HALF-YEAR FINANCIAL REPORT

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1. HALF-YEAR BUSINESS REPORT

1.1. Business review

1.1.1. Overview

The Dexia group's transformation plan announced at the end of 2008 and the beginning of 2009 is based on four priorities: disposal of the FSA insurance business, adjustment of the group's cost base, reduction of its risk profile and transformation of the Public & Wholesale Banking (PWB) activities. The activity of Dexia Credit Local in the first half of 2009 was in line with each of these major directions of transformation.

The disposal of the insurance activities of FSA, initiated with the signing on November 14, 2008 of a Sale and Purchase Agreement (SPA) with Assured Guaranty Ltd, was finalized on July 1, 2009 with the definitive signing of all of the contracts organizing the transaction. Assured Guaranty acquired the insurance activities of FSA, while Dexia kept the Financial products (FP) portfolio worth USD 16.2 billion as of June 30, 2009, together with the associated risks. However, the Belgian and French governments granted a guarantee for the assets in this portfolio subject to the assumption of an initial loss of USD 4.5 billion to be borne, if applicable, by Dexia.

A program aimed at reducing Dexia Credit Local's cost base was initiated during the first half of 2009. Together with an effort to reduce overheads (a reduction in communications budgets and IT investments, the use of subcontractors and the streamlining of travel and entertainment expenses), a corporate plan was presented in February 2009 calling for the elimination of 245 positions in France. A voluntary departure plan for employees was proposed and implemented during the first half which should make it possible to limit the number of forced layoffs. The same type of effort, in terms of both overheads and staff cuts, was implemented in the international network with the goal of reducing staff by 218 positions.

The reduction of the risk profile includes three main components whose implementation within Dexia Credit Local made significant progress during the first half. First of all, proprietary trading activities for Dexia Credit Local were discontinued; the unwinding or transfer of residual positions to other group entities is under way. Secondly, the balance sheet was significantly improved during the half-year thanks in particular to the adjustment of new lending to refinancing capacities, the restarting of the long-term borrowing program backed by government guarantees and the gradual reopening of the covered bond market. Thirdly, the run-off management of bond portfolios carried out centrally for the entire group made it possible to begin to reduce outstandings.

The transformation plan aimed at the Public & Wholesale Banking business line primarily consisted of concentrating the activity in countries where Dexia has a significant commercial franchise, local long-term financing capacity and the potential for profitable growth. Dexia therefore decided to maintain a strong presence in France, Belgium, Luxembourg, Italy and Spain. In other countries (United Kingdom, United States and Canada) Dexia is maintaining its activity while reducing it. Dexia remains in a third group of countries (Switzerland, Japan and Germany) without developing any commercial activity. However, Dexia affirmed the strategic position of its German subsidiary Dexia Kommunalbank Deutschland (DKD) in the group's refinancing policy. Lastly, the decision was taken to discontinue activities in Australia, Central and Eastern Europe, India, Scandinavia and Mexico.

New lending and other long-term commitments were reduced significantly in line with the transformation plan's objectives. They amounted to just EUR 2.7 billion compared with EUR 26.9 billion as of June 30, 2008.

Despite this limited new lending, the commercial momentum in target countries was maintained. Financing solutions allowing for a less demanding use of the balance sheet and the systematic search for cross-selling opportunities were favored.

Deposit taking and investment products were up by 2% in June 2009, increasing from EUR 10.2 billion to EUR 10.3 billion. Nonetheless it should be noted that commercial deposits increased by 12% over all whereas off-balance sheet items such as mutual and other investment funds decreased by 15%.

As of June 30, 2009, long-term commitments were down by 3% compared with June 30, 2008 to EUR 222.5 billion[1]. Dexia Credit Local's commitments to the local public sector were down by 4% while in terms of project finance commitments increased by 2% to reach EUR 29.7 billion.

1.1.2. Local public sector financing – project finance

Main markets

In France, as of June 30, 2009, new lending amounted to EUR 1,305 million (i.e.down 66% compared with end-June 2008) in a hesitant market featuring high banking margins and a low level of activity as is usually the case in post-electoral years. After having postponed recourse to borrowing, local authorities launched an increasing number of calls for tenders beginning in May and June.

In the first half-year, Dexia Credit Local's market share for calls for tenders launched by large local authorities came to around 25%. Since January 2009, 38% of new lending to local French authorities was funded by the Caisse des Dépôts et Consignations (EUR 161 million in Local Authority Refinancing Loans and EUR 220 million in Social Rental Loans) and by the European Investment Bank (EIB) (EUR 204 million).

Lastly, the volume of assets restructured during the first half of 2009 came to EUR 2,104 million, 51% less than as of June 2008.

In Italy, new long-term lending amounted to EUR 136 million.

During the first half of 2009, borrowing by the Italian public sector was extremely limited on the one hand because of government-imposed limits on public indebtedness and on the other because of regulatory restrictions on the maximum level of rates for financing local authorities. With the arrival of the crisis, these maximum rates became incompatible with the costs of long-term refinancing. Since the regulations limiting the rates applicable to local authorities have recently been relaxed, a pick-up in activity is expected in the second half.

In addition, during the first half of 2009, Dexia initiated a diversification policy by broadening its target clientele to include other players such as the satellites of local authorities.

[1] In order to have a consistent basis of comparison between June 30, 2008, and June 30, 2009, the figures for June 30, 2008, were restated to show bank credits (i.e. EUR 229 billion) without including bonds. The amount including bonds published on June 30, 2008, was EUR 284.7 billion.

On the Iberian peninsula, Dexia originated new long-term loans amounting to EUR 819 million.

In Spain the first half of 2009 featured an increase in the financing needs of regional Spanish administrations and in particular of large clients. Within this framework of market growth, Dexia led a selective commercial policy while supporting its role as a major player. In Portugal, the growth of the debt was more limited since the indebtedness limits for the Portuguese government were maintained.

Lastly the total volume of restructured assets in the first half of 2009 amounted to EUR 734 million, which is much greater than the entire debt management activity in 2008 (EUR 90 million).

Other markets

In North America, SBPA's business (liquidity guarantees for local authorities' bond issues) was discontinued. New lending of EUR 144 million was carried out exclusively in the project finance sector. Nonetheless, the 2009 activity of Dexia Credit Local New York in terms of project finance was considerably lower than in 2008 and was concentrated in sectors deemed strategic (infrastructure and renewable energy).

In the United Kingdom, new lending came to EUR 96 million with in particular a EUR 22 million transaction in the social housing sector and Dexia Credit Local's participation in a Private Finance Initiative (PFI) for a total amount of EUR 73 million to be used in the rehabilitation of the London ring road. The debt management activity came to EUR 1 billion for the first half of 2009.

In Japan, the branch discontinued all new commercial lending. The unit initiated a loan and bond disposal process: its assets declined by around 20% during the first half and this effort will be continued in the second half of the year.

In Germany, the primary purpose of the subsidiary (DKD) is now to contribute to the group's refinancing through the issue of German covered bonds (*Pfandbriefe*); in this respect, it has a highly strategic role to play in the long-term refinancing of the group's public assets. This transformation has been accompanied by the discontinuation of primary market commercial activity while maintaining its debt management activity: EUR 112 million as of end-June 2009.

In Israel, new lending amounted to EUR 71 million with the entire amount generated with local authorities without any new involvement of in settlements located in Palestinian territory.

In Switzerland, no financing has been granted since the start of 2009 and the objective is to close the Dexia Credit Local subsidiary as soon as possible.

Activities in Australia, Central and Eastern Europe (except Dexia banka Slovensko), Mexico, India and Scandinavia were discontinued and the entities are managed on a run-off basis.

Since January 2009, all of the commercial activities of Dexia banka Slovensko (Slovakia) have been placed under the Retail and Commercial Banking business line[2]. Overall, the commercial activity of Dexia banka Slovensko (DbS) remained strong during the first half of 2009 with commercial outstandings stable since December 31, 2008 at EUR 1,602 million, up 18% compared with June 30, 2008. Customer deposits amounted to EUR 1,880 million thanks to a return to confidence following the crisis (a low point of EUR 1,723 million was reached at the end of 2008) but were down slightly by 3% compared with June 30, 2008. Moreover, during the first half of 2009 DbS initiated a cost reduction plan.

	Long-term commitments [1]			**New long-term lending [1]**		
in EUR millions	June 30, 2009	June 30, 2008	% Change	YTD 2009	YTD 2008	% Change
Main markets	**143,239**	**144,058**	**-1%**	**2,293**	**10,037**	**-77%**
France (incl.International headquartes)	89,948	91,092	-1%	1,339	4,483	-70%
Iberian Peninsula (Spain and Portugal)	16,122	13,751	17%	819	3,298	-75%
Italy	37,169	39,216	-5%	136	2,255	-94%
Other markets	**79,240**	**84,903**	**-7%**	**366**	**16,869**	**-98%**
Germany	13,076	14,061	-7%	0	1,508	-100%
Sweden	2,915	3,463	-16%	0	567	-100%
Switzerland	3,290	5,036	-35%	0	253	-100%
United Kingdom	13,027	12,987	+0%	96	1,172	-92%
United States and Canada	36,574	38,177	-4%	144	8,483	-98%
Australia	1,360	1,447	-6%	0	436	-100%
Central and Eastern Europe	2,413	2,433	-1%	0	508	-100%
Israel	807	734	+10%	71	119	-40%
Japan	5,779	5,145	+12%	56	3,38	-98%
Mexico	0	1,42	-100%	0	445	-100%
Total Dexia Credit Local	**222,480**	**228,961**	**-3%**	**2660**	**26905**	**-90%**
Presentation by segment						
Public sector	*192,741*	*199,795*	-4%	*2,240*	*21,673*	-90%
Project finance	*29,739*	*29,167*	+2%	*420*	*5,232*	-92%
Présentation by on- and off-balance-sheet						
On-balance-sheet	*178,611*	*177,252*	+1%			
Off-balance-sheet	*43,869*	*51,70*	-15%			

1. Amounts at current exchange rates

[2] The summary tables on new loans, commitments (point 1.1.2) and customer funds collected (point 1.1.4) do not include data relative to DbS.

1.1.3. Insurance (Dexia Sofaxis)

The volume of insurance premiums collected by Dexia Sofaxis was down 6% and came to EUR 343 million because of the loss of certain clients and the cutting of insurance prices in a highly competitive market.

The associated services (medical appraisals and controls) were up 11% in the first half of the year.

The strength of business in Italy has been affirmed thanks to the introduction of strong synergy with Dexia Crediop's sales force. This new approach, in line with overall PWB strategy, has made it possible to target 45 large local authorities in northern Italy. To date, meetings have been held between 25 of these entities and the Dexia Crediop sales force trained in statutory insurance by the Dexia Sofaxis sales force.

1.1.4. Customer collections

Customer collections (deposits and investment products) were up 2% in June 2009, increasing from EUR 10,157 million to EUR 10,346[3] million. However, it is noteworthy that the growth of commercial deposits, which reached EUR 6,994 million as of June 30, 2009, amounted to 12% while at the same time off-balance-sheet products of the mutual fund type declined by 15% to EUR 3,352 million as of June 30, 2009.

- In France, deposits and assets under management were stable at EUR 7,175 million with commercial deposits up 17% (to EUR 3,823 million) and off-balance-sheet products (mutual funds) down 15% to EUR 3,352 million.
- In Italy, the first half's commercial activity also favored the collection of customer deposits, which came to EUR 1,607 million at the end of June 2009, close to the amount one year earlier.
- On the Iberian peninsula, total deposits amounted to EUR 329 million, double the amount collected as of June 30, 2008.
- In Israel, deposits collected were up 6% at the end of June 2009 increasing from EUR 935 million to EUR 990 million.

COLLECTION OF DEPOSITS AND INVESTMENT PRODUCTS INCLUDING OFF-BALANCE-SHEET PRODUCTS

in EUR millions	June 30, 2009	June 30, 2008	*Variation*
France	7,175	7,184	*-0%*
o/w on-balance-sheet	*3,823*	*3,260*	*+17%*
o/w off-balance-sheet	*3,352*	*3,924*	*-15%*
Italy	1,607	1,700	*-5%*
Iberian peninsula (Spain and Portugal)	329	154	*+114%*
Israel	990	935	*+6%*
Other	245	1 883	*+33%*
Total Dexia Crédit Local	**10,346**	**10,157**	**+2%**
o/w on-balance-sheet	*6,994*	*6,233*	*+12%*
o/w off-balance-sheet	*3,352*	*3,924*	*-15%*

[3] The amount of EUR 10,346 million has been restated to include the deconsolidation of DbS's PWB activity in 2009.

1.1.5. Long-term refinancing (1)(2)

Senior debt	New issues in H1 2008 (in EUR millions)	New issues in H1 2009 (in EUR millions)		
		Total	Guaranteed	Non guaranteed
France				
Dexia Municipal Agency	8,538	4,563		4,563
Dexia Credit Local	3,448	17,679	17,235(3)	444
Italy				
Dexia Crediop	2,138	380		380
Germany				
Dexia Kommunalbank Deutschland	5,988	2,670		2,670
Subtotal - Europe	**20,112**	**25,292**	**17,235**	**8,057**
United States				
FSA - Financial products (GICs)	512	0	0	0
Total	**20,624**	**25,292**	**17,235**	**8,057**

(1) Funding [figures include market funding (public and private), and the retail and subsidized (PRCL) markets. They exclude intra-group loans.
(2) The figures include funds raised for 12 months and more (the 2008 figures are restated to include short-term funding (-< 2 years and >= 12 months) to make the comparison more relevant).
(3) of which a U.S. "144a" issue for a total amount of USD 4 billion.

Over all, the first half of 2009 featured improved conditions of access to the primary bond market.

During the first quarter, the banking sector suffered a further deterioration and liquidity remained tight. The uncertainty surrounding the modification of covered bond rating methodologies announced by the ratings agencies prompted prudence on the part of investors in this market segment.

In this context, banks above all had recourse to government-guaranteed debt issues in order to avoid an overly significant slowdown in the execution of their long-term financing programs. As a result, on the global market nearly EUR 196 billion were issued in this new market segment in the first quarter with nearly one third of the new issues in euros in volume terms. During the same period, non-guaranteed primary issues remained limited while issues of covered bonds declined sharply to EUR 11.3 billion, 65% less than in 2008.

The second quarter witnessed a relative return of investor confidence without the situation yet appearing to be normal. The rebound in equity markets and the announcement on May 7, 2009, by the European Central Bank (ECB) of its plan to purchase EUR 60 billion in covered bonds sufficed to reignite investors' appetite for risk and by the same token the non-guaranteed primary and covered bond activity.

Non-guaranteed issues thus increased sharply (EUR 71.8 billion were issued on the euro market of which 66% in the second quarter alone). Access to the market was initially limited to each country's main issuers but subsequently broadened. For its part, the ECB's purchase plan strongly stimulated demand for covered bonds (EUR 46.7 billion issued on the euro market of which 75% in the second quarter alone).

In this environment, Dexia Credit Local borrowed EUR 25.3 billion in the first half, of which EUR 8 billion outside the framework of government guarantees, compared with EUR 20.6 billion in the first half of 2008.

The gradual normalization of market conditions is expected to enable a steady increase in the non-guaranteed share of medium- and long-term financing. Current thinking about the extension of the guarantee framework from which the group benefits will influence the refinancing strategy during the second half of 2009.

Government-guaranteed issues

As of June 30, 2009	**Dexia Credit Local consolidated**
Public issues Average duration	EUR 10.830 billion 2.3 years
Private placements Average duration	EUR 6.405 billion 1.9 years

The final guarantee protocol was signed on December 9, 2008 with discussions with the rating agencies finalized in early January 2009, enabling Dexia to be fully active in this new segment as from January 2009.

The first quarter was devoted to developing guaranteed issues on the euro market. In February and March, Dexia Credit Local was able to launch two benchmark transactions maturing in October 2011 and March 2011. The level of demand made it possible to raise EUR 3 billion and EUR 3.5 billion, respectively, and also to confirm the market's acceptance of the tripartite guarantee framework and the AA rating of the Dexia group's guaranteed issues. These two domestic market successes also enabled Dexia to affirm its presence on the public markets in foreign currencies with issues in yen (JPY 45 billion), Swiss francs (CHF 350 million) and sterling (GBP 750 millions). This last transaction met with very high demand (GBP 2.2 billion). Lastly, the first half ended with a substantial inaugural transaction in USD. Dexia in effect launched its first "144a[4]" issue for a total amount of USD 4 billion via two tranches maturing on September 23, 2011: a USD 2 billion fixed-rate tranche (2.375%) and a USD 2 billion variable-rate tranche (against the three-month LIBOR). This transaction maturing in two years was a success, with an order book of more than USD 8.7 billion and a significant presence of U.S. investors (50%).

[4] The "144a" format makes possible the placement of the securities of a non-U.S. issuer with "Qualified Institutional Buyers" without registering the issuer with the Securities and Exchange Commission.

In order to round out its activity, Dexia Credit Local continued to be active in the private transaction segment (37 EMTN transactions with an average duration of 1.9 year for a total of EUR 6.405 billion including EUR 4.188 billion in "extendible" issues). "Extendible" issues enable investors to satisfy their two-fold concern for liquidity and credit risk.

Non-government-guaranteed issues and funding

1- Covered bond issues:

As of June 30, 2009	**DMA**	**DKD**	**Dexia Credit Local consolidated**
Public issues Average duration	EUR 3,705 million 13.1 years	EUR 1,150 million 5.5 years	EUR 4,855 million 11.3 years
Private placements Average duration	EUR 858 million 14.2 years	EUR 1,507 million 12.6 years	EUR 2,365 million 13.5 years

The issues of *obligations foncières* (DMA) and *Pfandbriefe* (DKD) do not enter into the guarantee framework from which Dexia benefits.

During the first quarter of 2009, the funding raised in the covered bond format was limited (EUR 1.3 billion), since the market was only open to a limited number of issuers whose credit profiles had been spared during the crisis. Dexia's various covered bond issues were almost exclusively concentrated on private placements and were primarily handled by DKD (EUR 1 billion) which was able to build on the depth of its domestic investor base.

During the second quarter, Dexia fully benefited from the reopening of the primary market for covered bonds, enabling it to affirm the group's franchise in this market segment. A total of three benchmark issues were launched by DMA and DKD, covering a wide range of maturities. DKD launched a EUR 1 billion issue maturing in five years in order to meet demand that was largely domestic. For its part, DMA solicited investors for 12 and 15 years in order notably to meet the maturity requirements of French insurers. DMA's 15-year issue corresponded fully in terms of maturity and size to the market's new thrust. In effect, it was the first 15-year covered bond issued since June 2007.

2- Funding (PRCL):

As of June 30, 2009	**Dexia Credit Local consolidated**
Subsidized funding	EUR 161 million
Average duration	7.5 years

In 2009, Dexia Credit Local raised EUR 161 million with CDC in so-called Local Authority Refinancing Loans (*Prêts de Refinancement des Collectivités Locales* or PRCL) at an average maturity of 7.5 years. Such funding is attractive given the difference in price compared with private placements and the drawings' long maturities.

3- Unsecured issues:

- Private issues

As of June 30, 2009	Dexia Credit Local consolidated
Dexia Crediop private placements	EUR 380 million
Average duration	3.5 years
DCL private placements	EUR 283 million
Average duration	5.2 years
DKD private placements	EUR 13 million
Average duration	9 years

- Retail issues

Dexia Crediop's retail activity was discontinued during the second quarter of 2008 in the wake of questions concerning the disposal of FSA, the implementation of the government guarantee and the Dexia group's restructuring plan. It was not possible to restart this activity in 2009. Italian retail banks currently favor their own issues in their offers to their retail clients in a context of increasingly scarce liquidity.

1.1.6. Financial Market activities

- **"Portfolio Management"**

  As part of Dexia's transformation plan, the bond portfolios — in particular the Credit Spread Portfolio (CSP), Public Sector Portfolio (PSP) and Credit Structuring and Trading (CST) — were placed in run-off management and consolidated under the new Portfolio Management Group (PMG) business line.

  The managers of this portfolio have been charged with downsizing it to help deleverage the balance sheet, reduce the Group's risk profile and ease liquidity pressures.

  As of June 30, 2009, after taking into account various sales under the asset disposal program and natural amortization, Dexia Credit Local's consolidated portfolio managed by PMG totaled EUR 117 billion (excluding Financial Products).

Utility / PFI / Infrastructure	(EUR 8 billion)
Public sector and Muni	(EUR 38 billion)
Public-sector and other corporates, CE/EMEA	(EUR 4 billion)
ABS/MBS	(EUR 17 billion)
Central governments and supranationals	(EUR 18 billion)
Banks and covered bonds	(EUR 32 billion)
Total	**(EUR 117 billion)**

  Since the beginning of 2009, portfolio changes have resulted in net divestments of EUR 6 billion (EUR 5.1 billion in bonds and other derivatives), or approximately 5% of the overall total. Divestments totaled EUR 2 billion in the first quarter and EUR 4 billion in the second, with a loss limited to EUR 7.7 million (including provisions). The divested assets have an average residual maturity of 3 years.

The portfolio downsizing affected the sectors as follows:

-banking (EUR 2.5 billion in net divestments),
-local authorities (EUR 1.3 billion in net divestments),
-ABS (EUR 1 billion in net divestments),
-Emerging Markets (EUR 0.9 billion in net divestments),
-Corporates and utilities (EUR 0.3 billion in net divestments).

- **"Short-Term Risk Management and Cash & Liquidity Management"**

The first quarter was marked by a gradual narrowing of cash swap spreads (from 150 bp to 90 bp) and slow reopening of the money market. The materialization of the guarantee enabled Dexia Credit Local to bring its commitments back down to the summer 2008 level (EUR 33 billion). Recourse to tenders by various central banks was thereby reduced.

The second quarter was marked by the growing role of guaranteed long- and short-term issues. Certificates of deposit volume totaled EUR 38 billion, a new record, with lengthening maturities (shift from overnight issues to 1- to 3-month issues).

This trend significantly eased pressures on short-term refinancing, and Dexia Credit Local's net cash position improved considerably.

The establishment of 1-year tender offers by the ECB on June 25 enabled Dexia Credit Local to extend the average maturity of short-term refinancing. Dexia Credit Local's participation reached EUR 19 billion.

Trend involving main short-term refinancing sources:

EUR billions	March 31	June 30
Short-term issues (Commercial paper / Certificates of deposit)	32	38
Bilateral repos	7	7
Central bank tenders	73	47
Non-banking client deposits	2	5

- **"Structuring & Trading"**

Structuring:

Structuring for public sector clients

Volume contracted sharply relative to previous years: 182 transactions executed with French clients (local authorities, hospitals and public housing agencies) and covered by the structuring desk in the first half of 2009, with aggregate nominal volume of EUR 1.5 billion, down from EUR 4.2 billion in the first half of 2008.

The number of proposed debt management transactions to satisfy client needs remained substantial, but their realization rate fell sharply relative to previous years.

Structuring for institutional clients

The structuring team's sales activities with institutional clients increased significantly during the second quarter. The structuring team listed and covered 19 DMA registered covered bond private placements offered directly by Dexia Credit Local to institutional investors in Germany, with a total volume of EUR 620 million and a 15-year average maturity. These transactions were realized following the re-opening of the covered bond market in the second quarter, after no such transactions had been completed in the first quarter.

Structuring for client project financing

Sales of interest rate derivatives to project financing companies to cover their interest rate exposure was robust in the first half. Spreads on these derivatives also increased during this period.

Trading:

In accordance with the transformation plan, the macro-hedging of the interest rate structured products activity will be transferred to Dexia Bank Belgium's trading desk in Brussels. The transfer was initiated during the first half, with the definitive completion scheduled for November 2009.

The quantity of commercial payments whose interest rate risks were hedged by the "Macro-hedging of Interest Rate Structured Products" desk for PWB's commercial networks (in France, Belgium and Italy) remained substantial, with 83 hedging transactions (establishment and unwinding of client transactions) performed with the commercial portfolios in the first half of 2009 and total aggregate volume of EUR 924 million.

Distribution:

In the first half of 2009, the "Distribution" teams enabled Dexia to be the joint-lead manager for all the Group's euro-denominated public offerings and to be the leading private placement contributor for the issuer DMA.

They participated in the deleveraging of the bond portfolios by up to EUR 300 million, and collected EUR 1.6 billion in unguaranteed deposits from French clients.

- **"Debt Capital Markets"**

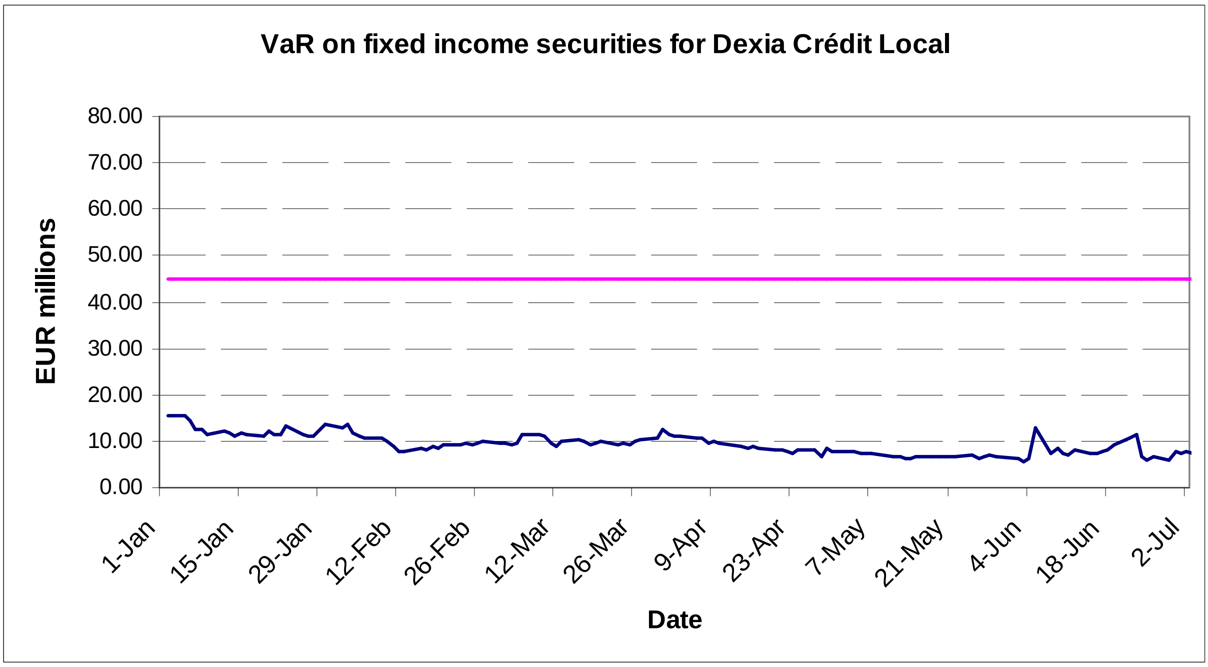
The Public & Wholesale Banking business' bond origination and structuring activity is performed by the Debt Capital Markets (DCM) team, based in Paris, together with the Treasury & Financial Markets division's market teams and the sales teams of the country entities where the Bank does business.

The primary mission of the DCM team consists of capitalizing on Dexia's franchise to offer capital markets type financing solutions adapted to the needs of large public sector clients.

During the first half of 2009, Dexia arranged (or participated in) 19 transactions either as bookrunner or lead manager. The aggregate volume of these transactions was around EUR 4 billion. The issuers included, among others, the Kingdom of Belgium, the Flemmish Community, the Belgian utility Elia, Rhineland Palatinate and of course various euro-denominated Dexia issues.

▪ **Value at Risk**

The graph below presents Dexia Credit Local's consolidated Value at Risk (VaR) on fixed income securities in the first half:



Value at Risk is a statistical assessment of the potential loss over a 99% confidence interval for a 10-day benchmark period for the TFM businesses.

1.1.7. FSA

Dexia completed the sale of FSA's insurance activities on July 1, 2009. This transaction enabled Dexia to exit the insurance business, which is no longer a core business, and to reduce its monoline exposure in the United States significantly.

The disposal of Financial Security Assurance Holdings Ltd's insurance activities was carried out through the sale of shares in FSA Holdings Ltd by its parent company, Dexia Holdings Inc., to Assured Guaranty (see presentation of Dexia Credit Local Group consolidated scope on p. 91 of the 2008 Annual Report). The activities retained (Financial products), which had been held by subsidiaries of FSA Holdings Ltd., were sold to Dexia Holdings Inc. prior to the finalization of the transaction with Assured Guaranty. In exchange for the sale of shares in FSA Holdings, Dexia Holdings Inc. received from Assured Guaranty:

- USD 546 million in cash,
- 21.8 million in shares of Assured Guaranty,

or a total price of USD 816.5 million based on the June 30, 2009 price of Assured Guaranty shares (USD 12.38).

This disposal concludes the process initiated with the signature of the "sale and purchase agreement" last November 14.

The Financial Products activity, currently in run-off management, consisted of gathering deposits from third parties (often from issuers – local authorities), to whom FSA agreed to pay out a fixed amount through guaranteed investment contracts (GICs). FSA reinvested these deposits in securities offering higher returns, generating a positive net interest margin. FSA thereby built up a substantial asset position, with a USD 17.1 billion portfolio as of December 31, 2008.

The portfolio's run-off management was entrusted to HF Services, a dedicated subsidiary, with operational support provided by Dexia Credit Local's New York branch. The Belgian and French central governments are guaranteeing the assets of the Financial products portfolio. This guarantee was approved by the European Commission on March 13, 2009. It stipulates that Dexia would cover the initial loss of USD 4.5 billion, including USD 2 billion for which provisions have already been established as of June 30, 2009. If the losses end up exceeding USD 4.5 billion, the guaranteeing governments may receive Dexia common shares or profit-shares. This mechanism was approved by Dexia's Special Shareholders' Meeting of June 24, 2009.

The Financial products activity is now consolidated under the full consolidation method in the financial statements of Dexia Credit Local and Dexia. During the first half of 2009, a USD 71 million net provision charge (cost of risk and impact on income) was recorded, bringing total provisions to USD 1,992 million.

1.1.8. Transformation of Dexia Credit Local and the job-saving plan

The first half of 2009 was marked by the establishment of Dexia Credit Local's company project. This project is part of the Dexia Group's transformation plan, which calls for downsizing the balance sheet (discontinuation or downsizing of the international business), re-scaling the market activities and a general cost-reduction plan. The Dexia Credit Local project also includes major changes to the commercial network organization in France. This new organization will make it possible to provide better client coverage and satisfy their needs more effectively through a locally based approach, with the backing of teams specialized by major markets.

The overall company project was presented on February 19, 2009; it calls for the elimination of 245 jobs in France. The company engaged in active discussions with employee organizations through July, including 28 works council meetings over five months. These discussions led to some adjustments in the initial project, especially with regard to the sales organization.

Beginning at the end of April, an agreement was reached on voluntary separation. This plan allows employees to apply, even if they have an outside solution that enables them to avoid a forced layoff. As of June 30, 158 voluntary separations were recorded out of a total of 176 job cancellations. The plan remains open through August 31. In all, nearly 240 people applied for early separation.

The volunteer separation plan should make it possible to limit forced layoffs as much as possible. Most of the employees still in job categories scheduled to be cancelled at the end of the plan received early job reclassification offers, which they rejected.

Clearly, the managerial challenges for the second half will be to successfully reassign any remaining employees susceptible to lay-offs, to manage the transformation of the reporting lines as well as possible and to reposition the company for growth. All managers will be focused on these objectives as of September.

1.2. Risk review

For Dexia Credit Local, the first half of the year was marked by the sale of the insurance activities of FSA Holdings Ltd (FSA Insurance) to Assured Guaranty and the retention of the risk exposure from the Financial products activity. This sale made it possible to reduce the Group's overall exposure to the United States, in particular on the insurance activities for securitized products (USD 103 billion) on both the U.S. housing sector as well as on corporate and consumer loans.

During the first half of the year, Dexia Credit Local's bond portfolio ratings deteriorated for Asset-Backed Securities (ABS) transactions as a result of ratings downgrades on monoline insurers and weakness in the overall economy and the housing sector, notably in some European countries such as Spain. This deterioration was nevertheless gradual, and specific provisions had to be recorded on only a limited number of securities.

Given the overall uncertainty surrounding these future risk trends, however, substantial collective provisions were established on both hedged and unhedged exposures whose underlyings consist of securitized assets. Such is the case in particular for the Financial products portfolio, which consists primarily of U.S. residential mortgage-backed securities (RMBS).

In the project finance sector, the global recession negatively affected projects with the greatest cyclical exposure, such as port and, to a lesser extent, highway infrastructure projects.

Regarding specific country risk, Dexia Credit Local has relatively high exposure to Central and Eastern European countries, but it typically involves central government or local authority counterparties.

1.2.1. Credit risks

The method used for the following data is consistent with IFRS 7, which is based on the concept of maximum credit risk exposure (MCRE).

Credit risk exposure includes the net amount of assets other than derivatives recognized on the balance sheet (i.e. the carrying amount net of specific provisions), the mark to market value of the derivative products and off-balance-sheet commitments comprising the portion of undrawn facilities and guarantees given.

It should be noted that credit risk exposure is measured after taking into account credit risk mitigation techniques in accordance with Basel II principles. The credit risk exposure is broken down by counterparty type and by geographic region while taking into account guarantees. No substitution is possible, however, if the risk weighting of the guarantor is of higher quality than that of the borrower, the guarantor is taken into account.

In terms of volume, Dexia Credit Local's overall maximum credit risk exposure (excluding Financial Products and Global Funding) decreased by 4% (EUR - 16.5 billion) in the first half of 2009 to EUR 395.7 billion.

In terms of counterparties, the EUR - 9.1 billion reduction in credit risk exposure on the local public sector, comprising local authorities and their agencies, is noteworthy. More than half of this decrease was due to the reduced exposure to U.S. local authorities, with the reimbursement of standby bond purchase agreements (SBPAs), which are liquidity guarantees on bond issues by U.S. local authorities. Despite this reduction, the local public sector's exposure remained stable relative to the overall total at 56.9%, or EUR 225.2 billion, compared with 56.8% as of December 31, 2008.

The share of exposures to governments fell from 10.9% (EUR 45.1 billion) to 10.2% (EUR 40.5 billion).

Overall, the relative share of credit risk exposure to the public sector decreased slightly: 67.1% (EUR 265.7 billion), down from 67.8% (EUR 279.4 billion) as of December 31, 2008.

The ABS/MBS portfolio recorded the strongest decline of any portfolio, falling by 14.9%, or EUR 2.7 billion, and now accounts for only 4% of the total.

Corporates make up 3.7% (EUR 14.5 billion) of the total, down from 4.1% (EUR 16.7 billion) as of December 31, 2008. Project finance exposure rose slightly from 3.6% (EUR 15 billion) to 3.9% (EUR 15.6 billion).

Dexia Credit Local credit exposure enhanced through monoline insurers and whose risk level (default probability and loss given default) is better than that of the guaranteed counterparties made up 2.3% of the total, up from 1.9% at the end of last year. Nearly all of these exposures (88%) are on FSA Inc. (AA-), while Assured (AA) accounted for 11%.

Overall, the share of private sector exposure amounted to 14% (EUR 55.3 billion), down slightly from 14.2% (EUR 58.4 billion) as of December 31, 2008.

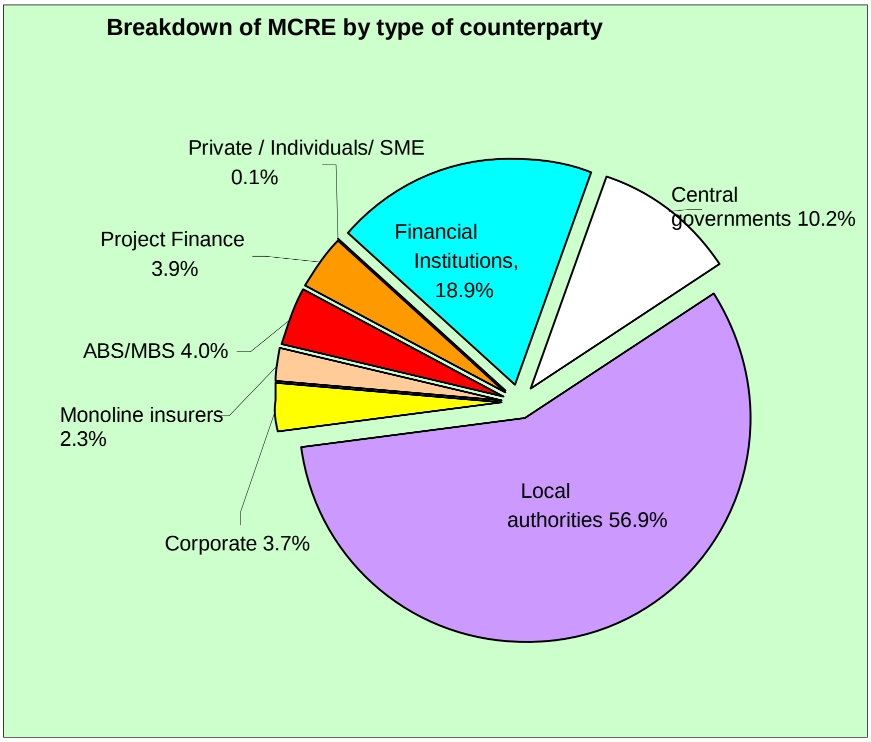
Financial institution exposure remained stable: EUR 74 billion, with 52% of this amount involving intragroup exposures related to internal refinancing with group entities and cash management optimization, and the majority of the refinancing of the entities with the ECB done by Dexia Bank Belgium.

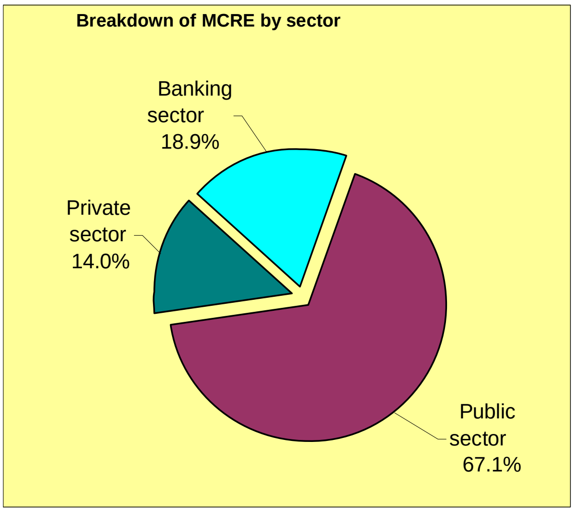
The share of banking sector exposure remained largely unchanged at 18.9% (EUR 74.7 billion) compared with 18% (EUR 74.4 billion) as of December 31, 2008.

<u>Credit risk exposure by counterparty type and rating was as follows:</u>

1. Three types of counterparties accounted for 84.9% of credit risk exposure (EUR 344.5 billion):
   - 55.5% through the local public sector, consisting of local authorities and their satellites (EUR 225.3 billion), including 21% rated AAA and 35% rated AA+/AA /AA-,
   - 19.5% by financial institutions (EUR 79 billion), of which 13% rated AA+/AA/AA- and 76% rated A+/A/A-,
   - 9.9% by central governments (EUR 40.2 billion), of which 75% rated AAA and 12% rated A+/A/A-.
2. the balance (15.1% of Dexia Credit Local's credit risk exposure) is made up of:
   - 3.9% ABS (EUR 15.7 billion), of which 89% rated AAA,
   - 2.3% monoline insurers (EUR 9.3 billion), of which 99% rated in the AA range,
   - 3.6% corporates (EUR 14.5 billion), and 3.9% project finance (EUR 15.6 billion). 67.4% of the corporates and 76.7% of the projects have an investment grade rating,
   - 1.4% other (accruals, capitalizations, etc.).

Dexia Credit Local consolidated data, excluding Financial Products and Global Funding

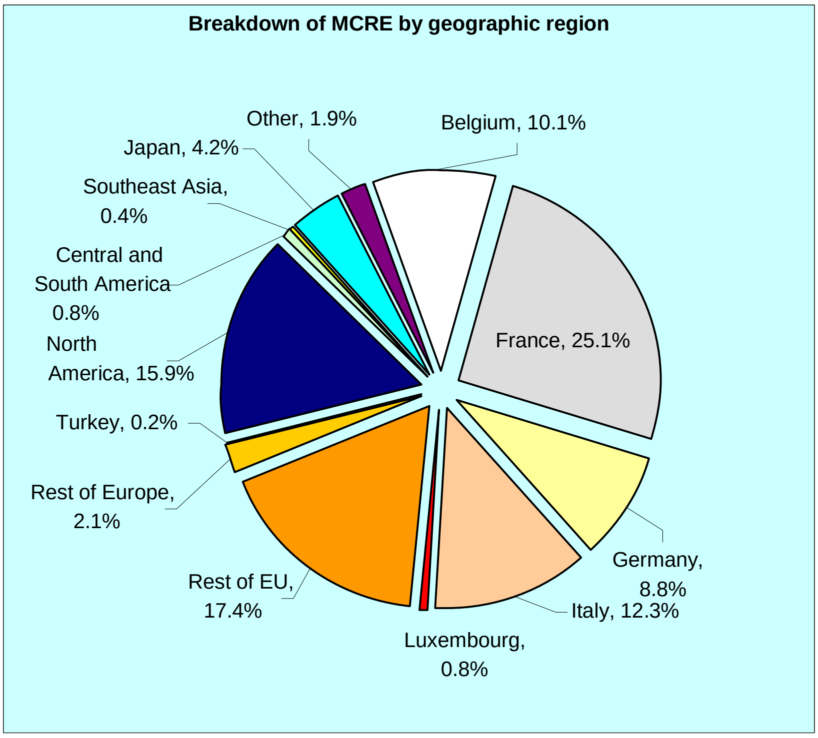




Geographically, the breakdown by major regions remained stable overall: Europe accounted for 76.6% of MCRE, or EUR 303 billion, compared with 73.7% as of December 31, 2008. Belgium recorded the largest increase (EUR 13.8 billion) following intragroup transactions aimed at optimizing cash management. All other major countries recorded declines in their MCRE: France (EUR - 4 billion), Italy (EUR - 4.3 billion), Germany (EUR - 2 billion), other EU countries (EUR - 1.9 billion), and the rest of Europe (EUR - 0.8 billion). The MCRE for Central and Eastern Europe represented 2.8% (EUR 10.9 billion) of the total, down EUR 0.7 billion, with 80% of this exposure related to central governments and local authorities.

North America accounted for 15.9% (EUR 63 billion) compared with 17.5% as of December 31, 2008. The reasons for this decrease were referenced above in the section on counterparties.

Regarding MCRE among other countries, a 20% decline was recorded in Japan (EUR 4 billion) and 65% drop in Korea (EUR 1.5 billion), as some portfolios, notably the bond portfolios, were placed in run-off management.



Impairment based on counterparty risk (excluding FSA and Global Funding)

Overall, total impairment on loans and receivables was EUR 645.3 million, including EUR 111 million in provision charges. The balance consists in part of general provisions calculated in accordance with Basel II risk parameters in terms of default probability and loss given default and for collective sector provisions based on the nature of the commitments and the types of risk exposure in light of the financial crisis. Finally, impairment totaling EUR 435 million reflects counterparty risk on securities and derivatives. All in all, the amount of provisions remains modest relative to the total exposure (EUR 395.7 billion).

Loans and receivables (EUR millions)	12/31/2008	6/30/2009	change in amount	% change
Non-performing loans under collection	275	320	45	16%
Related provisions	104	111	7	7%

Securities and derivatives (EUR millions)	12/31/2008	6/30/2009	change in amount	% change
Provisions for banks	336	336	0	0%
Provisions for Mid-corporate	100	99	1	-1%

Non-performing loans under collection increased by 16% (EUR 45 million) relative to December 31, 2008 to reach EUR 320 million.

Regarding impairment on AFS securities and derivatives, impairment on mid-corporates involves currency derivatives booked by the Slovakian subsidiary and are stable relative to December 31, 2008.

Financial Products

Financial products' commitments totaled USD 16.2 billion as of June 30, 2009, down from USD 16.5 billion on December 31, 2008. By rating category, they broke down as follows: AAA 16%, AA 13%, A 8%, BBB 8%, BB 11%, B 11% and <B 33%. Credit quality deteriorated in the first half, as the share of non-investment grade assets rose from 27.5% at the end of December 2008 to 55% as of June 30, 2009.

This deterioration was due primarily to the U.S. RMBS portfolio (69% of the portfolio) against the backdrop of the subprime mortgage lending crisis, which affected the entire U.S. real estate market and, consequently, securitized products backed by home mortgages.

Finally, as part of the FSA disposal, Dexia Credit Local also retained a so-called Global Funding portfolio of investments in spread-based assets (USD 1.7 billion, consisting primarily of perpetual floating rate notes, GICs and U.S. munis). The underlying risks of this portfolio are essentially banking risks.

In addition to credit risk, the Financial Products portfolio is also exposed to liquidity risk, which led Dexia to establish a USD 8 billion liquidity facility. As of June 30, 2009, USD 4.2 billion had been drawn on this facility. Following FSA's disposal, the main risk factors for this facility are: (1) the deterioration of CDO structures that invested their collateral in GICs and whose liquidation would require Financial products to repay the amounts previously collected; and (2) a downgrade of FSA's current rating, which would make it necessary to collateralize almost all the GICs.

Finally, starting July 1 this portfolio is guaranteed by the French and Belgian governments, with the exception of: (1) USD 4.5 billion in excluded assets, selected on the basis of their credit quality and to which Dexia therefore remains exposed; (2) USD 4.5 billion in first loss, for which Dexia also bears the risk.

As of June 30, 2009, provisions totaled USD 2 billion, including USD 1.7 billion in specific and USD 0.3 billion in collective provisions.

1.2.2. Dexia Credit Local's long-term investments with equity risk exposure

Long-term investments with equity risk exposure increased by 28% (EUR 139.6 million) in the first half to EUR 641 million. Mutual fund purchases (EUR 103 million), notably Dexiam, accounted for the bulk of this portfolio's increase.

Meanwhile, impairment on the portfolio of long-term investments with equity risk exposure rose by 5.7% (EUR 3.2 million) to EUR 57.8 million.

1.2.3. Financial risk

1.2.3.1. Market and ALM risk

With respect to market risk, only 21% of the overall VaR limit was used on average in the first half of 2009. No breach of the VaR limit was recorded on Dexia Credit Local consolidated during the period.

No breach of the ALM limit was recorded in the first half. It should be noted that the bank's ALM risk is controlled for net present value (NPV) sensitivity to a 100 bp shift in the yield curve. Within this range, the limits were used by an average of 18% in the first quarter and 20% in the second.

As of June 30, 2009, the NPV sensitivity on the bank's ALM was EUR 27.3 million, or 20% of the limit for Dexia Credit Local consolidated.

1.2.3.2. Liquidity risk

The drying up of money markets and capital markets during the 2007-2008 financial crisis presented a major challenge for the financial sector as a whole. Dexia was nevertheless able to overcome this severe liquidity shortage thanks to the joint support of the Belgian, French and Luxembourg governments and the fact that it had substantial reserves of high-quality assets.

Since October 9, 2008, Dexia has benefited from the joint guarantee of the Belgian, French and Luxembourg governments on a substantial portion of its financing sources. This guarantee is capped at EUR 150 billion (as of June 30, 2009, guaranteed financing commitments totaled EUR 90 billion, of which EUR 50 billion for Dexia Credit Local), and it covers Dexia commitments to credit institutions and institutional counterparties as well as bonds and other debt securities issued to these same counterparties, provided that these commitments, bonds or securities mature before October 31, 2011 and were contracted, issued or renewed between October 9, 2008 and October 31, 2009.

The Group's liquidity has gradually improved since the challenges faced in the fourth quarter of 2008, thanks to Dexia's ambitious balance sheet reduction program and the first signs of normalization in the financial markets.

Recap of main stages in the recovery

1. refocusing of new loan production on Dexia's main markets;
2. implementation of a strict balance sheet reduction program starting in early 2009;
3. Group's issuance of EUR 22.3 billion in long-term bonds with government guarantees (including EUR 17.2 billion for Dexia Credit Local) since the beginning of the year;
4. issuance of EUR 7.2 billion in long-term covered bonds through "*obligations foncières*" and "public *Pfandbriefe*" (issued entirely within the scope of Dexia Credit Local) since the beginning of the year;
5. extension of average maturity of unsecured short-term financing;
6. reduction of commitments and drawdown amounts on confirmed liquidity facilities to levels below those existing before the crisis;
7. strengthening of Dexia's commercial deposit base;
8. first public bond offering without a government guarantee (5-year, EUR 1 billion) since the crisis, at an overall cost well below that of Dexia's current CDS level.

Efforts to improve the liquidity position will be maintained.

Liquidity risk management

Dexia's liquidity risk management approach was reviewed in light of the current financial and liquidity crisis.

Since early 2009, liquidity risk has been supervised at the Group and local levels by a dedicated committee of representatives from the Risk Management, Treasury and Financial Markets and Finance teams, which reports to the Dexia Group's Executive Committee. As the liquidity positions are managed operationally by the various entities, this dedicated committee ensures that a common strategy is applied on a Group-wide basis.

The basic principle is that Dexia's future financing needs should never exceed its demonstrated capacity to obtain secured funding at any given time. Future financing needs are measured in a dynamic and comprehensive manner, taking into account liquidity needs arising from current and future transactions (on and off balance sheet). The secured funding capacity is determined conservatively.

The matching of Dexia's future liquidity needs and its secured funding capacity is controlled on the basis of normal and various stress scenarios, which include stress scenarios specific to the bank, the market and combinations of both.

Liquidity risk management is at the very heart of Dexia's three-year financial plan.

Short-term financing needs are monitored daily. Longer-term financing needs (up to three years) are monitored monthly.

This risk management is controlled ex post and updated regularly in order to comply with the most recent regulatory recommendations and best practices.

The directives include an overall emergency liquidity plan, which is tested regularly.

The diversity of Dexia's financing sources enables it to mitigate its liquidity risk.

Dexia's main financing sources are as follows:

• covered bonds (mainly Dexia Municipal Agency's *obligations foncières* and Dexia Kommunalbank Deutschland's *Pfandbriefe*);

• unsecured bonds (including bonds distributed through its own networks);

• starting in 2009, bonds and commercial paper backed by the Belgian, French and Luxembourg governments;

• retail banking deposits (mainly in Belgium, Luxembourg and Turkey);

• central bank tender offers;

• bilateral and tripartite repo transactions;

• a wide range of short-term financing sources with no guarantees: central bank deposits, commercial paper and certificates of deposit, fiduciary deposits, non-banking and interbank deposits (including some with government guarantees).

It should be noted that ever since Dexia Credit Local issues received government backing in October 2008, the short-term liquidity situation — which remains Dexia Credit Local's primary concern — has improved significantly. The amount of unsecured debt maturing in 1 month (gap + reserves) to be refinanced contracted sharply in the first half, falling from EUR 31 billion to EUR 1 billion as of June 30, 2009. This improvement at the Dexia Credit Local level was primarily due to the following factors: slowdown in commercial production, resumption of long-term financing through covered bonds and government-backed long-term issues, reductions in the bond portfolio and in commitments and drawdown amounts on confirmed liquidity facilities. Exposure to SBPAs at Dexia Credit Local New York thus fell by USD 8.5 billion (18%) in the first half, while actual drawdown amounts fell by 78% from USD 8 billion to USD 1.8 billion.

1.2.3.3. Equity risk and the banking book spread

The AFS Equities reserve amount was EUR 1.6 million as of June 30, 2009.

The AFS reserve amount for the Portfolio Management Group (PMG) bond portfolio was negative at EUR 4,903 million as of June 30, 2009, with sensitivity of EUR 63.2 million for each basis point.

In the fourth quarter of 2008, Dexia Credit Local reclassified trading and available-for-sale securities to loans and receivables. Given the market illiquidity in the second half of 2008, which persisted in the first half of 2009, Dexia Credit Local increasingly opted to value the illiquid portion of its portfolio using a mark-to-model method.

1.2.3.4. Trading portfolio

As of June 30, 2009, the PMG trading portfolio (formerly the Credit Structuring and Trading (CST) portfolio), which is also in run-off management, generated income of EUR 3.6 million.

It should be noted that a portion of the trading and banking portfolios that had become illiquid was reclassified as loans and receivables as of October 1, 2008, given the illiquid nature of the bond market and absence of market prices in 2008. The loss and AFS reserve on the corresponding securities were therefore locked in as of September 30, 2008.

1.2.4. Operational and legal risk

- In the entire Dexia Credit Local Group, 128 incidents were reported in the first half of 2009. Of that total, 63 had an immediate financial impact, including 32 with an impact of more than EUR 2,500.

  The number of reported incidents fell by 22% in the first half of 2009 relative to the second half of 2008. The number of reported incidents with an impact of more than EUR 2,500 fell by 37% during this same period.

  The main incidents give rise to an action plan to avoid a recurrence.

- Since the Financial products business has not been sold, Dexia Credit Local has continued exposure to the legal risks referenced in the 2008 Annual Report (see page 28).

  Reference is also made on page 31 (point 10) of the 2008 Annual Report to an EUR 100 million provision established by Dexia banka Slovensko for currency transactions realized by clients, who were ultimately unable to meet the related margin calls. In June 2009, one client filed a lawsuit against the bank, claiming EUR 162 million for unlawful breach of contract. The bank does not believe this lawsuit has merit and therefore has not established additional provisions.

1.2.5. The capital adequacy assessment process

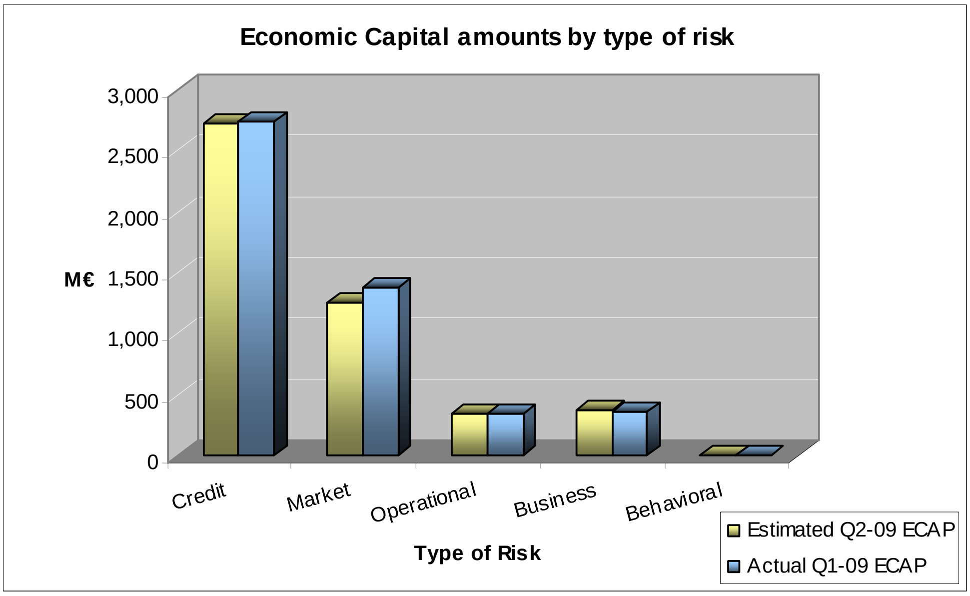
The scope of the calculation involves Dexia Credit Local and its subsidiaries. The economic capital calculation was carried out at the level of Dexia SA to take into account the diversification and concentration effects. Economic capital was then allocated to Dexia Credit Local's various business segments.

The economic capital allocated to Dexia Credit Local consolidated fell from EUR 4,859 million to EUR 4,724 million between the reported first quarter of 2009 and the estimated second quarter of 2009, using the V2009 methodology.

In 2009, the calculation method has changed. The risk categorization was altered, a single methodology is used to calculate credit risk and the models were recalibrated to account for the impact of the financial crisis.

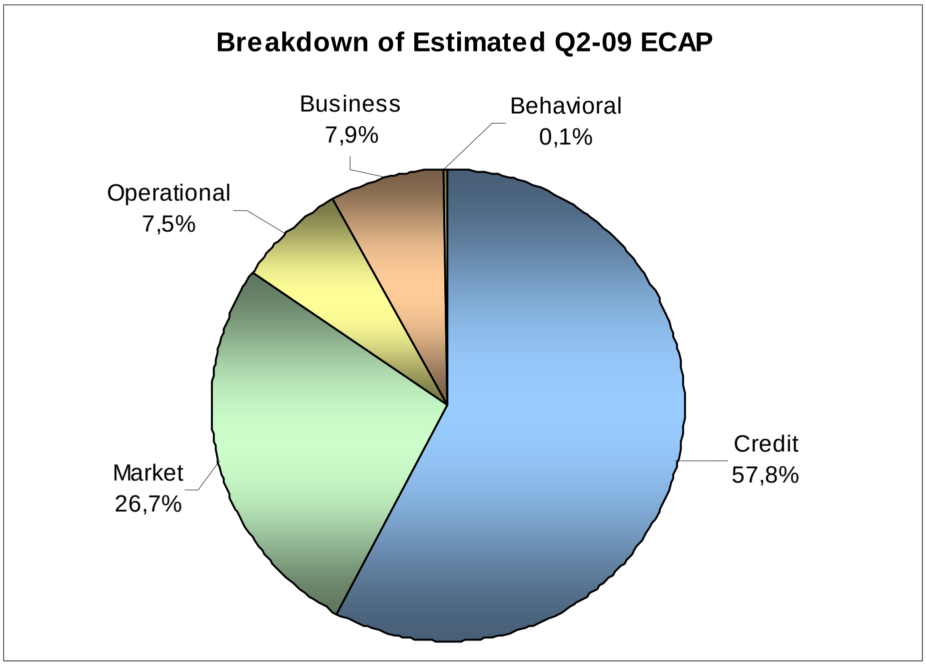
As a result, the 2009 figures are not comparable with those of 2008. For the record, Dexia Credit Local's overall economic capital (ECAP) as of December 31, 2008 and based on the V2007 methodology was EUR 6,193 million (excluding FSA, ABS and muni).

- ECAP trend



Type of Risk	Estimated Q2-09 ECAP	Actual Q1-09 ECAP	Evolution
Credit	2,731	2,749	-1%
Market	1,260	1,384	-9%
Operational	353	353	0%
Business	374	368	2%
Behavioral	7	7	0%
Total	**4,724**	**4,859**	**-3%**

- Breakdown by type of risk



1.2.6. Primary risks and uncertainties through year-end 2009

The economic environment in which Dexia Credit Local Group does business will, in all likelihood, remain affected by major disruptions and substantial uncertainty in the second half of 2009. Although it is now reasonable to hope for some stabilization in the global economic situation, the first tangible signs of a recovery are not expected to appear before early 2010.

Several compartments will need to be monitored closely in terms of risks:

- the GICs and Financial products sectors, especially in view of the liquidity risk that could result from a downgrade to FSA's rating;

- the ABS, corporates and project finance sectors, which could be affected by tight liquidity situations at companies or by declining infrastructure use.

Overall, Dexia Credit Local's activity over the next six months may be affected by risks and uncertainties similar in nature to those described in this report for the first half of 2009. In particular, a slower return to normal activity in the interbank market or delayed improvement in the economic situation would have negative consequences on Dexia Credit Local's situation.

1.3. Operating results

1.3.1. Changes in the scope of consolidation

The main change relative to the first half of 2008 was Dexia Credit Local's disposal of the insurance business of Financial Security Assurance Holdings Ltd. (hereafter FSA Insurance) to Assured Guaranty (hereafter Assured).

Financial Security Assurance Holdings Ltd's accounting treatment in Dexia Credit Local's financial statements underwent several changes during the sale process:

- In the financial statements through December 31, 2008, Dexia Credit Local duly considered the November 14, 2008 signing of the sale and purchase agreement with Assured Guaranty for Financial Security Assurance Holdings Ltd, with the exception of its financial products activity, and, since the sale had not yet been completed but was highly likely, consolidated the insurance activities of Financial Security Assurance Holdings Ltd in accordance with the recommendations of IFRS 5 ("Non-current activities held for sale"). Pending the approvals of the rating agencies and regulatory authorities, total assets and liabilities were itemized separately on the consolidated balance sheet while the results of these activities held for sale continued to be shown through profit or loss.

- Starting April 1, 2009, Dexia Credit Local no longer consolidated the activities of Financial Security Assurance Holdings Ltd, sold to Assured Guaranty. The first-quarter 2009 results of FSA Insurance were consolidated line by line in Dexia Credit Local's consolidated income statement and offset on the income statement under "Net gains (losses) on other assets." The first-quarter 2009 result of FSA Insurance therefore did not affect Dexia Credit Local's net income.

- The conditions precedent for the sale were lifted on June 10, 2009, and the transaction closed on July 1, 2009. Now that the sale has been definitively concluded, the assets and liabilities of the divested activities are no longer recognized on Dexia Credit Local's balance sheet. A USD 816.5 million loan to Assured is recognized, which corresponds to the sale price paid on July 1, 2009, including USD 546 million in cash and USD 270.5 million in Assured shares. These shares will be classified under assets held for sale, since Dexia Credit Local has no material influence on Assured Guaranty Ltd.

1.3.2. Change in accounting regulations

The consolidated financial statements of Dexia Credit Local are prepared in accordance with all International Financial Reporting Standards (IFRS) and interpretations as adopted by the European Commission at the balance sheet date, as discussed in Note 2.6.1 – General basis for the preparation of the condensed consolidated financial statements.

1.3.3. Condensed interim consolidated financial statements

Highlights of the first six months of 2009

Material transactions having an impact on the consolidated financial statements mainly involved the disposal of the FSA subsidiary's insurance business, as described in the previous paragraph. Also, the first-half 2008 financial statements included material impacts related to FSA, which must be restated to allow for meaningful comparison.

- The Dexia Group retained FSA's Financial products business. This activity, which has been completely discontinued and whose run-off management was assigned to HF Services, has a Belgian and French government guarantee for amounts exceeding an initial loss of USD 4.5 billion. Given the market and mortgage lending crisis in the United States, the Financial products portfolio booked an impairment loss of USD 1,725 million, including USD 93 million (EUR 70 million) charged in the first half of 2009. Meanwhile, the financial statements through June 30, 2009 also include collective impairment of USD 111 million on the RMBS sector and USD 155 million on the mononline insurance sector.

- In the first half of 2008, Dexia Credit Local recorded a EUR 494 million fair value adjustment gain on FSA's liabilities after FSA's credit spread widened significantly during the period. In 2009, based on Dexia's spread, Dexia Credit Local recorded a EUR 106 million fair value adjustment loss on these same liabilities as a result sensitivity and spread trends.

- As of end-June 2008, Dexia Credit Local had recognized an impairment loss on all goodwill recognized as part of the 2000 acquisition of FSA Insurance, a total of EUR 1,181 million, given the uncertainties surrounding the monoline insurance business in the United States.

- Unrealized and deferred gains and losses on available-for-sale securities improved relative to end-2008. The after-tax share of losses attributable to equity holders of the parent totaled EUR 6,447 million as of June 30, 2009, up from a loss of EUR 7,403 million as of December 31, 2008. This change reflected narrowing spreads and greater market liquidity.

- Since October 9, 2008, three governments (Belgium for 60.5%, France for 36.5% and Luxembourg for 3%) have guaranteed the commitments of Dexia SA, Dexia Banque Internationale à Luxembourg, Dexia Bank Belgium and Dexia Credit Local, and of these institutions' foreign branches covered by Note 3 of the guarantee agreement.[5] The total government guarantee is capped at EUR 150 billion. As consideration for this guarantee, Dexia Credit Local and its branches recorded a charge of EUR 104 million during the first half of 2009.

[5] For Dexia Credit Local, the guarantee applies to the London, Tokyo and New York branches.

Earnings review

Consolidated net banking income in the first half of 2009 totaled EUR 1,340 million, down 8.4% from EUR 1,463 million in the first half of 2008.

This apparent decrease in first-half net banking income was due to several FSA-related factors. For example, first-half 2008 NBI included a EUR 494 million fair value adjustment gain on FSA's liabilities, compared with a fair value adjustment loss of EUR 106 million in the first half of 2009. Also, first-half 2008 NBI included a EUR 129 million fair value adjustment loss on FSA Insurance's credit default swaps, compared with a EUR 460 million fair value adjustment gain in the first half of 2009. Moreover, the accounting adjustment to FSA Insurance's first-quarter 2009 income and the fair value adjustment to the Assured Guaranty shares acquired had a negative impact of EUR 99 million on first-half 2009 net banking income.

	1st half 2008	1st half 2009	Change	Change
Net banking income	**1,463**	**1,340**	**-123**	**-8.41%**
Fair value adjustment gain (loss) of own credit	494	-106	-600	
Fair value adjustment gain (loss) of FSA Inc.'s CDS	-129	460	589	
FSA Inc. net income (excl. CDS) Q1-2008 and Q1-2009	220	72	-148	
Deconsolidation of FSA Inc. and fair value adjustment of Assured shares		-99	-99	
Restated net banking income	**878**	**1,013**	**135**	**15.41%**

Adjusted for these items, Dexia Credit Local's NBI **increased by 15.4%.**

On a consolidated basis, **operating expenses** (sales, general and administrative and depreciation and amortization) fell by 10.5% to EUR 291 million, compared with EUR 325 million in the first half of 2008. This decrease was marked by the impact of the cost-reduction measures of the transformation plan launched in early 2009.

Adjusted gross operating income totaled EUR 722 million as of June 30, 2009, up from EUR 553 million the previous year.

The cost of risk totaled EUR 436 million as of June 30, 2009, down from EUR 1,321 million as of June 30, 2008. It takes into account several factors listed below:

	1st half 2008	1st half 2009	Change
Credits (loans and securities held to maturity)	-18	-164	-146
Credit enhancement (FSA activities sold)	-628	-272	356
AFS securities (excluding equities)	-675	0	675
	-1,321	-436	885

It includes a EUR 272 million cost of risk expense related to FSA Inc. activities sold. Cost of risk on the Financial products activities retained totaled EUR 70 million. This increase was due to the ongoing crisis in the U.S. mortgage lending sector. Cost of risk for the other activities totaled EUR 94 million in the first half of 2009, compared with EUR 18 million the previous year. This increase was due to the increase in general provisions, mainly on the ABS portfolios, highway infrastructure projects and risks in Central and Eastern Europe. It should be noted that at end-June 2008, the deterioration in the U.S. economic environment led the Dexia Group to add to provisions for securities then classified as available for sale and since reclassified as loans and receivables.

FSA's goodwill was fully provisioned as of June 30, 2008 in the amount of EUR 1,181 million.

Corporate income tax totaled EUR 154 million. In 2008, it included a tax credit of EUR 67 million as a result of a change in Italy's tax legislation.

Consolidated net income (attributable to equity holders of the parent) totaled EUR 304 million through June 30, 2009, compared with a consolidated net loss of EUR 982 million the previous year.

2. CONSOLIDATED FINANCIAL STATEMENTS

2.1. Consolidated balance sheet

	Assets (EUR Millions)	At June 30, 2008	At December 31, 2008	At June 30, 2009
I.	Cash, central banks and postal checking accounts	2 194	632	783
II.	Financial assets at fair value through profit or loss	23 034	25 418	17 563
III.	Hedging derivatives	10 281	8 119	5 943
IV.	Financial assets available for sale	131 160	60 674	51 649
V.	Interbank loans and advances	40 046	35 892	28 061
VI.	Customer loans and advances	156 193	248 916	239 295
VII.	Fair value revaluation of portfolio hedge	(199)	2 084	1 588
VIII.	Financial assets held to maturity	1 116	1 131	1 000
IX.	Current tax assets (1)	239	37	47
X.	Deferred tax assets	1 347	2 613	2 402
XI.	Accruals and other assets (1)	8 229	21 457	18 761
XII.	Non current assets held for sale	0	6 225	0
XIII.	Investments in associates	450	275	255
XIV.	Investment property	0	0	0
XV.	Tangible fixed assets	508	504	498
XVI.	Intangible assets	73	77	71
XVII.	Goodwill	206	206	206
	TOTAL ASSETS	374 877	414 260	368 122

(1) Tax other than current income tax are from now presented under line XI. "Accruals and other assets" : at June 30, 2008, EUR 8 millions were thus reclassified from line IX. "Current tax assets", with no impact on earnings for the period.

	Liabilities (EUR Millions)	At June 30, 2008	At December 31, 2008	At June 30, 2009
I.	Central banks and postal checking accounts	16 017	64 222	37 904
II.	Financial liabilities at fair value through profit or loss	12 431	24 641	17 998
III.	Hedging derivatives	16 127	27 819	18 257
IV.	Interbank loans and deposits	110 198	91 210	71 904
V.	Customer borrowings and deposits	17 767	17 619	16 497
VI.	Debt securities	187 905	172 853	191 516
VII.	Fair value revaluation of portfolio hedge	(964)	1 386	1 734
VIII.	Current tax liabilities (1)	145	123	176
IX.	Deferred tax liabilities	81	23	20
X.	Accruals and other liabilities (1)	7 279	5 372	7 107
XI.	Liabilities included in disposal groups held for sale	0	5 697	0
XII.	Technical provisions of insurance companies	542	0	0
XIII.	Provisions	152	203	204
XIV.	Subordinated debt	4 910	5 002	4 878
XV.	Shareholders' equity	2 287	(1 910)	(73)
XVI.	Shareholders' equity, group share	1 750	(2 107)	(394)
XVII.	Capital stock and additional paid-in capital	3 114	6 614	2 062
XVIII.	Reserves and retained earnings	3 471	3 456	4 460
XIX.	Unrealized or deferred gains and losses	(3 853)	(8 621)	(7 220)
XX.	Net income	(982)	(3 556)	304
XXI.	Minority interests	537	197	321
	TOTAL LIABILITIES	374 877	414 260	368 122

(1) Tax other than current income tax are from now presented under line X. "Accruals and other liabilities" : at June 30, 2008, EUR 11 millions were thus reclassified from line VIII. "Current tax liabilities", with no impact on earnings for the period.

2.2. Consolidated income statement

	(EUR Millions)	Half-Year 2008	Year 2008	Half-Year 2009
I.	Interest income	27 387	55 836	18 724
II.	Interest expense	(26 623)	(54 067)	(17 829)
III.	Commission income	89	181	76
IV.	Commission expense	(34)	(63)	(23)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	419	(357)	338
VI.	Net gains (losses) on financial assets available for sale	75	81	31
VII.	Other income (1)	242	506	46
VIII.	Other expense (1)	(92)	(143)	(23)
IX.	NET BANKING INCOME	1 463	1 974	1 340
X.	Operating expense	(299)	(733)	(264)
XI.	Depreciation, amortization and impairment of tangible fixed assets and intangible assets	(26)	(56)	(27)
XII.	GROSS OPERATING INCOME	1 138	1 185	1 049
XIII.	Cost of risk	(1 321)	(3 387)	(436)
XIV.	OPERATING INCOME	(183)	(2 202)	613
XV.	Income (losses) from associates	28	(53)	(6)
XVI.	Net gains (losses) on other assets	0	(1 036)	(99)
XVII.	Impairment of goodwill	(1 181)	(1 181)	0
XVIII.	INCOME BEFORE INCOME TAX	(1 336)	(4 472)	508
XIX.	Corporate income tax	251	556	(154)
XXI.	NET INCOME	(1 085)	(3 916)	354
XXII.	Minority interests	(103)	(360)	50
XXIII.	NET INCOME, GROUP SHARE	(982)	(3 556)	304
	Earning per share, Group share			
	- Basic (in EUR)	-11,28	-40,85	3,49
	- Diluted (in EUR)	-11,28	-40,85	3,49
	(1) including technical margin of insurance companies	144	339	25

2.3. Net income and unrealized or deferred gains and losses through shareholders' equity

	(EUR Millions)	Half-Year 2008	Year 2008	Half-Year 2009
I.	Net income	(1 085)	(3 916)	354
II.	Translation adjustments	(106)	171	12
III.	Unrealised or deferred gains and losses of financial assets available for sale	(3 145)	(8 250)	1 274
IV.	Unrealised or deferred gains and losses of cash flow hedges	64	(1 410)	467
VII.	Unrealised or deferred gains and losses of associates	(69)	(3)	30
VIII.	Taxes	709	2 119	(322)
IX.	Total of unrealised or deferred gains and losses through shareholders' equity	(2 547)	(7 373)	1 461
X.	Net income and unrealised or deferred gains and losses through shareholders' equity	(3 632)	(11 289)	1 815
XI.	Of which group share	(3 381)	(10 722)	1 705
XII.	Of which minority interests	(251)	(567)	110

2.4. Consolidated statement of changes in equity

	Core shareholders' equity			Unrealised or deferred gains and losses					Minority interests			
(EUR millions)	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	**Shareholders' equity, Group share**	Core shareholders' equity	Unrealised or deferred gains and losses	Total	**Shareholders' equity**
At December 31, 2007	**3 114**	**3 868**	**6 982**	**(1 215)**	**46**	**(285)**	**(1 454)**	**5 528**	**821**	**(62)**	**759**	**6 287**
Movements during the period												
- Changes in capital	0	0	0				0	**0**	48		48	**48**
- Changes in additional paid-in capital	0	0	0				0	**0**	0		0	**0**
- Dividends		(396)	(396)				0	**(396)**	(19)		(19)	**(415)**
- Translation adjustments			0	78	7	(100)	(15)	**(15)**		0	0	**(15)**
- Changes in fair value of financial assets available for sale through shareholders' equity			0	(2 881)			(2 881)	**(2 881)**		(198)	(198)	**(3 079)**
- Changes in fair value of derivatives through shareholders' equity			0		64		64	**64**		(6)	(6)	**58**
- Changes in fair value of financial assets available for sale through profit or loss			0	412			412	**412**		52	52	**464**
- Changes in fair value of derivatives through profit or loss			0		0		0	**0**		0	0	**0**
- Net income for the period		(982)	(982)				0	**(982)**	(103)		(103)	**(1 085)**
- Other movements	0	(1)	(1)	21	0	0	21	**20**	0	4	4	**24**
At June 30, 2008	**3 114**	**2 489**	**5 603**	**(3 585)**	**117**	**(385)**	**(3 853)**	**1 750**	**747**	**(210)**	**537**	**2 287**
Movements during the period												
- Changes in capital	(826)	0	(826)				0	**(826)**	44		44	**(782)**
- Changes in additional paid-in capital	4326	0	4 326				0	**4 326**	0		0	**4 326**
- Dividends		(19)	(19)				0	**(19)**	0		0	**(19)**
- Translation adjustments			0	(280)	(41)	247	(74)	**(74)**	0	13	13	**(61)**
- Changes in fair value of financial assets available for sale through shareholders' equity			0	(3 858)			(3 858)	**(3 858)**		(98)	(98)	**(3 956)**
- Changes in fair value of derivatives through shareholders' equity			0		(1 142)		(1 142)	**(1 142)**		(4)	(4)	**(1 146)**
- Changes in fair value of financial assets available for sale through profit or loss			0	341			341	**341**		34	34	**375**
- Changes in fair value of derivatives through profit or loss			0		(14)		(14)	**(14)**		0	0	**(14)**
- Net income for the period		(2 574)	(2 574)				0	**(2 574)**	(257)		(257)	**(2 831)**
- Other movements	0	4	4	(21)	0	0	(21)	**(17)**	(68)	(4)	(72)	**(89)**
At December 31, 2008	**6 614**	**(100)**	**6 514**	**(7 403)**	**(1 080)**	**(138)**	**(8 621)**	**(2 107)**	**466**	**(269)**	**197**	**(1 910)**
Movements during the period												
- Changes in capital	0	0	0				0	**0**	1		1	**1**
- Changes in additional paid-in capital	(4 552)	4552	0				0	**0**	0		0	**0**
- Dividends		0	0				0	**0**	0		0	**0**
- Translation adjustments			0	(1)	(18)	14	(5)	**(5)**		(2)	(2)	**(7)**
- Changes in fair value of financial assets available for sale through shareholders' equity			0	877			877	**877**		49	49	**926**
- Changes in fair value of derivatives through shareholders' equity			0		457		457	**457**		6	6	**463**
- Changes in fair value of financial assets available for sale through profit or loss			0	79			79	**79**		6	6	**85**
- Changes in fair value of derivatives through profit or loss			0		(7)		(7)	**(7)**		0	0	**(7)**
- Net income for the period		304	304				0	**304**	50		50	**354**
- Other movements	0	8	8	0	0	0	0	**8**	14		14	**22**
At June 30, 2009	**2 062**	**4 764**	**6 826**	**(6 448)**	**(648)**	**(124)**	**(7 220)**	**(394)**	**531**	**(210)**	**321**	**(73)**

Dexia Crédit Local has a capital of EUR 500 513 102 divided into 87 045 757 shares, of which the pair is EUR 5.75.
There is no other share giving access to Dexia Credit Local's capital.

2.5. Consolidated cash flow statement

(EUR Millions)	At June 30, 2008	At december 31, 2008	At June 30, 2009
Cash flow from operating activities			
Net income	(1 085)	(3 916)	354
Adjustements for:			
- Depreciation, amortization and other impairment	1 215	1 253	50
- Impairment on bonds, equities, loans and other assets	705	1 466	194
- Net gains on investments	(12)	1 014	92
- Changes in provisions	486	1 567	244
- Unrealized gains and losses	10	(2)	(4)
- Income from associates	(28)	53	(8)
- Dividends from associates	22	22	14
- Deferred taxes	(391)	(828)	57
- Other adjustments	0	4	0
Changes in operating assets and liabilities	17 950	17 681	(9 851)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**18 872**	**18 314**	**(8 858)**
Cash flow from investing activities			
Purchases of fixed assets	(48)	(102)	(29)
Sales of fixed assets	4	6	5
Acquisitions of unconsolidated equity shares	(147)	(195)	(30)
Sales of unconsolidated equity shares	21	145	25
Acquisitions of subsidiaries	(10)	(10)	(9)
Sales of subsidiaries	1	0	0
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**(179)**	**(156)**	**(38)**
Cash flow from financing activities			
Issuance of new shares	78	3 654	1
Reimbursement of capital	0	0	0
Issuance of subordinated debt	300	320	0
Reimbursement of subordinated debt	(172)	(376)	(88)
Purchases of treasury stock	0	0	0
Sales of treasury stock	0	0	0
Dividends paid	(415)	(434)	0
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	**(209)**	**3 164**	**(87)**
NET CASH PROVIDED	**18 484**	**21 322**	**(8 983)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**19 708**	**19 708**	**41 574**
Cash flow provided (used) by operating activities	18 872	18 314	(8 858)
Cash flow provided (used) by investing activities	(179)	(156)	(38)
Cash flow provided (used) by financing activities	(209)	3 164	(87)
Effect of exchange rate changes and changes in scope of consolidation on cash and cash equivalents	(351)	544	327
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**37 841**	**41 574**	**32 918**
Additional information			
Income tax paid	(146)	(99)	(146)
Dividends received	29	33	19
Interest received	28 089	55 814	21 811
Interest paid	(27 408)	(54 008)	(20 449)

2.6. Notes to the half-year condensed consolidated financial statements

2.6.1. *General basis for the preparation of the condensed consolidated financial statements*

Dexia Credit Local's consolidated financial statements have been prepared in accordance with all IFRS regulations and interpretations published and endorsed by the European Commission up to the accounting closing.

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

The consolidated financial statements are stated in millions of euro (EUR) unless otherwise stated. They are compliant with CNC 2009 R 04's recommendation published on 2 July 2009.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect amounts reported. While management believes they have considered all available information in developing these estimates, actual results could differ from such estimates and the differences could be material to the consolidated financial statements.

All the accounting policies and methods used for presentation and valuation are set out in section 2.6.7 – Accounting policies and valuation methods.

2.6.2. *Changes in the consolidation scope*

Changes in the consolidation scope of the Dexia Credit Local Group since the first half of 2008 are mainly related to the sale to Assured Guaranty (Assured) of FSA Holdings' insurance activity, which is no more consolidated since April 1, 2009.

The FSA Insurance's 1st quarter 2009 result is consolidated on a line by line basis in the income statement, and is offset under "Net gains (losses) on other assets" : indeed, the sale's price was fixed by the agreement signed on November 14, 2008 and does no longer depend from the result generated by the sold activities.

For its 2008 publication, Dexia Credit Local consolidated the sold insurance activities of FSA Insurance in compliance with IFRS 5 "Disposal group held for sale", given that the sale was not certain even if highly probable. Awaiting further regulatory requirements and comments of rating agencies, the assets and liabilities of the sold activities have been thus broken out on a separate line of the consolidated balance sheet and the sold activities' results were presented in the income statement one a line by line basis.

The suspensive conditions of the transaction have been removed on June 10, 2009, and the finalisation of the closing took place on July 1, 2009. Given this, as the sale is certain, the sold assets and liabilities are no longer disclosed as activities held for sale in Dexia Credit Local's balance sheet as of June 30, 2009. A receivable of USD 816,5 million on Assured is recognized for the sales' price, received on July 1, 2009 : it consists of cash for USD 546 million and USD 270,5 million representing by Assured shares. The shares will be included in Available for Sale Portfolio as Dexia Credit Local does not have a significant influence in Assured Guaranty.

The entities which are no more consolidated in June 30, 2009 because of that transaction are the following ones:

- Financial Security Assurance Inc
- FSA Insurance Company
- Transaction Services Corporation
- CLFG Corp
- FSA Portfolio Management Inc
- FSA Services (Australia) Pty Ltd
- Financial Security Assurance (UK) Ltd
- FSA Services (Japan) Inc.
- Financial Security Assurance International Ltd
- FSA Administrative Services LLC NY
- Commercial Mortgage Company III-R2, Inc.
- Enterprise Company R, Inc
- FSA Credit Protection Ltd UK
- FSA Services (Americas) Inc
- FSA Mexico Holding Inc.
- FSA International Credit Protection LTD (Cayman)
- FSA Seguros Mexico SA

The other main changes in the consolidation scope of the Dexia Credit Local Group since the first half of 2008 are summarised below. None of these changes had a material impact on June 30, 2009 accounts:

- Kommunalkredit Austria and its subsidiaries were deconsolidated on October 1, 2008 (see 2008 Annual Report, page 90),
- Dexia Credit Local increased its stake in Dexia Kommunalkredit Bank from 50.84% to 100%,
- Floral was deconsolidated on January 1, 2009,
- Dexia Epargne Pension was deconsolidated on April 1, 2009.

The list of companies included in the consolidation scope at 31 December 2008 is provided in the 2008 Annual Report (paragraph 1.2, pages 91 to 96).

2.6.3 First-half highlights

The following major transactions had an impact on the consolidated financial statements:

- The Dexia Group retained FSA's Financial products business. This activity, which has been completely discontinued and whose run-off management was assigned to HF Services, has a Belgian and French government guarantee for amounts exceeding an initial loss of USD 4.5 billion. Given the market and mortgage lending crisis in the United States, the Financial products portfolio booked an impairment loss of USD 1,725 million, including USD 93 million (EUR 70 million) allocated in the first half of 2009. Meanwhile, the financial statements through June 30, 2009 also include collective impairment of USD 111 million on the RMBS sector and USD 155 million on the mononline insurance sector.

- Dexia Credit Local's cost of risk also includes a EUR 273 million charge related to FSA Insurance's first-quarter 2009 credit enhancement activity sold to Assured. The cost of risk expense for the Group's other activities was EUR 94 million, compared with EUR 18 million in the first half of 2008. This increase was due to an increase in general provisions, mainly on the ABS portfolios, the highway infrastructure projects and risks in Central and Eastern Europe.
- In the first half of 2008, Dexia Credit Local recorded a EUR 494 million fair value adjustment gain on FSA's liabilities after FSA's credit spread widened significantly during the period. In 2009, based on Dexia's spread, Dexia Credit Local recorded a EUR 106 million fair value adjustment loss on these same liabilities as a result sensitivity and spread trends.
- Unrealized and deferred gains and losses on available-for-sale securities improved relative to end-2008. The after-tax share of losses attributable to equity holders of the parent totaled EUR 6,447 million as of June 30, 2009, compared to a loss of EUR 7,403 million as of December 31, 2008. This change reflected narrowing spreads and greater market liquidity.
- On October 9, 2008, the governments of Belgium, Luxembourg and France provided respectively 60.5%, 36.5% and 3% of a central government guarantee on all repayment obligations of Dexia SA, Dexia Banque Internationale in Luxembourg, Dexia Bank Belgium and Dexia Credit Local and their foreign branches covered under Note 3 of the guarantee agreement[6] up to the value of their respective shares. The total guarantee provided by the three central governments is not to exceed EUR 150 billion. During the first half of 2009, Dexia Credit Local and its branches recorded a total charge of EUR 104 million under the terms of this guarantee.

[6] The guarantee covers Dexia Credit Local branches in London, Tokyo and New York.

2.6.4 Related-party transactions

Analysis by nature

(EUR millions)	Directors and Key management		Parent company (Dexia)		Entities with joint control or significant influence over the entity (2)		Subsidiaries (3)		Associates (3)		Joint venture in which the entity is a venturer (3)		Other related parties (4)	
	2008	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
Loans (1)	1	1	1 617	1 814	0	10	0	0	0	0	0	0	27 196	18 555
Interest income on loans	0	0	31	17	0	0	0	0	0	0	0	0	408	48
Deposits	0	0	44	41	369	1 007	0	0	124	50	0	0	72 061	57 708
Interest expense on deposits	0	0	0	0	(8)	(20)	0	0	(3)	(1)	0	0	(1 498)	(571)
Net commissions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Guarantees issued by the Group	0	0	0	0	0	246	0	0	0	0	0	0	15 010	15 676
Guarantees received by the Group	0	0	0	214	0	0	0	0	28	0	0	0	10 969	3 171

(1) Loans to key management personnel were granted at general market conditions.
(2) This refers to the main shareholders of Dexia (2008 - 2009) : Groupe Arco, Holding Communal, Groupe Caisse des Dépôts
(3) This includes the non-consolidated investments listed in notes 1.2.b "non consolidated subsidiaries", 1.2.d "joint companies not consolidated by the proportionate method", and 1.2.f "associated companies not accounted for by the equity method" of the 2008 annual report.
(4) this item includes loans with entities of Belgian and Luxemburg sub-groups consolidated by Dexia, the parent company of Dexia Credit Local.

2.6.5 Notes to the income statement

Net Gains (losses) on financial instruments at fair value through profit or loss
(item V. of income statement)

(EUR millions)	Half-Year 2008	Half-Year 2009
Net trading income	(65)	467
Net result of hedge accounting	(9)	5
Net result of financial instruments designated at fair value through profit or loss (*)	3	14
Change in own credit risk	494	(106)
Net result of foreign exchange transactions	(4)	(42)
Total	**419**	**338**
(*) among which trading derivatives included in a fair value option strategy	*95*	*(470)*

In the first half of 2008, Dexia Credit Local recorded a EUR 494 million fair value adjustment gain on FSA liabilities following a sharp widening of FSA credit spreads during this period.
The fair value adjustment loss in 2009 amounted to EUR 106 million on the basis of Dexia's spread.

Analysis of Net result of hedge accounting (EUR millions)	Half-Year 2008	Half-Year 2009
Fair value hedges	**(9)**	**3**
Fair value changes of the hedged item attributable to the hedged risk	1 399	(5 724)
Fair value changes of the hedging derivatives	(1 408)	5 727
Cash flow hedges	**0**	**1**
Fair value changes of the hedging derivatives – ineffective portion	0	0
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	0	1
Hedges of net investments in a foreign operation	**0**	**0**
Fair value changes of the hedging derivatives – ineffective portion	0	0
Portfolio hedge	**0**	**1**
Fair value changes of the hedged item	309	(995)
Fair value changes of the hedging derivatives	(309)	996
Total	**(9)**	**5**

Amount transfered into net interest income from the fair value reserve on cash-flow hedges (due to derivatives for which the hedging relationship was interrupted)	**7**	**7**

Net Gains (losses) on financial assets available for sale
(item VI. of income statement)

(EUR millions)	Half-Year 2008	Half-Year 2009
Dividends on securities available for sale	7	5
Net gains (losses) on disposals of loans and securities available for sale	79	(11)
Impairment of variable-income securities available for sale	(24)	(8)
Net gains (losses) on disposals of securities held to maturity	0	0
Net gains (losses) on disposals of debt securities	13	45
Total	**75**	**31**

Operating expense
(item X. of income statement)

(EUR millions)	Half-Year 2008	Half-Year 2009
Payroll costs	(160)	(153)
General and administrative expense	(120)	(104)
Deferred acquisition costs	(19)	(7)
Total	**(299)**	**(264)**

Cost of risk
(item XIII. of income statement)

	Half-Year 2008			Half-Year 2009		
(EUR millions)	Collective Impairment	Specific impairment and losses	TOTAL	Collective Impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and securities held to maturity)	(7)	(11)	**(18)**	42	(206)	**(164)**
Credit enhancement	43	(671)	**(628)**	0	(273)	**(273)**
Fixed-income securities available for sale		(675)	**(675)**		1	**1**
Total	**36**	**(1 357)**	**(1 321)**	**42**	**(478)**	**(436)**

Dexia Credit Local’s cost of risk includes a EUR 273 million charge related to FSA Inc.’s credit enhancement activities sold to Assured. Cost of risk on FSA’s Financial Products segment retained by Dexia totaled EUR 70 million, as a result of the ongoing crisis in the U.S. mortgage lending sector. Cost of risk for the other activities totaled EUR 94 million in the first half of 2009, compared with EUR 18 million the previous year. This increase was related to the increase in general provisions, mainly on the ABS portfolios, highway infrastructure projects and risks in Central and Eastern Europe. At end-June 2008, the deterioration in the U.S. economic environment led FSA to add to provisions for securities then classified as available for sale and, since October 1, 2008, reclassified as “loans and receivables.”

Net Gains (losses) on other assets
(item XVI. of income statement)

(EUR millions)	Half-Year 2008	Half-Year 2009
Net gains (losses) on disposals of buildings	0	0
Net gains (losses) on disposals of other fixed assets	0	0
Net gains (losses) on disposals of consolidated equity investments	0	(99)
Total	**0**	**(99)**

In 2009, under the terms of the agreement to sell FSA’s insurance business, this line included :
- the offset of the first quater 2009' net result of FSA Insurance for EUR -163 million
- an adjustement of the sale's price paid in Assured shares for EUR 70 million
- additional transaction costs for EUR -6 million.

Impairment of goodwill
(item XVII. of income statement)

In 2008, the goodwill on FSA was written down in full for EUR 1 181 millions.

2.6.6 Analysis by geographic region and by line of business

Analysis by geographic region

(EUR millions)	Half-Year 2008	Half-Year 2009
Net banking income	**1 463**	**1 340**
Euro zone (countries employing the euro)	581	718
Rest of Europe	51	48
United States	774	570
Rest of world	57	4
Income (losses) from associates	**28**	**(6)**
Euro zone (countries employing the euro)	28	(6)
Rest of Europe	0	0
United States	0	0
Rest of world	0	0
Income before income tax	**(1 336)**	**508**
Euro zone (countries employing the euro)	359	421
Rest of Europe	40	40
United States	(1 773)	63
Rest of world	38	(16)

Analysis by line of business

(EUR millions)	Half-Year 2008	Half-Year 2009
Net banking income	**1 463**	**1 340**
Public finance, project finance and credit enhancement	1 447	592
Personal financial services	20	32
Treasury and financial markets	57	0
Other	(61)	716
Income (losses) from associates	**28**	**(6)**
Public finance, project finance and credit enhancement	14	0
Personal financial services	13	7
Treasury and financial markets	0	0
Other	1	(13)
Income before income tax	**(1 336)**	**508**
Public finance, project finance and credit enhancement	(119)	426
Personal financial services	18	13
Treasury and financial markets	23	(26)
Other	(1 258)	95

2.6.7 Accounting policies and valuation methods

The accounting policies adopted by Dexia Credit Local for these interim consolidated statements are consistent with those described in Annual Report 2008 (paragraph 1.3, pages from 96 to 107).

Change in accounting policies and texts since the previous annual publication that may impact Dexia Credit Local group:

European Commission endorsement

During the first half of 2009, the European Commission endorsed the following IASB and IFRIC texts:

- *Standards*

• Revised IFRS 3 "Business combinations", which replaces the standard as issued in 2004 and will be effective for annual reporting periods that begin on or after July 1, 2009. The revision of this standard impacts Dexia Credit Local for several reasons:

- For new acquisitions, Dexia Credit Local could no longer capitalize acquisition-related costs as part of the cost of the business acquired.
- In case of a step-acquisition, Dexia Credit Local should first remeasure the existing associate to fair value with recognition of the fair value adjustments to previously recognized assets and liabilities in profit or loss.
- For each new investment in a non-controlling interest in an acquired entity, Dexia Credit Local has the possibility to choose the "full goodwill method."
- For new acquisitions, an analysis would be required to determine whether or not a contingent liability of the acquiree is a present obligation.

• Revised IAS 27 "Consolidated and separate financial statements" will be effective for annual reporting periods that begin on or after July 1, 2009 and is mainly related to the accounting for changes in the level of ownership interest in a subsidiary. This amendment should be seen in relation with the revised IFRS 3 "Business Combinations". The impact of this amendment on Dexia Credit Local is being assessed.

- *Amendments to existing Standards*

• Annual Improvements 2008 to IFRS—a collection of minor amendments to the existing standards. These amendments are effective for annual periods beginning on or after January 1, 2009, unless otherwise specified. The revision of these standards does not significantly impact Dexia Credit Local.

• Amendments to IAS 32 "Financial instruments : Presentation" and IAS 1 "Presentation of Financial Statements" related to "Puttable Financial Instruments and Obligations Arising on Liquidation" – Amendments applicable as from January 1, 2009, which will have no material impact at Dexia Credit Local level.

• Amendment to IFRS 1 "First Time Adoption IFRS" and to IAS 27 "Consolidated and Separate Financial Statements" related to the "Cost of an Investment in a subsidiary, jointly-controlled entity or associate" - Amendments applicable as from January 1, 2009. The impact of this amendment on Dexia Credit Local is no material.

- *Interpretations*

• IFRIC 12 "Service Concession Arrangements", which is applicable at the latest by the opening date of the first fiscal year beginning after March 26, 2009 (the date it was adopted by the European Union), but has no impact on the financial statements of Dexia Credit Local.

• IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", which will be applicable as from July 1, 2009, and has no impact on Dexia Credit Local.

Texts endorsed by the European Commission that are Applicable as from 1 January 2009

In the consolidated financial statements as of June 30, 2009, Dexia Credit Local applies the revised IAS 1 and as a result, discloses a new statement called "Net income and unrealized or deferred gains and losses through shareholder's equity".

The enforcement of other standards that came into effect as from January 1, 2009 has no impact on the condensed interim financial statements as of June 30, 2009.

Texts published but not yet adopted by the European Commission

For information purposes, note that the following IASB and IFRIC texts published in 2009 had not been adopted by the European Commission by the end of June 2009 and are not applicable to Dexia Credit Local :

- *Amendments to existing Standards*

• Amendments to IFRS 7 "Financial instruments : Disclosures" – "Improving disclosures about financial instruments", applicable as from January 1, 2009. These amendments will enhance disclosures about fair value measurement and liquidity risk on financial instruments. These amendments do not have an impact on the income statement nor on the balance sheet of Dexia Credit Local, but only on disclosures.

• Amendments to IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial instruments : Recognition and Measurement" related to "Embedded derivatives", applicable for annual periods beginning on or after June 30, 2009. These amendments require a reassessment of the embedded derivatives at the moment of reclassification. These amendments have no impact on Dexia Credit Local's financial statements.

• Amendments to IFRS 2 "Share-based Payment": "Group Cash-settled Share-based Payment Transactions", applicable for annual periods beginning on or after January 1, 2010. These amendments aim to clarify the scope of IFRS 2. There is no impact for Dexia Credit Local, as Dexia Credit Local does not offer cash-settled share-based payments.

The IASB also issued:

• "Improvements to existing standards", which are a collection of amendments to existing International Financial Reporting Standards. Unless otherwise specified, the amendments are effective for annual period beginning on or after January 1, 2010. No significant impact is expected for Dexia Credit Local.

- *Interpretations*

The IFRIC issued an interpretation, which will be effective for annual periods that begin on or after July 1, 2009:

• IFRIC 18 " Transfers of assets from customers ". This interpretation does not have an impact on Dexia Credit Local.

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3 STATEMENT OF THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

I, the undersigned, Pascal Poupelle, Chief Executive Officer of Dexia Credit Local,

hereby attest to the fact that, to the best of my knowledge, the condensed interim financial statements have been prepared in accordance with all applicable accounting standards and provide an accurate and fair view of the assets, financial position and earnings of all of the companies included in the scope of consolidation, and that the interim financial report presents an accurate account of all significant events that have taken place during the first six months of the year and their impact on the interim financial statements, and of all the primary risks and uncertainties concerning the remaining six months of the fiscal year.

La Défense, August 27, 2009

Pascal Poupelle
Chief Executive Officer

4 STATUTORY AUDITORS' REVIEW REPORT OF THE INTERIM FINANCIAL INFORMATION FOR THE PERIOD FROM JANUARY 1, 2009 TO JUNE 30, 2009

(Free translation of the French language original)

This is a free translation into English of the statutory auditor's review report issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

In compliance with the assignment entrusted to us by your Shareholders' Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (Code Monétaire et Financier), we have performed:

- the review of the accompanying interim consolidated financial statements of Dexia Credit Local for the period from January 1, 2009 to June 30, 2009;
- the verification of the information provided in the interim management report.

These interim consolidated financial statements were prepared under the responsibility of the Board of Directors in a context of economic and financial crisis which is still characterized by a high market volatility and a certain difficulty to apprehend the economic outlook. Our role is to express our conclusion on these financial statements, based on our review.

I – Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures. These procedures are less broad in scope that those required for an audit performed in accordance with French auditing standards. Accordingly, a review only provides moderate assurance, which is less assurance than that provided by an audit, that the financial statements taken as a whole are free of material misstatements.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the results of operations for the six months ended June 30, 2009 and the financial position of Dexia Credit Local and its assets at that date, in accordance with IAS 34 – IFRS standard as adopted by the EU and related to the interim financial information.

II – Specific verification

We have also verified the information contained in the interim management report commenting the interim consolidated financial statements subject to our review.

We have nothing to report with respect to the fairness of such information and its consistency with the interim consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, August 27, 2009

The statutory auditors

French original signed by

Mazars		Deloitte & Associés
Hervé HELIAS	Virginie CHAUVIN	François ARBEY