risks in trading books are measured by means of a historical VaR approach. The historical VaR is a VaR the distribution of which is constructed applying the historic scenarios for the risk factors affecting the current portfolio.

Dexia Crédit Local uses an internal parametric VaR model to calculate its regulatory capital requirement on general interest-rate risk and foreign exchange risk generated by its trading activities.

The VaR methodologies are improved on an on-going basis. The Market Risk Engine project now provides an historical VaR (standard in numerous banks) that applies on every risk factor.

As a complement to VaR measures and loss triggers, Dexia applies a broad range of other measures aimed at assessing risks associated with the different business lines and portfolios (limits in terms of maturities, markets and authorised products, sensitivity to different risk factors and so on).

Stress testing completes the risk management mechanism by exploring a range of events outside the probability-based framework of VaR measurement techniques. VaR measurements assess the market risk under standard, everyday conditions, whilst stress testing quantifies it under abnormal circumstances. Against this background, different scenarios are regularly revised and updated. The results of consolidated stress tests and the corresponding analysis are presented quarterly to the Market Risk Committee and Risk Committee.

The bond portfolio is not subject to VaR limits given its different investment horizon but is subject to regular stress tests.

Exposure to market risk

Exposure to market risk is described in note 7.5 "Sensitivity to interest rate risk and other market risks".

2.3. Balance sheet management

Dexia Crédit Local policy regarding ALM risk

The main aim of Dexia balance sheet management is to minimise the volatility of Profit & Loss by immunising the commercial margin and by protecting Dexia Crédit Local's overall creation of value. It does not aim to create additional income by deliberately taking interest rate risk, and attention is paid to the overall stabilisation of bank revenues.

Risk measurement

Interest rate risk

All of Dexia Crédit Local's subsidiaries and branches use the same methods to measure balance sheet risk. The risk sensitivity measures reflect balance sheet exposure to a parallel shift of 1% on the interest rate curve. Sensitivity of the net present value of BSM positions to a movement in interest rates is the main indicator for measuring risk and for setting limits and monitoring risks.

Global and partial sensitivities per time interval are still the main risk indicators on which asset-liability risk committees (ALCO) manage risks.

The structural rate risk of Dexia Crédit Local is concentrated principally on European long-term interest rates and results from the structural imbalance between Dexia's assets and liabilities after hedging the interest rate risk.

Currency risk (structural)

Dexia Crédit Local's reporting currency is the euro, but its assets, liabilities, income and expenses are also denominated in other currencies. The Group ALCO decides on hedging the risk associated with the evolution of these results in foreign currencies. In this case, a systematic and ongoing hedge was applied to these exposures.

The structural risks associated with the funding of holdings with equity in foreign currencies (limited to the US dollar) as well as the volatility of Dexia Crédit Local's solvency ratio are also monitored regularly.

Balance sheet exposure

Balance sheet exposure is described in note 7.5 "Sensitivity to interest rate risk and other market risks".

2.4. Liquidity

Dexia Crédit Local policy regarding liquidity risk

Dexia measures and manages liquidity risk by an internal management process which was redefined in 2011. The cornerstone of this management process is the Funding and Liquidity Committee (FLC), a central committee that brings together all parties involved in liquidity and funding matters and coordinates their activities.

In 2012, the Funding and Liquidity Committee met on a weekly basis to closely monitor changes in the liquidity position of the Dexia Group and Dexia Crédit Local and, mandated by the ALCO, to make key decisions aimed at its improvement. Collateralised long-term funding transactions, securities swaps, covered issues and non-covered funding as well as the close monitoring of funding sources and production are some of the instruments and activities used by Dexia on the initiative of this committee to improve the liquidity position of Dexia and of Dexia Crédit Local in particular.

The liquidity management process aims to cover Dexia Crédit Local's funding requirements. Funding requirements are assessed dynamically taking into consideration existing and planned on and off-balance sheet transactions; reserves are composed of assets eligible for the refinancing facilities of central banks to which Dexia has access.

Regular information channels have been put in place towards the management bodies:

- weekly meetings of the FLC during which the evolution of the liquidity situation is studied and analysed in detail;
- regular meetings of the audit committee and the board of directors.

In light of the pressures on the liquidity situation in 2012, specific and regular modes of information have been introduced:

- daily, weekly and monthly reporting to members of the Group Management Board, to the shareholder and guarantor States and to the regulators. This information also serves all those involved in the management of Dexia Group and Dexia Crédit Local liquidity, i.e. BSM Finance, BSM Risk Management and TFM;
- monthly disclosure to the shareholder and guarantor States, central banks and regulators of the multiyear funding plan;
- a weekly call with the regulators and French and Belgian central banks (BDF, ACP, BNB).

Risk measurement

Liquidity indicators have evolved to take into account the constraints weighing on the liquidity situation. The four week liquidity ratio comparing liquidity reserves to Dexia's liquidity gaps following various scenarios is supplemented by the drawings ceiling authorised by the Bank of France on the emergency liquidity assistance (ELA) facility and by the maximum authorised amount of guaranteed issues.

Dexia Crédit Local's liquidity risk is also framed by the liquidity ratio monitored by the Prudential Control Authority (ACP); it is defined as the ratio between liquidities (as the numerator) and liabilities (as the denominator) over a prospective period of one month; the coefficient thus calculated must at all times be above 100 (Instruction No. 2009-05 dated 29 June 2009 relating to the standardised approach to liquidity risk). This ratio is sent to the ACP on a monthly basis.

Liquidity management

Changes in the liquidity structure of Dexia Crédit Local

The improvement of Dexia Crédit Local's financial structure and the reduction of its liquidity requirement were priority objectives of the transformation plan launched in 2008. During the summer of 2011, the exceptionally difficult environment severely damaged Dexia Crédit Local's liquidity situation, leading at the end of December 2012 to funding in the order of EUR 90.7 billion (EUR 109.7 billion with the 2008 guarantee) via central banks and guaranteed issues.

However, the second half of 2012 was marked by a reduction in pressures on the liquidity situation and by the finalisation of the definitive guarantee scheme granted by the Belgian, French and Luxembourg States.

More detailed information on this new guarantee agreement is provided in the section entitled "Significant events" in this Annual Report and Appendix 4.3. "Transactions with related parties" of the report.

In particular, Dexia benefited from an easing of the various credit indicators whilst the persisting concerns regarding sovereign debts within the euro zone weighed heavily on the markets during the first half of the year, resulting in a fall of long-term rates and very severe volatility.

This was reflected by a reduction in pressures weighing on Dexia Crédit Local's liquidity situation which is illustrated in particular by the following favourable developments:

- The upward trend of long-term rates in the second half-year resulted in a EUR 2.4 billion reduction in the net collateral required to be lodged with derivatives counterparties compared to the end of June 2012.
- As a result of the structural reduction of the balance sheet and the maintenance of long-term funding over the quarter, Dexia Crédit Local's short-term funding requirement was EUR 44.3 billion at the end of December, and has been falling since the end of 2011 (EUR 88 billion at the end of December 2011 and EUR 60.3 billion at the end of June 2012).
- The respite in the European sovereign debt crisis enabled Dexia Crédit Local to refinance its liquidity gaps better by taking advantage of the increased investor appetite for State-guaranteed debt, particularly on the US market.

Despite these positive elements, Dexia made full use of the provisional guarantee mechanism granted by the three States at the end of 2011. The provisional guarantee ceiling was raised to EUR 55 billion in June 2012 and outstanding guaranteed funding under the 2011 agreement reached EUR 54 billion at the end of December 2012. As previously indicated, the definitive guarantee ceiling was set at EUR 85 billion in principal including funding already covered by the 2011 provisional guarantee and the guaranteed debt issued under the 2011 provisional agreement and the 2013 definitive agreement reached EUR 54 billion at the end of February 2013.

It should be noted that USD 4.7 billion of guaranteed debt was placed with US institutional investors and the average maturity of the guaranteed debt was 1.3 years. Finally, Dexia Crédit Local is considering implementing specific short and long-term issue programmes to be deployed in 2013, however this is a temporary situation since a return to this one-off refinancing is possible in 2013.

Thanks to the placement of guaranteed debt issues and the EUR 2 billion capital increase (including additional paid-in capital) use of the emergency liquidity assistance (ELA), which was EUR 14.2 billion at the end of June, was zero as at 31 December 2012.

As a consequence, the funding structure of Dexia Crédit Local changed significantly during 2012 under the combined effect of disposals of strategic entities, increased recourse to central banks and the market trends described above.

These elements resulted in:

- An increase in outstanding long-term funding (12 months and more) via the increased issue of guaranteed debts and long-term covered funding more than offsetting the reduction of outstanding senior non-guaranteed debt and covered bonds (EUR +4.7 billion net);
- A fall in outstanding short-term funding (EUR -43.7 billion), reflected over the period under consideration by a very sharp reduction in the portion of the balance sheet covered by short-term funding. This in fact fell from 22% at the end of December 2011 to approximately 12% at the end of December 2012.

In the course of 2012, Dexia Crédit Local was generally unable to reach the minimum regulatory threshold defined for the liquidity ratio that it is subject to. Observance of this ratio in the future will depend on the implementation of Dexia Crédit Local's issuance plan which is still subject to much uncertainty.

Liability management

In view of the very poor price levels of its subordinated debt on the secondary market, and in order to optimise its balance sheet management, Dexia Crédit Local successfully completed several debt repurchase transactions.

A public cash tender offer on perpetual non-cumulative (Tier 1 hybrid) securities was launched on 2 March and closed on 14 March 2012 for a nominal amount of EUR 700 million. This buyback offer was a response to the desire to increase Dexia Crédit Local's Core Tier 1 capital and was pre-financed via an asset sale. The combination of that asset sale and the repurchase of perpetual securities was therefore neutral for the Group's liquidity situation.

A second series of repurchases, this time of redeemable subordinated (Lower Tier 2 hybrid) debt was launched on 20 November 2012 on behalf of Dexia Crédit Local and related to a EUR 500 million issue maturing in 2017 and a EUR 300 million issue maturing in 2019. A total amount of EUR 411.55 million was placed by investors, or 51.4% of the combined total nominal amounts of the two issues.

Finally, Dexia Crédit Local also proceeded with the repurchase of senior covered bonds[(1)] via the German and French subsidiaries of Dexia Crédit Local, Dexia Kommunalbank Deutschland and Dexia Municipal Agency (DMA). At the close of an offer launched on 23 April 2012 and closed on 3 May 2012, Dexia Kommunalbank Deutschland had repurchased EUR 2.6 billion of Pfandbriefe. In contrast to the subordinated debt involved in the transactions described above, these securities did not offer any discount on their nominal value, as this exercise was primarily aimed at optimising the issuer's cash flow

(1) Covered bonds: generic term used to define bonds issued under a specific legal framework, a stock of assets (so-called "cover pool") guaranteeing the repayment of the bond issues thus covered. In Germany these are Pfandbriefe and in France obligations foncières (real estate bonds).

management as well as the structure of its cover pool, without impact on Group liquidity. To a more limited extent, during H1 2012 Dexia Municipal Agency also carried out a steady stream of covered bond buybacks for smaller amounts (EUR 830 million), in order to optimise its debt repurchase profile.

2.5. Legal Risk

Like a number of financial institutions, Dexia is facing several regulatory investigations and is a defendant in a number of disputes, including class action cases in the United States and Israel. Unless otherwise indicated, the status of the principal disputes and investigations summarised below is as at 31 December 2012 and based on the information available to Dexia at that date. According to the information available to Dexia at that date, other disputes and investigations in progress are not expected to have a material impact on the Group's financial position, or it is still too early to accurately assess whether they will have such an impact.

The consequences, as assessed by Dexia in accordance with the information available to it at the aforementioned date, of the principal disputes and investigations liable to have a material impact on the Group's financial position, performance or activities are reflected in the Group's consolidated financial statements. Subject to the general terms and conditions of professional indemnity and executive liability insurance policies taken out by Dexia, any negative financial consequences of some or all of these disputes and investigations may be covered, in full or in part, by those policies and, subject to the insurers in question accepting these risks, may be offset by any payments that Dexia may receive under the terms of those policies.

- Financial Security Assurance

Financial Security Assurance Holdings Ltd. (FSA Holdings) and its subsidiary, Financial Security Assurance Inc., (since renamed Assured Guaranty Municipal Corp., hereinafter referred to as "AGM"), previously 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 Securities and Exchange Commission (SEC) on the grounds that they violated the laws and regulations applicable to requests for proposals and the contracting of various transactions with local governments, including the marketing of guaranteed investment contracts (GICs)[1] entered into with issuers of municipal bonds. Several US States have initiated parallel, similar investigations.

In addition to the government investigations described above, a large number of banks, insurance companies and brokerage firms, including in some cases FSA Holdings, Dexia and/or AGM, have been subpoenaed in various civil cases relating to GICs and other transactions entered into with local governments. These civil claims are based on alleged breaches of antitrust laws and other laws and regulations. Almost all of these civil suits have been combined for the purposes of a preliminary ruling by 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 has retained the Financial Products business and agreed to indemnify AGM and Assured Guaranty Ltd. for any losses related to this activity that they may incur as a result of the investigations and lawsuits mentioned above.

On 27 July 2010, the US Department of Justice accused Steven Goldberg, a former employee of AGM, and two of his former colleagues at his previous employer in connection with a case involving bid rigging. The US Department of Justice did not charge either AGM or any other Dexia Financial Products Group entity in the indictment it issued against Goldberg. Goldberg was found guilty of fraud on 11 May 2012. At the end of October 2012, he received a custodial sentence and a criminal fine. Goldberg appealed the verdict.

Dexia is not presently in a position to reasonably comment on the length, outcome or potential financial consequences of these ongoing proceedings. Furthermore, due to the nature of the investigations carried out by the US Department of Justice and the SEC, as well as the civil claims in connection with the same case, any suggestion that a provision was being set aside in connection with these investigations or disputes or their subject and, as the case may be, the amount of any such provision, could prove seriously detrimental to Dexia's legal position or defence in connection with these lawsuits or any related proceeding

- Dexia banka Slovensko

In June 2009, a customer of Dexia banka Slovensko, who found himself unable to meet margin calls in connection with certain foreign exchange transactions, instituted legal proceedings against the bank, seeking EUR 162.4 million for breach of law and contractual obligations. Dexia banka Slovensko filed a counterclaim in the amount of EUR 92.2 million.

On 17 May 2010, the Court of First Instance (Magistrates' Court) of Bratislava returned a verdict in favour of the bank's former client, ordering Dexia banka Slovensko to pay a principal amount of EUR 138 million. By a separate order, the bank was also ordered to pay costs in the amount of EUR 15.3 million. Dexia banka Slovensko appealed both decisions to the Court of Appeal of Bratislava and, in response to these convictions, withdrew its counterclaim, which was still pending before the Court of First Instance, and filed it with the Permanent Chamber of Arbitration of the Slovak Banking Association.

On 25 January 2011, the Court of Appeal of Bratislava issued a ruling overturning both of the verdicts issued by the Court of First Instance of Bratislava. In its ruling, the Court of Appeal of Bratislava overturned virtually the entire argument put forward by the Court of First Instance, emphasising that the Court had not established the facts to a satisfactory degree and invalidating its legal argument. In theory, the case should have been referred back to the Court of First Instance, which is required to take into account the (binding) arguments put forward by the Court of Appeal.

However, the bank's former client appealed the Court of Appeal's ruling by submitting an extraordinary appeal to the Slovak Supreme Court, which was dismissed for procedural reasons in a ruling by the Supreme Court on 18 June 2012; the Supreme Court confirmed that there were no valid grounds to re-examine the decision reached by the Court of Appeal. The case has therefore been referred back to the Court of First Instance of Bratislava, which should issue a ruling in accordance with the instructions and arguments put forward in support of the decision returned by the Court of Appeal.

(1) The guaranteed investment contracts (GICs) that are the subject of these investigations and subpoenas were issued by subsidiaries of FSA Holdings in exchange for funds invested by US municipalities, or in favour of issuers of securitised debt. 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 remains so subsequent to that company's acquisition by Assured Guaranty Ltd.

With regard to the sale of Dexia banka Slovensko at the beginning of 2011, the Dexia Group's residual exposure in connection with this lawsuit is capped at an undisclosed amount which, should Dexia be required to pay it, is guaranteed by funds held on deposit.

- Dexia Crediop

Dexia Crediop, like other banks in Italy, is the subject of legal proceedings regarding hedging transactions entered into in connection with debt restructuring agreements with local governments.

Under Italian law, debt may be restructured only if this lowers the cost borne by the community (known as the "economic interest criterion"). The legal question raised is whether or not the cost to be taken into consideration includes the cost of hedging transactions.

In September 2011, in a dispute between Dexia Crediop and the Province of Pisa, the Council of State ruled that the self-redress resolution adopted by the province complied with formal validity requirements and that hedging costs should be taken into account when testing for the economic interest criterion. The Council appointed a technical expert to perform this test.

Following two expert reports in Dexia Crediop's favour, the Council returned its final verdict on 27 November 2012. In summary, the Council of State ruled that (i) the initial fair value of a hedging transaction is not automatically equal to the theoretical average price on the swap market, but that it must take into account parameters specific to the hedging transaction, such as the loan and liquidity components; (ii) these components of hedging costs, where accurately assessed, are legitimate and do not constitute "implied costs"; (iii) the cost of the hedging transaction (after deducting the components in question) as it relates to the Province of Pisa is lower than the economic benefit generated by restructuring the debt for the province, and the restructuring as a whole fulfils the economic interest test; and (iv) Dexia Crediop was under no obligation to detail each individual component of the hedging cost for the Province of Pisa and Dexia Crediop administered the bond restructuring in connection with the Province of Pisa in a manner that was proper, transparent and in keeping with the client's interests. A proceeding before the Supreme Court and the Commercial Court in London regarding the rulings issued by the Council of State is still in progress.

Dexia Crediop is involved in various proceedings brought by 11 Italian regions, cities or provinces in connection with debt restructuring deals and associated hedging arrangements. Dexia Crediop is involved in a number of civil and administrative proceedings with the aim of protecting its rights in connection with hedging agreements. In three of these ongoing cases, criminal proceedings have been brought against employees of Dexia Crediop for alleged fraudulent acts which, if proven, could also incur Dexia Crediop's administrative liability for failing to take appropriate steps to prevent its employees from committing such offences. The employees in question and Dexia Crediop are contesting all charges brought against them in this regard. More recently, in one of these three current proceedings, the charges of fraudulent acts were dismissed on 14 January 2013.

Dexia is not presently in a position to reasonably comment on the length, outcome or potential financial consequences of these proceedings. As such, the financial statements for the year ended 31 December 2012 show only a provision for around EUR 5 million to cover the legal costs associated with these disputes.

- Dexia Crédit Local

Dexia Crédit Local is involved in a number of disputes with local governments to which it has proposed structured loans. As at 31 December 2012, 63 subpoenas had been issued against Dexia Crédit Local in connection with structured loans.

On 8 February 2013, the Nanterre Regional Court issued its verdicts on claims brought against Dexia by the Département de Seine-Saint-Denis in connection with three structured loans with a combined outstanding balance of EUR 177,534,631.90 as at 21 March 2013.

The Nanterre Regional Court dismissed the Département de Seine-Saint-Denis's request to cancel the three contested structured loan agreements and all its claims for damages. In particular, the Court considered that the loans were not speculative, that the Département was competent to enter into the loan agreements and that Dexia had fulfilled its duty to inform and advise the Département. The Nanterre Regional Court did, however, consider that faxes that preceded the signature of the final agreements could be described as "loan agreements", and that failure to include the annual percentage rate (APR) on these faxes implied that the statutory interest rate should be applied.

The loans to which the Court's decisions relate fall within the scope of disposal of Société de Financement Local. That being the case, this verdict, if upheld, will have no financial impact on the Group, since the assets being disposed of now belong to Société de Financement Local. If the Regional Court's decisions were to be upheld and were to constitute a legal precedent, their extension to other Dexia loans could however give rise to significant contingent liabilities.

Dexia Crédit Local intends to appeal these decisions.

- Dexia Israel

In May 2002, a class action complaint was filed concerning Dexia's purchase of shares held by the State of Israel and certain banks, based on an alleged breach of corporate law. In April 2009, the Central District Court dismissed the class action claim filed by the plaintiffs. In June 2009, the latter appealed their case to the Supreme Court. The hearing was held in November 2010.

On 17 June 2012, the Supreme Court returned its verdict, ruling that Dexia Crédit Local should have acquired the shares in question via a public tender offer. Consequently, the Supreme Court referred the entire case (recognition of the class action claim, existence of losses and, if applicable, appropriate compensation) to the Tel Aviv District Court. In January 2013, the Supreme Court dismissed requests for additional hearings filed by Dexia Crédit Local and the State of Israel following the ruling on 17 June 2012.

In December 2011, another class action suit was filed by nine individual shareholders against Dexia Crédit Local and the Union of Local Authorities in Israel (ULAI), in their capacity as shareholders, and against Dexia Israel. In particular, this case is based on an alleged failure to complete the process of equalising the rights attached to shares in Dexia Israel, which the applicants claimed was detrimental to them. In January 2013, the Tel Aviv District Court decided to defer its ruling until such time as a final ruling (including on appeal) had been returned in connection with the first class action case.

In July 2012, some minority shareholders also initiated a derivative action on behalf of Dexia Israel against Dexia Crédit Local and 20 of its current and past directors, with the aim, in particular, of securing the reimbursement of dividends paid by Dexia Israel to Dexia Crédit Local since the latter acquired its equity interest.

Dexia is not presently in a position to reasonably comment on the length, outcome or potential financial consequences of these proceedings.

- Dexia and Dexia Crédit Local S.A.: petitions for the cancellation of Belgian royal decrees extending a government guarantee

The Kingdom of Belgium was authorised to provide a guarantee to Dexia SA and Dexia Crédit Local by a Belgian royal decree dated 18 October 2011.This royal decree was amended by another royal decree dated 19 December 2012.

On 23 December 2011, three non-profit associations – the Comité pour l'annulation de la dette du Tiers-Monde (Committee for the Cancellation of Third World Debt/CADTM), the Association pour la Taxation des Transactions financières pour l'Aide au Citoyen, locale de Liège (Liège branch of the Association for a Tax on Financial Transactions for the Benefit of Citizens/ATTAC Liège) and ATTAC Bruxelles 2 – filed a petition for the cancellation of the Belgian royal decree of 18 October 2011 with the Belgian Council of State. These non-profit associations were joined by two Members of the Belgian federal parliament, who voluntarily joined in this proceeding to request that the royal decree of 18 October 2011 be cancelled. Dexia SA decided to join in the proceeding before the Belgian Council of State in order to assert its rights.

On 26 February 2013, these three non-profit associations and two Members of the Belgian federal parliament filed a petition for the cancellation of the royal decree of 19 December 2012. Dexia SA also intends to join in this proceeding before the Belgian Council of State in order to assert its rights.

These proceedings are pending before the Belgian Council of State.

- Disposal of Group operating entities

Having sold Dexia Banque Belgique SA to the Société Fédérale de Participations et d'Investissement SA in October 2011, in 2012 and early 2013 Dexia and Dexia Crédit Local S.A. finalised the disposal of a serie of other operating entities, in accordance with undertakings given from 2011 onwards and set out in the Group's revised resolution plan (see page 69 of this report).

The share transfer agreements pertaining to these disposals include warranties which are subject to the customary restrictions and limitations for these types of transactions, together with certain specific indemnities.

To date, with the exception of the case indicated above, no warranty or indemnity claims have been formally put forward by the buyers in connection with the aforementioned contracts.

3. APPLICATION AND EVOLUTION OF THE REGULATORY FRAMEWORK

The Dexia Group has implemented all the mechanisms associated with the Basel II regulations and has adopted a mechanism for constant improvement, particularly by integrating provisions linked to CRD (evolution of the calculation of major risks, retention of a portion of securitised exposures) and CRD 3 (introduction of a stressed VaR, taking account of requirements for the calculation of capital consumption for securitisation and re-securitisation positions, which are nonetheless limited for Dexia Crédit Local). Dexia is also working actively on the introduction of CRD 4 and for that purpose has established a dedicated governance system involving close collaboration between the risk and finance teams in order to make all the changes necessary in respect of the new requirements for the calculation of capital consumption (Credit Valuation Adjustments, Asset Value Correlation, liquidity, definition of capital).

As for credit risk, since 1 January 2008 Dexia Crédit Local has used the Advanced Internal Rating Based Approach (AIRBA) to calculate its capital requirements and its solvency ratios. Following the disposal of certain Group entities and the sharp reduction of some portfolios, the Dexia Group nonetheless filed an application with the Belgian National Bank (BNB) and the French Prudential Control Authority (ACP) to migrate to the standard approach for certain portfolios which have become non-significant in terms of assets and number of counterparties, making the statistical approach associated with the internal model much less appropriate.

Pillar 2, applicable since 31 December 2008, imposes the need on banks to demonstrate to their regulators that they are sufficiently capitalised in light of their risk profile. To that end, they must in particular have internal systems for calculating and managing their risks that are capable of estimating their economic capital requirement (Internal Capital Adequacy Assessment Process – ICAAP). Consolidated within Dexia in 2010, this process is distinguished in particular by the capital adequacy process. Dexia has nonetheless commenced a project to adapt this mechanism in line with its new scope and to its activities which will be introduced in 2013 (see the "Internal capital adequacy" section on page 38 of this annual report).

Pillar 3, which defines a series of qualitative and quantitative risk-related disclosures to be disseminated to market operators, is applicable at the Dexia Group consolidated level and has been an integral part of its external communication since 2008 (*see document entitled Risk Report – Pillar 3 of Basel II available at www.dexia.com*)..

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 effectiveness of the hedge.

Insofar as interest rate risk is concerned, fair value hedges are applied to either specific 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 specific 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 issues).

The amount hedged is calculated by laying out a schedule of the outstanding terms to maturity of the hedged items and designating one value per considered maturity band. These maturity schedules factor in the contractual terms of the transactions.

For each hedging relationship, prospective effectiveness is measured by ensuring that the outstanding value of hedged items in each maturity band 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 show signs of any retrospective over-hedging.

With interest rate risk, the Group uses financial derivatives to hedge any changes in income and expenses on 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

(EUR millions)	As at 31/12/2011					
	Carrying amount		Fair value		Unrecognised fair value adjustment	
	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale
Cash, central banks and postal checking accounts	3,056	2,198	3,056	2,198	0	0
Interbank loans and advances	12,534	2,556	11,814	2,556	(720)	0
Customer loans and advances	155,180	73,238	153,404	72,612	(1,776)	(626)
Financial assets held to maturity	561	0	611	0	50	0
Central banks, postal checking accounts and interbank borrowings and deposits	100,740	2,700	100,069	2,700	(671)	0
Customer borrowings and deposits	7,172	0	6,898	0	(274)	0
Debt securities	104,892	68,411	99,553	66,531	(5,339)	(1,880)
Subordinated debt	1,762	0	1,702	0	(60)	0

(EUR millions)	As at 31/12/2012					
	Carrying amount		Fair value		Unrecognised fair value adjustment	
	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale
Cash, central banks and postal checking accounts	1,048	2,400	1,048	2,400	0	0
Interbank loans and advances	10,806	1,115	10,574	1,115	(232)	0
Customer loans and advances	149,109	67,787	145,249	67,644	(3,860)	(143)
Financial assets held to maturity	453	10	508	10	55	0
Central banks, postal checking accounts and interbank borrowings and deposits	85,561	91	84,534	83	(1,027)	(8)
Customer borrowings and deposits	10,727	0	10,293	0	(434)	0
Debt securities	109,825	62,477	107,404	60,037	(2,421)	(2,440)
Subordinated debt	707	0	376	0	(331)	0

b. Methods used to determine the fair value of financial instruments

Fair value of financial assets

(EUR millions)	As at 31/12/2012							
	Ongoing activities				Activities held for sale			
	Level 1(1)	Level 2(2)	Level 3(3)	Total	Level 1(1)	Level 2(2)	Level 3(3)	Total
Loans and securities at fair value through profit or loss (see note 2.1)	0	0	2 224	2 224	0	0	0	0
Derivatives (see note 4.1.a)	0	28,508	2,018	30,526	0	10,113	1,380	11,493
Financial assets available for sale	8,586	12,235	15,239	36,060	589	42	494	1,125
TOTAL	**8,586**	**40,743**	**19,481**	**68,810**	**589**	**10,155**	**1,874**	**12,618**

(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).

Fair value of financial liabilities

(EUR millions)	As at 31/12/2012							
	Ongoing activities				Activities held for sale			
	Level 1(1)	Level 2(2)	Level 3(3)	Total	Level 1(1)	Level 2(2)	Level 3(3)	Total
Financial liabilities at fair value through profit or loss (see note 3.1.a)	0	2,777	1,154	3,931	0	0	0	0
Derivatives (see note 4.1.a)	0	56,447	3,213	59,660	0	6,000	4,153	10,153
TOTAL	**0**	**59,224**	**4,367**	**63,591**	**0**	**6,000**	**4,153**	**10,153**

(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

Ongoing activities (EUR millions)	As at 31/12/2012	
	From 1 to 2	From 2 to 1
Loans and securities at fair value through profit or loss	0	0
Derivatives	0	0
Financial assets available for sale	0	770
TOTAL FINANCIAL ASSETS	**0**	**770**
Financial liabilities at fair value through profit or loss	0	0
Derivatives	0	0
TOTAL FINANCIAL LIABILITIES	**0**	**0**

Level 3 reconciliation

Ongoing activities (EUR millions)	As at 31/12/2011	Total gains and losses through profit or loss	Total unrealised or deferred gains and losses	Purchase	Sale	Direct origination	Settlement	Transfer to activities held for sale	Transfer into level 3	Transfer out of level 3	Other movements(1)	As at 31/12/2012
Loans and securities at fair value through profit or loss	2,347	(25)		0	(44)		(87)	0	5	0	28	2,224
Derivatives	1,652	(172)	0	59	0		0	0	551	(114)	42	2,018
Financial assets available for sale	7,719	2,166	630	3,839	(570)		(696)	0	581	(737)	2,307	15,239
Total financial assets	**11,718**	**1,969**	**630**	**3,898**	**(614)**	**0**	**(783)**	**0**	**1,137**	**(851)**	**2,377**	**19,481**
Financial liabilities at fair value through profit and loss	0	0	0	0	0	0	0	0	1,180	0	(26)	1,154
Derivatives	3,478	(1,044)	0	631	0	0	0	0	1,021	(908)	35	3,213
Total financial liabilities	**3,478**	**(1,044)**	**0**	**631**	**0**	**0**	**0**	**0**	**2,201**	**(908)**	**9**	**4,367**

(1) Other movements include notably the impact of changes in exchange rates during the year.
In 2012, they also include an amount of EUR 2,320 million due to the consolidation of Dexia FP Holdings Inc., Dexia Holdings Inc. and Dexia LdG Banque SA.

Sensitivity of level 3 valuations to alternative assumptions

The Dexia Crédit Local Group measures the fair value of certain instruments (bonds and CDS) partly by using mark-to-model pricing. The sensitivity analysis described below measures the impact on fair value of alternative assumptions for unobservable model parameters.

Concerning the valuation of bonds and CDS, when using its models, the Group considered alternative assumptions for the following unobservable parameters:

- credit spreads, by considering credit spreads available for the same counterparty, or, failing that, for similar counterparties, or belonging to similar sectors or by using credit spreads indexed to liquid CDS indices;
- cash-CDS basis, from which can be inferred the spreads for CDS spread securities;
- liquidity of the financial instrument, according to the level of market activity for the instrument.

Tests have been performed on bonds and CDS classified in level 3. The main impacts are as follows:

- for level 3 bonds classified as available for sale, the sensitivity of the available-for-sale reserve to alternative assumptions is estimated to range from a negative impact of EUR 284 million to a positive impact of EUR 253 million in 2012 (negative EUR 157 million to positive EUR 130 million in 2011);

- Dexia's tailor-made negative basis trades (NBT) are considered as a single product. Therefore, the bond and the related CDS are tested together. The main assumption affecting their fair value is the impact of early unwinding of the NBT (bid/ask spread). In 2012, based on the significant number of early unwinds of NBT since 2009, and taking into account all NBT transactions remaining in the portfolio, the positive impact (average unwind costs in 2009) is EUR 7.3 million whereas the negative impact (average unwind costs in 2011) comes to EUR 39.7 million. In 2011, the positive impact was EUR 7 million and the negative impact was EUR 41 million.

The effect of the alternative assumptions on CDS credit spreads was estimated at positive EUR 3.3 million (positive scenario) and negative EUR 3.4 million (negative scenario), before tax. In 2011, the respective estimates were positive EUR 3.6 million and negative EUR 3.7 million.

c. Disclosure of difference between transaction prices and modelled values (day one profit or loss)

No material deferred day one profit was recognised in 2011 or 2012. 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 deducting specific provisions);
- for derivative contracts, the market value recognised on the balance sheet;
- for off-balance sheet commitments, the amount shown in the notes, being the undrawn amount of financing commitments and the maximum amount that may be called under guarantee commitments.

a. Exposure by geographic region and by counterparty category

Credit risk exposure is broken down by geographic 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 geographic region and industrial segment.

Credit risk exposure is based on a scope that encompasses the fully-consolidated subsidiaries of Dexia Crédit Local Group and 50% of the joint venture Domiserve.

Exposure by geographic region

(EUR millions)	As at 31/12/2011		As at 31/12/2012	
	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale
France	39,472	54,027	33,475	51,293
Belgium	31,819	7,400	11,044	5,227
Germany	26,618	1,163	24,448	954
Greece	649	0	227	0
Ireland	945	5	1,592	2
Italy	35,208	4,010	33,460	3,999
Luxembourg	1,351	1,365	477	14
Spain	22,184	541	22,975	518
Portugal	4,080	141	3,809	75
Other EU countries	21,974	5,408	22,544	4,963
Rest of Europe	6,098	49	6,422	177
Turkey	376	0	676	0
U.S. and Canada	38,012	597	31,513	690
South and Central America	1,988	0	1,110	0
Southeast Asia	1,524	0	1,220	0
Japan	7,071	25	7,296	25
Rest of world[(1)]	5,973	17	7,767	3
TOTAL	**245,342**	**74,748**	**210,055**	**67,940**

(1) Includes supranational entities.

Exposure by counterparty category

(EUR millions)	As at 31/12/2011 Ongoing activities	As at 31/12/2011 Activities held for sale	As at 31/12/2012 Ongoing activities	As at 31/12/2012 Activities held for sale
Central governments	27,785	4,053	30,408	4,538
Local governments (1)	116,910	67,165	103,543	56,752
Financial institutions	62,087	3,166	38,207	1,579
Corporates	10,245	150	8,407	145
Monoline insurers	4,879	0	5,652	0
ABS/MBS	7,299	79	7,899	4,908
Project finance	16,137	135	15,939	18
Private individuals, SME, sole traders	0	0	0	0
TOTAL	**245,342**	**74,748**	**210,055**	**67,940**

(1) Of which, as far as ongoing activities in 2012 are concerned: EUR 87 million for Greece, EUR 18,059 million for Italy, EUR 143 million for Hungary, EUR 2,009 million for Portugal and EUR 11,213 million for Spain.

Credit risk exposure of sovereign assets for certain European countries

Ongoing activities (EUR millions) — As at 31/12/2011	Greece: Securities available for sale	Greece: Loans and securities held to maturity	Italy: Securities available for sale	Italy: Loans and securities held to maturity	Hungary: Securities available for sale	Portugal: Securities available for sale	Portugal: Loans and securities held to maturity	Spain: Securities available for sale
Exposure:								
Carrying amount before fair value adjustments	2,397	359	3,899	5,269	1,289	1,812	63	466
Fair value adjustment due to interest rate hedged	849	77	1,487	610	89	560	0	52
Fair value adjustment not hedged	0	0	(1,901)	0	(294)	(911)	0	(40)
Impairment on carrying amount	(1,788)	(268)	0	0	0	0	0	0
Impairment on hedges (including cash flow hedge)	(849)	(77)	0	0	0	0	0	0
Total	**609**	**91**	**3,485**	**5,879**	**1,084**	**1,461**	**63**	**478**
Available-for-sale reserve:								
Available-for-sale reserve (gross)	0	0	(1,901)	(71)	(294)	(911)	0	(40)
Deferred tax	0	0	375	23	21	40	0	11
Available-for-sale reserve (net)	**0**	**0**	**(1,526)**	**(48)**	**(273)**	**(871)**	**0**	**(29)**

The Dexia Crédit Local Group has no exposure on Irish sovereign assets.

The Dexia Crédit Local Group has a nil position on credit default swaps on Italian sovereign assets: this position consists of EUR 803 million of credit default swaps sold, offset by purchases for the same nominal amount. The Group has no other exposure on credit default swaps.

Ongoing activities (EUR millions)	**As at 31/12/2012**						
	Italy		**Hungary**	**Portugal**		**Spain**	
Exposure:	Securities available for sale	Loans and securities held to maturity	Securities available for sale	Securities available for sale	Loans and securities held to maturity	Securities available for sale	Loans and securities held to maturity
Carrying amount before fair value adjustments	4,083	9,498	1,181	1,806	46	453	18
Fair value adjustment due to interest rate hedged	1,968	1,406	134	709	22	14	12
Fair value adjustment not hedged	(1,670)	0	(147)	(1,253)	0	(37)	0
Impairment on carrying amount	0	0	0	0	0	0	0
Impairment on hedges (including cash flow hedge)	0	0	0	0	0	0	0
Total	**4,381**	**10,904**	**1,168**	**1,262**	**68**	**430**	**30**
Available-for-sale reserve:							
Available-for-sale reserve (gross)	(1,670)	(67)	(147)	(1,253)	0	(37)	0
Deferred tax	12	20	0	0	0	0	0
Available-for-sale reserve (net)	**(1,658)**	**(47)**	**(147)**	**(1,253)**	**0**	**(37)**	**0**

In 2012, in connection with the exchange plans negotiated by the Greek State, the Dexia Crédit Local Group sold or exchanged all of its exposure on Greek sovereign debt.

Increased exposure on the Italian sovereign in 2012 is mainly due to the assimilation of certain local authority claims to the State. The Dexia Crédit Local Group has granted credit lines to certain Italian local authorities for a total of EUR 268 million.

The Dexia Crédit Local Group has a nil position on credit default swaps on Italian sovereign assets: this position consists of EUR 803 million of credit default swaps sold, offset by purchases for the same nominal amount. The Group has no other exposure on credit default swaps.

The Dexia Crédit Local Group has no exposure on Irish sovereign assets.

b. Maximum credit risk exposure

	As at 31/12/2011				**As at 31/12/2012**			
	Ongoing activities		**Activities held for sale**		**Ongoing activities**		**Activities held for sale**	
(EUR millions)	**Credit risk exposure**	**Financial effect of collateral**	**Credit risk exposure**	**Financial effect of collateral**	**Credit risk exposure**	**Financial effect of collateral**	**Credit risk exposure**	**Financial effect of collateral**
Financial assets available for sale (excluding variable-income securities)	28,090	0	1,170	0	35,660	0	1,124	0
Financial assets designated at fair value (excluding variable-income securities)	38	0	0	0	26	0	0	0
Financial assets held for trading (excluding variable-income securities)	2,330	0	0	0	2,198	0	0	0
Loans and advances (at amortised cost)	154,412	1,777	72,415	6	142,287	481	66,169	5
Financial assets held to maturity	561	0	0	0	453	0	10	0
Derivatives	5,790	1,659	442	2,420	5,698	2,137	314	3,335
Other financial instruments	631	0	61	0	949	0	5	0
Loan commitments granted	18,956	0	660	0	7,212	0	317	0
Guarantee commitments granted	34,534	12,509	0	0	15,572	17,349	1	0
TOTAL	**245,342**	**15,945**	**74,748**	**2,426**	**210,055**	**19,967**	**67,940**	**3,340**

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 performing financial assets

	As at 31/12/2012							
	Activities held for sale				Activities held for sale			
(EUR millions)	AAA to AA-	A+ to BBB-	Non investment grade	Total	AAA to AA-	A+ to BBB-	Non investment grade	Total
Financial assets available for sale (excluding variable-income securities)	6,221	21,234	8,178	35,633	74	812	239	1,125
Financial assets designated at fair value (excluding variable-income securities)	0	6	20	26	0	0	0	0
Financial assets held for trading (excluding variable-income securities)	880	1,232	77	2,189	0	0	0	0
Loans and advances (at amortised cost)	58,273	66,470	16,122	140,865	23,074	36,998	4,964	65,036
Financial assets held to maturity	89	364	0	453	0	10	0	10
Derivatives	617	4,071	717	5,405	0	314	0	314
Other financial instruments	173	13	745	931	0	2	3	5
Loan commitments granted	3,412	3,200	518	7,130	253	61	3	317
Guarantee commitments granted	3,461	11,396	700	15,557	0	0	0	0
Impaired financial assets				1,256				500
Past-due financial assets				610				633
TOTAL	**73,126**	**107,996**	**27,077**	**210,055**	**23,401**	**38,197**	**5,209**	**67,940**

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 31/12/2011							
	Ongoing activities				Activities held for sale			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets
(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	
Financial assets available for sale (excluding variable-income securities)	0	0	0	3,509	0	0	0	15
Loans and advances (at amortised cost)	175	7	248	1,037	257	33	68	31
Financial assets held to maturity	0	0	0	234	0	0	0	0
Other financial instruments	0	0	0	27	0	0	0	0
TOTAL	**175**	**7**	**248**	**4,807**	**257**	**33**	**68**	**46**

Financial assets are classified as impaired in the cases described in note 1.3 "Accounting policies and valuation methods".

	As at 31/12/2012							
	Ongoing activities				Activities held for sale			
	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets	Past-due but not impaired financial assets			Carrying amount of individually impaired financial assets
(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	
Financial assets available for sale (excluding variable-income securities)	0	0	0	160	0	0	0	0
Loans and advances (at amortised cost)	325	25	251	1,314	134	148	425	354
Financial assets held to maturity	0	0	0	0	0	0	0	0
Other financial instruments	0	0	0	29	0	0	0	0
TOTAL	**325**	**25**	**251**	**1,503**	**134**	**148**	**425**	**354**

Financial assets are classified as impaired in the cases described in note 1.3 "Accounting policies and valuation methods".

e. Assets obtained by taking possession of collateral during the period

This item comprises tangible assets of EUR 15 million in 2012 (EUR 14 million in 2011).

f. Movements in impairment of financial assets

	2011								
(EUR millions)	As at 1 January	Additions	Reversals	Other adjustments [1]	Transfer to non current assets held for sale	Other transfers	As at 31 December	Recoveries recognised directly in profit or loss	Charge-offs recognised directly in profit or loss
Specific impairment	**(2,307)**	**(3,040)**	**242**	**1,879**	**1**	**(39)**	**(3,264)**	**1,936**	**(52)**
Interbank loans and advances	0	0	0	0	0	0	0	0	0
Customer loans and advances	(1,875)	(313)	81	1,754	1	0	(352)	2	(52)
Securities held to maturity	0	(149)	0	(4)	0	0	(153)	0	0
Securities available for sale	(238)	(2,578)	111	0	0	(39)	(2,744)	1,934	0
Fixed-income instruments	*(182)*	*(2,565)*	*98*	*(13)*	*0*	*0*	*(2,662)*	*1,934*	*0*
Variable-income instruments	*(56)*	*(13)*	*13*	*13*	*0*	*(39)*	*(82)*	*0*	*0*
Accruals and other assets	(194)	0	50	129	0	0	(15)	0	0
Collective impairment	**(659)**	**(219)**	**174**	**375**	**18**	**0**	**(311)**		
Interbank loans and advances	(10)	(2)	2	0	0	0	(10)		
Customer loans and advances	(649)	(217)	172	375	18	0	(301)		
Securities held to maturity	0	0	0	0	0	0	0		
TOTAL	**(2,966)**	**(3,259)**	**416**	**2,254**	**19**	**(39)**	**(3,575)**	**1,936**	**(52)**

(1) Other adjustments include notably the impact of changes in exchange rates and in the consolidation scope during the year. The deconsolidation of Dexia Holdings Inc. and Dexia FP Holdings Inc. represents an impact of EUR 1,679 million on specific impairment and EUR 327 million on collective impairment.

(EUR millions)	2012 As at 1 January	Additions	Reversals	Other adjustments (1)	Transfer to non current assets held for sale	Other transfers	As at 31 December	Recoveries recognised directly in profit or loss	Charge-offs recognised directly in profit or loss
Specific impairment	**(3,264)**	**(500)**	**3,266**	**(67)**	**0**	**0**	**(565)**	**70**	**(3,054)**
Interbank loans and advances	0	0	0	0	0	0	0	0	0
Customer loans and advances	(352)	(155)	185	(67)	0	0	(389)	2	(155)
Securities held to maturity	(153)	0	141	12	0	0	0	0	0
Securities available for sale	(2,744)	(343)	2,938	(9)	0	0	(158)	68	(2,899)
Fixed-income instruments	*(2,662)*	*(335)*	*2,884*	*(6)*	*0*	*0*	*(119)*	*68*	*(2,899)*
Variable-income instruments	*(82)*	*(8)*	*54*	*(3)*	*0*	*0*	*(39)*	*0*	*0*
Accruals and other assets	(15)	(2)	2	(3)	0	0	(18)	0	0
Collective impairment	**(311)**	**(329)**	**225**	**(8)**	**0**	**0**	**(423)**		
Interbank loans and advances	(10)	(4)	6	1	0	0	(7)		
Customer loans and advances	(301)	(325)	219	(9)	0	0	(416)		
Securities held to maturity	0	0	0	0	0	0	0		
TOTAL	**(3,575)**	**(829)**	**3,491**	**(75)**	**0**	**0**	**(988)**	**70**	**(3,054)**

(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	Change in the fair value attributable to changes in the credit risk – For the period	Cumulative
As at 31 December 2011	16	(3)	(3)
As at 31 December 2012	5	0	(3)

No credit derivatives are held for the purpose of mitigating the credit risk exposure.

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		Difference between the carrying amount and the amount due contractually at maturity (1)
		For the period	Cumulative	
As at 31 December 2011	1,765	(58)	(266)	31
As at 31 December 2012	3,931	136	(186)	685

(1) Amount includes the premium/discount and change in market value.

The fair value option is essentially used by FSA Global Funding Ltd., Dexia FP Holdings Inc. and Dexia LdG Banque SA 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 funding spread.

7.3. Collateral

a. Nature of the assets received as collateral that can be sold or repledged

(EUR millions)	2011		2012	
	Fair values of collateral held	Fair value of collateral sold or repledged	Fair values of collateral held	Fair value of collateral sold or repledged
Equity instruments	0	0	0	0
Debt securities	0	0	0	0
Loans and advances	0	0	115	0
Non-financial assets	0	0	0	0
TOTAL	**0**	**0**	**115**	**0**

Collateral is obtained in connection with the repurchase agreement activities.

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

(EUR millions)	2011	2012
Carrying amount of financial assets pledged as collateral for liabilities	79,003	116,760
Carrying amount of financial assets pledged as collateral for contingent liabilities	0	0

In 2011, assets are pledged primarily to collateralise repurchase agreements and debts to the Dexia Crédit Local Group's sister companies.

In 2012, the amount of EUR 117 billion represents the amount of liquidity paid over as collateral for derivatives and assets pledged as collateral for funding received from the Eurosystem, the European Investment Bank, agreements for the temporary lending of stocks or other secured funding, and the State guarantee mechanism. This amount includes neither the assets guaranteeing the secured debt issued by Dexia Kommunalbank Deutschland and Dexia LdG Banque SA, nor Dexia FP Holdings Inc.'s Guaranteed Investment Contracts (GICs). These assets are in the region of EUR 42 billion.

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 31/12/2012									
(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	1,048	0	0	0	0	0	0			1,048
Financial assets at fair value through profit or loss	0	1,850	9	54	33	0	1,155	20,278		23,379
Hedging derivatives							957	8,414		9,371
Financial assets available for sale	19	5,882	2,964	8,471	16,423	35	539	1,885	(158)	36,060
Interbank loans and advances	1,177	2,360	1,311	3,728	1,612	0	60	565	(7)	10,806
Customer loans and advances	238	25,567	25,169	17,913	62,982	0	870	17,175	(805)	149,109
Fair value revaluation of portfolio hedges								3,526		3,526
Financial assets held to maturity	0	14	48	335	51	0	5	0	0	453
Tax assets						2,835			(2,784)	51
Accruals and other assets	3	37,290	116	0	0	73	6	3	(18)	37,473
Investments in associates						0			0	0
Tangible fixed assets						715			(216)	499
Intangible assets and goodwill						560			(458)	102
Total ongoing activities	2,485	72,963	29,617	30,501	81,101	4,218	3,592	51,846	(4,446)	271,877
Non-current assets held for sale	2,427	12,941	8,354	12,561	29,848	123	1,900	15,994	(53)	84,095
TOTAL	**4,912**	**85,904**	**37,971**	**43,062**	**110,949**	**4,341**	**5,492**	**67,840**	**(4,499)**	**355,972**

b. Analysis of liabilities excluding shareholders' equity

	As at 31/12/2012								
(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 and interbank borrowings and deposits	331	37,967	4,928	36,576	5,366	0	378	15	85,561
Financial liabilities at fair value through profit and loss	0	571	145	894	1,533	0	1,083	23,605	27,831
Hedging derivatives							1,988	33,772	35,760
Customer borrowings and deposits	2,327	4,101	1,824	373	1,911	0	57	134	10,727
Debt securities	19	29,631	23,666	33,252	17,306	0	1,016	4,935	109,825
Fair value revaluation of portfolio hedges								372	372
Tax liabilities						62			62
Accruals and other liabilities	32	3,701	69	20	102	14	3		3,941
Provisions						121			121
Subordinated debt	0	30	5	425	213	0	8	26	707
Total ongoing activities	2,709	76,001	30,637	71,540	26,431	197	4,533	62,859	274,907
Liabilities included in disposal groups held for sale	0	9,547	5,044	23,483	22,488	10	1,748	16,849	79,169
TOTAL	**2,709**	**85,548**	**35,681**	**95,023**	**48,919**	**207**	**6,281**	**79,708**	**354,076**

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 2012:

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 and credit spread risk are managed within Value at Risk (VaR) limits;
- banking book, cash and liquidity management (CLM): liquidity risk is managed within VaR and interest rate sensitivity limits.

b. Balance Sheet Management (BSM)

- Interest rate risk is monitored against sensitivity and VaR limits.

c. Bond portfolio

- Credit spread risk is monitored using spread sensitivities.

Treasury and Financial Markets

Treasury and Financial Markets activities are mainly intended as a Group support function.

TFM engages in trading activities, and takes non trading-related risk positions in relation to short-term balance sheet management and capital management activities.

Following the reorientation of TFM activities, the Risk Committee meeting held on 8 January 2013 decided to reduce TFM's VaR limits. TFM limits were reduced to EUR 22 million at the end of 2012.

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 based on an historical method using sensitivity.

VaR (10 days, 99%) (EUR millions)		2011									
		Interest rate and currency (banking and trading)					Spread (trading)				
		Quarter 1	Quarter 2	Quarter 3	Quarter 4		Quarter 1	Quarter 2	Quarter 3	Quarter 4	
					Ongoing activities	Activities held for sale (1)				Ongoing activities	Activities held for sale (1)
By risk factor	Average	3.9	2.8	3.4	3.2		7.2	6.5	3.4	2.6	
	Maximum	7.3	4.4	5.1	4.9		7.9	6.8	6.6	2.7	
Overall	Average	8.2									
	Maximum	14.1									
	Period end (ongoing activities)	5.9									
	Limit (ongoing activities)	27.0									

(1) There are no Treasury and Financial Markets activities held for sale.

VaR (10 days, 99%) (EUR millions)		2012							
		Interest rate and currency (banking and trading)				Spread (trading)			
		Quarter 1	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Quarter 2	Quarter 3	Quarter 4
By risk factor	Average	3.0	2.7	5.1	2.0	2.6	5.9	8.3	8.2
	Maximum	4.4	5.2	10.3	3.8	2.7	8.3	8.8	8.4
Ongoing activities(1)									
Overall	Average	9.5							
	Maximum	18.3							
	Period end (ongoing activities)	10.4							
	Limit (ongoing activities)	22.0							

(1) There are no Treasury and Financial Markets activities held for sale.

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 2011, the sensitivity of ongoing activities to a 1% change in interest rates amounted to negative EUR 51 million against a limit of EUR 115 million.

As at 31 December 2012, the sensitivity of ongoing activities to a 1% change in interest rates amounted to negative EUR 76 million against a limit of EUR 95 million.

BSM interest rate and credit spread risks

BSM falls under the direct decision and control authority of the 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).

	2011				
	Interest rate (1) (2)				
(EUR millions)	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
				Ongoing activities	Activities held for sale
Sensitivity	27	20	(12)	15	

(1) Sensitivity to a 1% shift.
(2) As at 31 December 2011, the interest rate sensitivity limit for BSM ongoing activities amounted to EUR 96 million (for a 1% shift).

	2012				
	Interest rate (1) (2)				
	Quarter 1 (1)	Quarter 2 (2)	Quarter 3 (3)	Quarter 4 (3)	
(EUR millions)				Ongoing activities	Activities held for sale
Sensitivity	(41)	(42)	(33)	(7)	11

(1) Sensitivity to a 1% shift.
(2) As at 31 December 2012, the interest rate sensitivity limit for BSM ongoing activities amounted to EUR 96 million (for a 1% shift).
(3) Given the highly integrated processes within the Dexia Crédit Local Group, the sensitivity of ongoing activities and activities held for sale was still monitored on an overall basis up to the fourth quarter of 2012.

Bond portfolio

	2011		2012	
(EUR billions)	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale
Exposure	81.30	14.90	87.00	11.30

Interest rate sensitivity

The interest rate risk on the bond portfolio is hedged and match funded on the coupon rolls, as its sole purpose is to manage the credit spread: it therefore has very limited sensitivity to changes in interest rates.

Credit spread sensitivity

This estimates the sensitivity of the AFS reserve to a 1bp increase in the spread.

	2011		2012	
(EUR millions)	Ongoing activities	Activities held for sale	Ongoing activities	Activities held for sale
Sensitivity	(26.50)	(0.90)	(27.30)	(0.80)

7.6. Sensitivity of listed equities

None.

7.7. Liquidity risk

a. Analysis by residual 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 savings deposits are included in the "Demand" column, even though they have no fixed repayment date.

Analysis of assets

	As at 31/12/2012									
(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	359	689	0	0	0	0	0			1,048
Financial assets at fair value through profit or loss	0	41	5	211	1,689	0	1,155	20,278		23,379
Hedging derivatives							957	8,414		9,371
Financial assets available for sale	18	2,891	2,463	10,124	18,263	35	539	1,885	(158)	36,060
Interbank loans and advances	1,115	816	1,180	4,624	2,453	0	60	565	(7)	10,806
Customer loans and advances	112	3,180	4,992	26,774	96,811	0	870	17,175	(805)	149,109
Fair value revaluation of portfolio hedges								3,526		3,526
Financial assets held to maturity	0	14	48	335	51	0	5	0	0	453
Tax assets						2,835			(2,784)	51
Accruals and other assets	2	37,288	119	0	0	73	6	3	(18)	37,473
Investments in associates						0			0	0
Tangible fixed assets						715			(216)	499
Intangible assets and goodwill						560			(458)	102
Total ongoing activities	1,606	44,919	8,807	42,068	119,267	4,218	3,592	51,846	(4,446)	271,877
Non-current assets held for sale	2,427	2,027	3,354	18,089	40,234	123	1,900	15,994	(53)	84,095
TOTAL	**4,033**	**46,946**	**12,161**	**60,157**	**159,501**	**4,341**	**5,492**	**67,840**	**(4,499)**	**355,972**

Analysis of liabilities, excluding shareholders' equity

	As at 31/12/2012								
(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 and interbank borrowings and deposits	178	30,057	6,483	42,414	6,036	0	378	15	85,561
Financial liabilities at fair value through profit or loss	0	25	369	1,209	1,540	0	1,083	23,605	27,831
Hedging derivatives							1,988	33,772	35,760
Customer borrowings and deposits	2,325	3,892	1,829	577	1,913	0	57	134	10,727
Debt securities	19	23,232	20,179	40,827	19,617	0	1,016	4,935	109,825
Fair value revaluation of portfolio hedges								372	372
Tax liabilities						62			62
Accruals and other liabilities	32	3,701	69	20	102	14	3		3,941
Provisions						121			121
Subordinated debt	0	10	5	425	233	0	8	26	707
Total ongoing activities	2,554	60,917	28,934	85,472	29,441	197	4,533	62,859	274,907
Liabilities included in disposal groups held for sale	0	6,530	3,125	25,926	24,981	10	1,748	16,849	79,169
TOTAL	**2,554**	**67,447**	**32,059**	**111,398**	**54,422**	**207**	**6,281**	**79,708**	**354,076**

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

Steps taken to improve the Dexia Crédit Local Group's liquidity are described in note 7.0 "Risk exposures and hedging strategy", paragraph 2.4 "Liquidity risk".

7.8. Currency risk

Classification by original currency (EUR millions)	As at 31/12/2011 EUR	Other EU currencies	USD	Other currencies	Total
Total assets	268,549	25,610	41,812	26,112	362,083
Total liabilities and shareholders' equity	282,196	15,121	44,528	20,238	362,083
NET BALANCE SHEET POSITION	**(13,647)**	**10,489**	**(2,716)**	**5,874**	**0**

Classification by original currency (EUR millions)	As at 31/12/2012 EUR	Other EU currencies	USD	Other currencies	Total
Total assets	268,355	25,588	38,762	23,267	355,972
Total liabilities and shareholders' equity	278,859	14,759	45,579	16,775	355,972
NET BALANCE SHEET POSITION	**(10,504)**	**10,829**	**(6,817)**	**6,492**	**0**

7.9. Risk weighted assets

(EUR millions)	2011	2012
Credit risk	48,034	48,632
Market risk	1,534	1,276
Operational risk	1,392	589
TOTAL	**50,960**	**50,497**

8. Analysis by geographic region and by line of business

a. Analysis by geographic region

(EUR millions)	Eurozone (countries employing the euro)	Rest of Europe	United States	Rest of world	Total
As at 31 December 2011					
Net banking income	(256)	13	(122)	19	**(346)**
Income (losses) from associates	0	0	0	0	**0**
Income (loss) before income taxes	(1,343)	35	(371)	(18)	**(1,697)**
Income from discontinued operations, net of tax	(1,005)	0	0	0	**(1,005)**
Total assets	332,706	225	26,685	2,467	362,083
of which, investments in associates	*0*	*0*	*0*	*0*	***0***
of which, non current assets held for sale	*89,166*	*0*	*19*	*0*	***89,185***
As at 31 December 2012					
Net banking income	(502)	7	(192)	(65)	**(752)**
Income (losses) from associates	0	0	0	0	**0**
Income (loss) before income taxes	(1,138)	(8)	(307)	(66)	**(1,519)**
Income from discontinued operations, net of tax	(541)	0	0	0	**(541)**
Total assets	322,435	84	31,483	1,970	355,972
of which, investments in associates	*0*	*0*	*0*	*0*	***0***
of which, non current assets held for sale	*84,001*	*77*	*17*	*0*	***84,095***

The geographic 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 has been 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, which comprises treasury operations and the former Central Asset segment;
- the Legacy Portfolio Management division, which, in accordance with the European Commission's decision, now oversees the activities managed on a run-off basis (non-core PWB loans, bonds and the run-off Financial products portfolio).

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 the 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 division 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 31/12/2011						
Net banking income (loss)	219	0	48	267	(613)	(346)
Income (losses) from associates	0	0	0	0	0	0
Income (loss) before income taxes	(87)	0	(242)	(329)	(1,368)	(1,697)
Income from discontinued operations, net of tax	(1,005)	0	0	(1,005)	0	(1,005)
Assets	**164,394**	**0**	**123,192**	**287,586**	**74,497**	**362,083**
of which, investments in associates	*0*	*0*	*0*	*0*	*0*	*0*
of which, non current assets held for sale	*48,420*	*0*	*28,732*	*77,152*	*12,033*	*89,185*
Liabilities	**6,861**	**0**	**355,222**	**362,083**	**0**	**362,083**
As at 31/12/2012						
Net banking income (loss)	16	0	(113)	(97)	(655)	(752)
Income (losses) from associates	0	0	0	0	0	0
Income (loss) before income taxes	(274)	0	(398)	(672)	(847)	(1,519)
Income from discontinued operations, net of tax	(541)	0	0	(541)	0	(541)
Assets	**152,247**	**0**	**126,073**	**278,320**	**77,652**	**355,972**
of which, investments in associates	*0*	*0*	*0*	*0*	*0*	*0*
of which, non current assets held for sale	*83,954*	*0*	*0*	*83,954*	*141*	*84,095*
Liabilities	**8,599**	**0**	**347,373**	**355,972**	**0**	**355,972**

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 lines of products, financial markets and new lending and service centres. The net result of each line of products 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 lines of products for internal purposes, and return on economic capital is used to measure the performance of each commercial line;
- cost of funding.

Statutory Auditor's report on the consolidated financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting, we hereby report to you, for the year ended 31 December 2012, on:

- the audit of the accompanying consolidated financial statements of Dexia Crédit Local;
- the justification of our assessments;
- the specific verification required by law.

These 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 involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made, as well as the overall presentation of the consolidated 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 consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group constituted by the legal persons and entities included in the consolidation as at 31 December 2012 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in Note 1 to the consolidated financial statements which stipulates that the consolidated financial statements of Dexia Crédit Local for the year ended 31 December 2012 have been prepared on a going concern basis, in accordance with IAS1 criteria.

The use of the going concern basis of accounting is justified by the revised business plan approved by the European Commission on 28 December 2012. This plan includes, in particular, the definitive liquidity guarantee provided by the States to a maximum of EUR 85 billion and a capital increase of EUR 5.5 billion for Dexia SA, EUR 2 billion of which in favour of Dexia Crédit Local, which occurred in late December 2012.

This plan is based on a macroeconomic scenario and different assumptions including the ability to refinance Dexia Group's activities. Nevertheless, there is still some uncertainty over the completion of the plan. As a result, it will be subject to regular updates to estimate the impact of changes in exogenous variables on its potential for completion.

II. Justification of our assessments

- The accounting estimates used in the presentation of the financial statements for the year ended 31 December 2012 were prepared in the specific context of the Dexia Group's reorganisation, as described in Note 1.1.d to the consolidated financial statements. It is in this context and 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 that we bring the following matters to your attention:

ACCOUNTING PRINCIPLES

Going concern basis

- Our work consisted in assessing the items used by the Board of Directors to justify maintaining the going concern basis of accounting and in gaining an understanding of the underlying documentation and more specifically the business plan and funding forecast.
- We also reviewed the information disclosed in the notes to the consolidated financial statements with respect to the going concern basis of accounting.

ACCOUNTING ESTIMATES

Recognition of assets held for sales

- As described in Note 4.6 to the consolidated financial statements "Information concerning operations held for sale", your Group classified and recorded a number of assets and liabilities under the rules applicable to assets held for sale and discontinued operations as at 31 December 2012.

- We examined the methods used to present and measure the assets and liabilities concerned to verify the appropriateness of this accounting treatment and of the disclosures in Note 4.6 to the consolidated financial statements.

Measurement of financial instruments

- In the context of volatility in the financial markets, your Company, as mentioned in Note 1.3.c to the consolidated financial statements, uses internal methodologies and models to value financial instruments that are not listed on active markets, and for the recognition of any impairment.

- Our work consisted in reviewing the control procedures for the identification of financial instruments that can no longer be traded on an active market or whose valuation parameters are no longer observable; in determining the models used to measure them; in evaluating the appropriateness of the data and assumptions; and in verifying that the risks and results related to these instruments were taken into account.

Provisions for credit and counterparty risks

- As mentioned in Note 1.3.c to the consolidated financial statements, your Company records impairment provisions to cover the credit risks inherent to its activities.

- We examined the system used to control monitoring of credit risks, impairment procedures, evaluation of the risk of non-collection and the level of impairment loss cover provided by specific and collective provisions.

- 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 formed which is expressed in the first part of this report.

III – Specific verifications

- As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

- We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-Sur-Seine and Courbevoie, 2 April 2013

French original signed by the Statutory Auditors

DELOITTE & ASSOCIÉS		**MAZARS**	
José-Luis GARCIA	Charlotte VANDEPUTTE	Hervé HELIAS	Virginie CHAUVIN

5 – Financial statements

Balance sheet

Assets

(EUR millions)	Note	As at 31/12/2010	As at 31/12/2011	As at 31/12/2012
I. Cash, central banks and postal checking accounts	*2.1*	131	1,650	691
II. Government securities	*2.2*	2,554	1,751	2,339
III. Interbank loans and advances	*2.3*	38,702	40,728	36,857
IV. Customer loans and advances	*2.4*	44,791	41,617	39,238
V. Bonds and other fixed-income securities	*2.5*	53,764	49,362	51,396
VI. Equities and other variable-income securities	*2.6*	278	246	210
VII. Long-term equity investments	*2.7*	2,965	2,520	1,251
VIII. Intangible assets	*2.8*	43	37	35
IX. Tangible fixed assets	*2.9*	12	7	8
X. Unpaid capital		0	0	0
XI. Uncalled capital		0	0	0
XII. Treasury stock		0	0	0
XIII. Other assets	*2.10*	18,096	25,880	26,135
XIV. Accruals	*2.10*	11,221	16,121	14,158
TOTAL ASSETS		**172,557**	**179,919**	**172,318**

Liabilities and equity

(EUR millions)		Note	As at 31/12/2010	As at 31/12/2011	As at 31/12/2012
I.	Interbank borrowings and deposits	*3.1*	65,026	78,737	56,803
II.	Customer deposits	*3.2*	2,495	722	267
III.	Debt securities	*3.3*	73,901	72,096	89,812
IV.	Other liabilities	*3.4*	8,218	2,904	2,148
V.	Accruals	*3.4*	13,308	18,085	17,258
VI.	Provisions for risks and charges	*3.5*	3,743	4,271	3,542
VII.	General banking risks reserve		0	0	0
VIII.	Subordinated debt	*3.6*	4,757	2,214	550
EQUITY		***3.7***	**1,109**	**890**	**1,938**
IX.	Capital stock		501	501	1,286
X.	Additional paid-in capital		1,501	4,870	1,885
XI	Reserves and retained earnings		637	(46)	(300)
XVII.	Net income (loss) for the year		(1,530)	(4,435)	(933)
TOTAL LIABILITIES AND EQUITY			**172,557**	**179,919**	**172,318**

Off-balance sheet items

(EUR millions)		Note	As at 31/12/2010	As at 31/12/2011	As at 31/12/2012
COMMITMENTS GIVEN					
I.	Financing commitments given	*4.1*	36,379	24,002	20,771
II.	Guarantee commitments given	*4.2*	56,834	52,438	43,521
III.	Other commitments given	*4.3*	29,922	47,361	60,404
COMMITMENTS RECEIVED					
IV.	Financing commitments received	*4.4*	5,903	3,850	2,265
V.	Guarantee commitments received	*4.4*	29,327	29,975	24,930
VI.	Commitments related to securities	*4.5*	416	2,187	162
VII.	Commitments related to foreign currency transactions	*4.6*	74,707	94,294	79,735
VIII.	Commitments related to forward and derivative financial instruments	*4.7*	558,327	449,272	384,661

Income statement

(EUR millions)	Note	As at 31/12/2010	As at 31/12/2011	As at 31/12/2012
I. Interest income	5.1	6,663	8,215	6,463
II. Interest expense	5.1	(6,972)	(9,019)	(6,643)
III. Income from variable-income securities	5.2	181	134	27
IV. Fee and commission income	5.3	11	14	7
V. Fee and commission expenses	5.3	(23)	(24)	(19)
VI. A. Net gains (losses) on held-for-trading portfolio transactions	5.4	(386)	(191)	(158)
VI. B. Net gains (losses) on available-for-sale portfolio transactions	5.4	(386)	(1,392)	1,538
VI. C. Net gains (losses) on held-to-maturity portfolio transactions		0	0	0
VII. Other banking income	5.8	4	1	2
VIII. Other banking expenses	5.8	(1)	0	0
NET BANKING INCOME (LOSS)		**(909)**	**(2,262)**	**1,217**
IX. General operating expenses	5.5	(204)	(167)	(219)
X. Depreciation and amortisation		(25)	(25)	(18)
GROSS OPERATING INCOME (LOSS)		**(1,138)**	**(2,454)**	**980**
XI. Cost of risk	5.6	(695)	(529)	(363)
OPERATING INCOME (LOSS) AFTER COST OF RISK		**(1,833)**	**(2,983)**	**617**
XII. Net gains (losses) on non-current assets	5.7	(11)	(916)	(1,534)
INCOME (LOSS) BEFORE TAX		**(1,844)**	**(3,899)**	**(917)**
XIII. Non-recurring items	5.9	0	0	0
XIV. Corporate income tax	5.10	314	(536)	(16)
XV. Net change in general banking risks reserve		0	0	0
NET INCOME (LOSS)		**(1,530)**	**(4,435)**	**(933)**
BASIC EARNINGS PER SHARE (EUR)		(17.58)	(50.95)	(4.17)
FULLY DILUTED EARNINGS PER SHARE (EUR)		(17.58)	(50.95)	(4.17)

Notes to the financial statements

1. Accounting policies and valuation methods

1.1. Significant events in 2012

Significant events during the fiscal year included:

- On 28 December 2012, the European Commission announced its approval of Dexia's revised orderly restructuring plan which the Belgian, French and Luxembourg States submitted on 14 December 2012, further to the Group's refinancing difficulties in autumn 2011. This approval paved the way for the three-way guarantee scheme to be set up by the Belgian, French and Luxembourg States, within an overall limit of EUR 85 billion, based on the following allocation: 51.41% for Belgium, 45.59% for France and 3% for Luxembourg. This guarantee, awarded on 24 January 2013, should cover financing raised as financial instruments and securities, deposits or borrowings through to 31 December 2021, with a maximum maturity of 10 years. The cost of the guarantee has been set at 5 basis points per annum, combined with a EUR 425 million arrangement fee.
  Under the temporary guarantee previously awarded for EUR 55 billion, the Dexia Crédit Local Group had issued EUR 54 billion of medium-term notes at 31 December 2012.
  For its issues through to 30 June 2010, Dexia will also continue to benefit from the State guarantee mechanism put in place in October 2008. At 31 December 2012, the instruments covered by this guarantee represented a total of EUR 19.7 billion.
  The total expense recognised by Dexia Crédit Local and its branches in respect of payments for these guarantees came to EUR 967 million at 31 December 2012 (versus EUR 279 million at 31 December 2011).

- The royal decrees granting the temporary guarantee and the 2013 guarantee are subject to annulment proceedings in 2011 the Belgian Council of State.

- The European Commission's approval also covers a EUR 5.5 billion capital increase for Dexia SA, including EUR 2 billion for Dexia Crédit Local. In this way, as decided by the Board of Directors on 19 December 2012, under the delegation of authority awarded to it by the Shareholders' Meeting on 12 December 2012, Dexia Crédit Local increased its capital stock by EUR 2 billion (including additionl paid-in capital), paid in cash. Dexia SA conducted this capital increase by subscribing for 136,612,019 new shares with a par value of EUR 5.75, representing a total capital increase of EUR 785,519,109.25, issued at a unit price of EUR 14.64. This operation raised Dexia Crédit Local's capital stock from EUR 500,513,102.75 to EUR 1,286,032,212, split into 223,657,776 shares with a par value of EUR 5.75.

- The Dexia Group's orderly restructuring plan includes provisions to sell off commercial franchises that may be divested within a short timeframe. In this way, Dexia Crédit Local made a commitment to sell its subsidiary Dexia Municipal Agency under an agreement in principle signed in March 2012. On 28 December 2012, the European Commission approved the principle behind the arrangements which the French State wanted to put in place in order to ensure continued access to sources of financing for local authorities and health institutions.
  In accordance with these arrangements:
  - on 31 January 2013, Dexia Crédit Local sold its entire interest in Dexia Municipal Agency for EUR 1 to a new credit institution (Société de Financement Local), owned by the French State (75%), Caisse des Dépôts (20%) and La Banque Postale (5%),
  - commercial relationships with local authorities and public health institutions are managed through a commercial joint-venture between La Banque Postale (65% interest) and Caisse des Dépôts (35%).

  Under the terms of these arrangements, setting a sales price of EUR 1 for Dexia Municipal Agency, Dexia Crédit Local recorded a further EUR 395 million impairment provision against the shares of its subsidiary.

- Dexia Crédit Local recorded provisions for impairment against its subsidiaries' securities, with EUR 382 million for Dexia Sabadell SA, EUR 160 million for Dexia Kommunalkredit Bank and EUR 581 million for Dexia Crediop. These impairments were recognised in connection with its subsidiaries being transferred to run-off.

- Under Dexia SA's agreements to sell Banque Internationale in Luxembourg, Dexia Crédit Local acquired a securities portfolio with a nominal value of EUR 7.7 billion from the Banque Internationale group in Luxembourg, with a EUR 1.2 billion write-down.

- In 2012, as part of the exchange plans negotiated by the Greek State, Dexia Crédit Local sold or exchanged all its Greek sovereign exposure, with a positive impact of EUR 90 million on profit and loss. The debt held on Dexia SA under the guarantee received for part of the Greek securities portfolio was adjusted accordingly and repaid by Dexia SA on 31 December 2012 for EUR 1,942 million.

- Dexia Crédit Local recorded a EUR 152 million loss on Kommunalkredit Austria Finanz securities following their cancellation, as decided by Kommunalkredit Austria Finanz's general meeting on 25 April 2012.

- On 2 March 2012, Dexia Crédit Local launched a public cash-tender offer for all its outstanding EUR 700 million of super subordinated notes issued on 18 November 2005, based on a purchase price of 24% (expressed as a percentage of the par value). This offer was open to institutional investors from 2 to 14 March 2012. In total, EUR 644 million were tendered for the offer by investors, representing 92% of the issue's nominal amount. This redemption offer was settled on 19 March 2012, with the total outstanding now representing EUR 56 million. The capital gain relating to this redemption (i.e. EUR 486 million net of fees) was recognised in profit and loss.
  Dexia Crédit Local also redeemed EUR 712 million of subordinated redeemable notes, recording a EUR 256 million gain in earnings for 2012.

- At the end of 2012, Dexia Crédit Local closed its Dexia Crédit Local Canada and Dexia Crédit Local Grand Cayman branches, with the assets of these branches transferred to the Dexia Crédit Local New York branch.

- Dexia Crédit Local

  Dexia Crédit Local is involved in a number of disputes with local governments to which it has proposed structured loans. As at 31 December 2012, 63 subpoenas had been issued against Dexia Crédit Local in connection with structured loans.

  On 8 February 2013, the Nanterre Regional Court issued its verdicts on claims brought against Dexia by the Département de Seine-Saint-Denis in connection with three structured loans with a combined outstanding balance of EUR 177,534,631.90 as at 21 March 2013.

  The Nanterre Regional Court dismissed the Département de Seine-Saint-Denis's request to cancel the three contested structured loan agreements and all its claims for damages. In particular, the Court considered that the loans were not speculative, that the Département was competent to enter into the loan agreements and that Dexia had fulfilled its duty to inform and advise the Département. The Nanterre Regional Court did, however, consider that faxes that preceded the signature of the final agreements could be described as "loan agreements", and that failure to include the annual percentage rate (APR) on these faxes implied that the statutory interest rate should be applied.

  The loans to which the Court's decisions relate fall within the scope of disposal of Société de Financement Local. That being the case, this verdict, if upheld, will have no financial impact on the Group, since the assets being disposed of now belong to Société de Financement Local. If the Regional Court's decisions were to be upheld and were to constitute a legal precedent, their extension to other Dexia loans could however give rise to significant contingent liabilities.

  Dexia Crédit Local intends to appeal these decisions.

1.2. Accounting policies and valuation methods used to present the financial statements

Like in 2011, the financial statements of Dexia Crédit Local as at 31 December 2012 were prepared in accordance with the applicable accounting treatment for going concerns.

This going concern assumption is supported by a revised business plan, built around the first plan presented in the Dexia Crédit Local Group's annual report for 2011, with certain elements amended in order to factor in the main changes in the regulators' recommendations. This revised business plan was approved by Dexia SA's Board of Directors during its meeting on 14 December 2012. It is based on a certain number of critical assumptions and uncertainties, the major points of which are described below:

- In the same way as the first business plan, the revised business plan for 2013 includes a guarantee from the States, with no collateral requirement. This guarantee has been capped by the States at EUR 85 billion, taking into consideration the recapitalisation of Dexia SA for EUR 5.5 billion, including EUR 2 billion for Dexia Crédit Local, as carried out at the end of December 2012. This guarantee, in the same way as all the assumptions from the revised business plan, was validated by the European Commission on 28 December 2012, which represented one of the core assumptions from the first business plan presented to various stakeholders, including the European Commission[1].

- The plan assumes that the banking licenses for the Group's various entities will be maintained, despite the potential failure to comply with certain regulatory ratios. It also assumes that the rating for Dexia SA and Dexia Crédit Local will be maintained.

- The underlying macroeconomic scenario for the revised business plan is based on observable market data at the end of September 2012, and assumes that the recession will worsen in 2013, followed by a gradual recovery from 2014. The forecast period does not include any major negative credit events.

- In addition, the business plan is based on the assumption for a return to confidence on the capital markets, paving the way for Dexia Crédit Local Group's assets to be financed through secured borrowings (repo) on the one hand, and on the other, the short and long-term placement of its guaranteed debt on the market, with outstandings issued under the 2013 guarantee mechanism to reach EUR 40 billion by 2015. If the capacity for absorption by the market comes in lower, the Dexia Crédit Local Group would have to use more expensive sources of financing, which would directly impact the profitability forecast in the business plan.

The revised business plan concludes that the Dexia Crédit Local Group is viable, on the basis of the assumptions and scenarios retained. Nevertheless, there are still various uncertainties, including those presented above, in terms of its implementation; more specifically, this plan is sensitive to changes in interest rates and the credit environment. For instance, a 10 basis point drop in the 10-year interest rate would result in a EUR 1 billion increase in cash collateral requirements, which, funded at the Emergency Liquidity Assistance rate (most expensive source of financing), could generate EUR 135 million in additional costs over the period from 2013 to 2020.

The business plan will therefore be regularly updated factoring in the latest observable values for external variables in order to accurately estimate the corresponding impacts on forecasts and their feasibility.

As a result, no changes were made to the valuation methods in 2012.

The balance sheet, income statement and off-balance sheet items are presented in accordance with the standards applicable to banks.

The 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 CRB Regulation 91-01 and CRC Regulation 00-03, regarding the preparation of individual financial statements.

a. Changes in accounting policies and valuation methods applied to the financial statements

No changes have been made to the accounting policies and valuation methods applied to the financial statements.

b. Measurement of items in the balance sheet, off-balance sheet and income statement in the summary financial statements

The summary financial statements have been prepared in accordance with the rules of prudence, and fundamental accounting principles:

(1) Note that the Royal Decrees awarding the 2011 temporary guarantee and the 2013 guarantee are subject to proceedings for annulment with the Belgian Council of State.

Financial statements

- 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 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 CRC 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 risks 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 risks.

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 the reporting date, 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 the reporting date, 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 should take into account all the factors that market participants would consider when pricing 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 risks.

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 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 is determined for listed and unlisted securities held over the long term based on the amount the company would agree to pay to obtain the securities, given its investment objective, if it were to acquire them. Gains and losses on disposals of long-term investment securities are determined on a FIFO basis.

Tangible and intangible 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 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.

General (or collective) provisions on customer loans are included in this heading. These provisions cover 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 experience, 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.

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 liabilities

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 Article 4-d of CRB Regulation 90-02.

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 risks.

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 or 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, deferred equalisation payments are 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 risks 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 held-for-trading portfolio is actively managed based on sensitivity criteria, with predefined interest rate exposure limits set internally in accordance with CRBF 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 balance sheet 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 counterparty 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 above categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.

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-transactions management

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 and the rate used for 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.

The 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.

The Dexia SA *établissement stable* records the benefits achieved through tax consolidation (excluding the scope of Dexia Crédit Local).

An amendment to the tax convention between Dexia SA *établissement stable* and Dexia Crédit Local, signed in 2011, now allows the tax savings generated by Dexia Crédit Local and its subsidiaries to be reallocated to Dexia Crédit Local.

In terms of calculating Dexia Crédit Local's tax contribution, a second amendment, signed between Dexia ES and Dexia Crédit Local in 2012, is intended to eliminate subsidies received from Dexia ES when they are neutralised in connection with the tax consolidation group's overall earnings.

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 du Champ de Mars 5, B-1050 Brussels, Belgium

2. Notes on the assets

2.1. Cash, balances with central banks and post offices (item I – assets)

a. Accrued interest

(EUR millions)	0

b. Detailed analysis, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Cash	0	0
Deposits with central banks and issuing institutions	1,650	691
Deposits with postal checking accounts	0	0
TOTAL	**1,650**	**691**

2.2. Government securities eligible for Central Bank refinancing (item II – assets)

a. Accrued interest

(en EUR millions)	54

b. Analysis by residual 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 31/12/2012
	0	166	308	1 811	**2 285**

c. Analysis by type of portfolio and movements for the year, excluding accrued interest

	Banking activity and other			Total
(En EUR millions)	Held for trading	Available for sale	Held to maturity	
Cost as at 31/12/2011	**41**	**2,133**	**40**	**2,214**
Movements for the year:				
• acquisitions	0	911	0	911
• disposals and redemptions	0	(320)	(40)	(360)
• transfers	0	0	0	0
• translation adjustments	(6)	1	0	(5)
• other	0	0	0	0
Cost as at 31/12/2012	**35**	**2,725**	**0**	**2,760**
Impairment as at 31/12/2011	**0**	**(479)**	**(32)**	**(511)**
Movements for the year:				
• charges	0	(168)	0	(168)
• recoveries	0	177	32	209
• translation adjustments	0	(5)	0	(5)
• other	0	0	0	0
Impairment as at 31/12/2012	**0**	**(475)**	**0**	**(475)**
NET CARRYING AMOUNT AS AT 31/12/2012	**35**	**2,250**	**0**	**2,285**

As at 31 December 2012, there were EUR 511 million in securities lent in the available-for-sale portfolio.

Additional information concerning government securities is provided in note 2.5.

d. Transfers between portfolios

No transfers were made between portfolios in 2012.

e. Listed and unlisted securities, excluding accrued interest

An analysis of listed and unlisted securities is presented in note 2.5.g.

f. Unrealised capital gains and losses on securities

(EUR millions)	Available for sale	Held to maturity
Unrealised capital gains	142	0
Unrealised capital losses	0	0

2.3. Interbank loans and advances (item III – assets)

a. Accrued interest

(EUR millions)	64

b. Analysis by residual to maturity, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand loans and advances	8,379	13,558	1,054	6,279	4,206	2,019
Term loans and advances	32,271	23,235	10,369	4,530	4,683	3,653
TOTAL	**40,650**	**36,793**	**11,423**	**10,809**	**8,889**	**5,672**

c. Analysis of non-performing loans, excluding accrued interest

Valuation of risk (EUR millions)	As at 31/12/2011 Total	As at 31/12/2012 Non-performing loans under collection	As at 31/12/2012 Doubtful non-performing loans	As at 31/12/2012 Total
Gross non-performing loans	16	20	0	20
Accumulated impairment	(1)	(4)	0	(4)
NET NON-PERFORMING LOANS	**15**	**16**	**0**	**16**

d. Analysis by degree of subordination, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Subordinated interbank loans	737	740
Non-subordinated interbank loans	31,534	22,495
TOTAL	**32,271**	**23,235**

e. Analysis of subordinated non-performing loans, excluding accrued interest

Valuation of risk (EUR millions)	As at 31/12/2011 Total	As at 31/12/2012 Non-performing loans under collection	As at 31/12/2012 Doubtful non-performing loans	As at 31/12/2012 Total
Gross non-performing loans	0	0	0	0
Accumulated impairment	0	0	0	0
NET NON-PERFORMING LOANS	**0**	**0**	**0**	**0**

2.4. Customer loans and advances (item IV – assets)

a. Accrued interest

(EUR millions)	295

b. Analysis by residual 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 31/12/2012
	1,580	2,957	8,155	26,251	0	**38,943**

c. Analysis by type of borrower, excluding accrued interest

(EUR millions)	As at 31/12/2011 Total	As at 31/12/2012 Public sector	As at 31/12/2012 Other sectors	As at 31/12/2012 Total
Performing loans	40,943	16,922	21,546	38,468
Restructured performing loans	0	0	0	0
Non-performing loans under collection	221	77	213	290
Doubtful non-performing loans	155	0	185	185
TOTAL	**41,319**	**16,999**	**21,944**	**38,943**

d. Analysis of non-performing loans, excluding accrued interest

Valuation of risk (EUR millions)	As at 31/12/2011	As at 31/12/2012
Gross non-performing loans under collection	314	411
Accumulated impairment	(93)	(121)
Net non-performing loans under collection	**221**	**290**
Gross doubtful non-performing loans	215	250
Accumulated impairment	(60)	(65)
Net doubtful non-performing loans	**155**	**185**

e. Analysis by degree of subordination, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Subordinated customer loans	0	0
Non-subordinated customer loans	41,319	38,943
TOTAL	**41,319**	**38,943**

2.5. Bonds and other fixed-income securities (item V – assets)

a. Accrued interest

(EUR millions)	352

b. Analysis by residual maturity, excluding accrued interest

(EUR millions)	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	As at 31/12/2012
	1,409	5,163	9,514	34,958	**51,044**

c. Analysis by type of issuer, excluding accrued interest

Type of issuer (EUR millions)	As at 31/12/2011	As at 31/12/2012
Public sector issuers	13,865	14,771
Other issuers	35,209	36,273
TOTAL	**49,074**	**51,044**

d. Analysis by type of portfolio and movements for the year, excluding accrued interest

	Banking activity and other			
(EUR millions)	Held for trading	Available for sale	Held to maturity	Total
Cost as at 31/12/2011	**12,454**	**38,036**	**595**	**51,085**
Movements for the year:				
• acquisitions	12,182	9,584	513	22,279
• disposals and redemptions	(4,141)	(4,760)	(386)	(9,287)
• other movements	(11,377)	(20)	0	(11,397)
• translation adjustments	66	(791)	(3)	(728)
Cost as at 31/12/2012	**9,184**	**42,049**	**719**	**51,952**
Impairment as at 31/12/2011	0	(1,858)	(153)	(2,011)
Movements for the year:				
• charges	0	(78)	(90)	(168)
• recoveries	0	1,260	129	1,389
• other movements	0	0	0	0
• translation adjustments	0	(118)	0	(118)
Impairment as at 31/12/2012	**0**	**(794)**	**(114)**	**(908)**
NET CARRYING AMOUNT AS AT 31/12/2012	**9,184**	**41,255**	**605**	**51,044**

As at 31 December 2012, there were EUR 850 million in securities lent in the held-for-trading portfolio, with EUR 21 billion in the available-for-sale portfolio and EUR 31 million in the held-to-maturity portfolio. As at 31 December 2012, there were EUR 5.5 billion in securities borrowed in the held-for-trading portfolio.

e. Analysis by type of portfolio

(EUR millions)	As at 31/12/2011 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/2012 Held for trading	Available for sale	Held to maturity	Total
Government securities	**41**	**1,702**	**8**	**1,751**	**35**	**2,304**	**0**	**2,339**
Gross carrying amount	41	2,160	40	2,241	35	2,818	0	2,853
Premiums/discounts	0	(27)	0	(27)	0	(93)	0	(93)
Related receivables	0	48	0	48	0	54	0	54
Impairment	0	(479)	(32)	(511)	0	(475)	0	(475)
Market value	41	1,724	8	1,773	35	2,446	0	2,481
Bonds and other fixed-income securities	**12,454**	**36,464**	**444**	**49,362**	**9,184**	**41,605**	**607**	**51,396**
Gross carrying amount	12,454	37,492	595	50,541	9,184	42,207	724	52,115
Premiums/discounts	0	544	0	544	0	(158)	(5)	(163)
Related receivables	0	286	2	288	0	350	2	352
Impairment	0	(1,858)	(153)	(2,011)	0	(794)	(114)	(908)
Market value	12,454	41,835	449	54,738	9,184	48,420	626	58,230
Equities and other variable-income securities	**0**	**246**	**0**	**246**	**0**	**210**	**0**	**210**
Gross carrying amount	0	297	0	297	0	251	0	251
Premiums/discounts	0	0	0	0	0	0	0	0
Related receivables	0	0	0	0	0	0	0	0
Impairment	0	(51)	0	(51)	0	(41)	0	(41)
Market value	0	37	0	37	0	257	0	257
Total securities portfolio	**12,495**	**38,412**	**452**	**51,359**	**9,219**	**44,119**	**607**	**53,945**
Provisions for risks and charges(1) (2)	**0**	**3,406**	**0**	**3,406**	**0**	**2,525**	**0**	**2,525**

(1) The EUR 2,525 million provision for risks and charges concerns losses on hedges of available-for-sale securities. This provision is presented as a liability (see note 3.5).
(2) When additional WISE securities were acquired in the third quarter, a full review was carried out of economic hedging facilities with CDS and their behaviour since they were initially set up.
Following this review, it was estimated that these hedging facilities and their behaviour offered sufficient characteristics to be able to be taken into account in the provisions for WISE securities recorded on the balance sheet under available-for-sale securities.
This recognition made it possible to reduce the provisions by EUR 351 million.

f. Analysis by type of counterparty

(EUR millions)	As at 31/12/2011 Held for trading	Available for sale	Held to maturity	Total	As at 31/12/2012 Held for trading	Available for sale	Held to maturity	Total
Government securities	**41**	**1,702**	**8**	**1,751**	**35**	**2,304**	**0**	**2,339**
Central governments	41	1,556	8	1,605	35	1,901	0	1,936
Local governments	0	146	0	146	0	228	0	228
Credit institutions	0	0	0	0	0	175	0	175
Bonds and other fixed-income securities	**12,454**	**36,464**	**444**	**49,362**	**9,184**	**41,605**	**607**	**51,396**
Central governments	866	1,986	70	2,922	0	1,664	0	1,664
Local governments	2,112	13,648	31	15,791	85	13,085	28	13,198
Credit institutions	4,842	5,309	316	10,467	5,943	9,926	563	16,432
Other private-sector entities	4,634	15,521	27	20,182	3,156	16,930	16	20,102
Equities and other variable-income securities	**0**	**246**	**0**	**246**	**0**	**210**	**0**	**210**
Equities and other variable-income securities	0	11	0	11	0	124	0	124
Mutual funds	0	235	0	235	0	86	0	86
Total securities portfolio	**12,495**	**38,412**	**452**	**51,359**	**9,219**	**44,119**	**607**	**53,945**

g. Analysis by listing of securities

(EUR millions)	As at 31/12/2011 Held for trading	As at 31/12/2011 Available for sale	As at 31/12/2011 Held to maturity	As at 31/12/2011 Total	As at 31/12/2012 Held for trading	As at 31/12/2012 Available for sale	As at 31/12/2012 Held to maturity	As at 31/12/2012 Total
Government securities	**41**	**1,702**	**8**	**1,751**	**35**	**2,304**	**0**	**2,339**
Listed securities[1]	41	1,698	8	1,747	35	2,300	0	2,335
Unlisted securities	0	4	0	4	0	4	0	4
Bonds and other fixed-income securities	**12,454**	**36,464**	**444**	**49,362**	**9,184**	**41,605**	**607**	**51,396**
Listed securities[1]	3,587	17,725	22	21,334	2,423	21,351	541	24,315
Unlisted securities	8,867	18,739	422	28,028	6,761	20,254	66	27,081
Equities and other variable-income securities	**0**	**246**	**0**	**246**	**0**	**210**	**0**	**210**
Listed securities[1]	0	108	0	108	0	97	0	97
Unlisted securities	0	138	0	138	0	113	0	113
Total securities portfolio	**12,495**	**38,412**	**452**	**51,359**	**9,219**	**44,119**	**607**	**53,945**

(1) "Listed" means quoted on a securities exchange.

h. Analysis by degree of subordination, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Subordinated bonds and other subordinated fixed-income securities issued by credit institutions	0	0
Subordinated bonds and other subordinated fixed-income securities issued by other issuers	0	0
Non-subordinated bonds and other non-subordinated fixed-income securities	49,074	51,044
Total	**49,074**	**51,044**
of which: listed subordinated bonds and other listed subordinated fixed-income securities	0	0

i. Transfers between portfolios

No transfers were made between portfolios in 2012.

j. Held-for-trading portfolio, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Mark-to-market gains	270	227

k. Available-for-sale and held-to-maturity portfolios, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Unrealised gains (redemption value higher than carrying amount)	997	1,408
Unrealised losses (redemption value lower than carrying amount)	480	1,664

l. Analysis of non-performing loans, excluding accrued interest

Valuation of risk (EUR millions)	As at 31/12/2011	As at 31/12/2012
Gross non-performing loans under collection[1]	971	306
Accumulated impairment	(610)	(122)
Net non-performing loans under collection	**361**	**184**

(1) The reduction in non-performing loans is linked to the 2012 exchange plans for Greek sovereign debt.

2.6. Equities and other variable-income securities (item VI – assets)

a. Analysis by type of portfolio and movements for the year

	Banking activity and other		Total
(EUR millions)	Held for trading	Available for sale	
Cost as at 31/12/2011	**0**	**297**	**297**
Movements for the year:			
• acquisitions	0	47	47
• disposals and redemptions	0	(93)	(93)
• other movements	0	0	0
• translation adjustments	0	0	0
Cost as at 31/12/2012	**0**	**251**	**251**
Impairment as at 31/12/2011	0	(51)	(51)
Movements for the year:			
• charges	0	(1)	(1)
• recoveries	0	11	11
• other movements	0	0	0
• translation adjustments	0	0	0
Impairment as at 31/12/2012	**0**	**(41)**	**(41)**
Net carrying amount as at 31/12/2012	**0**	**210**	**210**

b. Transfers between portfolios (excluding insurance business)

No transfers were made between portfolios in 2012.

c. Analysis by listing of securities

(EUR millions)	Carrying amount as at 31/12/2012	Market value as at 31/12/2012	Net unrealised capital gain as at 31/12/2012
Listed securities	97	109	12
Unlisted securities	113		
Total	**210**		

d. Unrealised gains and losses on variable-income securities

(EUR millions)	Available for sale
Unrealised gains	26
Unrealised losses	(35)

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

	Related parties		Other long-term equity investments		Total
(EUR millions)	Credit institutions	Other	Credit institutions	Other	
Cost as at 31/12/2011	**5,418**	**252**	**49**	**25**	**5,744**
Movements for the year:					
• acquisitions(1)	265	1	0	5	271
• disposals and redemptions(2)	0	0	(42)	(6)	(48)
• transfers	0	0	0	0	0
• translation adjustments(3)	0	(18)	0	0	(18)
• other movements	0	0	0	0	0
Cost as at 31/12/2012	**5,683**	**235**	**7**	**24**	**5,949**
Impairment as at 31/12/2011	(3,212)	(5)	(3)	(4)	(3,224)
Movements for the year:					
• charges(3)	(1,529)	0	0	(6)	(1,535)
• recoveries	0	0	42	1	43
• reversals	0	0	0	0	0
• transfers	0	0	0	0	0
• translation adjustments	0	18	0	0	18
• other movements	0	0	0	0	0
Impairment as at 31/12/2012	(4,741)	13	39	(9)	(4,698)
Net carrying amount as at 31/12/2012	**942**	**248**	**46**	**15**	**1,251**

(1) The primary movements in 2012 pertain to Dexia LDG Banque's acquisition of an equity interest and the capital increase operations carried out at Dexia Sabadell SA and Dexia Municipal Agency.
(2) The EUR 42 million change corresponds to the closure of Dexia Crédit Local Asia Pacific Pty Ltd.
(3) Dexia Crédit Local recorded provisions for the impairment of its subsidiaries' securities, with EUR 382 million for Dexia Sabadell SA, EUR 160 million for Dexia Kommunalkredit Bank and EUR 581 million for Dexia Crediop. Following the sale of Dexia Municipal Agency on 31 January 2013 at a price of EUR 1, Dexia Crédit Local recorded EUR 395 million in additional provisions for the impairment of its subsidiary's securities.

c. Listing of securities

(EUR millions)	Net carrying amount as at 31/12/2012	Market value as at 31/12/2012	Unrealised capital gain as at 31/12/2012
Listed securities	0	0	0
Unlisted securities	1,251		
TOTAL	**1,251**		

d. Significant investments

(EUR millions)	Gross carrying amount as at 31/12/2012	Impairment as at 31/12/2012	Net carrying amount as at 31/12/2012
Listed securities	0	0	0

Unlisted securities	Gross carrying amount as at 31/12/2012	Impairment as at 31/12/2012	Net carrying amount as at 31/12/2012	% interest in capital	Interest in capital as at 31/12/2012	Last balance sheet date
TOTAL	**5,949**	**4,698**	**1,251**			
Principal interests in long-term equity investments						
Dexia Holdings Inc.	2,201	2,201	0	100.00 %	(1,090)	31/12/2012
Dexia Municipal Agency	1,315	1,315	0	100.00 %	1,408	31/12/2012
Dexia Crediop	581	581	0	70.00 %	789	31/12/2012
Dexia Kommunalbank Deutschland	793	0	793	100.00 %	740	31/12/2012
Dexia Kommunalkredit Bank	160	160	0	100.00 %	103	31/12/2012
Dexia Sabadell S.A.	382	382	0	79.01 %	485	31/12/2012
CBX.IA 2	100	0	100	70.85 %	88	31/12/2012
Dexia Israel Bank Ltd.	56	0	56	65.31 %	106	31/12/2012
Dexia Sofaxis	50	0	50	99.98 %	57	31/12/2012
CBX.IA 1	41	0	41	100.00 %	1	31/12/2012
Dexia Flobail	56	0	56	100.00 %	(118)	31/12/2012
Dexia CLF Immo	34	17	17	100.00 %	18	31/12/2012
Dexia CLF Banque	20	0	20	100.00 %	25	31/12/2012
Exterimmo	20	0	20	40.00 %	20	31/12/2011
Societé d'Investissement Suisse Luxembourgeoise	17	13	4	100.00 %	4	31/12/2012
Dexia Real Estate Capital Markets	48	0	48	100.00 %	48	31/12/2012
Dexia Bail	10	10	0	100.00 %	5	31/12/2012
Dexia CLF Régions Bail	8	0	8	100.00 %	24	31/12/2012

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 31/12/2011	**0**	**209**	**209**
Movements for the year:			
• increases	0	14	14
• decreases	0	(2)	(2)
• other	0	0	0
• translation adjustments	0	0	0
Gross carrying amount as at 31/12/2012	**0**	**221**	**221**
Amortisation and impairment as at 31/12/2011	0	(172)	(172)
Movements for the year:			
• charges	0	(14)	(14)
• recoveries	0	0	0
• other	0	0	0
• translation adjustments	0	0	0
Amortisation and impairment as at 31/12/2012	**0**	**(186)**	**(186)**
Net carrying amount as at 31/12/2012	**0**	**35**	**35**

Intangible assets primarily include software purchased and in-house software development costs that have been capitalised.

2.9. Tangible fixed assets (item IX – assets)

Detailed analysis and movements for the year

(EUR millions)	Land and buildings	Fixtures, equipment, furniture and vehicles	Other tangible non-current assets	Assets under construction a nd prepayments	Total
Cost as at 31/12/2011	**0**	**5**	**43**	**0**	**48**
Movements for the year:					
• increases	0	1	3	0	4
• decreases	0	0	(3)	0	(3)
• other	0	0	0	0	0
• translation adjustments	0	0	0	0	0
Cost as at 31/12/2012	**0**	**6**	**43**	**0**	**49**
Gains as at 31/12/2012	**0**	**0**	**0**	**0**	**0**
Amortisation and impairment as at 31/12/2011	0	(3)	(37)	0	(40)
Movements for the year:					
• charges	0	(1)	(2)	0	(3)
• recoveries	0	0	2	0	2
• other	0	0	0	0	0
• translation adjustments	0	0	0	0	0
Amortisation and impairment as at 31/12/2012	**0**	**(4)**	**(37)**	**0**	**(41)**
Net carrying amount as at 31/12/2012	**0**	**2**	**6**	**0**	**8**

2.10. Other assets and accruals (items XIII and XIV – assets)

Detailed analysis of other assets and accruals

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Other assets		
Premiums paid on swaptions issued	34	30
Premiums paid on options	55	7
Guarantee deposits paid(1)	25,412	25,575
Tax receivables	2	4
Deferred tax assets	158	320
Other non-current financial assets	0	0
Other assets	219	199
Total other assets	**25,880**	**26,135**

(1) Guarantee deposits paid consist nearly entirely of collateral deposited under contracts with the primary counterparties trading on derivatives markets.

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Accruals		
Premiums and deferred charges on borrowings	343	34
Premiums on loans and other deferred charges on loans	73	58
Premiums and deferred charges on hedging transactions	675	734
Premiums and deferred charges on trading transactions	2,146	1,921
Accrued income on hedging transactions	1,342	942
Accrued income on trading transactions	9,787	9,052
Unrealised translation losses	267	556
Other accrued income	1,488	861
Total accruals	**16,121**	**14,158**

2.11. Analysis of assets by currency

Classification by original currency

(EUR millions)	As at 31/12/2012
In EUR	106,597
In other EU currencies	19,174
In all other currencies	46,547
TOTAL ASSETS	**172,318**

3. Notes on the liabilities and equity

3.1. Interbank borrowings and deposits (item I – liabilities and equity)

a. Accrued interest

(EUR millions)	195

b. Analysis by residual maturity, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits[1]	38,431	19,538	19,538	0	0	0
Term deposits	40,184	37,070	20,035	5,175	6,643	5,217
TOTAL	**78,615**	**56,608**	**39,573**	**5,175**	**6,643**	**5,217**

(1) Funding from central banks came to EUR 17.4 billion as at 31 December 2012 (EUR 9.2 billion the previous year).

3.2. Customer deposits (item II – liabilities and equity)

a. Accrued interest

(EUR millions)	13

b. Analysis by residual maturity, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Demand deposits	7	0	0	0	0	0
Term deposits	697	254	39	50	66	99
TOTAL	**704**	**254**	**39**	**50**	**66**	**99**

c. Analysis by type of issuer, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Public sector	21	0
Other sectors	683	254
TOTAL	**704**	**254**

3.3. Debt securities (item III – liabilities and equity)

a. Accrued interest

(EUR millions)	378

b. Analysis by residual maturity, excluding accrued interest

(EUR millions)	As at 31/12/2011	As at 31/12/2012	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Interbank and other negotiable debt securities	51,619	73,577	24,993	22,509	23,691	2,384
Debt securities	20,177	15,857	3,324	3,316	6,567	2,650
TOTAL	**71,796**	**89,434**	**28,317**	**25,825**	**30,258**	**5,034**

Dexia Crédit Local's issues are covered by the State guarantee mechanism for EUR 73.7 billion.
As at 31 December 2012, 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 74 billion.

c. Analysis by type of security and movements for the year, excluding accrued interest

(EUR millions)	Interbank and other negotiable debt securities	Debt securities	Total
AS AT 31/12/2011	**51,619**	**20,177**	**71,796**
Movements for the year			
• new issues	52,975	20,531	73,506
• redemptions	(30,895)	(24,668)	(55,563)
• translation adjustments	(122)	(183)	(305)
• other	0	0	0
AS AT 31/12/2012	**73,577**	**15,857**	**89,434**

3.4. Other liabilities and accruals (item IV and V – liabilities and equity)

Detailed analysis

Other liabilities and accruals (EUR millions)	As at 31/12/2011	As at 31/12/2012
Other liabilities		
Guarantee deposits received	1,892	1,908
Premiums on options sold	9	9
Other creditors	1,003	231
TOTAL OTHER LIABILITIES	**2,904**	**2,148**
Accruals		
Deferred income on loans	92	78
Discounts recognised on purchase of receivables	0	0
Deferred income on hedging transactions	1,252	1,708
Deferred income on trading transactions	2,119	2,170
Deferred gains on hedging contracts	31	30
Accrued charges on hedging transactions	1,786	1,458
Accrued charges on trading transactions	9,959	9,229
Unrealised translation gains	1,763	1,221
Other deferred income	8	2
Other accrued charges	88	260
Other accrued liabilities	987	1,102
TOTAL ACCRUALS	**18,085**	**17,258**

3.5. Provisions for risks and charges (item VI – liabilities and equity)

(EUR millions)	As at 31/12/2011	Charges	Recoveries	Translation adjustments	As at 31/12/2012
Provisions for risks and charges	**3,877**	**702**	**(1,528)**	**(53)**	**2,998**
• pensions and similar commitments(1)	10	61	(65)	0	6
• financing commitments	145	156	(176)	7	132
• other financial instruments(2)	3,406	354	(1,175)	(60)	2,525
• other risks and charges(3)	316	131	(112)	0	335
Provisions for deferred taxes	**58**	**160**	**(9)**	**0**	**209**
Regulated provisions	**336**	**9**	**(10)**	**0**	**335**
• provisions for medium- and long-term loans	310	0	0	0	310
• provisions for accelerated tax depreciation	21	9	(9)	0	21
• provisions for investments	5	0	(1)	0	4
TOTAL	**4,271**	**871**	**(1,547)**	**(53)**	**3,542**

(1) Provisions for termination benefits and long-service awards.
(2) Provisions for risks on other financial instruments are presented in note 2.5.d for the breakdown by portfolio type.
(3) Other provisions for risks and charges in 2012 primarily include a provision relating to the sale of the company Dexia Municipal Agency for EUR 186 million and a provision on the subsidiary Dexia Crédito Local México SA for EUR 35 million following losses on asset disposals, and EUR 62 million in provisions for restructuring linked to the closure of the sales network.

3.6. Subordinated debt (item VIII – liabilities and equity)

a. Accrued interest

(EUR millions)	5

b. Movements for the year, excluding accrued interest

(EUR millions)	Total
AS AT 31/12/2011	**2,200**
Movements for the year:	
• new issues	0
• redemptions(1)	(1,655)
• translation adjustments	0
• other movements	0
AS AT 31/12/2012	**545**

(1) Redemption of subordinated borrowings following the redemption offers for EUR 1,655 million.

c. Details of individual subordinated borrowings

Currency	Maturity	Amount in millions	a) Early repayment conditions b) Subordination conditions c) Convertibility conditions	Interest rate (%)
EUR	01/12/2014	100	a) No early repayment b) No specific conditions c) No conversion	93.25% CMS
EUR	12/02/2019	127	a) Early repayment possible at each due date for interest payments with effect from 12/02/2014 after approval by the French Prudential Control Authority 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 12/02/2014 3M Euribor + 0.72
EUR	09/07/2017	262	a) Early repayment possible at each due date for interest payments with effect from 09/07/2012 after approval by the French Prudential Control Authority 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	No fixed maturity	56	a) Early repayment possible at each due date for interest payments with effect from 18/11/2015 after approval by the French Prudential Control Authority 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 3M Euribor + 1.73

3.7. Equity

Detailed analysis of equity

(EUR millions)	Amount
AS AT 31 DECEMBER 2011:	
Capital stock	501
Additional paid-in capital	670
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
Non-distributable reserve	4,200
General reserves	0
Retained earnings	0
Translation adjustments	(96)
Net loss for the year	(4,435)
Interim dividends	0
EQUITY AS AT 31/12/2011	**890**
Movements for the year:	
Capital stock(1)	785
Additional paid-in capital(1)	1,215
Commitments to increase capital stock and additional paid-in capital	0
Reserves and retained earnings(2)	(235)
Legal reserve	0
Non-distributable reserve(2)	(4,200)
Translation adjustments	(19)
Dividends paid (-)	0
Net loss for the year	(933)
Other movements	0
AS AT 31/12/2012:	
Capital stock	1,286
Additional paid-in capital	1,885
Commitments to increase capital stock and additional paid-in capital	0
Legal reserve	50
Non-distributable reserve	0
General reserves	0
Retained earnings	(235)
Translation adjustments	(115)
Net loss for the year (3)	(933)
Interim dividends	0
EQUITY AS AT 31/12/2012	**1,938**

(1) As decided by the Board of Directors on 19 December 2012, under the delegation of authority awarded to it by the Shareholders' Meeting on 12 December 2012, Dexia Crédit Local increased its capital stock by EUR 2 billion (including additional paid-in capital), paid in cash.
This operation raised Dexia Crédit Local's capital stock from EUR 500,513,102.75 to EUR 1,286,032,212, split into 223,657,776 shares with a par value of EUR 5.75.
(2) The Shareholders' Meeting on 10 May 2012 resolved to allocate the EUR 4,435 million loss for 2011 as follows: EUR 4,200 million to undistributable reserves and EUR -235 million to retained earnings.
(3) A proposal was submitted at the Shareholders' Meeting to allocate the net loss for the year to retained earnings.

3.8. Analysis of liabilities and equity by currency

Classification by currency of origin (EUR millions)	As at 31/12/2012
In EUR	106,875
In other EU currencies	19,178
In all other currencies	46,265
TOTAL LIABILITIES AND EQUITY	**172,318**

3.9. Other notes to the balance sheet

Transactions with related parties – Analysis by type

(EUR millions)			Total	Of which, related parties[1]
Assets	Items III and IV	Interbank loans and advances and Customer loans and advances	76,095	27,944
	Items V, VI and VII	Securities held	52,857	2,133
	Items XIII and XIV	Other assets and accruals	40,293	1,517
Liabilities	Items I and II	Interbank borrowings and deposits and customer deposits	57,070	9,634
	Items III	Debt securities	89,812	1
	Items VIII	Subordinated debt	550	550
	Items IV and V	Other liabilities and accruals	19,406	275

(1) Related parties correspond to those from the Dexia Group's consolidation scope.

4. Notes on the off-balance sheet items

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 2012.

Analysis by type of beneficiary

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Commitments to credit institutions	9,642	9,707
Commitments to customers	14,254	9,887
Commitments given on securities	106	1,177
TOTAL	**24,002**	**20,771**

4.2. Guarantee commitments given (item II – off-balance sheet)

a. Analysis by type of beneficiary

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Commitments to credit institutions	39,986	36,348
Commitments to customers	12,452	7,173
TOTAL	**52,438**	**43,521**

b. Analysis by type of transaction

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Guarantee commitments given		
• guarantees	52,438	43,521
• endorsements	0	0
• liens on assets	0	0
TOTAL	**52,438**	**43,521**

c. Contingent liabilities and risks and losses not quantifiable at the date of preparation of the financial statements

At the date when the annualfinancial 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)	As at 31/12/2011[(1)]	As at 31/12/2012[(1)]
As collateral for debts and commitments of the Company	0	0
Balance sheet liabilities	0	0
Off-balance sheet items	47,361	60,404
TOTAL	**47,361**	**60,404**

(1) Carrying amount of the assets pledged.
This item includes notably (1) collateral of EUR 5.5 billion in loans pledged for borrowings from international financial institutions; (2) loans of EUR 1.1 billion given as collateral to Dexia LdG Banque SA; (3) assets amounting to EUR 42.3 billion pledged as collateral to central banks; and (4) commitments of EUR 3 billion given on the New York Branch's tender option bond.

4.4. Financing and guarantee commitments 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 31/12/2011	As at 31/12/2012
Financing commitments received from credit institutions	3,387	1,066
Currencies borrowed but not yet received	463	1,199
Guarantees received from credit institutions	8,290	4,345
Guarantees received from local authorities or claims on local authorities acquired as guarantees	6,648	6,148
Other commitments received	15,037	14,437
TOTAL	**33,825**	**27,195**

4.5. Commitments related to securities (item VI – off-balance sheet)

a. Analysis by type of transaction

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Purchases		
• spot	0	0
• forward	287	81
Ventes		
• spot	0	0
• forward	1,900	81
TOTAL	**2,187**	**162**

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 year-end.

The line "Foreign currencies to be received" amounted to EUR 39 billion and the line "Foreign currencies to be delivered" to EUR 40 billion as at 31 December 2012.

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 31/12/2011	As at 31/12/2012	Hedging		Trading		Fair value as at 31/12/2012
			Micro-hedging	Macro-hedging	Isolated open position	Specialised trading portfolio management	
Foreign currency instruments[1]	45,102	39,714	11,167	21,185	2,784	4,578	(940)
• forward currency purchases and sales	20,548	17,159	0	15,395	1,764	0	0
• currency and interest rate swaps	24,554	22,555	11,167	5,790	1,020	4,578	(940)
• 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	449,272	384,661	58,176	205,239	4,349	116,897	(11,719)
Interest rate instruments[2]							
• interest rate swaps	438,805	374,430	53,276	205,239	519	115,396	(12,506)
• futures	7	1,005	0	0	1,005	0	(1)
• forward rate agreements	1,000	225	0	0	225	0	0
• interest rate options	2,811	2,577	839	0	237	1,501	152
Other forward purchases and sales[3]							
• other options	6,649	6,424	4,061	0	2,363	0	636
• other futures	0	0	0	0	0	0	0
• other forward purchases and sales	0	0	0	0	0	0	0
TOTAL	**494,374**	**424,375**	**69,343**	**226,424**	**7,133**	**121,475**	**(12,659)**

(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 transaction (EUR millions)	Over-the-counter market	Organised market	Total as at 31/12/2012
Foreign currency instruments	39,714	0	39,714
Other financial instruments			
• interest rate instruments	378,237	0	378,237
• other forward purchases and sales	6,424	0	6,424
TOTAL	**424,375**	**0**	**424,375**

c. Analysis of forward contracts and options

Type of transaction (EUR millions)	Forward contracts	Options	Total as at 31/12/2012
Foreign currency instruments	39,714	0	39,714
Other financial instruments			
• interest rate instruments	377,172	1,065	378,237
• other forward purchases and sales	6,424	0	6,424
TOTAL	**423,310**	**1,065**	**424,375**

d. Analysis by residual maturity

Type of transaction (EUR millions)	Less than 1 year	1 to 5 years	Over 5 years	Total as at 31/12/2012
Foreign currency instruments	17,658	9,329	12,727	39,714
Other financial instruments				
• interest rate instruments	78,591	131,187	168,459	378,237
• other forward purchases and sales	551	740	5,133	6,424
TOTAL	**96,800**	**141,256**	**186,319**	**424,375**

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 CRBF 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 managemen
  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 risks.

  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 limit.

4.8. Transactions with related parties

Analysis by type

(EUR millions)			Total	Of which, related parties[1]
Off-balance sheet	Item I	Financing commitments given	20,771	13,831
	Item II	Guarantee commitments given	43,521	20,823
	Item IV	Financing commitments received	2,265	0
	Item V	Guarantee commitments received	24,930	4,145
	Items III, VI, VII and VIII	Other commitments given and received	524,962	114,377

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 31/12/2011	As at 31/12/2012
Interest income on:			
Interbank loans	(a)	1,195	1,551
Customer loans and advances	(b)	1,707	1,337
Bonds and other fixed-income securities	(c)	837	1,466
Macro hedging transactions	(d)	4,476	2,109
Total interest income		**8,215**	**6,463**
Interest expense on:			
Interbank borrowings and deposits	(a)	(1,698)	(2,195)
Customer deposits	(b)	(643)	(292)
Bonds and other fixed-income securities	(c)	(1,494)	(1,579)
Macro hedging transactions	(d)	(5,184)	(2,577)
Total interest expense		**(9,019)**	**(6,643)**
Net interest expense		**(804)**	**(180)**

a. Interest income and expense on interbank transactions

This item includes a charge of EUR -1,354 million on transactions with related parties.

It also includes an expense relating to the sovereign guarantee amounting to EUR 967 million in 2012 (EUR 279 million in 2011).

b. Interest income and expenses on customer transactions

Interest income and expenses on customer loans and deposits represented a net amount of EUR 1,045 million.

It also includes EUR 63 million in income from financing commitments and guarantees.

c. Interest income and expenses on bonds and other fixed-income securities

The heading includes EUR 1,466 million in accrued interest on bonds and other fixed-income securities, amortisation of discounts and premiums on held-to-maturity and available-for-sale securities, and the related hedging gains and losses on these securities.

Interest expense amounted to EUR 1,579 million for Dexia Crédit Local.

In addition to interest expense 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 2,109 million and EUR 2,577 million respectively. These amounts are included in items I and II of the income statement, respectively.

5.2. Income from variable-income securities (item III – income statement)

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Related parties(1)	131	21
Other related parties and long-term investments	1	1
Equities and other variable-income securities	2	5
TOTAL	**134**	**27**

(1) Includes dividends of EUR 15 million received from the Dexia Municipal Agency subsidiary in 2012 (EUR 110 million in 2011).

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 31/12/2011	As at 31/12/2012
Loans	8	4
Other financial services	6	3
TOTAL	**14**	**7**

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b. Analysis of fee and commission expenses (item V – income statement)

Type (EUR millions)	As at 31/12/2011	As at 31/12/2012
Loans	(3)	0
Corporate actions	(7)	(14)
Other financial services	(14)	(5)
TOTAL	**(24)**	**(19)**

5.4. Analysis of gains and losses on portfolio transactions (item VI – income statement)

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Gains (losses) on:		
• held-for-trading securities[1]	(49)	108
• foreign currency transactions	(133)	27
• other financial instruments	(9)	(293)
Sub-total	**(191)**	**(158)**
• available-for-sale and similar securities[1][2]	(1,392)	1,538
Sub-total	**(1,392)**	**1,538**
TOTAL	**(1,583)**	**1,380**

(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.
The significant increase in 2012 primarily reflects the tightening of spreads on the "Sovereign" 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 31/12/2011	As at 31/12/2012
• charges to impairment	(5,006)	(2,706)
• recoveries of impairment	3,632	4,416
Sub-total	**(1,374)**	**1,710**
• disposal losses	(188)	(335)
• disposal gains	170	163
Sub-total	**(18)**	**(172)**
TOTAL	**(1,392)**	**1,538**

5.5. General operating expenses (item IX – income statement)

a. Detailed analysis

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Personnel costs	**(133)**	**(190)**
• salaries and wages	(106)	(79)
• social security	(53)	(49)
• restructuring cost[1]	26	(62)
Other administrative expenses	**(34)**	**(29)**
• taxes and duties	(26)	(26)
• other administrative expenses	(8)	(3)
TOTAL	**(167)**	**(219)**

(1) The restructuring costs for 2012 are linked to the Dexia Crédit Local Group's transfer to being managed on a run-off basis.
In 2011, a EUR 26 million provision for restructuring was reversed following the closing of the Tokyo and London branches. The presentation from 2011 has been amended from other administrative costs to personnel costs in order to be in line with 2012.

b. Employee information

	As at 31/12/2011	As at31/12/2012
Total employees as at 31 December	**1,276**	**1,132**
• executive management	94	87
• other management	861	798
• administrative personnel	321	247
Personnel costs (EUR millions)	**(157)**	**(133)**
• salaries and direct benefits	(105)	(84)
• payroll taxes	(34)	(32)
• other personnel costs	(18)	(17)
Provisions for pensions (EUR millions)	**(2)**	**5**
• charges (+)	(3)	0
• recoveries (-)	1	5
TOTAL	**(159)**	**(128)**

5.6. Cost of risk (item XI – income statement)

(EUR millions)	Charges and losses	Reversals and recoveries	Total as at 31/12/2012
Provisions for impairment and losses on loans	(2,279)	269	(2,010)
Provisions for risks	(476)	2,122	1,646
Regulatory provisions	0	1	1
TOTAL	**(2,755)**	**2,392**	**(363)**

The cost of risk came to EUR -363 million in 2012 and essentially comprised:

- a EUR 152 million loss following the cancellation of Kommunalkredit Austria Finanz securities,
- EUR 51 million in costs related to the sale of Dexia Municipal Agency,
- a EUR 90 million impairment provision on Dexia Kommunalkredit Bank's subordinated securities,
- EUR 35 million in provisions for risks on the subsidiary Dexia Crédito Local México SA relating to losses following asset disposals.

5.7. Net gains (losses) on non-current assets (item XII – income statement)

a. Detailed analysis

(EUR millions)	As at 31/12/2011		Total as at 31/12/2011	As at 31/12/2012		Total as at 31/12/2012
	Related parties	Other		Related parties	Other	
Charges to impairment(1)	(923)	(2)	(925)	(1,529)	(6)	(1,535)
Recoveries of impairment(2)	0	1	1	0	43	43
Sub-total	**(923)**	**(1)**	**(924)**	**(1,529)**	**37**	**(1,492)**
Disposal losses(2)	0	(1)	(1)	0	(43)	(43)
Disposal gains	0	9	9	0	1	1
Sub-total	**0**	**8**	**8**	**0**	**(42)**	**(42)**
TOTAL	**(923)**	**7**	**(916)**	**(1,529)**	**(5)**	**(1,534)**

(1) Includes impairment charges on the securities of subsidiaries: Dexia Crediop for EUR 581 million, Dexia Sabadell SA for EUR 382 million, Dexia Municipal Agency for EUR 395 million and Dexia Kommunalkredit Bank for EUR 160 million.
(2) Includes recovery of a EUR 42 million provision on Dexia Crédit Local Asia Pacific Pty Ltd securities and recognition of an equivalent disposal loss in 2012.

b. Analysis by type

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Investments in associates	7	(5)
Investments in related parties	(923)	(1,529)
TOTAL	**(916)**	**(1,534)**

5.8. Other banking income and expenses

a. Other banking income (item VII – income statement)

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Other banking income	0	0
Other miscellaneous income	1	2
TOTAL	**1**	**2**

b. Other banking expenses (item VIII - income statement)

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Other banking expenses	0	0
Other miscellaneous expenses	0	0
TOTAL	**0**	**0**

5.9. Non-recurring items (item XIII – income statement)

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Non-recurring income	0	0
Non-recurring expenses	0	0

5.10. Corporate income tax (item XIV – income statement)

a. Analysis of tax expense

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Corporate income tax	312	26
Deferred taxes	(848)	(42)
Other	0	0
TOTAL	**(536)**	**(16)**

In 2012, the tax rate used for France was 36.10%.

The tax rate applicable to foreign branches is generally lower.

In the light of Dexia Crédit Local's position and the likelihood of its ability to recover deferred taxes, deferred taxes have been accrued.

b. Exceptions to the general valuation principles, as provided for by tax law

(EUR millions)	As at 31/12/2011	As at 31/12/2012
Regulatory provisions	**(1)**	**(1)**
Provision for medium- and long-term loans	0	0
Provision for investments	(1)	(1)
Accelerated tax depreciation	**0**	**0**

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.

An amendment to the tax convention between Dexia SA *Établissement Stable* and Dexia Crédit Local, signed in 2011, now allows the tax savings generated by Dexia Crédit Local and its subsidiaries to be reallocated to Dexia Crédit Local.

In terms of calculating Dexia Crédit Local's tax contribution, a second amendment, signed between Dexia ES and Dexia Crédit Local in 2012, is intended to eliminate subsidies received from Dexia ES when they are neutralised in connection with the tax consolidation group's overall earnings.

5.11. Financial relationships 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	4.7
Board of Directors	0
TOTAL	**4.7**

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

	As at 31/12/2012		
(EUR millions)	Net banking income (loss)	Gross operating income (loss)	Net income (loss)
France	144	(51)	(1,929)
Foreign branches	1,073	1,031	996
TOTAL	**1,217**	**980**	**(933)**

b. Analysis by line of business

	Net banking income (loss)		Gross operating income (loss)		Net income (loss)	
(EUR millions)	As at 31/12/2011	As at 31/12/2012	As at 31/12/2011	As at 31/12/2012	As at 31/12/2011	As at 31/12/2012
Public and Wholesale Banking	316	242	202	156	219	118
Retail and commercial banking	0	0	0	0	0	0
Other	(2,578)	975	(2,656)	824	(4,654)	(1,051)
TOTAL	**(2,262)**	**1,217**	**(2,454)**	**980**	**(4,435)**	**(933)**

6. Subsidiaries and equity investments as at 31 December 2012

Company	Capital stock	Additional paid-in capital, reserves and retained earnings	Revenue or net banking income (loss) for last fiscal year	Net income (loss) for last fiscal 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)				
(in EUR)				
Dexia Sabadell SA Paseo de las Doce Estrallas 4 Campo de las Naciones- E – 28042 Madrid	484,061,000	196,376,000	(48,289,000)	(66,484,000)
Dexia Crediop Via Venti settembre N. 30 – I00187 Roma	450,210,000	668,683,000	76,627,000	7,631,000
Dexia Holdings Inc.* 445 Park Avenue, 7th floor, NY 10022 New York	4,975,713,133	(6,110,939,255)	6,773,519	44,812,535
Dexia Kommunalbank Deutschland AG Charlottenstr. 82 – D – 10969 Berlin	432,500,000	327,356,605	8,578,152	(19,620,145)
Dexia Municipal Agency 1 Passerelle des Reflets – Tour Dexia La Défense 2 – 92913 La Défense	1,315,000,000	46,951,546	216,165,284	45,601,728
Dexia Kommunalkredit Bank AG Fischhof 3 – A – 1010 Wien	220,000,000	(74,218,027)	(36,300,187)	(42,752,450)
Dexia CLF Immo 1 Passerelle des Reflets – Tour Dexia La Défense 2 – 92913 La Défense	2,364,700	15,001,718	330,614	177,354
Dexia Israel Bank Ltd. 19 Ha'arbaa Str, Hatichon tower-Tel Aviv 64739	34,142,787	117,769,024	22,451,089	10,735,824
SISL 180, rue des Aubépines L 1145 – Luxembourg	1,000,000	3,372,036	0	(92,016)
Dexia Sofaxis Route de Creton – 18110 Vasselay	613,020	46,296,688	17,864,900	10,312,805
CBX. IA 1 1 Passerelle des Reflets – Tour Dexia La Défense 2 – 92913 La Défense	1,506,672	0	(79,359)	(86,719)
CBX. IA 2 1 Passerelle des Reflets – Tour Dexia La Défense 2 – 92913 La Défense	141,140,624	(25,735,916)	19,846,618	8,429,289
Dexia Flobail 1 Passerelle des Reflets – Tour Dexia La Défense 2 – 92913 La Défense	56,100,175	(153,087,522)	(484,140)	(20,837,757)
Dexia CLF Banque 1 Passerelle des Reflets – Tour Dexia La Défense 2 – 92913 La Défense	7,625,000	9,958,000	19,374,606	7,212,524
Dexia LDG Banque SA* 69, route d'ESCH – L-1470 Luxembourg	220,995,100	(114,655,101)	27,024,001	19,678,755
Dexia Real Estate Capital Markets	15,129,241	31,389,084	5,203,303	1,674,237
B – Investments in associates (10% to 50% of equity)				
Exterimmo 100-104 Avenue de France 75013 Paris	50,000,000	473,000	396,000	(8,000)
2 – General information				
A – Other subsidiaries not included in section 1-A				
– French companies				
– Foreign companies				
B – Other subsidiaries not included in section 1-B and equity investments where equity is less than 10%				
– French companies				
– Foreign companies				

** Companies that produce financial statements only under IFRS.*

Interest in equity (%)	Carrying amount of stock		Dividends received by Dexia Crédit Local during the fiscal year	Loans and advances granted by Dexia Crédit Local	Guarantees given by Dexia Crédit Local	Activity
	Gross	Net				
79,01 %	382,436,600	0	0	7,015,635,863	6,759,045,096	Bank, credit institution
70,00 %	581,223,585	0	0	1,842,815,978	5,339,125,502	Bank, credit institution
100,00 %	2,200,665,359	1	0	264,641,679	0	Holding company
100,00 %	793,339,375	793,339,375	0	63,281,061	2,000,000,000	Bank, credit institution
100,00 %	1,314,999,909	1	15,080,000	7,621,411,306	6,005,625,341	*Société de crédit foncier*
100,00 %	160,226,100	0	0	2,401,096,505	362,306,673	Holding company
100,00 %	33,691,141	16,232,208	0	0	0	Real estate financing
65,31 %	56,002,387	56,002,387	0	138,445,202	147,660,663	Bank, credit institution
100,00 %	16,864,002	3,864,002	0	0	0	Management of equity investments
99,98 %	50,056,308	50,056,308	5,449,223	0	0	Holding and management of equity investments in insurance broking companies
100,00 %	40,857,290	40,857,290	0	25,785,028	714,972	Acquisition of land, buildings and property rights
70,85 %	100,000,076	100,000,076	0	175,481,051	93,018,950	Real estate leasing
100,00 %	56,111,063	56,111,063	0	591,153,504	1,354,438,409	Lease financing of local investments
100,00 %	19,738,631	19,738,631	0	3,830,200,826	2,722,562,377	Bank, credit institution
100,00 %	20,000,001	20,000,001	0	184,000,000	276,000,000	Bank, credit institution
100,00 %	48,204,865	48,204,865	0	0	0	Other operator in the financial sector
40,00 %	20,000,000	20,000,000	0	0	0	Acquisition of land, buildings and property rights
	30,965,227	17,111,322	0	745,172,467	152,357,739	
	4,037,323	1,307,613	0	316,897,061	0	
	20,384,906	15,240,058	464,097	900,062,022	51,900,870	
	8,700	8,700	930	0	0	

Statutory Auditors' report on the financial statements

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting, we hereby report to you, for the year ended 31 December 2012, 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.

The 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 annual financial position of the Company as at 31 December 2012 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in Note 1.2 to the financial statements which stipulates that the financial statements of Dexia Crédit Local as at 31 December 2012 have been prepared on a going concern basis.

The use of the going concern basis of accounting is justified by the revised business plan approved by the European Commission on 28 December 2012. This business plan includes, in particular, a liquidity guarantee provided by the States to a maximum of EUR 85 billion and a EUR 5.5 billion recapitalisation of Dexia SA, EUR 2 billion euros of which in favour of Dexia Crédit Local, which occurred in late December 2012.

This plan is based on a macroeconomic scenario and different assumptions regarding, in particular, the capacity to refinance Dexia Group activities. Nevertheless, there is still some uncertainty over the completion of the plan. As a result, it will be subject to regular updates to estimate the impact of changes in exogenous variables on its potential for completion.

II. Justification of our assessments

The accounting estimates used in the presentation of the financial statements for the year ended 31 December 2012 were prepared in the specific context of the Dexia Group's reorganisation, as described in Note 1.1 to the financial statements. It is in this context and 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 that we bring the following matters to your attention:

ACCOUNTING PRINCIPLES

Going concern basis

Our work consisted in assessing the items used by the Board of Directors to justify maintaining the going concern basis of accounting and in gaining an understanding of the underlying documentation and more specifically the business plan and funding forecast.

We also reviewed the information disclosed in the notes to the financial statements with respect to the going concern basis of accounting.

ACCOUNTING ESTIMATES

Measurement of financial instruments

In a context of volatility in the financial markets, your Company, as mentioned in Note 1.2.b to the financial statements, uses internal methodologies and models to value financial instruments that are not listed on active markets, and for the recognition of any impairment.

Our work consisted in reviewing the control procedures for the identification of financial instruments that can no longer be traded on an active market or whose valuation parameters are no longer observable; in determining the models used to measure them; in evaluating the appropriateness of the data and assumptions; and in verifying that the risks and results related to these instruments were taken into account.

Provisions for credit and counterparty risks

As mentioned in Note 1.2.b to the annul financial statements, your Company records impairment provisions to cover the credit risks inherent to its activities.

We examined the system used to control monitoring of credit risks, impairment procedures, evaluation of the risk of non-collection and the level of impairment loss cover provided by specific and collective provisions.

Impairment of securities portfolio

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 the sections on "Available-for-sale securities" and "Held-to-maturity securities" of Note 1.2.b to the financial statements.

Your Company calculates any impairment in its portfolio securities, investments in associates and other long-term investments on the basis of their value in use, as described in the sections on "Portfolio securities", "Investments in associates" and "Other long-term investments" in Note 1.2.b to the financial statements.

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.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

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 annual 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 remuneration 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.

Neuilly-sur-Seine and Courbevoie, 2 April 2013

French original signed by the Statutory Auditors

DELOITTE & ASSOCIÉS		**MAZARS**	
José-Luis GARCIA	Charlotte VANDEPUTTE	Hervé HELIAS	Virginie CHAUVIN

6 – Shareholders’ meeting

Statutory Auditors' special report on regulated agreements and commitments

To the Shareholders:

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated agreements and commitments with third parties.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention, or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or seeking to identify other such agreements and commitments, if any. It is your responsibility, pursuant to Article R.225-31 of the French Commercial Code *(Code de commerce)*, to assess the relevance of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in Article R.225-31 of the French Commercial Code *(Code de commerce)* in respect of the performance of the agreements and commitments already authorised by the Shareholders' Meeting and having continuing effect during the year, if any.

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. These guidelines require that we verify that the information provided to us is consistent with the relevant source documents.

Agreements and commitments submitted to the shareholders' meeting for approval

AGREEMENTS AND COMMITMENTS AUTHORISED DURING THE YEAR JUST ENDED

In accordance with Article L.225-40 of the French Commercial Code (Code de commerce), we have been advised of the following agreements and commitments that received prior authorisation from your Board of Directors.

Agreement in principle between Dexia Crédit Local and Dexia Municipal Agency in connection with the extension of the negotiation protocol entered into in October 2011

PERSONS CONCERNED:

Messrs Dehaene and Mariani, directors of both Dexia SA and Dexia Crédit Local.

Messrs Rucheton and Clot, members of the Management Board of Dexia SA, directors of both Dexia Crédit Local and Dexia Municipal Agency, involved in the agreement, and Mr Brami, a director of Dexia Crédit Local and representative of Caisse des Dépôts et Consignations.

NATURE AND PURPOSE:

The agreement in principle has been established in connection with the extension of the negotiation protocol between Caisse des Dépôts et Consignations, La Banque Postale, Dexia SA and Dexia Crédit Local, authorised by the Board of Directors on 20 October 2011.

The main developments in this agreement compared with the protocol of October 2011 are the creation of a public holding company that will own 68.3% of the new credit institution to be created and the definition of this new credit institution's scope.

OTHER CHARACTERISTICS:

The final characteristics are not stipulated in this agreement in principle. This agreement has not been signed due to subsequent developments in negotiations.

The agreement was authorised by your Board of Directors on 13 February 2012.

Agreement in principle signed by the French State, Caisse des Dépôts et Consignations, La Banque Postale, Dexia SA and Dexia Crédit Local

PERSONS CONCERNED:

Mrs Swiggers and Messrs Dehaene and Mariani, directors of both Dexia SA and Dexia Crédit Local.

Messrs Rucheton and Clot, members of the Management Board of Dexia SA, directors of both Dexia Crédit Local and Dexia Municipal Agency, involved in the agreement, and Mr Brami, a director of Dexia Crédit Local and representative of Caisse des Dépôts et Consignations.

NATURE AND PURPOSE:

This agreement in principle relates to the extension of the negotiation protocol authorised by the Board of Directors on 20 October 2011 and the agreement in principle presented at the Board of Directors meeting of 13 February 2012.

Pursuant to this agreement, the parties undertake to hold further talks based on the following principles:

- Creation by the State, Caisse des Dépôts et Consignations and La Banque Postale of a holding company that will own 68.3% of the new credit institution, Dexia Crédit Local owning 31.7% of this institution;
- Management of Dexia Municipal Agency by this new credit institution, which will own a 100% stake;
- A gradual increase by La Banque Postale in the share capital of the new credit institution, with a corresponding reduction in Dexia Crédit Local's stake.

This agreement formed an integral part of the dossier compiled for inclusion in the States' notification of the Dexia restructuring plan to the European Commission.

OTHER CHARACTERISTICS:

The agreement in principle values Dexia Municipal Agency at EUR 380 million for 100% of Dexia Municipal Agency, subject to a price-adjustment mechanism.

The agreement was authorised by your Board of Directors on 15 March 2012 and signed on 16 March 2012.

Agreement allowing Dexia Crédit Local to use subsidiaries' receivables as collateral

PERSON CONCERNED:

Mr Alain Clot, Chief Executive Officer and director of Dexia Crédit Local, director and Vice-President of Dexia Crediop, Chairman of the Board of Directors of Dexia Sabadell.

NATURE AND PURPOSE:

In order to reduce Dexia Crédit Local's financing needs, it is planned to mobilise the assets of Dexia Crédit Local and its subsidiaries that are not currently utilised, in secured funding arrangements, as collateral for financing or issues guaranteed by the States. The assets in question, i.e. a total of EUR 5.3 billion, comprise:

- EUR 3.27 billion of project finance loans and structured loans at Dexia Sabadell;
- EUR 973 million of securities at Dexia Crédit Local and Dexia Kommunalkredit Bank;
- EUR 580 million of receivables at Dexia Crediop;
- EUR 187 million of holdings in Dexia Crédit Local funds;
- EUR 242 million of receivables of the leasing subsidiaries of Dexia Crédit Local and Dexia Kommunalkredit Bank.

OTHER CHARACTERISTICS:

Dexia Crédit Local mobilised the subsidiaries' assets under market conditions throughout 2012.

These operations did not result in the signing of formal agreements.

The agreement was authorised by your Board of Directors on 23 February 2012.

Rider to the Dexia SA guarantee agreement in favour of Dexia Crédit Local in respect of Greek bonds

PERSONS CONCERNED:

Mrs Swiggers and Mr Mariani, directors of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

The guarantee granted by Dexia SA in December 2011 has been amended to reflect Dexia Crédit Local's participation in the Greek debt exchange plan, known as PSI, for all Greek bonds held.

OTHER CHARACTERISTICS:

Dexia SA undertakes to compensate Dexia Crédit Local for the net present value of the cash flows lost.

In 2012, in connection with the exchange plans negotiated by the Greek state, Dexia Crédit Local sold or exchanged all its exposures to the Greek sovereign, with a positive impact of EUR 90 million on net profit. The receivable due from Dexia SA by virtue of this guarantee, for an amount of EUR 1,942 million, was settled in full by Dexia SA at 31 December 2012.

The agreement was authorised by your Board of Directors on 6 March 2012.

Rider terminating Dexia SA's guarantee agreement in respect of Greek bonds held by Dexia Crédit Local

PERSONS CONCERNED:

Mr de Metz, Chairman of the Board of Directors of Dexia Crédit Local and director of Dexia SA, Mr De Boeck, managing director of Dexia SA and chief executive officer of Dexia Crédit Local, Mr Rucheton, executive vice-president of Dexia Crédit Local and executive director of Dexia SA, Mr Piret, executive vice-president of Dexia Crédit Local and member of the Management Board of Dexia SA, and Mr Van Loo, director of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

This rider was entered into on 20 February 2013. It terminates the guarantee given by Dexia SA in respect of the Greek bonds held by Dexia Crédit Local on the effective date of 27 December 2012.

The agreement was authorised by your Board of Directors on 19 December 2012.

Rider no. 1 to the State guarantee agreement

PERSONS CONCERNED:

Mrs Swiggers and Messrs Dehaene, Mariani and Van Loo, directors of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

Renewal of the State guarantee agreement for a further temporary period pending the European Commission's final decision.

OTHER CHARACTERISTICS:

On 30 May 2012, the State guarantee agreement was extended until 30 September 2012, while maintaining the guarantee cap at EUR 45 billion.

The agreement was authorised by your Board of Directors on 30 May 2012.

Rider no. 2 to the State guarantee agreement

PERSONS CONCERNED:

Mrs Swiggers and Messrs Mariani and Van Loo, directors of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

Renewal of the State guarantee agreement for a further temporary period pending the European Commission's final decision.

OTHER CHARACTERISTICS:

On 6 June 2012, the European Commission approved an increase of EUR 10 billion in the guarantee cap, i.e. to EUR 55 billion, while extending the validity until 30 September 2012.

Dexia SA paid the States an additional arrangement fee equal to 0.50% of EUR 10 billion, i.e. EUR 50 million. This fee was recharged by Dexia SA to Dexia Crédit Local in full in 2012.

The agreement was authorised by your Board of Directors on 5 June 2012 and signed on 5 June 2012.

Rider no. 3 to the State guarantee agreement

PERSONS CONCERNED:

Mrs Swiggers and Mr Van Loo, directors of both Dexia SA and Dexia Crédit Local, and Mr Piret, director of Dexia Crédit Local and member of the Management Board of Dexia SA.

NATURE AND PURPOSE:

Renewal of the State guarantee agreement for a further temporary period pending the European Commission's final decision.

OTHER CHARACTERISTICS:

This rider provides for an extension of the temporary State guarantee of EUR 55 billion until 31 January 2013.

The agreement was authorised by your Board of Directors on 24 September 2012.

State guarantee agreement

PERSONS CONCERNED:

Mr de Metz, chairman of the Board of Directors of Dexia Crédit Local and director of Dexia SA, Mr De Boeck, managing director of Dexia SA and chief executive officer of Dexia Crédit Local, Mr Rucheton, executive vice-president of Dexia Crédit Local and executive director of Dexia SA, Mr Piret, executive vice-president of Dexia Crédit Local and member of the Management Board of Dexia SA, and Mr Van Loo, director of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

On 28 December 2012, the European Commission advised its agreement to the revised orderly resolution plan for the Dexia group submitted by the Belgian, French and Luxembourg states on 14 December 2012. This approval resulted in the implementation of the arrangements for the tripartite guarantee granted by the Belgian, French and Luxembourg states, capped at EUR 85 billion, based on the following allocation key: 51.41% for Belgium, 45.59% for France and 3% for Luxembourg.

OTHER CHARACTERISTICS:

The guarantee fee on the outstanding debt issued will be calculated with effect from 2013 on the basis of an annual rate of 0.05% compared with 0.90% previously under the temporary guarantee.

In 2012, the cost of the guarantee for Dexia Crédit Local amounted to EUR 150 million.

The agreement was authorised by your Board of Directors on 19 December 2012.

Rider terminating the mechanism for the payment of fees relating to the State guarantee

PERSONS CONCERNED:

Mr de Metz, chairman of the Board of Directors of Dexia Crédit Local and director of Dexia SA, Mr De Boeck, managing director of Dexia SA and chief executive officer of Dexia Crédit Local, Mr Rucheton, executive vice-president of Dexia Crédit Local and executive director of Dexia SA, Mr Piret, executive vice-president of Dexia Crédit Local and member of the management board of Dexia SA, and Mr Van Loo, a director of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

In connection with the granting of the temporary State guarantee, Dexia SA had borne the fees paid to the States, and gradually recharged them to Dexia Crédit Local.

Following approval of the guarantee, all fees were recharged in full to Dexia Crédit Local, and the recharge mechanism initially planned was terminated.

OTHER CHARACTERISTICS:

The amount recharged by Dexia SA in respect of 2012 came to EUR 425 million. (EUR 424,740,639).

The agreement was authorised by your Board of Directors on 19 December 2012.

Guarantee agreement for EUR 75 million in favour of Dexia Crediop

PERSONS CONCERNED:

Mr Alain Clot, director of Dexia Crédit Local, director and vice-president of Dexia Crediop.

NATURE AND PURPOSE:

As part of the support for its subsidiary Dexia Crediop, Dexia Crédit Local granted a first demand guarantee for EUR 75 million, expiring in 2023 at the earliest.

OTHER CHARACTERISTICS:

In accordance with the guarantee eligibility conditions set by the Bank of Italy, Dexia Crédit Local's remuneration was set at 0.8%.

Remuneration on this guarantee amounted to EUR 306 thousand in 2012.

This agreement, signed on 28 June 2012, was authorised by your Board of Directors on 29 June 2012.

Amendment of the tax group agreement between Dexia Établissement Stable Paris and Dexia Credit Local

PERSONS CONCERNED:

Mrs Swiggers and Messrs Mariani, Rucheton and Van Loo, directors of both Dexia SA and Dexia Crédit Local, Mr Clot, chief executive officer of Dexia Crédit Local and executive director of Dexia SA Établissement Stable in France, Mr De Boeck, chief executive officer of Dexia SA and director of Dexia Crédit Local, Mr Piret, executive vice-president of Dexia Crédit Local and member of the management board of Dexia SA.

NATURE AND PURPOSE:

The rider stems from the new French tax provisions, relating in particular to the mechanism for losses carried forward and the treatment of debt cancellations.

The agreement was authorised by your Board of Directors on 2 August 2012 and signed on 14 September 2012.

Provision of collateral in connection with the sale of Denizbank by Dexia SA

PERSONS CONCERNED:

Mrs Swiggers and Mr Van Loo, directors of both Dexia SA and Dexia Crédit Local, and Mr Piret, director of Dexia Crédit Local and member of the management board of Dexia SA.

NATURE AND PURPOSE:

In connection with the sale of Denizbank finalised on 28 September 2012, on the same date Dexia Crédit Local granted Sberbank certain collateral in order to guarantee the proper performance by the sellers (namely Dexia SA and Dexia Participations Belgique SA) of certain payment obligations stemming from the Sale and Purchase Agreement. This collateral represents a total amount of EUR 470 million.

OTHER CHARACTERISTICS:

In the event that the guarantee is activated, the maximum amount likely to be called is 15% of the sale price, corresponding to the principal and accrued interest on subordinated borrowings.

As the guarantee has not been exercised, this agreement had no impact in 2012.

The agreement was authorised by your Board of Directors on 24 September 2012.

Subscription agreement in connection with Dexia SA's capital increase

PERSONS CONCERNED:

Mr de Metz, chairman of the Board of Directors of Dexia Crédit Local and director of Dexia SA, Mr De Boeck, managing director of Dexia SA and chief executive officer of Dexia Crédit Local, Mr Rucheton, executive vice-president of Dexia Crédit Local and executive director of Dexia SA, Mr Piret, executive vice-president of Dexia Crédit Local and member of the management board of Dexia SA, and Mr Van Loo, a director of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

This agreement, signed on 31 December 2012, describes the procedures for utilisation of the funds obtained following Dexia SA's capital increase, including subscription to Dexia Crédit Local's capital increase.

OTHER CHARACTERISTICS:

Dexia SA's Extraordinary Meeting of Shareholders of 21 December 2012 having approved a EUR 5.5 billion capital increase, Dexia SA has undertaken to allocate the amounts received as follows:

- EUR 2 billion to subscription to a capital increase by Dexia Crédit Local on 31 December 2012;
- EUR 606 million to repayment of loans granted by Dexia Crédit Local;
- EUR 2.1 billion to payment of the remaining contractual commitments between Dexia and Dexia Crédit Local having taken place on 27 December 2012;
- EUR 775 million to a loan to Dexia Crédit Local.

The agreement was authorised by your Board of Directors on 19 December 2012.

Loan granted by Dexia Crédit Local to its parent company Dexia SA

PERSONS CONCERNED:

Mr de Metz, chairman of the Board of Directors of Dexia Crédit Local and director of Dexia SA, Mr De Boeck, managing director of Dexia SA and chief executive officer of Dexia Crédit Local, Mr Rucheton, executive vice-president of Dexia Crédit Local and executive director of Dexia SA, Mr Piret, executive vice-president of Dexia Crédit Local and member of the management board of Dexia SA, and Mr Van Loo, a director of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

Dexia Crédit Local granted Dexia SA a EUR 2.1 billion loan for a period of four days in order to settle internal transactions prior to the capital increase.

In respect of this transaction, Dexia Crédit Local received EUR 589 thousand.

The agreement was authorised by your Board of Directors on 19 December 2012.

Rider terminating the agreement on commitments given by Dexia SA in respect of the subsidiary Dexia Holdings Inc.

PERSONS CONCERNED:

Mr de Metz, chairman of the Board of Directors of Dexia Crédit Local and director of Dexia SA, Mr De Boeck, managing director of Dexia SA and chief executive officer of Dexia Crédit Local, Mr Rucheton, executive vice-president of Dexia Crédit Local and executive director of Dexia SA, Mr Piret, executive vice-president of Dexia Crédit Local and member of the management board of Dexia SA, and Mr Van Loo, a director of both Dexia SA and Dexia Crédit Local.

NATURE AND PURPOSE:

This rider, signed on 20 February 2013, terminated on 27 December 2012 the commitment given by Dexia SA in respect of the subsidiary Dexia Holdings Inc.. This commitment related to Dexia SA's approval to grant Dexia Crédit Local a put option on Dexia Holdings Inc. securities.

The agreement was authorised by your Board of Directors on 19 December 2012.

AGREEMENTS AND COMMITMENTS AUTHORISED SINCE THE CLOSING

Contract for the sale of Dexia Municipal Agency shares

PERSONS CONCERNED:

Philippe Rucheton, executive vice-president of Dexia Crédit Local and chairman of the Supervisory Board of Dexia Municipal Agency,

Alain Clot, executive vice-president of Dexia Crédit Local, parent company of Dexia Municipal Agency until the date of the signing of the contract and representative of Dexia Crédit Local, member of the Supervisory Board of Dexia Municipal Agency.

NATURE AND PURPOSE:

The contract for the sale by Dexia Crédit Local to SFIL of shares in Dexia Municipal Agency (100% of the shares held by Dexia Crédit Local) was signed on 31 January 2013.

The sale price for Dexia Municipal Agency was set at EUR 1. The value of the equity investment in Dexia Municipal Agency (100%) was revised to 0 in Dexia Credit Local's annual financial statements for the year ended 31 December 2012. Dexia Municipal Agency's 2012 result is acquired by the transferee.

The impact of the sale in 2012 amounts to EUR 446 million, including EUR 51 million of fees for arranging the sale.

The agreement was authorised by your Board of Directors on 15 January 2013.

Contract for the sale of SFIL shares

PERSONS CONCERNED:

Philippe Rucheton, executive vice-president of Dexia Crédit Local and chairman of the Supervisory Board of Dexia Municipal Agency,

Alain Clot, executive vice-president of Dexia Crédit Local and representative of Dexia Crédit Local, member of the Supervisory Board of Dexia Municipal Agency.

NATURE AND PURPOSE:

The agreement for the sale of SFIL shares by Dexia Crédit Local to the French State, Caisse des Dépôts et Consignations ("Caisse des Dépôts et Consignations") and La Banque Postale ("LBP") was signed on 23 January 2013 in the presence of Dexia Municipal Agency and SFIL, for the purpose of enabling the parties to take advantage of Articles 8 "Indemnification" and 9 "Other commitments of the parties" of said agreement.

This agreement was authorised by your Board of Directors on 15 January 2013 and had no impact in 2012.

Agreement terminating the agreements entered into by Dexia Crédit Local and Dexia Municipal Agency

PERSONS CONCERNED:

Philippe Rucheton, executive vice-president of Dexia Crédit Local and chairman of the Supervisory Board of Dexia Municipal Agency, Alain Clot, executive vice-president of Dexia Crédit Local and representative of Dexia Crédit Local, member of the Supervisory Board of Dexia Municipal Agency.

NATURE AND PURPOSE:

On 31 January 2013, Dexia Municipal Agency and Dexia Crédit Local signed an agreement whereby they agree to terminate the following agreements:

- he management agreement signed on 30 September 1999 between Dexia Municipal Agency and Dexia Crédit Local, it being specified that disputes are covered by an ad hoc agreement;
- the current account agreement, together with the 11 binding and irrevocable financing agreements entered into by Dexia Crédit Local (lender) and Dexia Municipal Agency (borrower) on 12 January, 13 February, 9 March, 4 April, 25 May, 1 June, 24 July, 30 August, 1 October, 2 November and 6 December 2012, and the loan agreement between Dexia Crédit Local and Dexia Municipal Agency;
- the declaration of financial support issued by Dexia Crédit Local on 16 September 1999 in favour of Dexia Municipal Agency.

No indemnity shall be due from either side in respect of the termination of these agreements.

This agreement was authorised by your Board of Directors on 15 January 2013 and had no impact in 2012.

Agreement for the management of disputes relating to disputed loans

PERSONS CONCERNED:

Philippe Rucheton, executive vice-president of Dexia Crédit Local and chairman of the Supervisory Board of Dexia Municipal Agency, Alain Clot, executive vice-president of Dexia Crédit Local and representative of Dexia Crédit Local, member of the Supervisory Board of Dexia Municipal Agency.

NATURE AND PURPOSE:

On 31 January 2013, Dexia Municipal Agency, Dexia Crédit Local and SFIL signed an agreement for the management of disputes relating to disputed loans. The purpose of this agreement is to establish the procedures for managing all judicial (other than criminal) and administrative proceedings relating to loans recorded on Dexia Municipal Agency's balance sheet on the date of sale of SFIL shares until maturity of all such loans.

This agreement was authorised by your Board of Directors on 15 January 2013 and had no impact in 2012.

Agreement for withdrawal from the Irish tax group formed with Dexia Crédit Local

PERSONS CONCERNED:

Philippe Rucheton, executive vice-president of Dexia Crédit Local and chairman of the Supervisory Board of Dexia Municipal Agency, Alain Clot, executive vice-president of Dexia Crédit Local, the parent company of Dexia Municipal Agency on the date of the signing of the contract and representative of Dexia Crédit Local, member of the Supervisory Board of Dexia Municipal Agency.

NATURE AND PURPOSE:

On 31 January 2013, Dexia Crédit Local signed an agreement with Dexia Municipal Agency for withdrawal from Dexia Municipal Agency's Irish tax agreement, which sets out the financial terms involved.

This agreement was authorised by your Board of Directors on 15 January 2013 and had no impact in 2012.

Delegation act

PERSONS CONCERNED:

Philippe Rucheton, executive vice-president of Dexia Crédit Local and chairman of the Supervisory Board of Dexia Municipal Agency,

Alain Clot, executive vice-president of Dexia Crédit Local and representative of Dexia Crédit Local, member of the Supervisory Board of Dexia Municipal Agency.

NATURE AND PURPOSE:

On 31 January 2013, Dexia Crédit Local signed with Dexia Municipal Agency, SFIL and Caisse des Dépôts et Consignations an act stipulating the delegated powers having been put in place in order to terminate the transactions relating to:

- the sale of SFIL shares;
- loans granted by Caisse des Dépôts et Consignations to SFIL for Dexia Municipal Agency's operational needs;
- the credit agreement put in place between Dexia Municipal Agency and SFIL on 31 January 2013;
- repayment to Caisse des Dépôts et Consignations of a certificate of depot issued by Dexia Crédit Local in connection with the pre-financing of the acquisition of SFIL.

This act was authorised by your Board of Directors on 15 January 2013 and had no impact in 2012.

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.

Tax group agreement

A tax group agreement came into effect as from 1 January 2002 for a (renewable) period of five years. The head of the French tax group is now 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 authorised by your Supervisory Board on 19 November 2002.

Agreement covering the purchase of Dexia BIL's portfolio by Dexia Crédit Local.

This agreement provided for the purchase of the "legacy" portfolio of Dexia BIL in connection with the planned sale of Dexia BIL by Dexia SA.

In 2012, Dexia Crédit Local acquired a EUR 7.7 billion portfolio, at a discount of EUR 1.2 billion.

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, ratified by your Shareholders' Meeting on 10 January 2000, 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 to L.515-33 of the French Monetary and Financial Code (Code monétaire et financier) concerning mortgage credit companies and has the financial resources needed to meet its obligations.

The agreement had no financial impact in 2012.

AGREEMENTS AND COMMITMENTS APPROVED DURING THE YEAR JUST ENDED

We have also been informed of the execution, in the year just ended, of the following agreements, already approved by the Shareholders' Meeting of 10 May 2012, on the special report of the statutory auditors of 29 March 2012.

Comfort letter granted by Dexia Crédit Local to Dexia Kommunalbank Deutschland

A comfort letter granted by Dexia Crédit Local to its subsidiary Dexia Kommunalbank Deutschland AG, under which Dexia Crédit Local undertakes to ensure that Dexia Kommunalbank Deutschland always complies with its financial and other obligations towards the German regulator.

The agreement was authorised by your Board of Directors on 24 February 2011.

This agreement had no impact in 2012.

Loan agreement between Dexia Crédit Local and Dexia Holdings Inc.

On 14 June 2011, Dexia Crédit Local granted Dexia Holdings Inc. an additional five-year, USD 500 million credit facility, with a maturity of five years, at a market rate of interest but with interest payable only in the event of available profit on the part of Dexia Holdings Inc.

Bullet repayment of this loan is scheduled for 15 June 2016. Interest is payable at the rate of USD LIBOR + 2.50% per annum, calculated on the basis of 360 days. In the event of default, 2% additional interest would be applied to the unpaid amount.

The agreement was authorised by your Board of Directors on 12 May 2011.

In respect of the loans granted, Dexia Crédit Local received income of USD 28 million in 2012. At 31 December

Loan agreement between Dexia Crédit Local and Dexia SA and comfort letter provided by Dexia SA to Dexia Crédit Local

For the purpose of financing the losses associated with the sale of assets held in the company's Financial Products portfolio, your Board of Directors was asked to authorise the loan of EUR 5.75 billion by Dexia Crédit Local to Dexia SA, subject to provision by Dexia SA of an undertaking to provide Dexia Crédit Local with financial support.

The agreement was authorised by your Board of Directors on 4 August 2011.

At 31 December 2012, following the repayments made in late December 2012, Dexia Crédit Local loaned an amount of EUR 415 million and borrowed EUR 775 million from Dexia SA.

In 2012, in respect of these loans, Dexia Crédit Local recorded interest income of EUR 64 million.

Agreement for cancellation by Dexia Crédit Local of debt owed by Dexia Holdings Inc.

On 30 September 2011, Dexia Crédit Local cancelled USD 1,447 thousand of debt owing by Dexia Holdings Inc., equating to the losses to be borne by Dexia Crédit Local by virtue of the agreement with Dexia Holdings Inc. and Dexia SA signed on 30 June 2011.

The agreement provides for clawback in the event of an improvement in the fortunes of Dexia Holdings Inc. This agreement ended in December 2012 following the recapitalisation of Dexia Holdings Inc. by Dexia SA, and the purchase by Dexia Crédit Local of Dexia SA's minority stake in Dexia Holdings Inc. (10%).

The agreement was authorised by your Board of Directors on 29 September 2011.

Memorandum of negotiation signed by Caisse de Dépôts et Consignations, La Banque Postale, Dexia SA and Dexia Crédit Local

The protocol covers the arrangements for the principles governing the Group's restructuring.

Its main elements are as follows:

- Structure of the transaction envisaged:
  - Change of shareholder structure for Dexia Municipal Agency;
  - Creation of a commercial joint venture between Caisse de Dépôts et Consignations and La Banque Postale intended to originate loans for local governments;
- Price;
- Guarantees provided by Dexia Crédit Local;
- Mechanisms enabling reduction of Dexia's liquidity requirements;
- Operations prior to completion of the transaction;
- Principles governing the transition period;
- Non-compete agreement.

The agreement was authorised by your Board of Directors on 20 October 2011.

This agreement will end upon the effective sale of Dexia MA and SFIL on 31 January 2013.

Agreement in respect of the guarantee provided by Dexia SA in favour of Dexia Crédit Local and relating to Greek bonds held by Dexia Kommunalbank Deutschland

As part of the support provided to its subsidiary, a EUR 1,459 million guarantee was granted by Dexia SA to Dexia Crédit Local on the Greek bonds held by its subsidiary Dexia Kommunalbank Deutschland.

The agreement was authorised by your Board of Directors on 9 December 2011.

In January 2012, the bonds covered by this guarantee were purchased by Dexia Crédit Local. Interest paid by Dexia Crédit Local to Dexia SA in respect of this guarantee in 2012 amounted to EUR 6.2 million.

Agreement for purchase by Dexia Crédit Local of Greek bonds held by Dexia Kommunalbank Deutschland

The agreement provides for:

- Purchase by Dexia Crédit Local of the Greek bonds held by Dexia Kommunalbank Deutschland for their nominal value;
- Assignment to Dexia Crédit Local, without charge, of the hedge (swap) taken out by Dexia Kommunalbank Deutschland;

- Cancellation of the guarantee dated 3 August 2011 provided to Dexia Crédit Local by Dexia Kommunalbank Deutschland, no longer having any purpose after disposal of Dexia Kommunalbank Deutschland's portfolio; remuneration of the guarantee will cease with effect from the effective date of cancellation.

- une annulation de la garantie donnée à Dexia Kommunalbank Deutschland par Dexia Crédit Local en date du 3 août 2011, devenue caduque du fait de la disparition du portefeuille chez Dexia Kommunalbank Deutschland; les intérêts payés par Dexia Kommunalbank Deutschland sur la garantie seront arrêtés au jour de son interruption.

The agreement was authorised by your Board of Directors on 9 December 2011.

The Greek bonds initially held by Dexia Kommunalbank Deutschland were purchased by Dexia Crédit Local in January 2012, with no impact in 2012 given the guarantees granted by Dexia SA to Dexia Crédit Local.

Agreement covering the guarantee issued by Dexia SA in favour of Dexia Crédit Local and secured by the Greek bonds held by Dexia Municipal Agency

As part of the support provided to its subsidiary, a EUR 475 million guarantee was granted by Dexia SA to Dexia Crédit Local on the Greek bonds held by Dexia Municipal Agency.

In January 2012, the securities covered by this guarantee were purchased by Dexia Crédit Local. Interest paid by Dexia Crédit Local to Dexia SA in respect of this guarantee in 2012 amounted to EUR 1.8 million.

The agreement was authorised by your Board of Directors on 22 December 2011.

Neuilly-sur-Seine and Courbevoie, 2 April 2013

The Statutory Auditors

MAZARS		**DELOITTE & ASSOCIÉS**	
Hervé HELIAS	Virginie CHAUVIN	José-Luis GARCIA	Charlotte VANDEPUTTE

Shareholders' Meeting

Proposed resolutions for the combined shareholders' meeting on 7 May 2013

For the ordinary shareholders' meeting

First resolution: approval of the annual 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 annual financial statements at 31 December 2012 as presented, as well as all the transactions set out in these financial statements or mentioned in these reports, showing a net loss of EUR 932,703,020.28.

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 212,980.30, which did not generate any additional corporate income tax owing 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 2012 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 2,040,225,558.

Third resolution: approval of any regulated agreements and commitment

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, in accordance with 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 2012.

Fifth resolution: appropriation of loss

The Ordinary Shareholders' Meeting resolves to allocate the EUR 932,703,020.28 net loss for the fiscal year in full to retained earnings.

Following this allocation, the retained earnings account will have a negative balance of EUR 1,168,091,612.28.

In accordance with Article 243 bis of the French General Tax Code, the Shareholders' Meeting recalls that no dividends have been paid in respect of the three previous fiscal years.

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 annual financial statements and the consolidated financial statements for the fiscal year ended 31 December 2012 are certified by the Statutory Auditors:

- Hervé Helias and Virginie Chauvin, partners, representing the firm Mazars, and
- José-Luis Garcia and Charlotte Vandeputte, partners, representing the firm Deloitte & Associés.

For the extraordinary shareholders' meeting

Seventh resolution: amendment of Article 17 of the bylaws relating to the Board of Directors' decisions

The Extraordinary Shareholders' Meeting resolves to remove the sixth paragraph from Article 17 of the by-laws, which previously read as follows:

"In the event of a tie, the chairperson shall have the casting vote".

Eighth 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 was one of the three principal entities of the Dexia Group, the Franco-Belgian financial 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. Dexia Crédit Local, in connection with the major restructuring of the Group and the implementation of the Group's orderly resolution plan, will remain the Dexia Group's largest entity (Dexia Banque Belgique was sold to the Belgian State in October 2011 and Dexia Banque Internationale in Luxembourg was sold in October 2012), although its activities will be refocused on managing the run-off of its outstanding exposures.
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 Company's country of origin is France. It was incorporated in Paris on 28 August 1989 for a term of 99 years.
Registration number	The Company 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 has been located at: Tour Dexia La Défense 2 - 1, Passerelle des Reflets, 92913 La Défense, France (tel: +33 1 58 58 77 77).
Legal form **Applicable legislation**	Dexia Crédit Local is a French limited company (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, including notably public services and facilities, mainly for the benefit of local governments and public-sector corporations, local government-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 government 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; and • 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 shares in companies whose activities are likely to facilitate the achievement of the Company's business purpose; • create and manage guarantee funds to ensure repayment of loans made to the agencies mentioned in the first paragraph of this section. The Company may also carry out any and all transactions falling within the scope of its business purpose on behalf 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 of 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 resolution of the Shareholders' Meeting, which also approves the use to be made of said reserves. The Shareholders' Meeting may also resolve 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 for payment of dividends are set 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 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: Johan Bohets, Secretary General (+33 1 58 58 58 70) Pierre Vergnes, Chief Financial Officer (+33 1 58 58 58 60).

2. Outlook[1]

Recent events	Despite the significant progress made by the Dexia Group since the end of 2008 with a view to reducing the severe financial imbalances which had weakened it at the time, 2011 represented a very difficult turning point for the Group faced with a further deterioration in the markets. The acceleration of the sovereign debt crisis in the eurozone had called into question the underlying assumptions and the effective completion of the initial transformation plan mapped out in 2008. To take this deteriorated environment into consideration, in October 2011 the Dexia Group announced and implemented an orderly resolution plan for its activities in order to avoid a rapid deterioration in its liquidity position and the materialisation of a systemic risk for the Belgian and French States, as well as the entire European banking sector. This orderly resolution plan, based on the run-of management of assets, primarily includes two sections: the disposal of Dexia's main operational entities and the setting up of a financing guarantee from the Belgian, French and Luxembourg States. 2012 was primarily marked by the implementation of the various sections of this plan and its consequences in terms of the change of scope, purpose and governance for the Dexia Group. The Dexia Group's resolution plan was approved by the European Commission on 28 December 2012. This marked a decisive step forward for the implementation of this plan, way for the EUR 5.5 billion capital increase by Dexia SA and the validation of the definitive scheme for a tripartite liquidity guarantee by the Belgian, French and Luxembourg States[2]. In line with its commitments, the Group began disposing of its main operational entities at the end of 2011, including Dexia Banque Belgium in October 2011. 2012 was marked by significant progress with this disposal process by the Dexia Group (Banque Internationale in Luxembourg, DenizBank, Dexia RBDC Investor Services), contributing towards a major reduction in the Group's balance sheet. In January 2013, Dexia Municipal Agency was sold to the French State, Caisse des Dépôts and La Banque Postale.
Trends	Subject to the risks and contingencies identified in the present annual report, the Dexia Group and Dexia Crédit Local in particular will be moving forward with the implementation of the principles set out in the Group's revised orderly resolution plan, as approved by the European Commission on 28 December 2012. More specifically, the Group will be focusing on the asset disposals still to be carried out, as well as the run-off management of outstanding loans and the desensitising of sensitive structured loans, using the guarantee mechanism from the above-mentioned States. In this way, Dexia Crédit Local will no longer have any commercial presence on the French public sector financing market.
Control	To the best of the Company's knowledge, no agreement exists – including under the terms of the restructuring plan in effect – whose implementation could, at a later date, bring about a change in its control.
Legal and arbitration proceedings	Readers are invited to refer to the text presented on Pages 35 to 37 of this report concerning legal risks.
Material changes	Since the last fiscal year for which audited financial statements have been published, the Company has seen the validation of the Group's revised orderly resolution plan by the European Commission, enabling Dexia to benefit from increased visibility concerning its future. The process to dispose of the operating entities continued in 2012 and the Group aims to achieve its target scope. Backed by its strengthened capital base and with the benefit of an EUR 85 billion tripartite liquidity guarantee, the Group can now focus on managing and optimising its residual assets over time, while moving forward with its run-off management.
Major contracts	The Company currently has no material contracts (other than those entered into as part of the normal course of its business) that may give any member of the Group a right or obligation with a material impact on its ability to fulfil its obligations to holders of issued securities.

(1) The forward-looking elements presented in this section must not be interpreted as guarantees that the forward-looking information will prove accurate or that the desired results will be achieved. The forward-looking statements include a certain number of risks, which may or may not be known or established, but remain subject to contingencies, notably resulting from the Group not evolving and developing in line with the objectives suggested and set out.
(2) Note that the royal decrees awarding the "temporary" guaranteed in 2011 and the 2013 guarantee from the Belgian, French and Luxembourg States are subject to proceedings for annulment with the Belgian State Council.

Statutory Auditors

The principal and substitute Statutory Auditors for Dexia Crédit Local's financial statements for the year ended 31 December 2012 are as follows:

Principal	Substitute
• **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 – France	• **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 - France
• **Deloitte et Associés** (appointed by the Shareholders' Meeting of 16 May 2008, for a six-year term) Represented by José-Luis Garcia and Charlotte Vandeputte, Partners. 185, avenue Charles-de-Gaulle – 92524 Neuilly-sur-Seine Cedex - France	• **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 - France

Analysis of fees paid to each of the statutory auditors

	2011				2012			
(EUR thousands)	Mazars	%	Deloitte	%	Mazars	%	Deloitte	%
Audit services								
• Statutory audit, certification, examination of parent company and consolidated financial statements	2,105	81.81%	2,144	94.62%	2,299	99.09%	2,340	98.40%
• Other assignments	468	18.19%	122	5.38%	21	0.91%	38	1.60%
Sub-total	**2,573**	**100.00%**	**2,266**	**100.00%**	**2,320**	**100.00%**	**2,378**	**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%
Sub-total	**0**	**0.00%**	**0**	**0.00%**	**0**	**0.00%**	**0**	**0.00%**
TOTAL	**2,573**	**100.00%**	**2,266**	**100.00%**	**2,320**	**100.00%**	**2,378**	**100.00%**

Declaration of the person responsible for the registration document *(document de référence)*

The person responsible for the Dexia Crédit Local registration document (*document de référence*) is:

Karel De Boeck, Chief Executive Officer of Dexia Crédit Local.

Declaration of the person responsible for the registration document *(document de référence)*

I the undersigned, Karel De Boeck, 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 10 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 190 and 230 of the present document, as well as those included by reference for fiscal years 2010 and 2011, respectively on pages 186 and 226 of the 2010 registration document and pages 185 and 226 of the 2011 registration document.

The Statutory Auditors' reports on the parent company and consolidated financial statements for 2011 and 2012 contain some remarks.

For fiscal 2012, note 1.2 to the annual financial statements and note 1 to the consolidated financial statements specify that the annual and consolidated financial statements of Dexia Crédit Local have been prepared in accordance with the rules applicable to going concerns. They outline the key factors and assumptions considered by the Board of Directors in applying this accounting principle to the parent company and consolidated financial statements.

The use of this principle is supported by a revised business plan, which was approved by the European Commission on 28 December 2012. More specifically, this business plan factors in a liquidity guarantee granted by the States, capped at EUR 85 billion, and a EUR 5.5 billion recapitalisation of Dexia SA, including EUR 2 billion for Dexia Crédit Local, carried out at the end of December 2012.

This plan is based on a macroeconomic scenario and various assumptions relating in particular to the Dexia Group's refinancing capacity for its business. Nevertheless, there are still certain uncertainties concerning its implementation. As a result, this plan will be regularly updated with a view to estimating the impact of changes in external factors on its potential implementation.

La Défense, 2 April 2013

Karel De Boeck
Chief Executive Officer

Cross-reference table

Headings in the schedule in note XI of article 14 of Commission regulation (EC) n° 809/2004

General information

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**In accordance with Article 28 of Commission Regulation (EC) no. 809-2004, for reference purposes we have included the financial data for the year ended 31 December 2010 and the Statutory Auditors' reports on the consolidated and annual financial statements for that period, presented respectively on pages 186 and 228 of the registration document (filed on 7 April 2011 with the French Financial Markets Authority under D. 11.0252).*

***In accordance with Article 28 of Commission Regulation (EC) no. 809-2004, for reference purposes we have included the financial data for the year ended 31 December 2011, and the Statutory Auditors' reports on the consolidated and annual financial statements for that period, presented respectively on pages 185 and 226 of the 2011 registration document (filed on 5 April 2012 with the French Financial Markets Authority under D.10-0246).*

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Dexia Crédit Local
1, passerelle des Reflets
Tour Dexia - La Défense 2
92913 La Défense Cedex, France
Tel: +33 1 58 58 77 77
Fax: +33 1 58 58 70 00
www.dexia-creditlocal.fr
French public limited company *(société anonyme)* with capital of EUR 1,286,032,212
Nanterre trade register 351 804 042
VAT: FR 49 351 804 042

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