Crédit Local

HALF-YEAR FINANCIAL REPORT

30 JUNE 2010

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CONTENTS

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HALF-YEAR BUSINESS REPORT

BUSINESS REVIEW

1. OVERVIEW

Continuing on from 2009, the first half of 2010 featured the ongoing implementation at Dexia Credit Local of the Dexia group's transformation plan. Following the sale of FSA's credit enhancement business in 2009, restructuring efforts focused on reducing costs, improving the risk profile, in particular by deleveraging the balance sheet, and refocusing on core markets.

The highlight of the period was the European Commission's approval in February 2010 of the support plan put together by the Belgian, French and Luxembourg governments. With this move, the European Commission confirmed Dexia's long-term viability and approved its restructuring plan. For Dexia Credit Local, this restructuring plan requires the disposal of its Italian and Slovakian subsidiaries by 31 October 2012 and that of its Spanish subsidiary by 31 December 2013. These disposals come in addition to the run-off management of numerous international entities initiated in 2009 as part of refocusing on countries where Dexia has a viable commercial position (mainly France, Belgium and Luxembourg), long-term refinancing capacity and a potential for profitable growth. In other countries, namely the United Kingdom, United States and Canada, Dexia will continue to operate but will focus on niche businesses that consume little equity and are compatible with its new strategy.

In line with the European Commission's decision, Dexia stepped up its divestment programme in recent months. After disposals totalling EUR 18 billion in 2009, EUR 17 billion of non-strategic assets were sold in the first half of 2010.

New lending and other long-term commitments granted by the Public and Wholesale Banking (PWB) business line remain deliberately limited. At end-June 2010 these amounted to EUR 3.5 billion for Dexia Credit Local compared with EUR 7 billion for the full year in 2009, and with EUR 44.3 billion for 2008. Despite the reduction in new lending, the commercial momentum in target countries was maintained. Towards the customers, special emphasis is now placed on financing solutions that free up the balance sheet and on the systematic identification of cross-selling opportunities.

At 30 June 2010, Dexia Credit Local's portfolio of long-term commitments was down by 5.5% year on year to EUR 224.3 billion. Following the European Commission's decision, it was decided to split the bank's portfolio for analytical purposes between Core Market (EUR 184.7 billion at end-June 2010) and Legacy Portfolio (EUR 39.6 billion at end-June 2010), with the latter containing all the run-off activities.

Dexia's risk profile and liquidity situation have continued to improve thanks to a determined divestment policy, swift execution of the long-term funding programme and the adjustment of Public and Wholesale Banking production to the group's long-term funding capacities. Dexia Credit Local's debt issuance programme now stands at EUR 35.2 billion, or EUR 10 billion more than in the first half of 2009 and was achieved through issuance of state-guaranteed debt and covered bonds. Short-term financing needs have been reduced by more than EUR 100 billion since the end of 2008 and recourse to central bank funding has dropped substantially, from EUR 64 billion at the end of 2008 to EUR 28.5 billion at the end of 2009 and EUR 21.7 billion at end-June 2010. At end-June 2010, Dexia was able to exit the State-guarantee mechanism as agreed with the European Commission.

2. LOCAL PUBLIC SECTOR FINANCING

2.1. LONG-TERM FINANCING

NEW LENDING (1)

(EUR million)	30 June 2009	30 June 2010	Change
CORE MARKET	**2,185**	**2,720**	**+24.5%**
France	1,305	1,743	+33.6%
Italy	89	155	+74.7%
United States and Canada	0	0	-
Spain and Portugal	698	755	+8.2%
Germany(2)	0	0	-
United Kingdom	22	0	-100%
Israel	71	67	-5.9%

1. *Amounts at constant exchange rates*
2. *In 2010, the subsidiary ceased all new commercial lending to concentrate on sourcing local market funding.*

BUSINESS REVIEW BY MARKET

FRANCE

For the period ended 30 June 2010, new lending came to EUR 1,743 million in a relatively sluggish market. At EUR 76.55 billion, total outstanding loans were down slightly, by 3.7%, relative to 30 June 2009.

As at 30 June 2010, new lending to local authorities came to EUR 1,169 million, of which 33% related to subsidised loans to the construction and public works sector in the framework of the French government's stimulus package for the construction sector (*plan de relance professionnel BTP*). The decrease in outstanding loans to local authorities (EUR 47.8 billion) that had begun in 2009 continued through the first half of 2010, with outstanding loans down by 0.9% year on year at 30 June 2010.

New lending to the other public finance markets came to EUR 574 million at 30 June 2010, of which 56% was funded by the Caisse des Dépôts after classification as "PLS" (loans to promote affordable housing), by the European Investment Bank (EIB) and by construction companies. Outstanding loans in these markets totalled EUR 22 billion at 30 June 2010, up by 4.6% year on year:

- new lending to the healthcare sector came to EUR 229 million in the first half of 2010, of which 44% funded by the EIB or PLS loans. Total outstanding loans came to EUR 10.3 billion at end-June 2010, up by 7.5% year on year. This sharp increase came from drawings made under the long-term financing lines set up in connection with the "Hospital 2007 " plan;
- in the housing and urban development sector, new lending came, at end June 2010, to EUR 301 million, of which 74% with PLS, construction sector or EIB funding. New lending was up by 14% year on year at end-June 2010 thanks to the construction sector stimulus plan. Outstanding loans came to EUR 9.1 billion at 30 June 2010, up by 2.8% compared with 30 June 2009.

Lastly, a total of EUR 2,250 million of debt was restructured during the first half of 2010, 4.5% more than at end-June 2009.

INTERNATIONAL

Germany: a key contributor to Dexia's funding

In Germany, having ceased its commercial activities, Dexia Kommunalbank Deutschland (DKD) continued to contribute to Dexia's funding by issuing bonds (*Pfandbriefe*) covered by a pool of assets resulting from regular asset transfers from other group entities. Nearly EUR 4.2 billion in long-term bonds were issued in the first half of 2010, corresponding to more than 80% of the programme for the full year.

United States and Canada: reorientation of commercial operations

The repositioning of the commercial strategy initiated in 2009 with the cessation of certain activities, such as the issuance of standby bond purchase agreement (SBPA - liquidity guarantees on municipal bonds), continued in the first half of 2010 with a cautious search for opportunities in new market segments, such as financing property on long-term rental to local authorities or central government.
To accompany these significant changes and to facilitate implementation of the new commercial strategy, all the Public and Wholesale Banking operations in North America were placed under the responsibility of a single management structure.

United Kingdom: new organisation to stimulate commercial operations

Implementation of Dexia's transformation plan continued in the United Kingdom with the simplification of the group's local structures. As in 2009, debt restructuring in the social housing sector continued at a brisk pace with restructured outstanding loans amounting to almost EUR 727 million in the first half of 2010.

Italy: extending the range of products and services

Italian public sector borrowing remained very limited during the first half of 2010 with very few calls for tender. New long-term lending signed by Dexia Crediop in the first half came to around EUR 211 million, of which 11% with local authority agencies. The swaps activity contracted sharply due to lack of demand.

Meanwhile, Dexia Crediop continued its strategy of broadening its range of products and services by investing commercially in deposits and short-term financing business. Dexia Crediop carried out various short-term financing operations for a total amount of around EUR 249 million during the first half. These transactions concerned mainly purchases of healthcare-related receivables.

Spain and Portugal: quality of Dexia's franchise confirmed despite the difficult market conditions

Demand for loans remained strong among the large Spanish local authorities during the first half of 2010. Against this background, Dexia Sabadell performed well by adopting a selective approach to the market and optimising the available funding. Dexia Sabadell remains a significant player in local authority financing in Spain and Portugal, with new lending amounting to EUR 950 million in the first half of 2010.

Israel: business stays satisfactory

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

The subsidiary also maintained its funding autonomy, carrying out two issues (one in February and one in June) totalling EUR 175 million under favourable conditions and with strong demand.

INTERNATIONAL – ENTITIES IN RUN-OFF

Japan

The branch halted all new lending to concentrate on selling off balance sheet loans and bond holdings. Asset sales amounting to around EUR 4.6 billion enabled it to reduce its balance sheet by approximately 49% during the first half of 2010, after a reduction of 25% in 2009. These asset sales were made with limited losses. All these initiatives will continue over the coming months with a view to closing the branch by the end of 2011 at the latest.

Australia

More than 80% of the existing outstanding loan portfolio was transferred to France in the second quarter of 2010. These efforts will continue in the second half with the aim of closing down the subsidiary as soon as possible.

Central and Eastern Europe

With the exception of Dexia banka Slovensko, the various entities operating in Central and Eastern Europe have ceased all new activity. Existing outstanding loans, of which a large part have already been transferred to Dexia Credit Local's information systems, are managed on a day-to-day basis by a centralised platform in Vienna, with the help of a small team maintained in each of the originating countries.

On the whole, Dexia banka Slovensko's[1] commercial operation remained good in the first half of 2010 with total outstanding loans of EUR 1,745 million, 9% more than in the same period the previous year. However, customer deposits were down by 5% to EUR 1,778 million at 30 June 2010, in difficult market conditions. The cost reduction plan initiated in 2009 with the reduction of more than 100 people in the headcount and the closure of six branches resulted in a 9% decrease in costs in the first half of 2010.

In a first finding, an unfavourable court decision was issued against Dexia banka Slovensko in a dispute with a customer (see risk management - point 5. Legal risks).

Mexico

The local entity now merely carries the assets remaining on its balance sheet, the management of which has been transferred to Dexia Credit Local's New York Branch.

Sweden

The existing outstanding loans have been transferred to Dexia Credit Local and the branch was shut down in the first quarter of 2010.

Switzerland

No new loans have been made since the beginning of the year and the subsidiary will be closed down during the summer.

[1] *All Dexia banka Slovensko's (Slovakia) commercial operations are included in the Retail and Commercial Banking (RCB) business line.*

OUTSTANDING LOANS

OUTSTANDING LONG–TERM PUBLIC SECTOR LOANS [(1)]

(EUR million)	30 June 2009	30 June 2010	Change[(4)]	Change At constant exchange rates
CORE MARKET	**159,201**	**155,763**	**-2.2%**	**-2.5%**
France	79,459	76,555	-3.7%	-3.7 %
Italy	31,441	30,088	-4.3%	-4.3%
United States and Canada (excl. SBPA)	3,084	3,382	+9.7%	-3.7%
Spain and Portugal	11,949	13,153	+10.1%	+10.1%
Germany	23,309	22,038	-5.5%	-5.5%
United Kingdom	9,152	9,501	+3.8%	+3.2%
Israel	807	1,046	+29.7%	+12.3%
'LEGACY' PORTFOLIO	**48,913**	**39,606**	**-19%**	**-27.6%**
Japan	5,780	3,477	-39.8%	-45.3%
International Headquarters (*Public Banking*) Switzerland, Sweden, etc.[(2)]	8,550	7,816	-8.6%	-15.8%
Central and Eastern Europe[(3)]	2,413	2,016	-16.4%	-16.4%
Australia	1,360	1,176	-13.5%	-21.7%
Mexico	1,202	1 349	+12.2%	-3.3%
United States (SBPA)	29,608	23,772	-19.7%	-29.5%
TOTAL	**208,114**	**195,369**	**-6.1%**	**-8.8%**

(1) Presented at current exchange rates.
(2) The Swiss and Swedish outstanding loans have been transferred to the International Headquarters' portfolio.
(3) Excluding Dexia banka Slovensko whose commercial operations are included in the Retail and Commercial Banking business line.
(4) Increase in outstanding loans linked mainly to currency effects.

2.2. SHORT-TERM LOANS

Total outstanding short-term loans amounted to EUR 6.2 billion at end-June 2010, down by 25% compared with end-June 2009[1]. France accounted for 92% of total outstanding short-term loans.

[1] *At same scope as in 2009 and re-incorporating all off-balance-sheet items.*

3. PROJECT FINANCE

3.1. ORIGINATION

LONG–TERM ORIGINATIONS – PROJECT FINANCE [1]

(EUR million)	30 June 2009	30 June 2010	Change
CORE MARKET	**420**	**806**	**+92.1%**
France	0	240	
Italy	47	56	+19.2%
United States and Canada	145	157	+8.4%
Spain and Portugal	121	194	+60.3%
United Kingdom	73	109	+49.5%
International Headquarters (Project Finance)	34	50	+47.1%

(1) At constant exchange rates.

Twenty-six transactions were completed in the first half of 2010. In twenty-three of these transactions Dexia Credit Local acted as financial advisor and/or Mandated Lead Arranger (or joint MLA). Financing arranged by Dexia Credit Local came to nearly EUR 3 billion. Dexia Credit Local's share of funding came to EUR 806 million, or a little less than one third.

Commissions paid by customers on signature came to approximately EUR 21 million. Another EUR 12 million were generated by gains on interest-rate hedging transactions.

In terms of sectors, financing was split between conventional energy (35% for electricity generation and transmission), renewable energy (21% for wind and solar energy), transport (20%, mainly for motorways under PPP[1]), social infrastructure[2] (15% for various buildings in education, legal and healthcare) and other (9%).

Nearly 90% of the funding concerned borrowers that generate their income from public entities or as part of government-regulated businesses.

At the beginning of 2010, several of the deals arranged by Dexia in 2009 won awards from various financial magazines, namely:

- BELWIND, offshore wind farm project in Belgium: "Renewables Deal of the Year" (Infrastructure Journal);
- M25, PPP for renovation of the London orbital motorway: "Europe PPP Deal of the Year" (Thomson Reuters).

At the beginning of 2010, Dexia Credit Local received the Infrastructure Journal's "Value Add Award" awarded to the bank that stood out most in 2009 for its capacity to arrange deals in a still difficult economic environment.

BUSINESS REVIEW BY MARKET

France

Dexia Credit Local took part in two PPP transactions in the infrastructure sector:

- Financing for 63 road maintenance and assistance centres for the French Ministry of Ecology, Energy, Sustainable Development and the Sea;
- Financing for the French railroad's mobile telecommunications network for RFF.

In the renewable energy sector, Dexia Credit Local financed a series of wind-farms in Northern France and two photovoltaic solar energy plants in the South-West of France.

In the conventional energy sector, Dexia Credit Local participated in funding enabling EDF to monetise its long-term electricity sales to its largest industrial customers.

The commitments taken by Dexia Credit Local on these five deals amounted to EUR 240 million.

Dexia Credit Local has also been chosen to act as financial advisor for the consortium tendering for PPP projects for the construction of the French Ministry of Defence's new headquarters and the Nimes-Montpellier high-speed rail link.

Lastly, Dexia Credit Local made a profit on the sale of a wind-farm held in Normandy.

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[1] *Public/Private Partnerships.*

[2] *Hospitals, prisons, universities, etc.*

International - Headquarters

In the renewable energy sector, Dexia Credit Local financed in Belgium the acquisition by Belgian company Elia of a German electricity operator (deal carried out jointly with Dexia Bank Belgium). Dexia Credit Local also took part in the financing of a gas pipeline supplying Germany with Russian gas.

Net commitments (after disposal) taken by Dexia Credit Local came to EUR 50 million.

United States and Canada

The project finance activities in the United States and Canada, although underpinned by a highly selective commercial policy, particularly in terms of profitability and maturity, featured several successes with solid prospects for the second half.

In the renewable energies sector, Dexia Credit Local financed:

- three wind farm projects in the United States (Washington, Texas and Virginia), and
- a photovoltaic project in Ontario, Canada.

Dexia Credit Local also participated in the funding of a gas-fired power plant in Arizona (USA).

Dexia Credit Local's commitments on these transactions came to EUR 157 million.

Lastly, Dexia Credit Local advised Japanese energy company, J-POWER, in the acquisition of two power plants.

United Kingdom

Dexia Credit Local financed two PPP projects:

- schools near Manchester;
- road renovation and maintenance in Birmingham.

Dexia Credit Local also participated (while reducing its commitments) in the refinancing of one of the leading UK rail equipment leasing companies, enabling it to act as "Co-Manager" in the bond tranche.

The commitments taken by Dexia Credit Local on the first two projects amounted to EUR 109 million.

Spain and Portugal

In the transport sector, Dexia Credit Local participated in the financing of:

- three motorway projects (two virtual toll gate projects and one relating to the pre-financing of payments due from public authorities);
- the PPP project for the extension of line 9 of the Barcelona underground.

In the social infrastructure sector, Dexia Credit Local financed a PPP project for the construction and operation of a prison in Catalonia.

In the environmental sector, Dexia Credit Local refinanced an industrial waste collection area in the Saragossa area and a desalination plant in Majorca.

Dexia Credit Local also acted as financial advisor to the project-company for the renegotiation of the Perpignan-Figueras rail link concession.

In the energy sector, Dexia Credit Local financed an underwater gas storage project.

The total commitments taken by Dexia on by these transactions amounted to EUR 194 million.

Italy

In the renewable energies sector, Dexia financed two photovoltaic projects, one in Sicily and the other in the Puglia region, corresponding to total commitments of EUR 56 million.

3.2. LONG TERM EXPOSURE

LONG-TERM EXPOSURE – PROJECT FINANCE[1]

(EUR million)	30 June 2009	30 June 2010	Variation	Variation Change at constant exchange rates
CORE MARKET	**29,242**	**28,959**	**-1%**	**-2.9%**
France	5,707	5,507	-3.5%	-3.5%
Italy	5,728	4,927	-14%	-14%
United States and Canada	3,881	4,341	+11.8%	-1.8%
Spain and Portugal	4,173	4,212	+0.9%	+0.9%
Germany	590	648	+9.8%	+9.8%
United Kingdom	3,821	3,978	+4.1%	+3.5%
International Headquarters (*Project Finance*)	5,342	5,346	+0.1%	-0.3%

(1) At constant exchange rates.

4. INSURANCE (DEXIA SOFAXIS)

INSURANCE

The volume of insurance premiums recorded in 2010 reflects the commercial activity in 2009.

Like 2008, 2009 featured:

- a significant drop in premium rates (of between 15% and 20% depending on the customer segment),
- strong concentration of tenders on the hospital sector,
- a prospecting campaign that managed to partly offset the overall market contraction in volume terms (EUR 15 million in new insurance business) and increase the number of customers,
- a very small rise in local public employee wages, used as the basis for calculating insurance premiums.

2009 also featured a significant reduction in portfolios managed for third parties and in respect of which Dexia Sofaxis cannot play any commercial role.

Overall, these factors resulted in:

- a fall of around 9% in premiums taken in 2010 (EUR 333 million) compared with 2009,
- an increase in the number of customers (200 new local authorities),
- an increase in the number of contracts managed (+750 contracts).

At the same time, after years of stability, 2009 featured a deterioration in loss ratios.

The fall in premium rates combined with a higher loss ratio has resulted in a significant deterioration in technical results by portfolio. A global re-pricing campaign is currently underway.

Against this background, the preventive actions and actions to reduce claims and help people back to work borne by partner insurance companies have grown strongly:

- +20% of medical check-ups,
- +40% of back-to-work cases.

SERVICES

Services to large local authorities have been growing steadily, as much in work and health-related areas as in organisation planning and human resources management:

- a 10% increase in offers made in the first half of 2010 compared with the first half of 2009,
- a 40% increase in revenues from services in the first half of 2010 compared with the first half of 2009.

PUBLISERVICES

In response to the needs arising from the February 2007 modernisation of local public services act (*lois de modernisation de la fonction publique locale*), Dexia Sofaxis has developed an offer through its subsidiary PubliServices in the areas of healthcare, personal protection and social welfare for public agents.

Publiservices has already won two contracts from local public services management centres in the first half of 2010 and this market seems particularly promising.

This is a major area of commercial development for Dexia Sofaxis.

5. CUSTOMER COLLECTIONS

Total assets under management from deposits and other investment products for the Public and Wholesale Banking business line amounted to EUR 9.8 billion at end-June 2010, up by 4% from June 2009:

- in France, total assets under management from deposits, investment and other asset management products amounted to EUR 6.7 billion, down 6% from end-June 2009. New deposits taken came to EUR 3.3 billion and broke down as follows: EUR 0.2 billion in demand deposits, EUR 1.2 billion in term deposits, EUR 1.9 billion in certificates of deposit and medium term notes (MTN) issued by Dexia Credit Local and marketed by Dexia CLF Banque;
- in Israel, deposits increased by 35% year on year to EUR 1.3 billion. Of that amount, demand deposits accounted for EUR 0.4 billion, term deposits for EUR 0.3 billion and certificates of deposit for EUR 0.6 billion;
- in Italy, total assets under management were down by 16% year on year to EUR 0.5 billion, consisting mainly of demand deposits;
- in Spain and Portugal, total assets under management were up by 5% compared with end-June 2009 to EUR 0.3 billion and consisted mainly of demand deposits (EUR 7 million in term deposits);
- in the United Kingdom, the group no longer holds any term deposits. These totalled EUR 185 million at end-June 2009;
- in Germany, the term deposits activity is growing, with a total of EUR 570 million at end-June 2010.

6. LONG-TERM FUNDING

Senior debt (in EUR million)	**New issues in H1 2009**	**New issues in H1 2010**		
		Total	**Guaranteed**	**Non guaranteed**
France				
Dexia Municipal Agency	4,563	5,361	-	5,361
Dexia Credit Local	17,679	18,136	16,714	1,422
Italy				
Dexia Crediop	380	927		927
Germany				
Dexia Kommunalbank Deutschland	2,670	4,317	-	4,317
United States				
Dexia Credit Local – New York branch	-	6,501	6,498	3
TOTAL	**25,292**	**35,242**	**23,212**	**12,030**

After 2009, which saw a general improvement in conditions of access to the primary bond market, conditions were mixed in the first half of 2010. Although the rise in sovereign risk in Europe had a negative impact on spreads and even led to temporary market closures during the second quarter, issuance volumes are up strongly overall compared with the first half of 2009.

Supply reached a record high (EUR 98 billion) in the euro-denominated covered bonds market, boosted by the support given by European Central Banks[1] purchase programme and a sharp increase in the number of new issuers seeking a source of long-term funding in this market. The market was particularly active in the first quarter with EUR 67 billion issued whereas the second quarter featured almost a month with no activity in any type of issue until the ECB, the European Union and the IMF announced their support plan for European sovereign debt issuers. Two thirds of the euro-denominated covered bond issues came from France, Germany and the Scandinavian countries, with a strong base of German and French investors. The main development outside the euro zone was the emerging demand from American investors which enabled French and Canadian issuers to launch debut issues.

Issuance was also substantial in the unsecured senior debt market with EUR 79 billion issued, mainly in the first four months of the year, whereas the guaranteed senior debt market slumped due to the ending of most of the State guarantee schemes and the re-opening of the other market segments since mid-2009.

Against this backdrop, the Dexia group as a whole issued EUR 37.7 billion in the first half of 2010, of which EUR 35.2 billion was issued by Dexia Credit Local. The group's 2010 funding programme has been secured mainly through state-guaranteed issues and active recourse to covered bonds.

ISSUES WITH GOVERNMENT GUARANTEES

At 30 June 2010	Dexia Credit Local (consolidated)
Public issues	EUR 20,169 million
Average maturity	3.3 years
Private placements	EUR 3,043 million
Average maturity	2.8 years

After a very active year in terms of guaranteed funding in 2009, the group has sought in 2010 to secure a substantial part of its long-term funding as rapidly as possible through active recourse to government-guaranteed issues. Taking advantage of the change in the guarantee scheme offering the possibility of extending the maturity to four years, and following the European Commission's approval at the beginning of February of the group's restructuring plan, Dexia Credit Local was very active, issuing guaranteed debt totalling EUR 23.2 billion, of which EUR 16 billion in the first quarter.

Dexia issued debt on numerous international markets with 12 public issues in euro and other currencies (USD, GBP, CHF and JPY). Dexia's recourse to guaranteed funding was concentrated at Dexia Credit Local while the New York branch enabled it to make 144a[2] issues in US dollars.

All in all, Dexia Credit Local raised a total of EUR 23.2 billion in the first half of 2010, with an average maturity of 3.2 years.

ISSUES AND FUNDING WITHOUT GOVERNMENT GUARANTEES

COVERED BOND ISSUES

At 30 June 2010	Dexia Municipal Agency	Dexia Kommunalbank Deutschland	Dexia Credit Local (consolidated)
Public issues	EUR 3,709 million	EUR 2,750 million	EUR 6,459 millions
Average maturity	8.2 years	5.0 years	6.8 years
Private placements	EUR 1,652 million	EUR 1,475 million	EUR 3,127 million
Average maturity	13.4 years	11.0 years	12.3 years

After the reopening of the primary market for covered bonds in 2009, when Dexia Municipal Agency and Dexia Kommunalbank Deutschland raised respectively EUR 7.9 billion and EUR 4.1 billion, both issuers remained very active in the first half of 2010 enabling them to extend the duration of Dexia's funding.

[1] *The European Central Banks' covered bond purchase programme totalled EUR 60 billion in the primary (EUR 16.2 billion) and secondary (EUR 43.8 billion) markets between July 2009 and June 2010.*

[2] *The "144a" format enables a non-U.S. issuer to sell securities to "Qualified Institutional Buyers" without registering the issuer with the Securities and Exchange Commission.*

All in all, Dexia Municipal Agency and Dexia Kommunalbank Deutschland together launched five benchmark issues. Dexia Municipal Agency launched three EUR 1 billion benchmark issues with maturities of, respectively, 12, 8 and 5 years. In addition to these benchmark issues, Dexia Municipal Agency increased the stubs of four euro issues and one Swiss franc issue. Lastly, Dexia Municipal Agency remained active in private placements with a total of EUR 1.7 billion. All in all, in the first half of 2010 Dexia Municipal Agency raised EUR 5.4 billion with an average maturity of 9.8 years.

For its part, Dexia Kommunalbank Deutschland took advantage of a strong *pfandbriefe* market to launch two issues, one 7 year issue of EUR 1.25 billion and one 3 year issue of EUR 1 billion. Dexia Kommunalbank Deutschland also launched two non-benchmark issues (EUR 500 million) and remained active in private placements (EUR 1.5 billion). All in all, in the first half of 2010 Dexia Kommunalbank Deutschland raised EUR 4.2 billion with an average maturity of 7.1 years.

Taken all together, Dexia Credit Local's covered bond issuers raised EUR 9.6 billion in the first half of 2010 with an average maturity of 8.6 years.

Unsecured issues

At 30 June 2010	
Dexia Credit Local	EUR 1,367 million
Average maturity	2.8 years
Dexia Crediop	EUR 504 million
Average maturity	3 years
Dexia Kommunalbank Deutschland	EUR 92 million
Average maturity	9.2 years
Dexia Credit Local – New York branch	EUR 3 million
Average maturity	2 years

The senior primary market was active throughout the first half of 2010 but Dexia Credit Local did not offer any issues of public unsecured debt as it was awaiting the European Commission's decision in the first quarter and therefore focusing its strategy on debt with government guarantees. Accordingly, only private placements were made for a total of EUR 1.96 billion with an average maturity of 3.2 years. Dexia Crediop raised EUR 504 million.

Retail issues

At 30 June 2010	**Dexia Credit Local (consolidated)**
Retail issues	EUR 393 million
Average maturity	5.6 years

After an active first quarter, during which Dexia Crediop placed two issues through the partner bank networks, the rise in sovereign risk limited its access to these retail networks. In the six months ended 30 June 2010, Dexia Crediop raised EUR 393 million through retail issues.

Subsidised funding

At 30 June 2010	**Dexia Credit Local (consolidated)**
Subsidised funding	EUR 85 million
Average maturity	18.2 years

In the first half of 2010, the Dexia Credit Local group raised subsidised funding totalling EUR 85 million with an average maturity of 18.2 years through two operations with the European Investment Bank. These operations were carried out by Dexia Credit Local (EUR 55 million) and Dexia Crediop (EUR 30 million).

7. FINANCIEL MARKET ACTIVITIES

BOND PORTFOLIOS

The *Financial products* (FP) and *Portfolio Management Group* (PMG) portfolios are being managed on a run-off basis, with the aim of reducing the size of Dexia Credit Local's balance sheet and improving its risk profile.
In the first half of 2010, the amortisation of these portfolios and sales of bonds represented EUR 4 billion and EUR 7.8 billion, respectively. The loss on disposals was EUR 58.5 million.

At 30 June 2010, Dexia Credit Local's outstanding bond portfolio amounted to around EUR 141 billion (of which EUR 11.9 billion for the *Financial products* portfolio).

CASH AND SHORT-TERM FUNDING

The beginning of 2010 featured a gradual reopening of the money market. The recent tensions surrounding European sovereign debt had rekindled the tensions in the money market but without any significant impact on interbank transactions. The abundant liquidity provided by the ECB explains this lack of reaction.
More specifically with regard to Dexia Credit Local's cash situation, two elements stood out in the first half: the first was the exit, as from 31 May 2010, from the State guarantee for short-term issues; and the second was the group's reduced recourse to short-term funding.

COMMERCIAL ACTIVITIES

Public sector clients

Debt structuring for public sector clients increased in the first half of 2010 compared with the same period the previous year: 308 transactions were carried out corresponding to an aggregate total of EUR 2.4 billion (up by 33% year on year), of which 276 transactions in France for an aggregate nominal amount of EUR 1.8 billion (22% more than in the first half of 2009).

'Project finance' clients

Interest-rate hedging derivatives transactions for project finance companies declined in the first half of 2010 compared with the same period in 2009, with 20 derivatives transactions for a total nominal amount of EUR 594 million during the period compared with 16 transactions for a total nominal amount of EUR 2.03 billion in the first half of 2009.

Institutional clients

In the first half of 2010, Dexia arranged (or participated in) more than 30 public and private bond transactions either as bookrunner or lead manager. The aggregate volume of these transactions was around EUR 6 billion. The main issuers included the Grand Duchy of Luxembourg, the Kingdom of Belgium, the Crédit Agricole and the BNP Paribas groups, the European Investment Bank and the Belgian services companies Eandis and SNCB, as well as the Dexia group for various types of issues (*Obligations foncières*, *Pfandbriefe*, State-guaranteed issues).
The Dexia issues placed totalled EUR 3.5 billion, of which 43 private issues for an aggregate total of EUR 630 million.

At the same time, interest-rate hedges were put in place for Dexia Credit Local and Dexia Municipal Agency bond issues for an amount of EUR 1 billion.

8. ORGANISATIONAL CHANGES

IMPLEMENTATION OF REORGANISATION OF SUBSIDIARIES AND MANPOWER PLANNING

The new organisation of the subsidiaries was implemented in the first half of 2010. The aim is to:

- Create a tighter structure at the Dexia group level in order to put in place a simple and clear organisation designed to harmonise and optimise decision-making procedures;
- Harmonise the scope of functions at all the entities to facilitate coordinated governance;
- Increase the autonomy of and delegation of responsibility to subsidiaries, while at the same time strengthening management lines and group control procedures;
- Strengthen the group steering function and enhance its roles of driver and control.

Implementing the new organisation has resulted in the transfers of more than sixty staff between Dexia Credit Local and Dexia SA and the suppression of around 15 jobs.
To accompany this reorganisation, a Manpower Planning agreement was signed in November 2009 by management and all various unions. This agreement provides for a comprehensive staff mobility support plan: information about the system, access to the jobs on offer, assessment of employees' skills and career targets, arranging the necessary training and follow-up of employees in their new jobs. The aim of this agreement is to conserve and develop existing talent within the group and provide the staff with a motivating career project.

This plan was implemented very successfully, with solutions found within six months for virtually all situations. The plan will be continued in order to find solutions for the remaining individual situations.

MOTIVATING MANAGEMENT

Action designed to mobilise management staff, involve team managers at every level and strongly motivate them to perform their duties in an environment of change was stepped up in the first half. Each Management Committee member sponsors a major theme and works with the managers involved to prepare and implement the concrete actions that will be taken as from September 2010.

LABOUR RELATIONS

The first half was particularly active in terms of collective labour agreements. A total of five agreements were signed, of which four approved unanimously by the unions.

An agreement relating to staff representation within Dexia SA France was signed, as well as an agreement on methods for preventing stress and socio-psychological risks.

As well as the measures already adopted since the end of June 2009, this last agreement provides for a stress-assessment survey to be carried out. This survey was begun in June 2010 and will serve as the basis for a new action plan to be negotiated in the autumn.

At the same time, two open conferences for managers were organised on the subject of preventing and detecting burn-out. A joint training course for HR staff and employee representatives was held in April.

Two new employee profit-sharing and incentive scheme agreements for 2010 were also approved unanimously. The incentive scheme will predominate and will take into account – in addition to gross operating income which was already the basis for the existing schemes – the cost of risk and the impact of balance-sheet downsizing operations. In this way, the performance of all the teams involved (gross operating income) and the company's strategic priorities (balance sheet downsizing) will be taken into account for the calculation of incentives. The principles of the employee profit-sharing agreement are unchanged relative to existing agreements.

Lastly, an agreement was also signed for the introduction of a group inter-company supplementary retirement scheme (Plan d'Epargne Retraite Collectif Interentreprises - PERCO-I). This scheme reflects the group's aim of offering an additional long-term savings vehicle designed to ensure supplementary revenue on retirement. Contributions to the scheme will be encouraged by employer contributions.

QUALITY

Dexia Credit Local's ISO 9001 2008 version certification was renewed for three years and extended to all its activities in France.

RISK MANAGEMENT

FIRST HALF OF 2010

ORGANISATION

The reorganisation of the risk management function was effectively implemented in the first half of 2010 in line with the group's new organisation. The risk management function is now organised according to transversal business lines: Public & Wholesale Banking credit risk, financial market risks (credit and market), and Retail and Commercial credit risk, with a geographic organisation by legal entity.
All the credit risk officers at Dexia Credit Local's French and foreign subsidiaries and branches now report directly to Dexia Credit Local's Chief Risk Officer and the credit committees in the main subsidiaries and branches are chaired by the Chief Risk Officer.

DECREASE IN THE BOND PORTFOLIO

Dexia Credit Local continued to reduce its risk exposure through sales of bonds amounting to EUR 7.8 billion.

EXPOSURE

In terms of method, the data provided below complies with IFRS 7 which uses the notion of 'maximum credit risk exposure (MCRE).

Exposure to credit risk includes the net carrying amount of all balance sheet assets other than derivatives (i.e. the gross carrying amount less specific reserves); the market value of derivatives; the off-balance sheet portion of commitments corresponding to the undrawn portion of facilities, and guarantees given.

It should be noted that credit risk exposure is considered after applying credit risk mitigation techniques, in line with Basel II principles. Risk exposure is broken down by type of counterparty and geographic region and guarantees are taken into account. When a credit exposure is guaranteed by a third party with a lower risk weighting, the principle of substitution is applied.
In terms of volume, Dexia Credit Local's total MCRE (excluding Financial products and Global Funding) increased by 0.9% relative to end-2009, up by EUR 3.5 billion to EUR 379 billion during the first six months of 2010.

Weighted credit risk (excluding Financial products and Global Funding) also increased, from EUR 47.9 billion at end-2009 to EUR 49 billion at end-June 2010. Excluding a currency effect of EUR 2.4 billion, it would have declined by EUR 1.3 billion.

EQUITY

The Tier 1 solvency ratio decreased from 8.9% at 31 December 2009 to 8.4% at end-June 2010. The cost of risk amounts to EUR 288 million in the first half of 2010 compared with EUR 630 million in 2009.

LIQUIDITY

The main event of the first half of 2010 was marked for Dexia Credit Local and for the Dexia group as a whole, by the exit at the end of June from the tripartite sovereign guarantee mechanism put in place in October 2008 when the group was faced with a liquidity crisis. This exit, implemented gradually over the six-month period, is in line with the agreement reached with the European Commission on 5 February 2010 and reflects the group's improved liquidity despite the deterioration in market conditions for some euro-zone sovereign debt issuers.

MARKET ACTIVITIES

The Risk Management and Permanent Control department also accompanied with the reorganisation of the Treasury and Financial Markets (TFM) activity, the reduction of trading operations and, in particular, the complete discontinuation of all credit trading and exotic fixed-income transactions. This resulted in a reduction of Dexia Credit Local's market limits (VaR 99% -10 days limit of EUR 107 million to EUR 54 million in 2009 and EUR 42 million in 2010). Another significant achievement was the implementation in the first half of new procedures for structured instruments and back-to-back derivatives, so as to significantly improve the coverage ratio of transactions by reliable and accurate models.

OPERATIONAL RISKS

In the first half of 2010, the collection of incident data and updating of operational risk mapping continued. Collaboration with other risk and control departments (audit, compliance and legal) was increased, thanks to the development of a common tool for the monitoring of the action plans arising from audit recommendations and risk assessments. This software tool became operational in January 2010.

TRANSVERSAL PROJECTS

The main transversal projects developed at the Dexia group level continued in the first half of 2010:

- The Pillar 2 stress tests were updated as part of the new financial plan. In addition, Dexia participated actively in the work carried out by the CEBS, the preliminary results of which were published by Dexia in May 2010. Dexia's solid equity base would enable it to withstand the worst assumptions of the two-year stress scenarios while maintaining good solvency ratios. In particular, based on the assumption of a blow relating to the "worst case"' scenario, the estimated consolidated tier 1 ratio would be 11.2% in 2011 compared with 12.3% at end-December 2009. An additional shock linked to sovereign risk would have an additional impact of 0.29 percentage point on the tier 1 ratio, bringing it down to 10.9% at end-2011 compared with the minimum regulatory requirement of 4%.
- An action plan has been drawn up in response to the recommendations of the Pillar 2 mission carried out by Dexia's college of regulators.
- The Quantitative Impact Study (QIS) based on the new regulatory framework proposed by the Bank for International Settlements, relating in particular to the definition of equity, buffer capital, leverage ratio, counterparty risk and liquidity risk, was sent to the Belgian regulator CBFA (*Commission Bancaire, Financière et des Assurances*) on 30 April 2010.
- Dexia was involved in international discussions relating to changes in IFRS rules for classification and provisioning, and financial instruments hedging, filing an exposure draft in June 2010.

1. CREDIT RISK

1.1. DEFINITION

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

1.2. RISK MANAGEMENT

Dexia Credit Local manages its credit risk by measuring it, by controlling it and by taking the necessary measures to limit risk.

THE OVERALL CREDIT RISK ENVIRONMENT IN 2010

Project finance and corporate

In the sensitive corporate and project financing sectors, there were some signs of improvements in traffic risks for ports and highways with a traffic risk even though it is difficult, at this stage, to assess if this recovery is permanent. The improvement reflects the deleveraging efforts made by some US and Canadian ports and an increase in the volumes transiting through these ports. With regard to highways, an inflexion point seems to have been reached in traffic for most of the highways financed in the United States, Mexico, France and Portugal and for some other projects.

The sectorial provisions for highway and ports segments have nonetheless been maintained at their current leve pending confirmation of the recovery in these sectors.

During 2010 first semester, the impact of the economic crisis has also materialised in other sectors but to a far more limited and occasional extent: specific provisions were required for three transactions in the telecommunications sector, one car-park transaction and one Spanish constructor. The overall exposure on these projects is nonetheless very limited.

Close watch is being kept on the oil platforms portfolio following technical problems encountered at three platforms.

PIIGS[1]

The first half of the year was also impacted by the PIIGS sovereign debt crisis, which began with Greece and then spread to Portugal, Ireland, Italy and Spain. Following the EUR 750 billion package put in place by the EU and IMF, the implementation of the various austerity measures and structural reforms committed to by the different governments will have to be carefully monitored.

Local public sector

Internal stress tests were carried out on the local public sector to assess the impact on local public finances of the planned austerity measures. 2010 is expected to be a difficult year for local authorities in nearly all countries. At this point, no country whose local public sector is in an extreme situation has been identified: this is apparently due to the fact that over the past 18 months, local authorities have drawn on their existing margin of manoeuver, their reserves and their ability to postpone certain expenditures.

The decline in local authorities' revenues is fairly general throughout Western Europe. In France, the austerity measure with the greatest impact on local authorities is the announcement of a probable freeze on State transfers to the local authorities in the 2011-2013 three-year budget. This freeze, combined with higher social welfare spending and a decline in investment spending, is likely to result in lower savings rates and a stabilisation of debt levels. Given the contraction in the budgets of the French *départements*, the personal aid and socio-medical sectors are likely to encounter financial difficulties as they heavily rely on contributions from the *départements*. In Spain, a significant increase in the level of indebtedness of some regions and a marked decline in their gross savings rate have been observed whereas the municipalities have recorded an increase in revenues thanks to the revision of the cadastral registry. In Italy, indebtedness is likely to stabilise but pressure on healthcare spending remains strong.

In Eastern Europe, the impact of the crisis is fairly pronounced in Bulgaria, Czech Republic and Hungary with a decline in fiscal revenues but this has been offset by increased central government allowances. No significant impact has been observed yet in Romania. In Poland the crisis is not very noticeable in terms of ordinary revenues but the savings rate is declining and investment remains strong.

Japan has been relatively sheltered from the crisis and no significant impact is visible for the local authorities.

In the United States, the Federal states are having difficulties balancing their budgets but are in most cases required to do so by law. The local authorities have therefore significantly cut back their spending.

Bond portfolio

Dexia's bond portfolio continued to decrease during the first half of 2010. Although no significant incident occurred and there was no particular deterioration in terms of performance or expected losses, the crisis has continued to trigger rating downgrades, especially in the Residential Mortgage-Backed Securities (RMBS) segment in the US and Europe (particularly Ireland) and the Collateralized Loan Obligations (CLO) segment. 96% of the bond portfolio continues to be rated investment grade.

Another significant event during the period was AMBAC's default on certain asset classes, requiring the group to book specific provisions.

The rating decline of the Financial products portfolio, with a longer maturity, continued in the first half of 2010 at a pace similar to that in the second half of 2009. It was therefore significantly less severe than the deterioration recorded in the first half of 2009. 28% of the portfolio was downgraded in the first half of 2010 compared with 23% in the second half of 2009. At 30 June 2010, 39% of the portfolio was rated investment grade. Most of the transactions that were downgraded were already non investment grade.

The evolution of bank counterparty risk were different depending on the counterparty, but the portfolio did not experience any defaults. Indirect risk on monoline insurers was also reduced, following the discontinuation of the liquidity lines business in New York and the disposal of certain assets.

[1] *"Portugal, Italy, Ireland, Greece and Spain".*

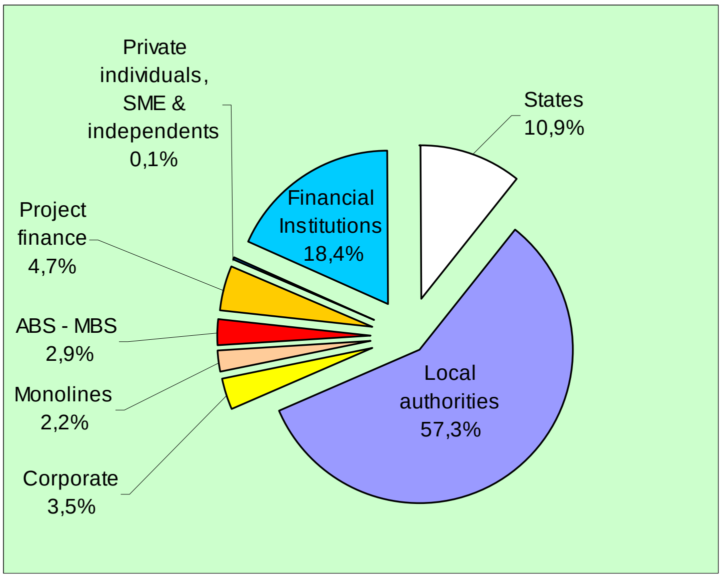
1.3. DEXIA CREDIT LOCAL PORTFOLIO

Credit risk exposure includes:

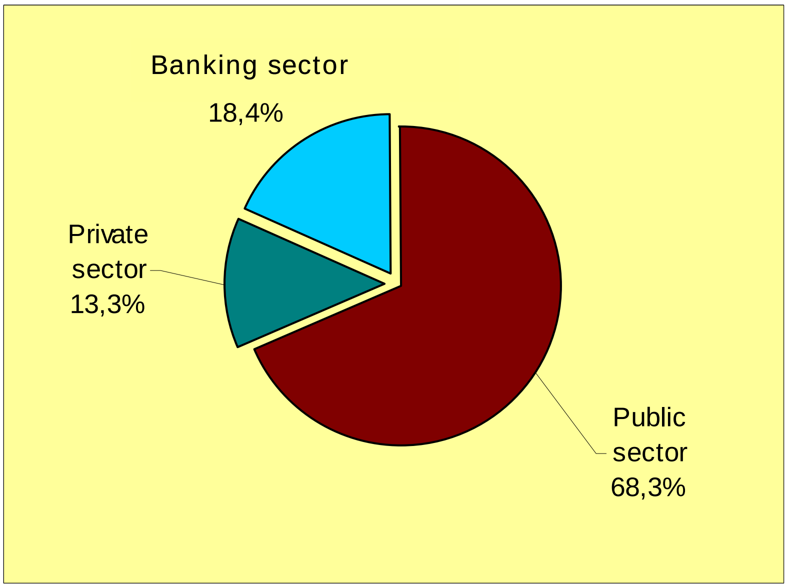
- the net carrying amount of all balance sheet assets other than derivatives (i.e. the gross carrying amount less specific reserves);
- the market value of derivatives;
- the total value of off-balance sheet commitments: the total commitment is equal either to the undrawn portion of the liquidity facilities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

Consolidated Dexia Credit Local data, excluding Financial products (FP) and Global Funding (GF).

BREAKDOWN OF MCRE[1] BY TYPE OF COUNTERPARTY

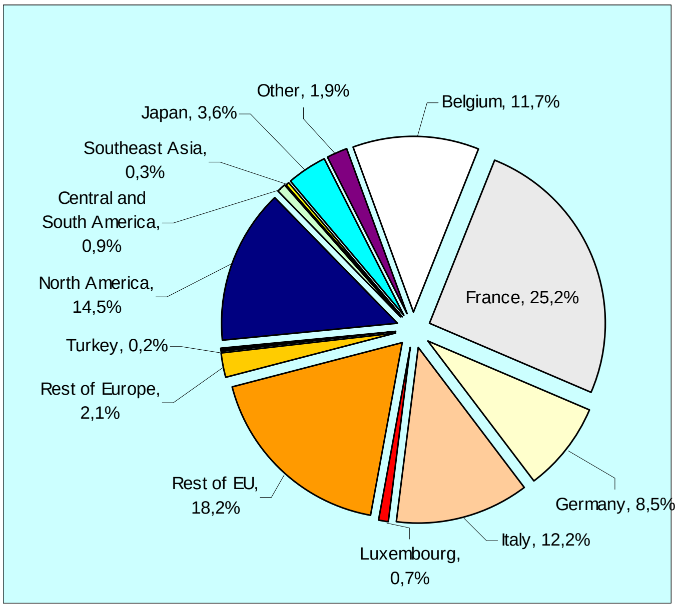


BREAKDOWN OF MCRE[1] BY SECTOR

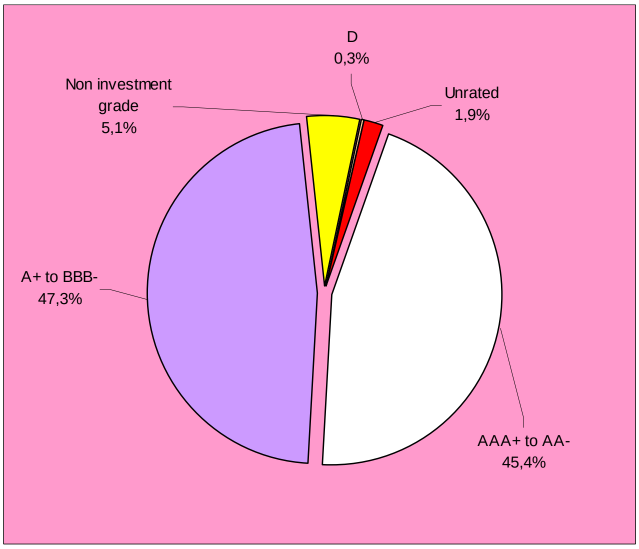


1 Maximum Credit Risk Exposure

BREAKDOWN OF MCRE[1] BY GEOGRAPHIC REGION



BREAKDOWN OF MCRE[1] BY RATING



IMPAIRMENT ON COUNTERPARTY RISK

Loans and advances (EUR millions)	31 december 2009	30 june 2010	Change (value)	Change (%)
Non-performing loans under collection	589	802	213	36%
Provisions allocated	134	199	65	49%

Securities and derivaties (EUR millions)	31 december 2009	30 june 2010	Change (value)	Change (%)
Provisions on banks	323	333	10	3%
Provisions on SMEs	99	99	0	0%

1 Maximum Credit Risk Exposure

2. MARKET RISK

2.1. DEFINITION

Dexia Credit Local's market risk includes its consolidated exposure to adverse changes in market parameters, such as interest rates, exchange rates and, to a lesser extent, changes in equity prices and other market risks (basis risk[1], inflation risk, etc.).

Interest rate risk includes both general risk on changes in market interest rates and specific risk (spread risk) on changes in the credit spread of a particular issuer, class of assets or rating category.

Equity risk is the risk of the potential decline in the value of shares held. Currency risk is the potential decline in value due to variations of foreign exchange rates.

2.2. RISK MANAGEMENT

RISK MEASUREMENT

The Dexia group has adopted the Value at Risk (VaR) risk measurement method as one of its main risk metrics. VaR measures potential loss over a 99% confidence interval for a 10-day period. Dexia uses several VaR techniques to obtain a precise measurement of the market risk inherent to its portfolios and various market activities:

- general interest rate and currency risk are measured using parametric VaR;
- specific interest rate risk is calculated using the historical VaR method; and
- non-linear and specific risks are measured using the specific and historical VaR techniques, in order to obtain a more accurate assessment of exposure to market volatility.

Dexia Credit Local's exposure to market risk, measured in terms of VaR, comes mainly from general and specific (spread) interest rate risk, reflecting the daily volatility observed in credit markets. Dexia Credit Local does not hold any open trading positions in equities, exchange rates or in any other risk factors.

EXPOSURE TO MARKET RISK

Value at Risk

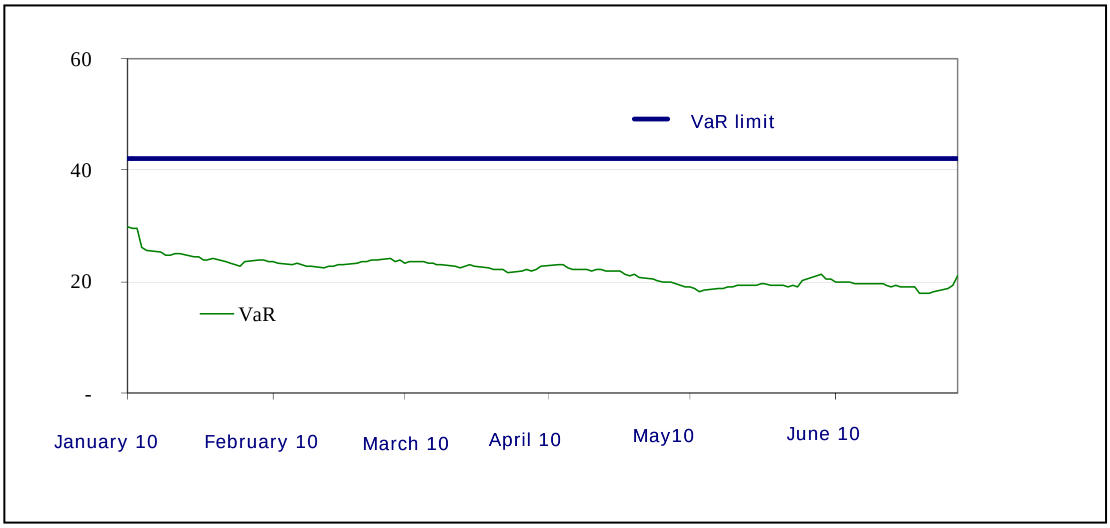
Details regarding the VaR used by the TFM activity (excluding the held-to-maturity portfolio) are provided in the table below.

The limits were revised sharply downward in accordance with the principle of reduction of risk as described in the Dexia transformation plan. The TFM limit was reduced from EUR 54 million at the end of 2009 to EUR 42 million in the first quarter of 2010.

(In EUR million)	**VaR on Dexia Credit Local's market risk**		
	Average	Maximum	Limit for the quarter
First quarter 2010	23.78	29.93	42.09
Second quarter 2010	20.11	23.07	42.09

[1] *Risk of widening or narrowing of spreads on a given currency.*

VaR on market risk (in EUR million) *



(*) VaR on interest rates & spread risk on market scope.

Bond portfolio

As bond portfolios are hedged against interest rate risk, their sensitivity to interest rate changes is very low.

At 30 June 2010, the sensitivity of the fair value to a one basis-point increase in the spread amounted to EUR 114 million for the bond portfolio (compared with EUR 102 million / basis point at 31 December 2009[1]).

3. BALANCE SHEET MANAGEMENT

3.1. DEFINITION

The risks associated with balance sheet management (BSM) include structural market risk (interest rate risk, currency risk, on- and off-balance sheet equity risk generated by the business lines) and liquidity risk.

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

Liquidity risk is defined as the probability that the bank will be incapable of satisfying its expected and unexpected current and future cash needs.

3.2. RISK MANAGEMENT

RISK MEASUREMENT

Interest rate risk

Balance sheet management (BSM) is in charge of reducing the volatility of the profit and loss account so as to protect the profits generated by the business lines and to preserve the group's overall creation of value. Dexia manages interest-rate risk by permanently rebalancing the balance sheet between interest rates on the asset side and interest rates on the liabilities side so as to reduce its exposure.

All the various group entities use the same methods to measure balance sheet risk. Currently, the main indicator used is a calculation of the sensitivity to a 1% rise in interest rates of the net present value of BSM positions.

Exposure to risk, as measured in both economic and accounting terms, is generated primarily by long-term European interest rates and results from the structural imbalance between Dexia's assets and its liabilities. Risk sensitivity measurements reflect the exposure of the balance sheet to first- and second-order sensitivity. VaR calculations are used to provide complementary measurements.

[1] *Including the Dexia Municipal Agency and tender option bond (TOB) portfolios.*

The monitoring of the interest-rate risk is done on a weekly basis at all Dexia Credit Local's main entities and is managed by local committees. Risk indicators are calculated on a "dying balance sheet" until its extinction. The results of this monitoring are presented each month to Dexia Credit Local's Asset & Liabilities Committee (ALCO), which determines the interest-rate risk policies and limits.

Equity risk

The Value at Risk technique is used to measure the sensitivity of the portfolio to adverse changes in equity prices, volatility and correlation. Among others, the market risk management framework includes calculation of earnings at risk and stress testing measurements that provide an indication of the maximum accounting loss under different scenarios. The banking entities' equity portfolios have been placed in run off.

Dexia Credit Local's portfolio was wound up in the first half of 2010.

Currency risk (structural)

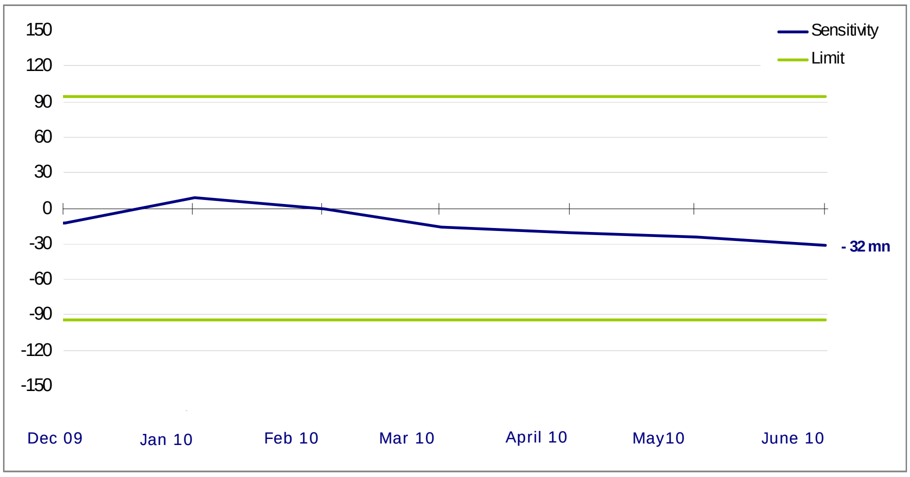
Although Dexia's reporting currency is the euro, many of its assets, liabilities, revenues and costs are also denominated in a number of other currencies. The group ALCO establishes the hedges to be used to offset structural currency risk, in order to reduce earnings volatility.

***BALANCE SHEET MANAGEMENT* (BSM) EXPOSURE**

BSM exposure to interest rate risk (sensitivity)

Interest rate risk sensitivity measures the change in the net economic value of the balance sheet caused by a 1% increase across the entire interest rate curve. The long-term ALM sensitivity amounted to - EUR 32 million at 30 June 2010, compared with - EUR 13 million at 31 December 2009. The limit of sensitivity to interest rates remained unchanged at EUR 94 million.

ALM SENSITIVITY IN THE FIRST HALF OF 2010



3.3. LIQUIDITY RISK

IMPROVEMENT CONFIRMED DESPITE THE CRISIS ENVIRONMENT

The progress made in 2009 in terms of liquidity continued throughout the first half of 2010, which featured the successful exit from the Belgian, French and Luxembourg government guarantee scheme: Dexia stopped issuing long-term guaranteed debt on 30 June 2010, having already ceased issuing short-term guaranteed debt as from 16 October 2009 for deposits with a maturity of less than one month, and from 1 March 2010 for deposits of more than one month.

In the first half of 2010, Dexia raised a total of EUR 37.7 billion (of which EUR 35.2 billion raised by the Dexia Credit Local group) in medium and long-term debt securities, with an average maturity of 4.5 years. Of this amount, EUR 23.2 billion corresponded to guaranteed bonds issued by Dexia Credit Local, thereby extending the average maturity by taking advantage of the authorisation to issue debt with maturities of up to four years allowed by the amendment to the guarantee agreement signed on 14 October 2009. Covered bonds issued by Dexia Municipal Agency and Dexia Kommunalkredit Deutschland amounted to EUR 9.6 billion in the first half of 2010, 32% more than in the first half of 2009 despite a marked slowdown in the primary bond market in the second quarter.

As debt issued under the government guarantee scheme now consists mainly of long-term funding, outstanding guaranteed debt continued to decrease but at a slower pace than in the last part of 2009. Total outstanding guaranteed debt at 30 June 2010 amounted to EUR 47.9 billion compared with EUR 50.4 billion at end-December 2009.

The strategy to reduce the balance sheet carried out by the group enabled it to reduce funding requirements for the bond portfolio by EUR 15.2 billion, of which EUR 7.8 billion for Dexia Credit Local, in addition to sales of loans totalling EUR 2.1 billion (mainly loans of the Tokyo branch), i.e. a total of EUR 17.3 billion.

Long-term funding and asset disposals helped reduce external short-term funding by 9% in the first half of 2010, in line with the targets agreed by the group with the European Commission.

MANAGEMENT OF LIQUIDITY RISK

Dexia has revised its liquidity risk management strategy in the light of the financial and liquidity crisis. The strategy is now based on the general principle that Dexia's future funding requirements will never exceed its demonstrated ability to obtain secured financing. In other words, Dexia ensures that its short-term funding requirements can always be met through the use of liquid assets in the interbank market.
Dexia takes care to maintain a liquidity buffer large enough to meet all outflows of cash provided for under different scenarios. This liquidity buffer consists of unencumbered securities accepted as collateral by the central banks to which Dexia has access.

The future funding needs are assessed dynamically and exhaustively, taking account of liquidity requirements generated by existing and planned transactions (both on- and off-balance sheet). The capacity to obtain secured funding is determined in a prudent manner, drawing upon the lessons learned from the recent crisis. The match between Dexia's future liquidity needs and its capacity to obtain secured funding is verified according to a scenario based on the 2008 crisis and on various future scenarios.

Short-term funding requirements are monitored on a daily basis. Longer-term funding needs (up to three years) are monitored on a monthly basis. More generally, liquidity risk management lies at the very heart of the definition of Dexia's three-year financial plan. The results of this monitoring are presented on a weekly basis to the Funding & Liquidity Committee, which determines the major strategic focal points of the group's liquidity management.

4. OPERATIONAL RISKS

4.1. DEFINITION

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

Dexia's definition of operational risk is based on, but not limited to, the Basel Committee definition, which puts the emphasis on losses (negative financial impacts). Therefore, Dexia's policy also requires the collection of data concerning any events that generated financial gains.

4.2. RISK MANAGEMENT

The operational risk management system is based in particular on the following:

OPERATIONAL RISK DATABASE

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

Consequently, the collection of operational risk event data allows Dexia Credit Local to comply with regulatory requirements and to obtain information it can use to improve the quality of its internal control system. Reporting guidelines have been formulated and distributed at the Dexia Credit Local group level, to ensure that important information is dispatched on in due time (the threshold for mandatory reporting is set at EUR 2,500). The Operational Risk Management (ORM) function provides the Management Board with a report of all major operational risk events, including the action plans to reduce the risks, as defined by the risk department.

RISK AND CONTROL SELF-ASSESSMENT

In addition to having historical losses, it is also necessary to identify Dexia Credit Local's exposure to the major types of operational risk through a risk-mapping of all its significant activities. This is achieved through the performance of bottom-up Risk and Control Self-Assessments (RCSA) at all group entities. The RCSAs focus above all on the identification and assessment of all major risks and controls, but they can also be used to define action plans to limit these risks. They provide an overall view of most of the risk areas in the different entities and activities, and allow results to be reported to management at every level of the organisation. RCSAs were performed in 2009 and in the first half of 2010 in every department in its Head Office and its international subsidiaries, and are performed on a regular basis.

5. LEGAL RISK

The main legal risks are described in pages 35 and 36 of Dexia Credit Local's 2009 annual report.

There were no significant changes in the first half of 2010 with the exception of a dispute concerning the group's Slovakian subsidiary, Dexia banka Slovensko. On 17 May 2010 the judge found in favour of the customer that had filed a claim against Dexia banka Slovensko for non-compliance with the law and breach of contracts. The bank has, in a first finding, been sentenced to pay EUR 138 million in principal, plus interest. Dexia banka Slovensko has appealed this decision.

Also, on 27 July 2010, the US Attorney General indicted Steven Goldberg, a former employee of FSA, and two of his former colleagues at his previous employment, in a case of concerted bids. The Attorney General has not indicted FSA or any other Dexia entity in the accusation brought against Mr Goldberg.

6. ECONOMIC CAPITAL

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

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

Dexia Credit Local had economic capital of EUR 4,902 million at 31 March 2010[1].

Credit risk accounts for approximately 72% of the utilisation of economic capital.

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

Operational risk is the third largest risk factor.

The financial resources available substantially exceed the total economic capital required by the business lines to withstand the impact of any extremely severe unexpected loss.

[1] *Data as at 30 June 2010 was not yet available at the time of this report.*

7. MAIN RISKS AND UNCERTAINTIES FOR THE COMING SIX MONTHS

The economic enviroment for Dexia Credit Local's operations is likely to remain highly uncertain in the second half of 2010. Although the global economic situation can reasonably be expected to stabilise, the pace of recovery is by no means certain at this stage and further upheavals cannot be ruled out.

The following sectors will require ongoing and particularly close risk monitoring:

- Financial products given (i) the uncertainties regarding the US economic recovery, which will have an impact on the portfolio's future credit losses, and (ii) the liquidity risk that could result from a downgrade of FSA/Assured's rating;
- ABS excluding Financial products, particularly Spanish, UK and Irish RMBS, CLO/CDO, and Triple Xs[1] ;
- The corporate sectors on which the economic crisis could have a delayed impact.

Lastly, it will be necessary to closey monitor the implementation of austerity measures and structural reforms in European countries, and particularly in Portugal, Ireland, Italy, Greece and Spain.

Overall, Dexia Credit Local's business over the coming six months could be affected by the risks and uncertainties similar to those described in this report for the period to 30 June 2010. In particular, further tensions in the interbank market and a slower-than-expected economic recovery could have a negative impact on Dexia Credit Local's situation.

[1] *Securitisation of insurance companies' surplus regulatory reserves.*

OPERATING RESULTS

1. CHANGES IN THE SCOPE OF CONSOLIDATION

The main changes in the consolidation scope of the Dexia Credit Local group since the first half of 2009 are summarised below. None of these changes had a material impact on June 30, 2010 accounts :

- On December 11, 2009, in connection with the Dexia restructuring plan, Dexia Credit Local sold its 10% stake in Crédit du Nord to Société Générale, and acquired Crédit du Nord's 20% stake in Dexia CLF Banque, owning consequently 100% of this subsidiary. No change occured on the first-half of 2010,
- Dexia Credit Local increases its stake in Dexia banka Slovensko from 85.47 % to 88.71% during the first quarter of 2010,
- Dexia Public Finance Switzerland and Dexia Habitat were deconsolidated on July 1, 2009.

2. CHANGE IN ACCOUNTING REGULATIONS

Dexia Credit Local's consolidated financial statements have been prepared in accordance with all IFRS regulations and interpretations published and endorsed by the European Commision up to the accounting closing, as discussed in the Point 1 "General basis for the preparation of the condensed consolidated financial statements" of the notes to the condensed consolidated half-year financial statements.

3. CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

3.1. HIGHLIGHTS

The economic backdrop for Dexia Credit Local's operations is likely to remain highly uncertain in the second half of 2010. Although the global economic situation can be expected to stabilise, the pace of recovery is by no means certain at this stage and further upheavals cannot be ruled out.

The significant events that have or could have an impact on the consolidated financial statements are described below.

- On 2 July 2010, the European Commission published the final decision taken on 26 February 2010 authorising the aid granted to Dexia by the Belgian, French and Luxembourg governments. This decision brought to an end the in-depth investigation carried out by the European Commission. Dexia's long-term viability was confirmed by the European Commission, which also approved Dexia's restructuring plan and acknowledged the main progresses made.
- On 30 June 2010, Dexia fully exited the State guarantee framework put in place in October 2008. The exit process was completed gradually, with Dexia waiving as from October 2009 the benefit of the guarantee for contracts with a maturity of up to one month and contracts with no fixed maturity.
  As agreed with the European Commission and given the group's improved liquidity, Dexia decided to exit the guarantee mechanism four months before the scheduled expiry date of 30 October 2010. The group therefore undertook to stop issuing guaranteed instruments for short-term (less than 12 months) funding purposes by the end of May 2010 and for all medium to long-term funding by 30 June 2010.
  All outstanding instruments issued under the government guarantee framework before 30 June 2010 continue to benefit from the government guarantee in accordance with their terms and conditions. In respect of remuneration of this guarantee, Dexia Credit Local and its subsidiaries recognised a charge of EUR 158 million in the first half of 2010 compared with EUR 104 million in the first half of 2009.
- As at 30 June 2010, the Dexia Credit Local group had raised EUR 35.2 billion of medium and long-term debt, of which EUR 23.2 billion under the guarantee framework in anticipation of the exit from the guarantee and EUR 9.6 billion in long-dated covered bonds with an average maturity of close to 9 years. Dexia has therefore almost met its 2010 long-term funding target.
- In line with the European Commission's decision, the Dexia Credit Local group has stepped up its divestment programme in recent months. Non-strategic assets totalling EUR 11 billion were sold in the first half of 2010 (of which EUR 1.1 billion to other Dexia group companies), with a negative impact of EUR 255 million (of which EUR 184 million linked to intra-group sales) on the income statement. Asset disposals totalled EUR 16.7 billion in 2009. Following the sales of FSA Holdings Ltd in July 2009 and of Crédit du Nord in December 2009, other financial shareholdings, in particular Dexia Épargne Pension, were sold in 2010.
- FSA's "Financial products" business has been retained by Dexia: Dexia FP Services LLC (formerly HF Services) is responsible for the run-off management of this activity. This activity benefits from a Belgian and

French government guarantee after the first USD 4.5 billion loss: Dexia Holdings Inc booked a charge of USD 75 million (EUR 57 million) in the first half of 2010 in respect of remuneration of this guarantee. Impairment amounting to USD 2,387 million has been recognised on the "Financial products" portfolio, of which USD 323 million (EUR 245 million) affects the results for the first half of 2010.

- Deferred and unrealised losses on the available-for-sale securities portfolio have risen significantly: at 30 June 2010 the group's share, after tax, of deferred and unrealised losses came to EUR 7,054 million compared with EUR 5,113 million at end-December 2009. The change was due mainly to the widening of spreads on sovereign debt and local authority debt in the first half of 2010.
- At a court hearing on 17 May 2010, the Bratislava district court sentenced Dexia banka Slovensko to pay EUR 138 million in connection with a claim filed by a professional customer in 2008.
  Dexia appealed this sentence on 13 July 2010 pleading that the customer's complaint and related claim are ungrounded. The appeal suspends execution of the sentence. Dexia banka Slovensko has a strong case in this dispute and will defend it vigorously in the appeal court. Moreover, Dexia SA, the parent company of Dexia Credit Local and of Dexia banka Slovensko has always supported its Slovakian subsidiary in the past to enable it to fulfil its obligations. In any case, Dexia SA will bear the financial consequences of the support provided to Dexia banka Slovensko. Dexia Credit Local and Dexia banka Slovensko have not booked a provision for this dispute in their first-half 2010 financial statements.

3.2. EARNINGS REVIEW

Consolidated net banking income in the first half of 2010 totalled EUR 253 million, down by 81.1% compared with EUR 1,340 million in the first half of 2009.

FSA-related items had contributed EUR 327 million to net banking income in 2009, as can be seen in the analysis below:

(EUR million)	1st half 2009	1st half 2010	Change	% Change
Net banking income	**1,340**	**253**	**(1,087)**	**-81.12%**
Fair value adjustment gain (loss) of own credit	(106)	7		
Fair value adjustment gain (loss) of FSA Inc.'s CDS	460	0		
FSA Inc. net income (excl. CDS) Q1-2009	72	0		
Deconsolidation of FSA Inc. and fair value adjustment of Assured shares	(99)	0		
Restated net banking income	**1,013**	**246**	**(767)**	**-75.72%**

Adjusted for these items, Dexia Credit Local's net banking income was down by 75.7%.

In 2010, net banking income was dragged down by the State guarantee mechanism (an expense of EUR 215 million for the six months to end June 2010 compared with EUR 104 million in the first half of 2009), a fall of EUR 74 million in income from SBPA products at the New York branch, and more generally, higher refinancing costs linked to the widening in spreads in 2010.

In 2010, net banking income also included non-recurring losses totalling EUR 255 million on asset disposals decided as part of the group's overall policy of reducing risk exposure.

On a consolidated basis, operating expenses (general and administrative and depreciation and amortisation) fell by 15.8% to EUR 245 million compared with EUR 291 million in the first half of 2009. This decrease reflects the cost cutting measures introduced as part of the transformation plan launched in early 2009.

Gross operating income for the first half of 2010 came to EUR 8 million compared with EUR 1,049 million in the first half of 2009. Adjusted for FSA as detailed above, gross operating profit came to EUR 1 million for the period ended 30 June 2010 compared with EUR 722 million for the first half of 2009.

The cost of risk amounted to EUR 288 million compared with EUR 436 million the previous year. It takes the following factors into account:

(EUR million)	1st half 2009	1st half 2010
Credits (loans, commitments and securities held to maturity)	(164)	(288)
Credit enhancement	(272)	0
Available-for-sale fixed-income securities	0	0
Total	**(436)**	**(288)**

In 2010, it comprises in particular a charge of EUR 290 million on the Financial products portfolio.

Corporate income tax was positive in an amount of EUR 91 million. It included a tax gain of EUR 119 million linked to the reversal of impairment of deferred tax assets at Dexia FP Holdings Inc.

For the half-year ended 30 June 2010, the net loss attributable to the equity holders of the parent was EUR 190 million compared with net income of EUR 304 million for the same period in 2009.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

	Assets (EUR Millions)	At June 30, 2009	At december 31, 2009	At June 30, 2010
I.	Cash, central banks and postal checking accounts	783	901	499
II.	Financial assets at fair value through profit or loss	17 563	13 472	19 270
III.	Hedging derivatives	5 943	8 820	12 060
IV.	Financial assets available for sale	51 649	47 617	44 357
V.	Interbank loans and advances	28 061	26 796	22 020
VI.	Customer loans and advances	239 295	239 198	250 309
VII.	Fair value revaluation of portfolio hedge	1 588	1 788	3 198
VIII.	Financial assets held to maturity	1 000	973	914
IX.	Current tax assets	47	78	63
X.	Deferred tax assets	2 402	1 968	2 294
XI.	Accruals and other assets	18 761	17 888	26 529
XII.	Non current assets held for sale	0	0	0
XIII.	Investments in associates	255	0	0
XIV.	Investment property	0	0	0
XV.	Tangible fixed assets	498	500	528
XVI.	Intangible assets	71	66	62
XVII.	Goodwill	206	200	200
	Total assets	368 122	360 265	382 303

	Liabilities (EUR Millions)	At June 30, 2009	At december 31, 2009	At June 30, 2010
I.	Central banks and postal checking accounts	37 904	28 491	21 728
II.	Financial liabilities at fair value through profit or loss	17 998	15 615	22 709
III.	Hedging derivatives	18 257	21 487	31 046
IV.	Interbank loans and deposits	71 904	76 947	74 969
V.	Customer borrowings and deposits	16 497	13 967	15 728
VI.	Debt securities	191 516	190 896	203 634
VII.	Fair value revaluation of portfolio hedge	1 734	1 884	2 921
VIII.	Current tax liabilities	176	127	56
IX.	Deferred tax liabilities	20	5	1
X.	Accruals and other liabilities	7 107	4 462	5 103
XI.	Liabilities included in disposal groups held for sale	0	0	0
XII.	Technical provisions of insurance companies	0	0	0
XIII.	Provisions	204	263	289
XIV.	Subordinated debt	4 878	4 846	5 143
XV.	Equity	(73)	1 275	(1 024)
XVI.	Equity, group share	(394)	918	(1 214)
XVII.	Capital stock and additional paid-in capital	2 062	2 062	2 062
XVIII.	Reserves and retained earnings	4 460	4 453	4 719
XIX.	Unrealized or deferred gains and losses	(7 220)	(5 866)	(7 805)
XX.	Net income	304	269	(190)
XXI.	Minority interests	321	357	190
	TOTAL LIABILITIES	368 122	360 265	382 303

CONSOLIDATED INCOME STATEMENT

	(EUR Millions)	Half-Year 2009	Year 2009	Half-Year 2010
I.	Interest income	18 724	32 297	12 463
II.	Interest expense	(17 829)	(30 999)	(12 059)
III.	Fee and commission income	76	149	78
IV.	Fee and commission expense	(23)	(41)	(24)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	338	337	37
VI.	Net gains (losses) on financial assets available for sale	31	81	(230)
VII.	Other income (1)	46	65	27
VIII.	Other expense (1)	(23)	(37)	(39)
IX.	NET BANKING INCOME	1 340	1 852	253
X.	Operating expense	(264)	(502)	(221)
XI.	Depreciation, amortization and impairment of tangible and intangible assets	(27)	(52)	(24)
XII.	GROSS OPERATING INCOME	1 049	1 298	8
XIII.	Cost of risk	(436)	(630)	(288)
XIV.	OPERATING INCOME	613	668	(280)
XV.	Income (losses) from associates	(6)	(1)	0
XVI.	Net gains (losses) on other assets	(99)	(102)	0
XVII.	Impairment of goodwill	0	(6)	0
XVIII.	INCOME BEFORE INCOME TAX	508	559	(280)
XIX.	Income tax	(154)	(239)	91
XXI.	NET INCOME	354	320	(189)
XXII.	Minority interests	50	51	1
XXIII.	NET INCOME, GROUP SHARE	304	269	(190)
	Earning per share, Group share			
	- Basic (in EUR)	3,49	3,09	-2,18
	- Diluted (in EUR)	3,49	3,09	-2,18

(1) including technical margin of insurance companies	25	25	0

NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY

(EUR Millions)		Half-Year 2009	Year 2009	Half-Year 2010
I.	Net income	354	320	(189)
II.	Translation adjustments	12	19	61
III.	Unrealised or deferred gains and losses of financial assets available for sale	1 274	3 039	(2 188)
IV.	Unrealised or deferred gains and losses of cash flow hedges	467	502	(109)
VII.	Unrealised or deferred gains and losses of associates	30	30	0
VIII.	Taxes (1)	(322)	(736)	131
IX.	Total of unrealised or deferred gains and losses through equity	1 461	2 854	(2 105)
X.	Net income and unrealised or deferred gains and losses through equity	1 815	3 174	(2 294)
XI.	Of which, group share	1 705	3 024	(2 130)
XII.	Of which, minority interests	110	150	(164)

(1) Following the publication of July IFRIC decision on deferred taxes on unrealised or deferred gains and losses, an amount of EUR 0.4 billion deferred taxes, mainly on available for sale reserve, can no longer be recognised and has been reversed. In consequence, "Unrealised or deferred gains and losses" and "Deferred tax assets" were reduced of this amount.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Core 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	**Equity, Group share**	Core equity	Unrealised or deferred gains and losses	Total	**Equity**
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 equity			0	877			877	**877**		49	49	**926**
- Changes in fair value of derivatives through 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	0	14	**22**
At June 30, 2009	**2 062**	**4 764**	**6 826**	**(6 448)**	**(648)**	**(124)**	**(7 220)**	**(394)**	**531**	**(210)**	**321**	**(73)**
Movements during the period												
- Changes in capital	0	0	0				0	**0**	0		0	**0**
- Changes in additional paid-in capital	0	0	0				0	**0**	0		0	**0**
- Dividends		0	0				0	**0**	0		0	**0**
- Translation adjustments			0	134	27	5	166	**166**		7	7	**173**
- Changes in fair value of financial assets available for sale through equity			0	617			617	**617**		(26)	(26)	**591**
- Changes in fair value of derivatives through equity			0		(11)		(11)	**(11)**		7	7	**(4)**
- Changes in fair value of financial assets available for sale through profit or loss			0	584			584	**584**		53	53	**637**
- Changes in fair value of derivatives through profit or loss			0		(2)		(2)	**(2)**		0	0	**(2)**
- Net income for the period		(35)	(35)				0	**(35)**	1		1	**(34)**
- Other movements	0	(7)	(7)	0	0	0	0	**(7)**	(6)	0	(6)	**(13)**
At December 31, 2009	**2 062**	**4 722**	**6 784**	**(5 113)**	**(634)**	**(119)**	**(5 866)**	**918**	**526**	**(169)**	**357**	**1 275**
Movements during the period												
- Changes in capital	0	0	0				0	**0**	0		0	**0**
- Changes in additional paid-in capital	0	0	0				0	**0**	0		0	**0**
- Dividends		0	0				0	**0**	(6)		(6)	**(6)**
- Translation adjustments			0	(625)	(69)	69	(625)	**(625)**		(8)	(8)	**(633)**
- Changes in fair value of financial assets available for sale through equity (1)			0	(1 741)			(1 741)	**(1 741)**		(185)	(185)	**(1 926)**
- Changes in fair value of derivatives through equity (1)			0		5		5	**5**		(3)	(3)	**2**
- Changes in fair value of financial assets available for sale through profit or loss			0	425			425	**425**		30	30	**455**
- Changes in fair value of derivatives through profit or loss			0		(3)		(3)	**(3)**		0	0	**(3)**
- Net income for the period		(190)	(190)				0	**(190)**	1		1	**(189)**
- Other movements	0	(3)	(3)	0	0	0	0	**(3)**	4	0	4	**1**
At June 30, 2010	**2 062**	**4 529**	**6 591**	**(7 054)**	**(701)**	**(50)**	**(7 805)**	**(1 214)**	**525**	**(335)**	**190**	**(1 024)**

(1) Following the publication of July IFRIC decision on deferred taxes on unrealised or deferred gains and losses, an amount of EUR 0.4 billion deferred taxes, mainly on available for sale reserve, can no longer be recognised and has been reversed. In consequence, "Unrealised or deferred gains and losses" and "Deferred tax assets" were reduced of this amount.

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.

CONSOLIDATED CASH FLOW STATEMENT

(EUR Millions)	At June 30, 2009	At december 31, 2009	At June 30, 2010
Cash flow from operating activities			
Net income	354	320	(189)
Adjustements for:			
- Depreciation, amortization and other impairment	50	91	40
- Impairment on bonds, equities, loans and other assets	194	288	288
- Net gains on investments	92	(50)	40
- Changes in provisions	244	301	(90)
- Unrealized gains and losses	(4)	(8)	(10)
- Income from associates	(8)	1	0
- Dividends from associates	14	14	0
- Deferred taxes	57	70	(177)
- Other adjustments	0	1	0
Changes in operating assets and liabilities	(9 851)	(10 550)	4 143
Net cash provided (used) by operating activities	**(8 858)**	**(9 522)**	**4 045**
Cash flow from investing activities			
Purchases of fixed assets	(29)	(72)	(67)
Sales of fixed assets	5	12	9
Acquisitions of unconsolidated equity shares	(30)	(44)	(17)
Sales of unconsolidated equity shares	25	448	16
Acquisitions of subsidiaries	(9)	(24)	0
Sales of subsidiaries	0	371	0
Net cash provided (used) by operating activities	**(38)**	**691**	**(59)**
Cash flow from financing activities			
Issuance of new shares	1	1	0
Reimbursement of capital	0	0	0
Issuance of subordinated debt	0	0	0
Reimbursement of subordinated debt	(88)	(93)	(18)
Purchases of treasury stock	0	0	0
Sales of treasury stock	0	0	0
Dividends paid	0	0	(6)
Net cash provided (used) by financing activities	**(87)**	**(92)**	**(24)**
Net cash provided	**(8 983)**	**(8 923)**	**3 962**
Cash and cash equivalents at the beginning of the period	**41 574**	**41 574**	**32 378**
Cash flow provided (used) by operating activities	(8 858)	(9 522)	4 045
Cash flow provided (used) by investing activities	(38)	691	(59)
Cash flow provided (used) by financing activities	(87)	(92)	(24)
Effect of exchange rate changes and changes in scope of consolidation on cash and cash equivalents	327	(273)	1 235
Cash and cash equivalents at the end of the period	**32 918**	**32 378**	**37 575**
Additional information			
Income tax paid	(146)	(274)	(142)
Dividends received	19	21	6
Interest received	21 811	35 563	13 108
Interest paid	(20 449)	(33 617)	(12 594)

NOTES TO THE CONDENSED CONSOLIDATED HALF-YEAR FINANCIAL STATEMENTS

1. GENERAL BASIS FOR THE PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Dexia Crédit 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.

All the accounting policies and methods used for presentation and valuation are set out in Note 7 – Accounting policies and valuation methods.

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.

Estimates and assumptions are used primarily in the following areas:

- Estimation of the recoverable amount of impaired assets and assessment of impairment of financial assets;
- Determination of the fair value of non-listed assets;
- Determination of the useful life and residual value of property, plant and equipment, investment property and intangible assets;
- Actuarial assumptions relating to the valuation of obligations arising from post-employment benefits and pension plan assets;
- Estimation of present obligations resulting from past events in accounting of provisions;
- Estimation of future taxable income for valuing and accounting for deferred tax assets;
- Estimation of the recoverable amount of cash generating units for the calculation of goodwill impairment.

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.

2. CHANGES IN THE CONSOLIDATION SCOPE

The main changes in the consolidation scope of the Dexia Credit Local group since the first half of 2009 are summarised below. None of these changes had a material impact on June 30, 2010 accounts :

- On December 11, 2009, in connection with the Dexia group's restructuring plan, Dexia Crédit Local sold its 10% stake in Crédit du Nord to Société Générale, and acquired Crédit du Nord's 20% stake in Dexia CLF Banque, owning consequently 100% of this subsidiary. No change occured on the first-half of 2010,
- Dexia Crédit Local increases its stake in Dexia banka Slovensko from 85.47 % to 88.71% during the first quarter of 2010,
- Dexia Public Finance Switzerland and Dexia Habitat were deconsolidated on July 1, 2009.

The list of companies included in the consolidation scope at 31 December 2009 is provided in the 2009 Annual report (paragraph 1.2, pages 104 to 109).

3. HIGHLIGHTS

The economic backdrop for Dexia Crédit Local's operations is likely to remain highly uncertain in the second half of 2010. Although the global economic situation can reasonably be expected to stabilise, the pace of recovery is by no means certain at this stage and further upheavals cannot be ruled out.

The significant events that have or could have an impact on the consolidated financial statements are described below.

- On 2 July 2010, the European Commission published the final decision taken on 26 February 2010 authorising the aid granted to Dexia by the Belgian, French and Luxembourg governments. This decision brought to an end the in-depth investigation carried out by the European Commission. Dexia's long-term viability was confirmed by the European Commission, which also approved Dexia's restructuring plan and acknowledged the main progresses made.
- On 30 June 2010, Dexia fully exited the State guarantee framework put in place in October 2008. The exit process was completed gradually, with Dexia waiving, as from October 2009, the benefit of the guarantee for contracts with a maturity of up to one month and contracts with no fixed maturity.
  As agreed with the European Commission and given the group's improved liquidity, Dexia decided to exit the guarantee mechanism four months before the scheduled expiry date of 30 October 2010. The group therefore undertook to stop issuing guaranteed instruments for short-term (less than 12 months) funding purposes by the end of May 2010 and for all medium to long-term funding by 30 June 2010.
  All outstanding instruments issued under the government guarantee framework before 30 June 2010 continue to benefit from the government guarantee in accordance with their terms and conditions. In respect of remuneration of this guarantee, Dexia Crédit Local and its subsidiaries recognised a charge of EUR 158 million in the first half of 2010 compared with EUR 104 million in the first half of 2009.
- As at 30 June 2010, the Dexia Credit Local group had raised EUR 35.2 billion of medium and long-term debt, of which EUR 23.2 billion under the guarantee framework in anticipation of the exit from the guarantee and EUR 9.6 billion in long-dated covered bonds with an average maturity of close to 9 years. Dexia has therefore almost met its 2010 long-term funding target.
- In line with the European Commission's decision, the Dexia Credit Local group has stepped up its divestment programme in recent months. Non-strategic assets totalling EUR 11 billion were sold in the first half of 2010 (of which EUR 1.1 billion to other Dexia group companies), with a negative impact of EUR 255 million (of which EUR 184 million linked to intra-group sales) on the income statement. Asset disposals totalled EUR 16.7 billion in 2009. Following the sales of FSA Holdings Ltd in July 2009 and of Crédit du Nord in December 2009, other financial shareholdings, in particular Dexia Épargne Pension, were sold in 2010.
- FSA's "Financial products" business has been retained by Dexia: Dexia FP Services LLC (formerly HF Services) is responsible for the run-off management of this activity. This activity benefits from a Belgian and French government guarantee after the first USD 4.5 billion loss: Dexia Holdings Inc booked a charge of USD 75 million (EUR 57 million) in the first half of 2010 in respect of remuneration of this guarantee. Impairment amounting to USD 2,387 million has been recognised on the "Financial Products" portfolio, of which USD 323 million (EUR 245 million) affect the results for the first half of 2010.
- Deferred and unrealised losses on the available-for-sale securities portfolio have risen significantly: at 30 June 2010 the group's share, after tax, of deferred and unrealised losses came to EUR 7,054 million compared with EUR 5,113 million at end-December 2009. The change was due mainly to the widening of spreads on sovereign debt and local authority debt in the first half of 2010.
- At a court hearing on 17 May 2010, the Bratislava district court sentenced Dexia banka Slovensko to pay EUR 138 million in connection with a claim filed by a professional customer in 2008.
  Dexia appealed this sentence on 13 July 2010 pleading that the customer's complaint and related claim are ungrounded. The appeal suspends execution of the sentence. Dexia banka Slovensko has a strong case in this dispute and will defend it vigorously in the appeal court. Moreover, Dexia SA, the parent company of Dexia Crédit Local and of Dexia banka Slovensko, has always supported its Slovakian subsidiary in the past to enable it to fulfil its obligations. In all cases, Dexia SA will bear the financial consequences of the support provided to Dexia banka Slovensko. Dexia Crédit Local and Dexia banka Slovensko have not booked a provision for this dispute in their first-half 2010 financial statements.

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)	
	June		June		June		June		June		June		June	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Loans (1)	1	1	1 814	2 067	10	14	0	0	0	0	0	0	18 555	20 367
Interest income on loans	0	0	17	8	0	0	0	0	0	0	0	0	48	11
Asset disposals			0	0	0	0	0	0	0	0	0	0	0	1 051
Losses on asset disposals			0	0	0	0	0	0	0	0	0	0	0	184
Deposits	0	0	41	48	1 007	2 192	0	0	50	0	0	0	57 708	57 944
Interest expense on deposits	0	0	0	0	(20)	(22)	0	0	(1)	0	0	0	(571)	(247)
Net commissions	0	0	0	0	0	0	0	0	0	0	0	0	0	2
Guarantees issued by the group	0	0	0	0	246	200	0	0	0	0	0	0	15 676	24 555
Guarantees received by the group	0	0	214	0	0	0	0	0	0	0	0	0	3 171	1 650

(1) Loans to key management personnel were granted at general market conditions..

(2) This refers to the main shareholders of Dexia (2009 - 2010) : Arco group, 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 2009 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.

5. NOTES TO THE INCOME STATEMENTS

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

(EUR millions)	Half-Year 2009	Half-Year 2010
Net trading income	467	63
Net result of hedge accounting	5	6
Net result of financial instruments designated at fair value through profit or loss (*)	14	(33)
Change in own credit risk	(106)	7
Net result of foreign exchange transactions	(42)	(6)
Total	**338**	**37**
(*) among which trading derivatives included in a fair value option strategy	*(470)*	*167*

Analysis of Net result of hedge accounting

(EUR millions)	Half-Year 2009	Half-Year 2010
Fair value hedges	**3**	**8**
Fair value changes of the hedged item attributable to the hedged risk	(5 724)	6 735
Fair value changes of the hedging derivatives	5 727	(6 727)
Cash flow hedges	**1**	**0**
Fair value changes of the hedging derivatives – ineffective portion	0	0
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	1	0
Hedges of net investments in a foreign operation	**0**	**0**
Fair value changes of the hedging derivatives – ineffective portion	0	0
Portfolio hedge	**1**	**(2)**
Fair value changes of the hedged item	(995)	493
Fair value changes of the hedging derivatives	996	(495)
Total	**5**	**6**

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**	**4**

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

(EUR millions)	**Half-Year 2009**	**Half-Year 2010**
Dividends on securities available for sale	5	6
Net gains (losses) on disposals of loans and securities available for sale [1]	(11)	(252)
Impairment of variable-income securities available for sale	(8)	(1)
Net gains (losses) on disposals of securities held to maturity	0	0
Net gains (losses) on disposals of debt securities	45	17
Total	**31**	**(230)**

[1] In 2010, the net gains (losses) on disposals of loans and securities available for sale mainly include losses on asset disposals made in connection with the policy of reducing the group's overall exposure for EUR - 255 million (of which EUR -184 million with other entities of Dexia group).

Operating expense
(item X. of income statement)

(EUR millions)	**Half-Year 2009**	**Half-Year 2010**
Payroll costs	(153)	(150)
General and administrative expense	(104)	(71)
Deferred acquisition costs	(7)	0
Total	**(264)**	**(221)**

General and administrative expense reflect the cost cutting plan implemented by the group in late 2008.

Cost of risk
(item XIII. of income statement)

	Half-Year 2009			**Half-Year 2010**		
(EUR millions)	Collective impairment	Specific impairment and losses	**TOTAL**	Collective impairment	Specific impairment and losses	**TOTAL**
Credit (loans, commitments and securities held to maturity)	42	(206)	**(164)**	88	(376)	**(288)**
Credit enhancement	0	(272)	**(272)**	0	0	**0**
Fixed-income securities available for sale		0	**0**		0	**0**
Total	**42**	**(478)**	**(436)**	**88**	**(376)**	**(288)**

The cost of risk of Dexia Credit Local group includes in 2010 a charge of EUR 290 million (USD 382 million) on the Financial Products portfolio.

6. ANALYSIS BY GEOGRAPHIC REGION AND BY LINE OF BUSINESS

Analysis by geographic region

(EUR millions)	Half-Year 2009	Half-Year 2010
Net banking income	**1 340**	**253**
Euro zone (countries employing the euro)	718	224
Rest of Europe	48	30
United States	570	25
Rest of world	4	(26)
Income (losses) from associates	**(6)**	**0**
Euro zone (countries employing the euro)	(6)	0
Rest of Europe	0	0
United States	0	0
Rest of world	0	0
Income before income tax	**508**	**(280)**
Euro zone (countries employing the euro)	421	19
Rest of Europe	40	22
United States	63	(296)
Rest of world	(16)	(25)

Analysis by line of business

The business segmentation was adapted to Dexia Credit Local's new profile and strategic directions, and is now divided in two divisions :

- the Division Core, which gathers lines of business consisting of operational activities focused on homogeneous client franchise : Public and Wholesale Banking, and Retail and Commercial Banking, as well as a third segment, named Group Center, including treasury operations and the former Central Asset segment,
- the Division Legacy portfolio management, which includes portfolios in run-off, in accordance with the European Commission decision.

The 2009 figures have been revised.

(en millions d'EUR)	Half-Year 2009	Half-Year 2010
Net banking income	**1 340**	**253**
Division Core	524	324
- Public and Wholesale Banking	454	255
- Retail and Commercial Banking	30	30
- Group Center	40	39
Division Legacy portfolio management	816	(71)
Income (losses) from associates	**(6)**	**0**
Division Core	0	0
- Public and Wholesale Banking	0	0
- Retail and Commercial Banking	0	0
- Group Center	0	0
Division Legacy portfolio management	(6)	0
Income before income tax	**508**	**(280)**
Division Core	259	100
- Public and Wholesale Banking	268	93
- Retail and Commercial Banking	5	4
- Group Center	(14)	3
Division Legacy portfolio management	249	(380)

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 2009 (paragraph 1.3, pages from 109 to 121).

Changes in accounting policies since the previous annual publication that may impact Dexia Credit Local :

IASB and IFRIC texts endorsed by the European Commission and applied as from January 1, 2010

The following standards, interpretations or amendments have been endorsed by the European Commission and are applied as from January 1, 2010 :

- Improvements made in 2009 to IFRS and IAS, a series of amendments to IFRS applied as from January 1, 2010, with no impact on the financial statements of Dexia Credit Local.
- Amendments to IFRS 2 "Share-based Payment" "Group Cash-settled Share-based Payment Transactions", applied as from January 1, 2010. These amendments aim to clarify the scope of IFRS 2, and have no impact on the financial statements of Dexia Credit Local.
- Revised IFRS 1 "First-Time adoption of International Financial Reporting Standards", which replaces the standard as issued in June 2003. This text is applied as from January 1, 2010. The revision of this standard has no impact on Dexia Credit Local financial statements, which is not a first-time adopter anymore.
- Amendments to IFRS 1 "Additional Exemptions for First-time Adopters", applied as from January 1, 2010. The revision of this standard has no impact on Dexia Credit Local financial statements, which is not a first-time adopter anymore.
- Revised IFRS 3 "Business combinations", which replaces the standard as issued in 2004 and is applied as from January 1, 2010. The main changes relate to acquisition-related costs, step-acquisitions, non-controlling interests in an acquired entity and treatment of contingent considerations. There is no impact for Dexia Credit Local because there were recently no business combinations.
- Revised IAS 27 Consolidated and Separate Financial Statements, which is applied as from January 1, 2010. The main changes introduced by the revision of this standard are linked to the changes in a parent's controlling ownership of a subsidiary. This text is closely related to the revision of IFRS 3: Business Combinations. There is no impact for Dexia Credit Local because there were recently no business combinations.
- Amendment to IAS 39 "Financial instruments: Recognition and Measurement: Eligible Hedged Items" which is applied as from January 1, 2010. This amendment has no impact on the financial statements of Dexia Credit Local.
- Amendments to "IFRS 5 Non-current Assets held for Sale and Discontinued Operations" within the improvements made in 2008 to IFRS and IAS, which is applied as from January 1, 2010. There is no impact for Dexia Credit Local.
- IFRIC 12 "Service Concession Arrangements", which is applied as from January 1, 2010, and has no impact on the financial statements of Dexia Credit Local.
- IFRIC 15 "Agreements for the construction of Real Estate", applied as from January 1, 2010. This interpretation has no impact on Dexia Credit Local financial statements.
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", applied as from January 1, 2010, and has no impact on Dexia Credit Local financial statements.
- IFRIC 17 "Distributions of non-cash assets to owners", applied as from January 1, 2010. This interpretation has no impact on Dexia Credit Local.
- IFRIC 18 "Transfers of assets from customers", applied as from January 1, 2010. This interpretation has no impact on Dexia Credit Local.

IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from 1 January 2010

There is no text endorsed by the European Commission during the current year that is applicable for reporting periods beginning on or after January 1, 2010.

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

- Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for first time adopters", applicable for reporting periods beginning on or after January 1, 2011. This amendment has no impact on Dexia Credit Local financial statements, which is not a first-time adopter anymore.
- "Improvements to IFRSs" (issued by IASB in May 2010), which are a collection of amendments to existing International Financial Reporting Standards applicable for reporting periods beginning on or after January 1, 2011. The impact of this amendments on Dexia Credit Local is currently being assessed.

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

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

hereby declare 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 main risks and uncertainties concerning the remaining six months of the fiscal year.

La Défense, 9 August 2010

Pascal POUPELLE
Chief Executive Officer

STATUTORY AUDITORS' REVIEW REPORT ON THE INTERIM FINANCIAL INFORMATION FOR THE PERIOD FROM JANUARY 1, 2010 TO JUNE 30, 2010

(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, 2010 to June 30, 2010;
- 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, 2010 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 9, 2010

The statutory auditors

French original signed by

Mazars

Hervé HELIAS Virginie CHAUVIN

Deloitte & Associés

José Luis GARCIA