HALF-YEAR FINANCIAL REPORT

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HALF-YEAR BUSINESS REPORT

BUSINESS REVIEW

1. OVERVIEW

The first half of 2011 saw the active continuation within Dexia Crédit Local of the Dexia Group's transformation plan. In accordance with its commitments to the European Commission, Dexia Crédit Local disposed of its 88.71% holding in Dexia banka Slovensko on 31 March 2011. In the same way, Dexia Crédit Local Tokyo returned its banking licence to the local regulators at the end of June 2011 in the first stage of a liquidation process scheduled for completion by the end of the year. With regard to Dexia Crédit Local, the announcement made on 27 May 2011 by the Dexia Group regarding the disposal of its non-strategic assets resulted in the business of Dexia Financial Products being withdrawn from the consolidation scope for the first half of the year, and in the identification of a portfolio of EUR 13 billion of assets destined to be disposed of within a period of 12 months (see consolidated financial statements). Together, these actions have contributed to improving Dexia Crédit Local's risk profile and to its strategic refocusing.

In the Public and Wholesale Banking business line, the commercial policy in terms of new lending is highly selective and focuses on the two strategic franchises of public banking in France and project finance. These two areas accounted for EUR 2 billion in new commitments, compared with EUR 3.5 billion for the first half of 2010. The second explanatory factor for this reduction was the relatively low level of demand recorded during the first half of the year. At 30 June 2011, the Dexia Crédit Local Group had total outstanding long-term PWB commitments of EUR 173 billion, down 4% over the first two quarters. Despite this limited output, the Group's commercial performance and cross-selling capabilities are very much heading in the right direction, as can be seen from the good results in terms of deposits and insurance broking, as well as the major role played by Dexia Crédit Local in arranging funding for major infrastructure projects.

Furthermore, following the decision taken by the European Commission, a Legacy Division was identified, pooling all of the activities from which the Group is actively disengaging itself or being managed in run-off. More specifically, this includes former PWB loans to non-strategic markets and the entire bond portfolio. Total exposure at 30 June 2011 amounted to EUR 87.8 billion, including EUR 22 billion in loans and EUR 65.8 billion in bonds.

On the liabilities side of the balance sheet and despite a difficult market environment, Dexia Crédit Local implemented a long-term wholesale funding strategy consisting of optimising its covered bond vehicles and developing its other means of secured funding, while taking an opportunistic approach to senior funding. In total, the Group succeeded in raising EUR 14.5 billion over the first half of the year, which corresponds to the majority of its annual requirement in long-term resources.

DETAIL BY LOCATION

A. FRANCE: DEVELOPMENT OF DIVERSIFICATION ACTIVITIES

Dexia Crédit Local continues to diversify across its Public and Wholesale Banking customer base (statutory insurance, investments, CESU-type employment cheques, long-term vehicle leasing, etc.). Deposits generated on cash management products resulted in a 30% growth in outstandings. New commitments at 30 June 2011 were EUR 1.3 billion, which was down in comparison with the volume committed over the same period in 2010, which itself was marked by the implementation of the majority of the exceptional EUR 600 million spending package associated with the Building and Public Works recovery plan (BTP). To comply with its balance sheet equilibrium requirements, Dexia Crédit Local opted to be more selective in its new commitments and to guide its customers through the overall coverage of their needs upstream by providing financial expertise and downstream via an extended range of services. Dexia Crédit Local's total commitments were down 5% year on year to EUR 82.6 billion.

B. INTERNATIONAL

Germany: key role in the funding of the Dexia Group

In Germany, Dexia Kommunalbank Deutschland is one of the cornerstones for funding the Dexia Group through the issue of *Pfandbriefe-type* covered bonds using regular transfers of assets originated in the Group's other "core" countries. As a result, by the end of the first half of 2011, Dexia Kommunalbank Deutschland had issued over EUR 2.2 billion of long-term secured bonds.

In a highly complementary way, during 2010 the subsidiary introduced a business for accepting deposits based on innovative products already being used in other Group entities. The results have been very encouraging and by 30 June 2011, more than EUR 2 billion had been collected since the business was launched.

North America (United States and Canada): refocusing of business

Following the beginning of its run-off phase, the public finance business has focused on managing the existing portfolio, with the particular aim of improving its cash position. From now on, any new commercial ventures operated by the entities in North America will focus exclusively on project finance.

United Kingdom: reorganisation and refocusing of commercial strategy

All of the assets held by the branch of Dexia Crédit Local in the United Kingdom were transferred to Dexia Crédit Local Paris and the branch itself was closed on 31 March 2011. Some of the staff was transferred to a new structure, Dexia Management Services, which will maintain a solely commercial business activity focused on managing the existing outstandings of Dexia Crédit Local with its customer base in the United Kingdom and funding projects, with any new assets originated being originated in the books of Dexia Crédit Local Paris.

Iberian Peninsula: commercial franchise maintained

In an economic environment made more complex by the sovereign debt crisis, Dexia Sabadell confirmed its role in the local funding market with almost EUR 330 million of long-term public finance commitments, while at the same time applying a selective commercial policy aimed at making the best possible use of the resources available.

At the same time, the debt restructuring activity remained strong. The total volume of assets restructured during the first half of 2011 came to EUR 0.7 billion, which was stable compared with 1st half 2010, which itself was up sharply over 1st half 2009.

These results show the quality of the Dexia Sabadell commercial franchise, which is faring well in a constrained economic environment.

Italy: consolidation of the business

In 2011, Italian public sector borrowing was limited in the light of the constraints on debt levels imposed by the State. Dexia Crediop was still able to further its two year-old strategy of expanding its range of products and services by continuing to market its deposits and short-term financing activities.

As a result, Dexia Crediop carried out a significant volume of short-term finance transactions, primarily by acquiring some EUR 197 million in healthcare sector-related receivables during the first half of the year. The long-term funding market continued to be dominated by the Cassa dei Depositi e Prestiti (State institution).

Like every other Dexia Group entity, Dexia Crediop focused on improving its liquidity position by identifying and diversifying its local sources of funding and selling off non-strategic assets. The turnaround initiatives begun in 2010 (in particular the disposal of more than EUR 1.6 billion of assets) have come to fruition. A total of EUR 667 million in medium-term and long-term funding was sourced during the first half of 2011, along with nearly EUR 200 million in commercial deposits, which were considerably higher year on year.

Israel: disposal process underway

At the Dexia Group's Shareholders' Meeting of 11 May 2011, Jean-Luc Dehaene reiterated the Group's wish to separate from Dexia Israel over a period of time. He also announced that the Group had appointed a consulting bank for the purpose of examining the offers already received. In the first half of 2011, Dexia Israel maintained its position as the bank of reference for local governments, as well as its autonomy in terms of funding.

Slovakia: finalisation of the disposal

As part of its commitments to the European Commission in February 2010, on 31 March 2011 Dexia Crédit Local sold its 88.71% stake in Dexia banka Slovensko to Penta Investments Limited, a group of private Slovak investors.

C. ENTITIES IN RUN-OFF

Australia

In line with the decisions taken in 2010, all of the assets of DCL Asia Pacific were transferred to Dexia Crédit Local in Paris or to the New York branch, and the liquidation process began on 29 May 2011. Given the statutory periods for liquidation in Australia, the entity is scheduled to be dissolved during the first quarter of 2012.

Central and Eastern Europe

The various entities in Central and Eastern Europe have ceased all commercial activity. Existing outstanding loans, which have already been transferred to the information systems of Dexia Crédit Local Paris, are being managed by smaller local teams and coordinated from Vienna. The first half of 2011 was spent on continuing the various programmes to reduce the balance sheet, with particular focus on Czech assets, aimed at closing down the local entity quickly. Overall, outstandings were reduced by over 12.4% during the first half of 2011.

Japan

The Dexia transformation plan approved by the European Commission resulted in the decision to close the branch in Japan. During the first half of 2011, Dexia Crédit Local Tokyo succeeded in selling all of its assets to third parties or transferring them to other entities within the Group. This enabled Dexia Crédit Local Tokyo to return its banking licence to the local regulators at the end of June 2011. This was the first stage of the liquidation process scheduled to be completed by the end of the year.

Mexico

The local structure is now used only to carry the assets still on the balance sheet, the management of which has been transferred to Dexia Crédit Local New York branch.

2. PUBLIC AND WHOLESALE BANKING (PWB)

The level of new long-term lending was deliberately kept limited. At the end of June 2011, total new long-term lending amounted to EUR 2 billion (EUR 3.5 billion for the first half of 2010), 67% of which in France. In other countries, new lending was kept at relatively low levels, reflecting the selective strategy applied to new commitments.

At 30 June 2011, outstanding long-term loans in the Core Market were down by 6.5% compared with 30 June 2010, at EUR 173 billion. Outstandings were virtually stable for the Iberian Peninsula (-2%), with the main decreases in North America (-17%) and the United Kingdom (-14%), which reflected the reduction in new lending since the end of 2008.

PWB outstandings in run-off *(*Legacy PWB*)* were down sharply (-44%) at EUR 22 billion. The main declines were recorded in the United States (EUR -12.5 billion), due mainly to the impairment recognised on the portfolio, and in Japan (EUR -3.5 billion), where the entire loan portfolio was sold off to third parties. Total outstanding loans on the Bank's international operations managed from Head Office (International Headquarters) increased, as the loan portfolio transferred from the Australian entity is now recognised by the International Headquarters. There was no new lending in the Legacy PWB portfolio.

Public and Wholesale Banking

(EUR millions)	Outstanding long-term loans			New long-term lending		
	30/06/2010	**30/06/2011**	**Change**	**30/06/2010**	**30/06/2011**	**Change**
CORE MARKETS	**184 722**	**172 703**	**-6.5%**	**3 526**	**1 965**	**-44%**
o.w. Local Public Sector	155 763	146 752	-6%	2 720	1 259	-54%
o.w. Project Finance	28 959	25 951	-10%	806	706	-12%
France	87 408	82 617	-5%	2 033	1 315	-35%
Italy	35 015	32 599	-7%	211	102	-52%
United States and Canada (excluding SBPA)	7 723	6 414	- 17%	157	38	-76%
Iberian Peninsula (Spain and Portugal)	17 365	17 025	-2%	949	412	-57%
Germany	22 686	21 289	-6%	0	0	-
United Kingdom	13 479	11 640	- 14%	110	34	-69%
Israel	1 046	1 119	+7%	66	64	-4%
LEGACY PWB PORTFOLIO	**39 606**	**22 189**	**-44%**	**0**	**0**	**-**
Japan	3 477	0	-100%	0	0	-
International headquarters (*Public Banking*)	7 816	7 949	+2%	0	0	–
Central and Eastern Europe	2 016	1 674	-17%		0	-
Australia	1 176	0	-100%	0	0	–
Mexico	1 349	1 220	-10%	0	0	–
United States (SBPA)	23 772	11 346	-52%	0	0	–
TOTAL DEXIA CRÉDIT LOCAL	**224 328**	**194 892**	**-13%**	**3 526**	**1 965**	**-44%**

2.1. LOCAL PUBLIC SECTOR

New commitments to the local public sector were down 54% compared with June 2010, at EUR 1,259 million. This sharp fall reflects a greater level of selectivity on the part of Dexia as well as general lifelessness in the market, particularly in the first quarter.

As a result, there was a decrease in outstanding long-term loans, which were at EUR 146.8 billion, down 6% compared with 30 June 2010.

Local public sector

(EUR millions)	Outstanding long-term loans			New long-term lending		
	30/06/2010	30/06/2011	Change	30/06/2010	30/06/2011	Change
CORE MARKETS	**155 763**	**146 752**	**-6%**	**2 720**	**1 259**	**-54%**
France	76 555	73 178	-4%	1 743	868	-50%
Iberian Peninsula (Spain and Portugal)	13 153	12 914	-2%	755	327	-57%
Israel	1 046	1 119	+7%	67	64	-4%
Italy	30 088	27 566	-8%	155	0	-100%
United States and Canada (excluding SBPA)	3 382	2 667	-21%	0	0	-
Germany	22 038	20 812	-6%	0	0	-
United Kingdom	9 501	8 496	-11%	0	0	-

BUSINESS REVIEW BY LOCATION

a. France

Total new lending to the public sector at 30 June 2011 (EUR 868 million) was 50% lower than at the end of the first half of 2010. Total outstanding loans (EUR 73 billion) also fell (by 4%) compared with 30 June 2010.

At 30 June 2011, total new lending to local governments amounted to EUR 412 million (down 65% on June 2010). Total outstanding loans to local authorities continued the decline that first began in 2010, falling another 4% to EUR 46 billion.

Total new lending to other segments of the local public sector market fell 21% year on year to EUR 456 million during the first half of 2011: 56% of this was carried out with funding provided by the Caisse des Dépôts (after being classified as PLS-type loans to promote affordable rental housing) and the European Investment Bank (EIB) or under the terms of the protocol signed by the representative trade associations of the building and public works (BTP) industry. Total outstanding loans to these markets, EUR 21.8 billion at 30 June 2011, were stable (-1%) year-on-year:

- total new lending to the healthcare sector declined by 8% year on year to EUR 210 million, of which 72% was funded with EIB or PLS resources. Total outstanding loans were stable year on year (+0.5%) at EUR 10.4 billion.
- total new lending to the social public housing and urban development sector fell 46% year on year to EUR 164 million, of which 63% was funded using PLS, BTP or EIB resources. Total outstanding loans at 30 June 2011 were stable year on year, at EUR 9.1 billion.

The total volume of debt restructured at 30 June 2011 amounted to EUR 2.1 billion, down 5.5% from the previous year.

b. Spain

Total outstanding loans were virtually stable year on year (-2%) at EUR 12.9 billion, while total new lending fell 57% year on year to EUR 327 million at 30 June 2011.

c. Italy

Outstanding loans (EUR 27.6 billion) fell significantly (-8%) year on year, as new long-term lending remained very low.

d. Israel

New lending fell slightly to EUR 64 million.

2.2. PROJECT FINANCE

Dexia Crédit Local signed nineteen project finance transactions during the first half of 2011. For seventeen of them, Dexia Crédit Local acted as Financial Advisor and/or Lead or Co-Lead Manager for the debt. Dexia Crédit Local arranged total project financings of almost EUR 6 billion, and took EUR 706 million, or 12% of the total, on its own books.

An analysis of originations by sector shows that 47% were for rail and road transport, 21% for traditional and renewable energy, 19% for social infrastructure under public-private partnerships (PPP), 8% for the environment and 5% for other sectors.

Finally, for the purpose of optimising and rotating its portfolio, Dexia sold a total of EUR 393 million of loans on the secondary market at a price close to par. Total outstanding long-term exposure was down 10% year on year to EUR 26 billion.

(EUR millions)	Outstanding long-term exposure			New long-term originations		
	30/06/2010	30/06/2011	Change	30/06/2010	30/06/2011	Change
CORE MARKETS	**28 959**	**25 951**	**-10%**	**806**	**706**	**-12%**
France	10 853	9 439	-13%	290	447	+54%
Italy	4 927	5 033	+2%	56	102	+81%
United States and Canada (excluding SBPA)	4 341	3 747	-14%	157	38	-75%
Iberian Peninsula (Spain and Portugal)	4 212	4 111	-2%	194	85	-56%
Germany	648	476	-27%	0	0	–
United Kingdom	3 978	3 145	-21%	109	34	-69%

BUSINESS REVIEW BY LOCATION

a. France

In the infrastructure sector, Dexia was involved in particular in two very sizeable transactions:

- a concession for the construction and operation of the high-speed train line between Tours and Bordeaux, one of the largest project finance deals ever signed;
- a public-private partnership (PPP) for the construction and maintenance of the new head office for the Ministry of Defence in Paris (Dexia also acted as the Financial Advisor to the consortium to which this PPP was given).

In the energy sector, Dexia financed the construction of a photovoltaic power generation plant on the roof of the car park at Nice Airport.

b. International

Benelux

In the Telecom sector, Dexia Crédit Local financed the acquisition by an investment fund of signal transmission towers in the Netherlands. In the infrastructure sector, Dexia Crédit Local assisted Dexia Bank Belgium on a PPP prisons project.

Italy

In the renewable energy sector, Dexia Crédit Local financed a photovoltaic power generation plant in the Campania region.

In the transport sector, Dexia Crédit Local put together the refinancing of the motorway concession linking Rome to the Adriatic Sea.

Iberian Peninsula

In the transport sector, Dexia Sabadell took part in two funding projects:

- a motorway in the region of Valencia;
- a motorway in Andalusia.

In the environment sector (water and waste), Dexia Sabadell financed three projects in Aragon, Cantabria and on the outskirts of Madrid.

North America

In the renewable energy sector, Dexia Crédit Local financed two projects in the United States:

- a wind power project in Minnesota;
- a photovoltaic project in Texas.

United Kingdom

Dexia Crédit Local arranged the PPP financing for the construction of new fire stations in the north-west of England.

2.3. DEXIA SOFAXIS

INSURANCE

The premium volume for statutory insurance policies recorded at 30 June 2011 was the result of the commercial business for 2010, which featured:

- continued pressure on rates,
- a campaign to review some policies upwards in agreement with the insurers,
- energetic prospecting for new business: EUR 20 million of new investments from new clients,
- the very low increase in local public service pay.

The overall bottom line was positive as a result of:

- an increase in the total volume of premiums collected in 2011 (estimated at over EUR 340 million) compared with the figure for 2010 (EUR 335 million),
- a new rise in the number of clients (+300 client authorities) accompanied by an increase in the number of policies managed (+1,000 policies), as well as in the number of agents insured (over 700,000 in all).

Programmes focusing on prevention, a reduction in claims and returns to work, paid for by partner insurance companies, continued to grow strongly:

- medical checks increased during the first part of 2011 (+20%), after a rise of 16% in 2010,
- return-to-work cases stabilised in the first half of 2011 after the sharp increase of 24% in 2010.

SERVICES BUSINESS

The business providing services to large public authorities continued to be highly active in areas associated with health in the workplace, the optimisation of organisations and human resources management.

During the first six months of 2011:

- EUR 5 million of offers sent out;
- EUR 1.2 million of revenue.

PUBLISERVICES BUSINESS

PubliServices, a subsidiary of Dexia Sofaxis, is the company that developed a commercial offering to meet the needs generated by the laws passed in February 2007 to modernise local public services in the areas of health, accidental death and disability and social action for public employees.

After promising results in 2010 and with legislative developments pending in the first two of these areas, the company continued to look for new business. This search came to fruition in June 2011 with the acquisition of a new departmental administrative centre for four social action groups.

3. FUNDING PROVIDED BY PUBLIC AND WHOLESALE BANKING CLIENTELE

Total deposits for the Public and Wholesale Banking business line amounted to EUR 8.2 billion at the end of June 2011, an increase of 35% compared with the end of December 2010:

- in France, total deposits were EUR 3.8 billion, an increase of 30% compared with the end of December 2010. They were broken down as follows: EUR 0.4 billion in demand deposits, EUR 1.8 billion in term deposits, EUR 1.6 billion in certificates of deposit and negotiable medium-term notes (BMTN) issued by Dexia Crédit Local and marketed by Dexia CLF Banque;

- in Germany, term deposits are growing very strongly and amounted to EUR 2 billion at the end of June 2011, an increase of 175% over the EUR 743 million recorded at the end of December 2010;

- in Israel, total deposits were down 3% from the end of December 2010 at EUR 1.4 billion, including EUR 0.4 billion in demand deposits, EUR 0.4 billion in term deposits and EUR 0.6 billion in certificates of deposit;

- in Italy, total deposits were down 3% from the end of December 2010 at EUR 0.5 billion, including EUR 0.3 billion in demand deposits and EUR 0.2 billion in term deposits;

- in the Iberian Peninsula, total deposits were up 3% from the end of December 2010 at EUR 0.4 billion, consisting entirely of term deposits;

- in the United States, total deposits (term deposits only) amounted to EUR 61 million at the end of June 2011 (EUR 69 million at the end of December 2010).

The off-balance sheet investment products credited to the Public and Wholesale Banking business line amounted to EUR 3.6 billion, an increase of 17% compared with December 2010, and included EUR 2.2 billion in Dexia Asset Management products (Sicav-type investment companies, mutual funds, etc.) and EUR 1.4 billion in certificates of deposit and medium-term notes issued by investors other than Dexia Crédit Local.

4. LONG-TERM FUNDING

Senior debt (EUR millions)	**New issues in 1st half 2010**	**New issues in 1st half 2011**
France		
Dexia Municipal Agency	5 361	6 102
Dexia Crédit Local	18 136	4 132
Italy		
Dexia Crediop	927	579
Germany		
Dexia Kommunalbank Deutschland	4 317	2 300
USA		
Dexia Crédit Local – New York branch	6 501	1 379
TOTAL	**35 242**	**14 492***

**The fall in long-term financing compared with 2010 is explained by the cessation of State-guaranteed financing at the end of June 2010. In fact, at 30 June 2010, the level of State-guaranteed issues came to EUR 23.2 billion.*

As was the case in 2010, market conditions remained difficult during the first half of 2011. Continued developments in sovereign debt, discussions about the introduction of new regulations and "bail in" strategies in the European banking sector had an impact on the primary bond markets. Overall, this backdrop led investors to view senior issues with greater caution, placing the spreads for these instruments under pressure. At the same time, issuers increased their recourse to funding by covered bonds offering more attractive spreads and a growing investor base.

Under these conditions, the Dexia Group implemented its wholesale long-term funding strategy, which consists of optimising the use of covered bond vehicles and expanding other sources of secured funding, while also taking an opportunistic approach to senior funding. At 30 June 2011, the Dexia Group had issued a total of EUR 18.7 billion, enabling it to meet its annual requirements to a large extent. The Dexia Crédit Local Group represented the majority of this funding, with EUR 14.5 billion.

Covered bond issues

1st half 2011	Dexia Municipal Agency	Dexia Kommunalbank Deutschland	Dexia Crédit Local (consolidated)
Amount	EUR 6,102 million	EUR 2,252 million	EUR 8,354 million
Average maturity	8.4 years	5.1 years	7.5 years

Dexia Municipal Agency and Dexia Kommunalbank Deutschland, the two covered bond funding vehicles of the Dexia Crédit Local Group, were active during the first half of 2011, carrying out notably four new euro-denominated benchmark issues.

In so doing, Dexia Municipal Agency rounded out its benchmark euro curve by creating two new bonds of EUR 1 billion each, at 10 and 5 years. Beyond this benchmark activity, Dexia Municipal Agency increased several outstanding euro sources to meet the requirements of identified investors, while continuing its work on diversifying its investor base by increasing two CHF bonds. Finally, flows of private investments remained buoyant. Overall at 30 June 2011, Dexia Municipal Agency had raised EUR 6.1 billion with an average maturity of 8.4 years.

For its part, Dexia Kommunalbank Deutschland also rounded out its benchmark euro curve by selling two new bonds of EUR 1 billion each, at 5 and 3 years, while working on a number of private placements. Overall at 30 June 2011, Dexia Kommunalbank Deutschland had raised EUR 2.2 billion with an average maturity of 5.1 years.

In total, during the period under review, the covered bond issuers in the Dexia Crédit Local Group raised EUR 8.4 billion with an average maturity of 7.5 years.

Other collateralised funding operations

1st half 2011	Dexia Crédit Local Paris	Dexia Crédit Local NY branch	Dexia Crediop	Dexia Crédit Local (consolidated)
Amount	EUR 3,284 million	EUR 1,379 million	EUR 50 million	EUR 4,713 million
Average maturity	6.1 years	2.0 years	7.8 years	4.9 years

One of the main lines of the strategy for 2011 consists of developing sources of collateralised funding outside the flows generated by the covered bond vehicles, with the priority aim of financing assets not drawn up in euros and to diversify the investor base.

In total, during the period under review, the other collateralised funding operations represented EUR 4.7 billion for the Dexia Crédit Local Group, with an average maturity of 4.9 years.

Senior issues

1st half 2011	Dexia Crédit Local Paris	Dexia Kommunalbank Deutschland	Dexia Crediop	Dexia Crédit Local (consolidated)
Amount	EUR 848 million	EUR 48 million	EUR 180 million	EUR 1 076 million
Average maturity	2.8 years	7.3 years	3.0 years	3.0 years

As was the case in 2010, the Dexia Crédit Local Group continued to be opportunistic in its senior operations, with the main aim of optimising its average cost of funding. Since then, only private placements have been conducted for a total amount of EUR 1 billion with an average maturity of 3 years.

Retail issues

1st half 2011	Dexia Crediop	Dexia Crédit Local (consolidated)
Amount	EUR 350 million	EUR 350 million
Average maturity	5.1 years	5.1 years

Retail issues made outside the Dexia network were conducted by Dexia Crediop only during the first half of the year. These issues were placed directly with private investors on the MOT, the electronic market managed by the Italian stock exchange.

No investments were made in the Italian banking networks in view of the relatively low rating of Dexia Crediop and the need for the Italian banks to use their networks for their own long-term funding. The sharp downgrading of its rating by Moody's (from A2 to Baa2) in May increased the difficulties for Dexia Crediop in terms of its retail funding.

5. FINANCIAL MARKETS

5.1. MANAGEMENT OF BOND PORTFOLIOS

The Portfolio Management Group (PMG) is under run-off management aimed at helping to reduce the size of the Dexia Crédit Local balance sheet and to improve its risk profile.

In the first half of 2011, the natural amortisation of the portfolios and disposals of bonds represented EUR 4 billion and EUR 4.6 billion respectively. The disposal loss generated by these external sales was EUR 88 million. At 30 June 2011, the outstandings of Dexia Crédit Local's bond portfolios represented approximately EUR 97 billion, of which EUR 65.8 billion for the Legacy Division.

5.2. CASH MANAGEMENT AND SHORT-TERM FUNDING

The reduction in Dexia Crédit Local's need for short-term funding, which started at the beginning of 2010, continued from January to May before experiencing an abrupt about-turn in June with the pressure on the money markets created by the European sovereign debt crisis. It should be noted that the European Central Bank is maintaining abundant liquidity to contain these pressures.

5.3. COMMERCIAL OPERATIONS

PROJECT FINANCE CUSTOMERS

Derivative transactions with project companies to cover the interest rate risks of these companies were down during the first half of 2011 compared with the first half of 2010, with eight derivative deals completed for a combined nominal amount of EUR 239 million, compared with twenty derivative deals completed for a combined nominal amount of EUR 594 million in the first half of 2010.

INSTITUTIONAL CUSTOMERS

During the first half of 2011, the distribution team in Paris participated in the funding of Dexia by raising a volume of EUR 1.4 billion. Dexia funding was raised through 5 public mandates and 49 private placements. The distribution team also marketed the mandates obtained by Dexia Capital Market to clients outside the Group, thereby investing EUR 400 million with French and German clients.

6. DEVELOPMENTS WITHIN THE ORGANISATION

IMPLEMENTATION OF PHASE 3 OF THE TRANSFORMATION PLAN

The first half of 2011 saw the implementation of the third stage of the Dexia Group's transformation plan, of which the main objectives for Dexia Crédit Local are:

- the geographical refocusing of operations on the French market, while maintaining the niche businesses in North America and the United Kingdom;
- the generalisation of the directive management system resulting in a change of governance for the Operations & IT, Human Resources and Communication support lines aimed at achieving synergies between the various parts of the Group;
- the simplification of the hierarchical structure of Treasury and Financial Markets (TFM) at a Group level aimed at enhancing the effectiveness of governance.

The transformation plan is also having a limited impact on employment given the high proportion of positions vacant within the Company and the implementation timetable, which runs through the end of 2013.

In particular, the new organisation means the elimination of 82 positions, 64 of which are vacant, as well as 33 transfers from one department to another or between the Dexia Crédit Local and Dexia SA entities.

Dexia Crédit Local has taken the option to use a Provisional Jobs Management process to seek solutions that will enabled staff members affected by job losses to be re-allocated elsewhere. As a result, a Provisional Jobs Management agreement was signed by management and all of the union organisations in January 2011. Like the agreement signed in 2009, this agreement provides for a process of guidance and supervision for the redeployment of staff: information about the process, priority access to positions available, assessment of the skills and wishes of employees, implementation of suitable training where applicable, monitoring in their new job, and the process to be followed should the redeployment solutions not be successful.

During the first half of 2011, the implementation of this process enabled the 33 projected transfers to be carried out, either by placing the staff members concerned in new positions and/or departments, or by finding another outcome within the context of the agreement.

MANAGERIAL MOBILISATION

As part of the transformation associated with the deployment of the “Dexia Forward 2014” development plan, various supervisory and training programmes were implemented for the purpose of encouraging managers to be more proactive and to enhance the professionalism of team managers at Dexia Crédit Local. By way of example, specific workshops covering topics such as “communication in uncertain situations” or “driving change” were organised by the Dexia Crédit Local training teams and presented by trainers from “Dexia Corporate University”. Team coaching sessions were also run with a number of teams and their managers, aimed at regulating and optimising the operation of these workshops. The underlying objective of these programmes is the ongoing improvement of managerial practices, an issue that is at the heart of the Bank's efficiency and hence of the way it develops customer service.

LABOUR RELATIONS

A number of collective negotiations were conducted during the first half of 2011, resulting in four agreements being signed with the social partners.

Shareholding and incentive agreements were signed. The incentive agreement was for the 2011, 2012 and 2013 financial years, while the shareholding agreement was for the 2011 financial year only, with the introduction of a statutory shareholding formula, which replaced the derogatory formula based on the net income group share.

An amendment to the agreement relating to the introduction of an Intercompany Collective Retirement Savings Plan (PERCO-I) was also signed. This amendment increases the Company's contribution from EUR 500 to EUR 1,000 per staff member. As a reminder, the PERCO-I system is designed to provide an additional investment support aimed over the long term.

The first half of the year was also spent in negotiations relating to professional equality. The existing agreement within the Company had been concluded for a period of 3 years and expired on 24 July 2011.

Finally, in April 2011, management embarked on negotiations with the social partners in relation to the employment of seniors. Management wishes to emphasise the Validation of Acquired Experience (VAE) by recognising and ratifying the professional experience and aptitude gained in particular by obtaining a diploma or other qualification. This enables salaried staff to apply more easily for positions requiring a diploma or qualification higher than they already have. It also constitutes genuine leverage for retaining senior individuals in the workforce.

WELL-BEING IN THE WORKPLACE

Management continued its programmes for the prevention of distress and stress in the workplace, in particular by publishing the results of the survey into stress on the company's intranet site. It also organised a presentation aimed at making staff aware of how to detect Burnout and implemented a steering committee dealing with well-being in the workplace (HRM, staff representatives and the company doctor). The main target set this group is to draw up an action plan on the prevention of psycho-social risks. Over time, an enterprise agreement should confirm these measures.

RISK MANAGEMENT

HIGHLIGHTS FOR THE FIRST HALF OF 2011

ORGANISATION

With the aim of optimising the synergies between the operational risk management and permanent control functions, the Dexia Group has decided to merge these two activities from a functional point of view in all Group entities. As a result, in February 2011, the Permanent Control department, located in the General Secretariat, joined forces with the Operational Risk Management department. This move marked the return of this function to the Risk Management department at Dexia Crédit Local.

DECREASE IN THE PORTFOLIO

The reduction of Dexia Crédit Local's risk profile picked up speed during the first half of 2011 with the sale of the Slovak subsidiary, Dexia banka Slovensko, as well as the deconsolidation of Financial Products (now consolidated within Dexia SA) and the sale of EUR 4.6 billion of bond lines.

EXPOSURE

In terms of method, the details below comply with standard IFRS 7, which uses the notion of maximum credit risk exposure (MCRE).

Exposure includes the net amount of assets entered on the balance sheet other than derivative products (i.e. the carrying amount after the deduction of specific provisions), the mark-to-market value of derivative products, off-balance sheet commitments made up of the part of credit facilities not drawn down and guarantees given.

It is important to remember that exposure to credit risk is considered after taking account of the mechanisms in place for reducing credit risk, in line with the principles of Basel II. Exposure is broken down by type of counterparty and by region, taking guarantees into account. By contrast, there can only be substitution if the weighting of the guarantor's risks is of superior quality to that of the lender.

During the first half of 2011, Dexia Crédit Local's MCRE (excluding Financial Products and Global Funding) fell by 9.6% (EUR 34 billion) compared with 31 December 2010, to EUR 320 billion.

Weighted credit risks (excluding Financial Products and Global Funding) also fell, from EUR 47.8 billion at the end of 2010 to EUR 46.1 billion at the end of June 2011. Excluding the exchange rate effect of EUR 1.1 billion, the decline would have been EUR 0.6 billion.

COST OF RISK

The cost of risk amounted to EUR 207 million in the first half of 2011, versus a write-back of EUR 106 million for 2010. In 2011, the cost of risk included mainly:

- a charge of EUR 192 million on Greek state debts maturing before 2020;
- a charge of EUR 91 million (USD 127 million) on the Financial Products portfolio, allocated for the 1st quarter of 2011 prior to the deconsolidation of Dexia FP Holdings Inc;
- a write-back of EUR 89 million of impairment allocated to Lehman securities following their disposal over the period (with no effect on the net income, given that the loss of EUR 89 million is included in Net Banking Income);
- a charge of EUR 11 million linked to the net allocations of write-backs on collective, sector-related and specific provisions.

EQUITY

The ratio of core capital (Tier 1) rose from 9.4% at the end of 2010 to 10.4% at the end of June 2011.

LIQUIDITY

Improving the liquidity profile is always a priority for Dexia Crédit Local, as it is for the whole of the Dexia Group. This is demonstrated by the sustained rate at which new long-term funding is implemented and assets are disposed of, a process that will intensify even further during the second half of the year. However, this improvement was slowed at the end of the half by the tense market situation, strengthened by the defiance of the American banks *vis-à-vis* the European banks and by fears of a downgrading of the Group's rating by the ratings agencies, which is reflected to some degree on the terms of its funding.

MARKET ACTIVITY

In 2011, the Risk Management and Permanent Control department continued the work aimed at improving the models for valuing structured derivatives and is currently contributing to strengthening the continuation of deleveraging. In terms of market limits, Dexia Crédit Local's 10-day VaR 99% was reduced from EUR 42 million at the end of 2010 to EUR 38 million since the first quarter of 2011. It should also be noted that this limit was reduced to EUR 27 million from 1 July 2011.

OPERATIONAL RISKS

The compilation of incidents and updating of risk mapping continued during the first half of 2011. Collaboration with the other departments in charge of Risk Management and Control (notably the Permanent Control, Internal Audit, Compliance and Legal departments) was also reinforced, thanks among other things to the introduction of a shared tool for monitoring action plans recommended by the Internal Audit department and risk measurement.

TRANSVERSAL PROJECTS

The main transversal projects developed across the whole of the Risk Management function in the Dexia Group were continued:

- In line with the undertaking made as part of the Dexia Group's initial ratification at the end of 2007, new ratification applications were lodged with the regulators, covering in particular French GSFP-type (*Groupements sans Fiscalité Propre*) non-taxable groupings and public sector agencies.
- As was the case in 2010, Dexia took part in the Stress Test 2011 (European Banking Authority Stress Test) conducted across the European Union by the European Banking Authority (EBA) which defined a group of 91 banks covering more than 65% of the European banking system in terms of total assets.

  This stress test exercise is designed to assess the ability of European banks to stand up to hypothetical major shocks in various scenarios where there is a deterioration in the quality of credit, market risk parameters and cost of financing.

  The unfavourable scenario covers a period of two years (2011-2012) and takes a European sovereign debt shock into account. The stress test is conducted on the basis of a static balance sheet closing in December 2010, to which restructuring measures are applied validated with the European Commission before 30 April 2011. It does not take account of future management strategies and actions and hence does not constitute a forecast of Dexia's results.

  The aim is to test the banks' sufficiency of capital against a benchmark value defined by the EBA of the Core Tier 1 capital ratio of 5%.

  The results of this exercise were published on 15 July 2011 and were positive for Dexia:

  - Dexia has sufficient capital base to be able to stand up to the benchmark unfavourable scenario: Dexia's Core Tier 1 ratio would be 10.4% in 2012, compared with 12.1% at the end of 2010, which is a level very much above the required level of 5% (i.e. a difference of EUR 7.9 billion);
  - The measures to expedite the transformation plan and disposal of assets announced on 27 May 2011 do not have any significant impact on the Group's solvency. In a scenario that includes these measures to expedite the process, the Group's Core Tier 1 ratio stays at 10.4%.

  This means that Dexia is in line with the capital requirements established for the needs of this stress test conducted across the European Union. The hypotheses posed in the unfavourable scenario appear to be prudent, particularly with regard to sovereign debt, local governments and possible developments in the cost of financing.
- In order to cope with the regulatory changes proposed by the Bank for International Settlements (BIS), in particular for the aspects of defining equity capital, capital buffer, leverage ratio, counterparty risk and liquidity risk, Dexia introduced a proposed structure from mid-2011 involving Dexia Crédit Local. Dexia is closely involved and is monitoring international consultation and thoughts closely by taking part in the various impact studies in particular.

Based on an overall approach, the policy on risk appetite approved by Dexia's Board of Directors in 2010 was extended to Dexia Crédit Local, whose Management Board approved it being rolled out on a local level.

1. CREDIT RISK

1.1. DEFINITION

Credit risk represents the potential loss (reduction in the value of the asset or payment default) that Dexia Crédit Local might suffer as the result of deterioration in the solvency of a counterparty.

1.2. RISK MANAGEMENT

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

THE OVERALL CREDIT RISK ENVIRONMENT FOR THE FIRST HALF OF 2011

Project finance and corporate

For the sensitive sectors of the corporate and project finance segments, the continued restructuring and deleveraging of the American and Canadian portfolios should be noted.

Sovereign risk

In terms of country risk, the first half of 2011 saw the following developments:

- persistence of the crisis in the developed economies, exposed to weak growth, increased public debt and a general loss of benchmarks in view of the rise in power of the major emerging countries. This situation is particularly true for the countries of the EU, with the granting to Portugal (after Greece and Ireland) of substantial financial aid and the implementation of a second assistance package for Greece. It also applies to the USA, confronted with the problem of a dual budget - foreign accounts deficit, and Japan, struck by a natural disaster while the country was already struggling with deflation and a crisis in political decision-making. Dexia Crédit Local is closely monitoring the situation in these countries and has frozen some limits on Greece, Spain, Portugal, Italy and Ireland.

- uncertainty associated with the situation in the MENA region (Middle East and North Africa). However, Dexia Crédit Local has few commitments in these countries.

Local public sector

In France, the main austerity measure affecting local governments is the announcement of a probable freezing of State subsidies to local governments from the triennial budget 2011-2013. This freeze, combined with the increase in spending on social aid and the erosion of investment spending, is likely to produce a reduction in the level of savings, although it would remain high, as well as a stabilisation in debt levels. Given a possible contraction in budgets for the French administrative departments (whose resources depend partly on the property market, currently a good contributor, but which is highly cyclical), financial tensions may be anticipated for the sectors of aid to individuals as well as medical and social services, whose resources depend significantly on contributions from the departments.

For local governments internationally, while the situation remains stable on the whole, without any cases of default appearing, it should nevertheless be noted that there has been a tightening of margins for manoeuvre associated with the reduction in resources from taxes and transfers as part of the implementation of austerity plans, as well as a sharp fall in investments in the wake of the recovery efforts made in 2009.

- In Italy, the borrowing market is very sluggish. The situation appears to be stabilising for local governments. Some authorities have recently been given negative outlooks by the rating agencies, but this trend is linked mainly to the downgrading of the sovereign rating and not to the intrinsic quality of the authorities themselves.

- In Spain, funding reforms for the regions continues steadily to be put in place; these reforms emphasise a greater degree of financial autonomy for the regions, which over time will see 70% of their day-to-day revenue made up of direct resources.
  Given the impact of the crisis on the country's economy and local finances, and in a bid to comply with the Maastricht criteria, the Internal Stability Pact that links the State to the Regions (and other authorities) has been strengthened: the maximum deficit levels will be -1.3% of regional GDP in 2011 and -1% in 2014. Non-compliance with these deficits, followed by non-compliance with the recovery plan as a result, means that it is impossible for the region in question to issue any new long-term debts. In the regions, 2009 as a whole saw a reduction in savings and an increase in debt levels, albeit with major disparities from one region to another, with some of them being downgraded. Early accounts for the 2010 financial year confirm this trend, with a fresh reduction in gross savings, as well as a sharp decline in investment. Payment times for suppliers are also tending to become longer.

- In Germany, the repercussions from the crisis appear to have been short-lived: while 2009 saw the country marking time with a lower GDP, increased unemployment, a reduction in revenue for the *Länder* and a clear-cut rise in debt levels, early data gathered from the accounts for 2010 shows a reversal of this trend, with growth taking off again in all *Länder*. Revenue for the first quarter of 2011 was also higher than forecast.

- In Central and Eastern Europe, while there are no signs of special concern for Romania and Poland, by contrast the situation in public finances in Hungary remains tense. Hungarian local governments are suffering from structural deficit, with most of them in debt in Swiss francs whereas they have not yet reached a time when they have to make major repayments of principal.

- In the United States, it should be remembered that the institutional framework of the federated States, although it does vary from State to State (each one of which has its own Constitution), is somewhat protective: autonomy in setting revenue levels, budget mandatorily balanced, and obligation to establish reserves. However, as the revenue of the States is linked very directly to the economic situation, they saw a sharp fall in revenue during the first half of 2009. Faced with this decline in revenue, the States responded very quickly, cutting their spending, although focused on education and health, deferring payment of their contribution for retirement and issuing short-term bonds to reduce their deficit. They have also drawn extensively on their reserves. But despite this, levels of debt have remained fairly stable and are not excessive. The budgets for 2010 were passed against this background of crisis and hence were very conservative which, with signs of recovery, was positive. For this year, the States continue to rely on the Federal Stimulus Funding introduced at the beginning of the crisis, but which has not since been renewed.

Bond portfolio

Dexia continued to reduce its portfolio of bonds during the first half of 2011. Even though there were no incidents or significant deterioration in terms of performance or expected losses, the impact of the crisis continued to produce downgrades in ratings. The deteriorating situation was felt in particular in the segments for residential mortgage-backed securities (RMBS) in the United States and Europe, mainly in Ireland, and collateralised loan obligations (CLO). The bond portfolio remained at 96% investment grade.

Following on from the deleveraging/derisking process, outstanding exposures to banks and financial institutions continue to fall. There were no problems with the portfolio whose quality remained steady throughout the first half of 2011. The sovereign debt crisis led to contagion on the banks in the countries affected (Portugal, Italy, Ireland, Greece, Spain), which are being monitored more closely. Finally, outstanding bank exposures in the MENA region are minimal and are not under pressure.

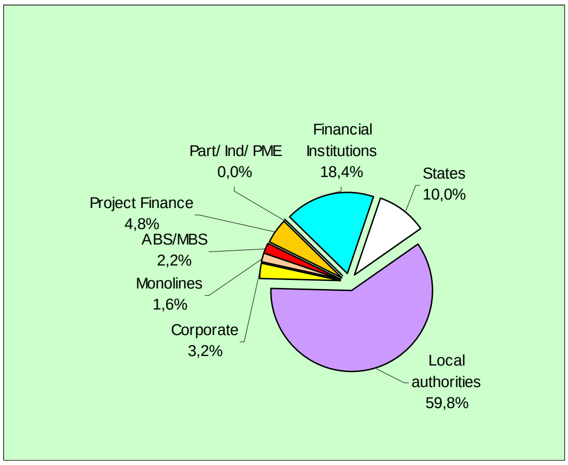
1.3. DEXIA CRÉDIT LOCAL PORTFOLIO

Exposure to credit risk includes:

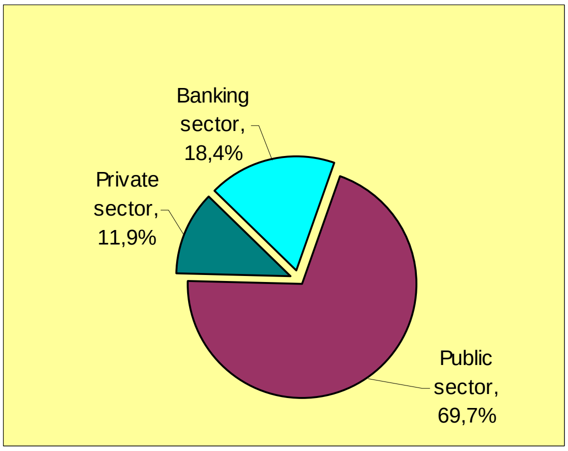
- the net carrying amount of on-balance sheet assets other than derivative products (i.e. the carrying amount after deduction of specific provisions);
- the market value of derivative products;
- total off-balance sheet commitments: the total commitment is either the non-drawn-down part of the cash facilities or the maximum that Dexia Crédit Local is required to honour on account of guarantees given to third parties. When exposure to the credit risk is guaranteed by a third party whose risk weighting is lower, the principle of substitution applies.

Dexia Crédit Local consolidated data as at 30 June 2011 (excluding Financial Products and Global Funding):

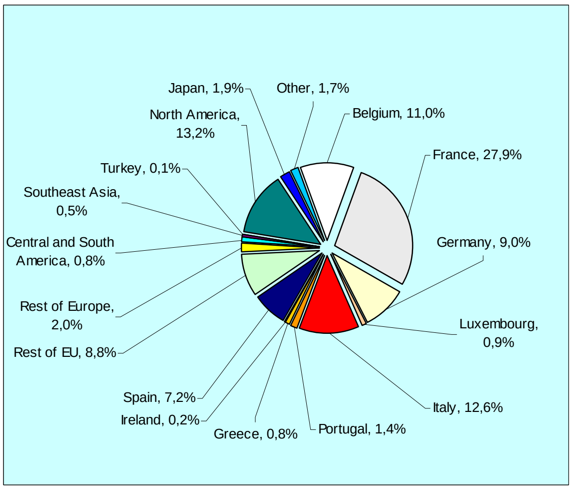
MAXIMUM CREDIT RISK EXPOSURE BY TYPE OF COUNTERPARTY



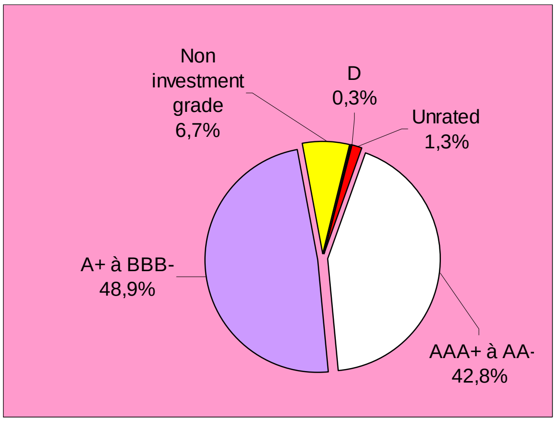
MAXIMUM CREDIT RISK EXPOSURE BY SECTOR



MAXIMUM CREDIT RISK EXPOSURE BY REGION



MAXIMUM CREDIT RISK EXPOSURE BY RATING SEGMENT



IMPAIRMENT FOR COUNTERPARTY RISK

Loans and advances (EUR millions) excluding FP and GF	31 December 2010	30 June 2011	Change (value)	Change (%)
Non-performing loans under collection	828	859	31	4%
Provisions allocated	203	220	17	8%

Securities and derivatives (EUR millions) excluding FP and GF	31 December 2010	30 June 2011	Change (value)	Change (%)
Provisions on Banks	315	129	-186	-59%
Provisions on Greek Sovereign	0	192	192	NA
Provisions on SMEs	99	0	-99	-100%

2. MARKET RISK

2.1. DEFINITION

Market risk represents Dexia Crédit Local's exposure to variations in market parameters arising from risks linked to interest rates, exchange rates and other factors.

The interest rate risk is made up of a general interest rate risk resulting from market developments, and a specific interest risk (spread risk) linked to the issuer. The latter ensues from the spread variations of a specific signature within a rating category.

The risk linked to share prices represents the risk arising from the share's potential loss of value. As for the currency risk, this represents the potential fall in value due to the fluctuation of currency exchange rates.

2.2. RISK MANAGEMENT

RISK MEASUREMENT

Dexia Crédit Local, in line with the Dexia Group, has adopted the VaR (Value at Risk) measurement methodology as one of its main risk indicators. VaR measures the potential loss with a confidence interval of 99% and for a retention period of 10 days. Multiple VaR approaches are implemented to measure accurately the market risk inherent to the various portfolios and market activities:

- the general interest rate risk is measured via a parametric VaR;

- the specific interest rate risk (spread) is measured via a historic VaR;
- non-linear and individual risks are measured via specific VaRs and historic VaRs for the purpose of obtaining a better assessment of exposure to market volatility.

Dexia Crédit Local's exposure to market risks, measured in terms of Value at Risk (VaR), comes mainly from the general and specific rate risk (spread), reflecting the day-to-day volatility on the credit markets. Dexia Crédit Local holds no transaction positions in shares, in exchange rates or in other risk factors.

Dexia Crédit Local uses the internal VaR model for calculating the requirements in regulatory equity capital for the general interest risk and currency risk in its trading activities.

EXPOSURE TO MARKET RISK

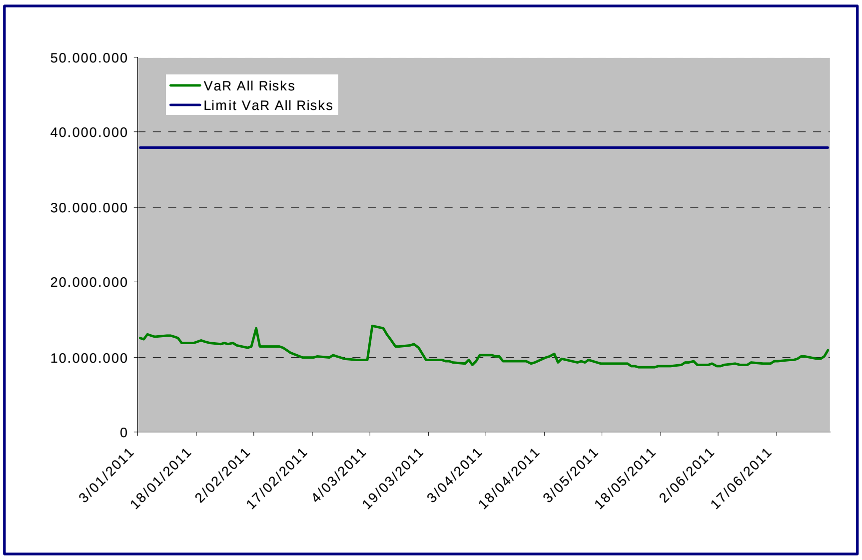
Value at Risk

Details of the VaR used by the TFM business (investment portfolio not included) is shown in the table below.

The limits have been reviewed sharply downwards to comply with the principle of reducing appetite for risk, as set out in the Dexia transformation plan. The TFM limit was reduced from EUR 42 million at the end of 2010 to EUR 38 million since the first quarter of 2011. It should be noted that the limit was reduced to EUR 27 million from 1 July 2011.

(EUR millions)	**VaR on Dexia Crédit Local's market risk**			
	Average	Maximum	End of month	Limit
First quarter 2011	11.14	14.12	9.49	38
Second quarter 2011	9.36	10.88	10.88	38

Changes in the VaR on financial risks (in EUR)*



(*) VaR rate & spread on market scope.

Bond portfolio

Dexia Crédit Local was managing bond portfolios amounting to EUR 97 billion at 30 June 2011 (excluding FP). The sensitivity of these portfolios of bonds to variations in interest rates is very limited because the rate risk is covered. A significant part of the bond portfolios is classed in loans and other debts. The AFS reserve of these securities is not sensitive to variations in credit spreads. In terms of other bond portfolios classified as AFS, the sensitivity of fair value (and AFS reserve) to an increase in the spread of one basis point is EUR 27 million (compared with EUR 30 million per basis point at 31 December 2010).

3. BALANCE SHEET MANAGEMENT

3.1. DEFINITION

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

The detailed definitions of the interest rate risk, currency risk and risk linked to shares are set out in the section on market risks.

The liquidity risk is defined as the probability of the bank not being able to meet its current and future cash flow requirements, both discounted and unexpected.

3.2. RISK MANAGEMENT

RISK MEASUREMENT

Interest rates

Dexia Crédit Local is conservative in terms of managing assets and liabilities. The main aim is to minimise the volatility of the result and to retain value. There is no objective of creating additional revenue through voluntarily taking a risk on interest rates, with attention focused on the overall stabilisation of the Bank's income.

Measuring the sensitivity of the interest rate is considered as the main tool for measuring risk (total revaluation expressed in terms of sensitivity). A parametric VaR is calculated by way of indication at a Dexia Group level and is based on sensitivities to interest rates. However, overall and partial sensitivities by interval remain the main risk indicators based upon which the Assets and Liabilities Committee (ALCO) manages risk.
Exposure to risk, as measured in economic and accounting terms, is mainly on long-term European interest rates and results from the structural imbalance between Dexia's assets and liabilities. Risk sensitivity measures reflect the balance sheet's exposure to first and second-level sensitivity. VaR calculations act as an additional measurement.

Monitoring rate risk is dealt with on a bi-monthly basis in the main entities of the Dexia Crédit Local Group and is handled at local committee meetings. Risk indicators are calculated based on a "dying balance sheet" until it disappears. The result of this monitoring is presented on a monthly basis to the Dexia Crédit Local ALCO, which determines the directions to be taken and the risk limits to be complied with.

Credit spread

Credit spread risk is defined as the specific interest rate risk linked to the issuer. This is due to the variations in spread of a specific signature within a rating classification and is measured on the basis of the sensitivity, expressed in basis points.

Currency risk (structural)

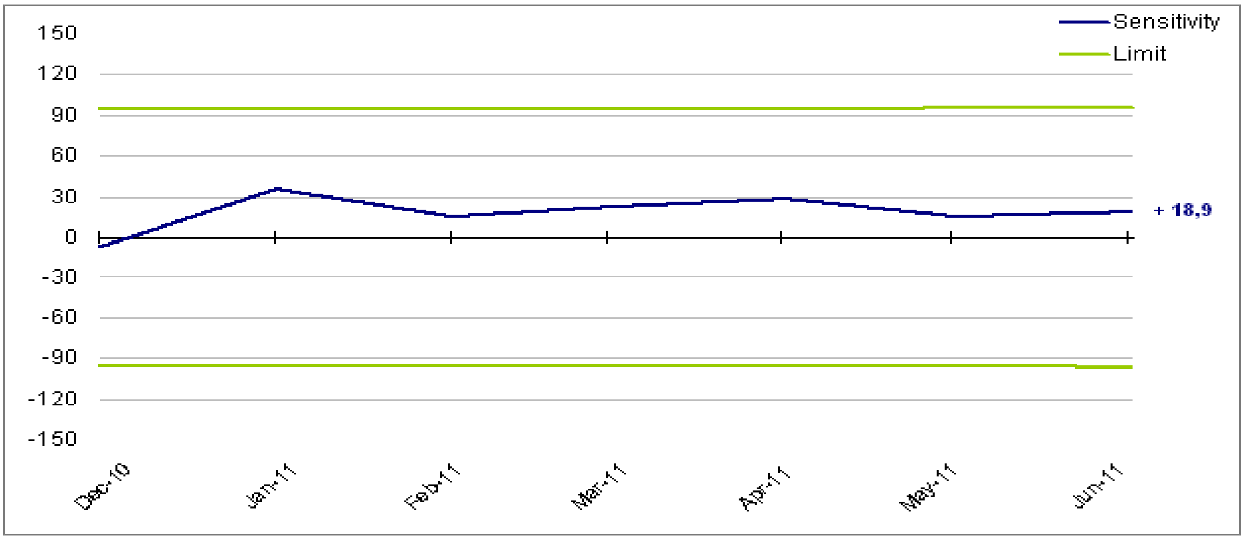
The currency used for consolidation by Dexia is the euro, but its assets, liabilities, income and costs are also stated in other currencies. The Group ALCO sets the covers to be implemented in order to reduce volatility of profits, which is the corollary of the structural currency risk.

BALANCE SHEET MANAGEMENT (BSM) EXPOSURE

BSM exposure to interest rate risk (sensitivity)

Sensitivity to interest rate risk measures the change in the net economic value of balance sheet and off-balance sheet items if the interest rate increases by 1% across the whole of the curve. BSM sensitivity was positive EUR 18.9 million at 30 June 2011 (compared with negative EUR 7.5 million at 31 December 2010). At 30 June 2011, the sensitivity limit to interest rates was EUR 96 million for a variation of 1%.

ALM SENSITIVITY IN THE FIRST HALF OF 2011 (in millions of EUR)



3.3. LIQUIDITY RISK

The first half of the year saw a gradual rise in tension on the markets brought about by growing uncertainty about the eventuality of a restructuring of Greek sovereign debt and the possible consequences on the European banking system.

Despite the unfavourable context, the Dexia Group successfully continued to implement its funding strategy: during the first half of 2011, the Dexia Group raised resources on the money markets totalling EUR 13 billion (EUR 9.8 billion of which was for Dexia Crédit Local). This was a level close to the funding raised in the first half of 2010 (excluding guaranteed financing). In terms of Dexia Crédit Local, new bond financing was issued mainly by Dexia Municipal Agency and Dexia Kommunalbank Deutschland in secured format (EUR 8.4 billion), with non-secured issues amounting to EUR 1.4 billion. This bond financing was supplemented by long-term financing put in place with market counterparties, reaching EUR 5.7 billion for the Dexia Group (EUR 4.7 billion of which for Dexia Crédit Local), with the majority of this financing being raised in US dollars, which contributed to a reduction in the Group's needs for this currency.

During the first six months of 2011 Dexia Crédit Local disposed of EUR 6.9 billion in assets, including EUR 4.6 billion of securities and EUR 1.6 billion of loans, EUR 0.5 billion of negative basis trades, and EUR 0.3 billion of internal transfers.

In May 2011, the Group also announced its decision to use the assets acquired from the transformation plan to expedite its disposal of assets and hence improve its risk profile more quickly in terms of liquidity: additional disposals of assets will focus on assets held within Dexia Financial Products, a subsidiary owned in the United States, as well as on the Group's other non-strategic assets.

These measures were partially offset by the negative impact of the aversion tendency among American investors in terms of European assets; this trend was amplified in Dexia's case by the negative long-term ratings credit watch placed on the Group by Standard & Poor's. The volume of unsecured short-term financing received by Dexia Crédit Local fell considerably, made up for by increased recourse to financing from the European Central Bank, which reached EUR 34 billion for the Dexia Group at the end of June 2011 (EUR 19.8 billion of which was for the Dexia Crédit Local scope of consolidation), an increase of EUR 8.8 billion compared with December 2010. Dexia Crédit Local also wrote back USD 1.7 billion of tender option bonds (TOB) on its balance sheet, as well as USD 0.7 billion of standby bond purchase agreements (SBPA), although the drawdowns remained limited in this latter case, with commitments given in SBPA having also fallen by USD 8 billion over the half-year (i.e. one-third of the total). Against this background, the Group took measures to ensure it had sufficient resources in US dollars to cope with the combined risk of a further reduction in its financing in this currency and additional drawdowns on the allocated liquidity lines.

The Dexia Crédit Local Group's liquidity requirement at one month continued to be reduced, falling from EUR 30.4 billion at the end of December 2010 to EUR 28.6 billion at the end of June 2011. At the Dexia Group level, short-term financing requirements also continued to fall, declining from EUR 119 billion at the end of December 2010 to EUR 96 billion at the end of June 2011.

Dexia Crédit Local's ratings were restated by Standard & Poor's on 7 July 2011, to A for its long-term rating and A1 for the short term. The agency also lifted its credit watch, but maintained a negative outlook. On 8 July 2011, Moody's lowered Dexia Crédit Local's long-term rating from A1 to A3, although giving it a stable outlook. The short-term rating was confirmed at P-1 on 28 March.

4. OPERATIONAL RISKS

4.1. DEFINITION

Dexia defines operational risk as the financial or non-financial impact from inadequate or weak internal processes, staff and systems, or from exogenous factors. This definition includes IT risk, and legal and compliance risk, but excludes strategic risk.

The definition of operational risk developed by Dexia is drawn in a non-restrictive manner from the definition given by the Basel Committee, which places the emphasis on losses (negative financial impacts). As a result, Dexia's policy also assumes the gathering of data in relation to the events that generated financial gains.

4.2. RISK MANAGEMENT

The process for managing operational risks is based on the following elements:

OPERATIONAL RISK DATABASE

The systematic gathering and monitoring of operating incidents are among the main requirements set by the Basel Committee, regardless of the approach used to calculate capital (measurement using a standard or advanced approach): "historic variations on losses can provide useful information for assessing exposure to operational risk and developing a policy for controlling and reducing this risk".

As a result, the gathering of data about operating incidents enables Dexia Crédit Local to comply with its regulatory requirements and obtain valuable information for improving the quality of its internal auditing system. In terms of reporting, a number of directives have been drawn up and disseminated at Dexia Crédit Local Group level, aimed at ensuring that important information is passed on in good time (the mandatory declaration threshold was reduced at the beginning of 2011 to EUR 1,000, compared with EUR 2,500 previously). The Management Board receives a report of the main events from the Operational Risk Management (ORM) function featuring the action plans aimed at reducing risk, as defined by the Risk Management function.

SELF-ASSESSMENT OF RISKS AND ASSOCIATED CONTROLS

In addition to establishing a history of losses, there is also a need to outline Dexia Crédit Local's exposure to the main risks by mapping the risks of all important activities. To do this, all of the entities in the Dexia Crédit Local Group conduct bottom-up self-assessment exercises of the associated risks and controls. These exercises can produce a definition of action to limit risks. They provide an overall view of most of the risk areas in the various entities and businesses, making it possible to account for the results at every level of management within the company. These exercises are repeated every year in all departments at Head Office and in the international subsidiaries.

MANAGEMENT OF INFORMATION SECURITY AND BUSINESS CONTINUITY

The policy on information security and the instructions, standards and practices relating to that policy are designed to secure the IT assets[1] at Dexia Crédit Local. Because of the security programs in place and responsibilities defined, all of the business lines are able to operate within a secure setting.

As required by the Group's policy on business continuity, the business lines have to draw up impact analyses for the vital areas of their businesses. They are required to define and support recovery plans and ensure that the business recovery plans are tested and updated at least once a year. Based on regular reports, the Management Board approves the recovery strategies, residual risks and action plans as part of an ongoing approach to improvement. A post-transformation plan business line impact analysis was finalised at Dexia Crédit Local in 2010, leading to the updating of the business continuity plans in 2011.

From the same viewpoint, an assessment of the business continuity processes and an evaluation of information security management were conducted in the first half of 2011 for all of the subsidiaries and branches of Dexia Crédit Local.

5. LEGAL RISK

The main legal risks were set out in Dexia Crédit Local's 2010 reference document (pages 36 and 37).

In relation to structured credits, on 30 June 2011, six clients issued writs against Dexia Crédit Local.

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[1] *Information or item of data representing a value for the Company and hence requiring adequate protection.*

With regard to the subsidiaries:

- Dexia Crediop (Italy) is awaiting the ruling of the Council of State in its dispute with the Province of Pisa;
- On May 2, 2011 Dexia Israel received a demand letter from the representative of one of its' minority shareholders, requesting, among others, the bank to file an action against all controlling shareholders and/or interested parties and all officers of the Bank from the date of publication of its 2000 annual report, inter alia, in connection with the Bank's alleged failure to harmonize the rights attached to the various classes of the bank's shares and certain related matters. Dexia has reviewed the claims raised in the letter and has responded to claimant that it does not agree with any of the factual or, to the extent they can be inferred from it, legal statements made in the demand letter.

There were no other noteworthy developments during the first half of 2011.

6. ECONOMIC CAPITAL

Economic capital is defined as the potential difference between the economic value of Dexia Crédit Local and the expected value at a given confidence interval and time in the future. The quantification process for economic capital takes place in three stages: identification of any risks (definition and mapping updated annually down to the level of subsidiaries and branches), measuring them (essentially on the basis of statistical methods) and incorporating them at a group level based on an inter-risk diversification matrix. Most risks are capitalised based on a measurement of expected loss; however, some risks are not capitalised if other methods of management (limits, scenarios, governance, etc.) are considered as being more than capable of covering them.

The assessment of capitalised risks is carried out on the basis of a high confidence interval (99.97% at one year). The method of calculation was updated at the beginning of 2011 in such a way as to incorporate internal or regulatory recommendations and to follow best market practices*,* as well as any changes to the Group's risk profile.

Dexia Crédit Local had economic capital of EUR 3,765 million at the end of June 2011.

Following the change of method, credit risk represents approximately 59% of the use of economic capital, while market risk (which includes the risks for interest rates and exchange rates and the risk linked to shares) represented 17%, funding risk 13% and operational risk 7%.

The financial resources available significantly exceed the total of the economic capital required by the business lines to deal with unexpected losses of extreme severity.

7. MAIN RISKS AND UNCERTAINTIES FOR THE COMING SIX MONTHS

During the second half of 2011, the economic environment in which the Dexia Crédit Local Group operates will remain affected by significant uncertainty. Even if there was reasonable hope for the world economic situation to stabilise, the rate of recovery remains uncertain at this stage and further disruptions cannot be ruled out.

The sectors that will continue to require special monitoring in terms of risk are as follows:

- the ABS sector, in particular for American RMBS, as well as European RMBS, especially in Spain, Greece and Ireland, as well as Triple-X[1] transactions;
- the corporate sectors, which could suffer from the effects of the economic crisis on a delayed basis.

Finally, there is a need to monitor the effectiveness of the austerity and structural reform measures implemented or announced in European countries, particularly for the so-called "PIIGS" countries.

Overall, Dexia Crédit Local's business in the six months ahead is likely to be affected by risks and uncertainties comparable to those described in this report for the past six months. In particular, new tensions on the interbank market and any delay in the expected improvement of the economic situation would have negative consequences for the situation of Dexia Crédit Local.

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[1] *Securitisation of the regulatory reserves of insurers*

OPERATING RESULTS

1. CHANGE IN THE SCOPE OF CONSOLIDATION

The main developments in the scope of consolidation since the first half of 2010 are shown below:

- Dexia Management Services Ltd has been fully consolidated 100% since 1 January 2011, following the restructuring of the operations carried out by the London branch;
- Dexia Crédit Local deconsolidated Dexia banka Slovensko on 1 January 2011, following the sale of this company to the Penta group;
- Dexia Holdings Inc (DHI) and Dexia FP Holdings Inc (Dexia FP) left the consolidation scope of Dexia Crédit Local on 1 April 2011, as the result of the signing, on 30 June 2011, of two contracts transferring control of these two companies from Dexia Crédit Local to Dexia SA, with retroactive effect to 1 April 2011;
- the percentage holding in FSA Global Funding Ltd and Dexia Real Estate Capital Markets rose from 90% to 100% on 1 January 2011;
- Dexia Asia Pacific was deconsolidated on 1 June 2011, based on its accounts at the end of May.

2. CHANGES IN ACCOUNTING REGULATIONS

The consolidated financial statements of Dexia Crédit Local have been drawn up in accordance with IFRS standards in compliance with all of the standards and interpretations published and adopted by the European Commission at the closing of the accounts, as stated in point 1 "Overall context for presenting and assessing the condensed consolidated financial statements" in the appendix to the condensed consolidated half-yearly accounts.

3. CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

3.1. FIRST HALF HIGHLIGHTS

Major operations with an impact on the consolidated financial statements are set out below.

- On 27 May 2011, in order to improve its risk profile, profitability and liquidity, the Dexia Group announced its decision to expedite its financial restructuring, the main lines of which were approved in February 2010 by the European Commission. For the Dexia Crédit Local Group, this decision had the following effects in the consolidated financial statements at 30 June 2011:

  - a portfolio of EUR 13 billion of assets held for sale within a period of 12 months was reclassified into "Non-current assets held for sale": the valuation of this portfolio at the selling price resulted in a EUR 1,398 million charge being recognised to earnings for the first half of 2011;

  - Dexia Holdings Inc and Dexia FP Holdings Inc were deconsolidated on 1 April 2011, as the result of the signing, on 30 June 2011, of a sale option contract on the securities in Dexia Holdings Inc owned by Dexia Crédit Local, and a guarantee contract with Dexia SA limiting the losses attributable to Dexia Crédit Local to USD 1,447 million (EUR 1,020 million). Gains totalling EUR 327 million linked to the deconsolidation of these two companies were recorded at 30 June 2011;

  - the goodwill on Dexia Crediop (EUR 129 million) and Dexia Israel Bank Ltd (EUR 12 million) were written down in full on 30 June 2011.

- In line with the decision of the European Commission, a total of EUR 6.9 billion of bonds and non-strategic loans was disposed of during the first half of 2011 (EUR 0.3 billion of which to other Dexia Group companies), with a negative effect on the profit-and-loss account of EUR 139 million (EUR 21 million of which was related to internal disposals). At the end of 2010, the total value of assets disposed of came to EUR 24 billion.

- On 30 June 2010, Dexia completed its exit from the State guarantee mechanism on its financing put in place in October 2008. This withdrawal was gradual, with Dexia having given up the guarantee on contracts with a term of less than one month or with indefinite terms in October 2009. In line with the agreement with the European Commission, it was agreed that Dexia would exit the guarantee mechanism four months before the date initially scheduled at 30 October 2010. As a result, the Group undertook not to make use of the guarantee from the end of May 2010 for its financing at less than one year, and not to do so for its medium and long-term financing from 30 June 2010.

All instruments not yet reimbursed issued under the State guarantee before 30 June 2010 continue to benefit from this guarantee, in compliance with their terms. By way of the remuneration of this guarantee, Dexia Crédit Local and its branches recorded a charge of EUR 156 million for the period (compared with EUR 158 million at 30 June 2010).

- Following the announcement made by the European Union on 21 July to support the Greek State in its financial difficulties, the Dexia Crédit Local Group wrote down its Greek sovereign debts maturing prior to 31 December 2020, based on an impairment in value of 21%, and recorded a loss of EUR 192 million in its results for the first half of 2011.

- On 31 March 2011, the Dexia Group announced the sale of its 88.71% stake in Dexia banka Slovensko (DBS) to Penta Investments, an investment group based in Central Europe. The Slovak anti-monopoly agency and the National Bank of Slovakia granted the regulatory authorisations. Finalisation of this transaction followed the agreement reached with Penta and announced on 11 November 2010. This pre-dates the European Commission's requirement, which stipulated the disposal of Dexia banka Slovensko before 31 October 2012 at the latest. The selling price was EUR 82 million, which corresponded to the long-term value of the company, valued at 31 December 2010: a EUR 3 million impairment provision had already been recorded in the consolidated financial statements for the Dexia Crédit Local Group at the end of December 2010. As a result, the sale of Dexia banka Slovensko will have no effect on the results for 2011. Dexia banka Slovensko was deconsolidated on 1 January 2011.

- The unrealised or deferred gains or losses on the portfolio of securities available for sale appreciated over the period: the Group share, after tax, improved to a net loss of EUR 3,941 million at the end of June 2011 from a net loss of EUR 6,068 million at 31 December 2010. This improvement of EUR 2,127 million is linked to a large extent to the deconsolidation of Dexia FP Holdings Inc (positive effect on the item of EUR 1,336 million), as well as to the reclassification of assets into "Non-current assets held for sale" (EUR 320 million) and the impairment of Greek sovereign debts (EUR 192 million).

In the second half of 2011, the economic environment in which Dexia Crédit Local operates its business will remain affected by significant uncertainties, particularly in the eurozone. Even if there was reasonable hope for the world economic situation to stabilise, the rate of recovery remains uncertain at this stage and further disruptions cannot be ruled out.

3.2. EARNINGS REVIEW

The consolidated **net banking income** for the first half of 2011 was EUR 13 million, compared with EUR 253 million in the first half of 2010, which was a fall of 94.9%.

In 2011, net banking income is being affected by the decline in interest rate margins, representing EUR 195 million (margin of EUR 209 million in 2011, compared with EUR 404 million in 2010), which is explained generally by the rise in the cost of funding caused by the widening of spreads over 2011.

The disposal of assets decided on as part of the policy to reduce the Group's overall exposure also resulted in a fall in interest income of EUR 57 million over the first half of 2011.

Operating expenses (overheads and depreciation charges) on the consolidated base fell by 11% to EUR 218 million, compared with EUR 245 million in the first half of 2010, brought about by the policy to reduce costs as part of the transformation plan launched at the beginning of 2009.

Gross operating losses were EUR 205 million at 30 June 2011, compared with a profit of EUR 8 million at 30 June 2010.

The **cost of risk** was EUR 207 million at 30 June 2011, compared with EUR 288 million at 30 June 2010. It included the following components:

(EUR millions)	1st half 2010	1st half 2011
Credit (loans, commitments and held-to-maturity securities)	(288)	(139)
Available-for-sale fixed-income securities	0	(68)
Total	**(288)**	**(207)**

In 2011, this includes in particular:

- a charge of EUR 192 million on Greek State debts maturing prior to 2020;

- a charge of EUR 91 million (USD 127 million) on the Financial Products portfolio, allocated to the 1st quarter of 2011 prior to the deconsolidation of Dexia FP Holdings Inc;

- a write-back of the EUR 89 million impairment loss allocated to Lehman securities following their disposal over the period (with no effect on the net result as the loss of EUR 89 million was recognised under Net Banking Income).

The **pre-tax loss** came to EUR 1,625 million at 30 June 2011, compared with EUR 280 million at 30 June 2010.

In 2011, these losses include:

- a charge of EUR 1,398 million linked to the valuation at their selling price of EUR 13 billion of assets that the Dexia Crédit Local Group has decided to dispose of within a period of 12 months as part of the programme to expedite the reduction in its overall exposure, announced on 27 May 2011;

- a gain of EUR 327 million linked to the deconsolidation of Dexia Holdings Inc and Dexia FP Holdings Inc;

- impairment of goodwill amounting to EUR 141 million, of which EUR 129 million for Dexia Crediop and EUR 12 million for Dexia Israel Bank Ltd.

The consolidated **net loss** (Group share) came to EUR 1,568 million at 30 June 2011, compared with EUR 190 million the previous year.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

	Assets (EUR millions)	At 30 June 2010	At 31 December 2010	At 30 June 2011
I.	Cash, central banks and postal checking accounts	499	424	1 700
II.	Financial assets at fair value through profit or loss	19 270	16 686	13 963
III.	Hedging derivatives	12 060	12 317	9 373
IV.	Available-for-sale financial assets	44 357	39 083	31 498
V.	Interbank loans and advances	22 020	22 625	17 568
VI.	Customer loans and advances	250 309	239 982	209 326
VII.	Fair value revaluation of portfolio hedge	3 198	2 144	1 727
VIII.	Held-to-maturity financial assets	914	839	651
IX.	Current tax assets	63	93	69
X.	Deferred tax assets	2 294	1 541	1 271
XI.	Accruals and other assets	26 529	24 316	23 486
XII.	Non-current assets held for sale	0	19	11 757
XIII.	Investments in associates	0	0	0
XIV.	Investment property	0	0	0
XV.	Tangible assets	528	529	507
XVI.	Intangible assets	62	60	46
XVII.	Goodwill	200	200	59
	TOTAL ASSETS	382 303	360 858	323 001

	Liabilities (EUR millions)	At 30 June 2010	At 31 December 2010	At 30 June 2011
I.	Central banks and postal checking accounts	21 728	18 517	19 807
II.	Financial liabilities at fair value through profit or loss	22 709	19 256	15 488
III.	Hedging derivatives	31 046	31 048	26 750
IV.	Interbank borrowings and deposits	74 969	78 070	74 542
V.	Customer borrowings and deposits	15 728	13 457	8 510
VI.	Debt securities	203 634	190 068	166 359
VII.	Fair value revaluation of portfolio hedge	2 921	1 984	1 427
VIII.	Current tax liabilities	56	52	49
IX.	Deferred tax liabilities	1	9	21
X.	Accruals and other liabilities	5 103	3 659	4 280
XI.	Liabilities related to non-current assets held for sale	0	0	0
XII.	Technical provisions of insurance companies	0	0	0
XIII.	Provisions	289	137	383
XIV.	Subordinated debt	5 143	4 319	4 137
XV.	Equity	(1 024)	282	1 248
XVI.	Equity, Group share	(1 214)	32	674
XVII.	Capital stock and additional paid-in capital	2 062	2 702	1 871
XVIII.	Reserves and retained earnings	4 719	4 708	4 864
XIX.	Unrealised or deferred gains and losses	(7 805)	(6 682)	(4 493)
XX.	Net loss	(190)	(696)	(1 568)
XXI.	Minority interests	190	250	574
	TOTAL LIABILITIES	382 303	360 858	323 001

CONSOLIDATED INCOME STATEMENT

	(EUR millions)	Half-Year 2010	Year 2010	Half-Year 2011
I.	Interest income	12 463	24 988	12 324
II.	Interest expense	(12 059)	(24 374)	(12 115)
III.	Fee and commission income	78	158	74
IV.	Fee and commission expense	(24)	(47)	(21)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	37	(59)	(41)
VI.	Net gains (losses) on available-for-sale financial assets	(230)	(481)	(213)
VII.	Other income	27	52	27
VIII.	Other expense	(39)	(48)	(22)
IX.	NET BANKING INCOME	253	189	13
X.	Operating expenses	(221)	(473)	(195)
XI.	Depreciation, amortisation and impairment of tangible and intangible assets	(24)	(49)	(23)
XII.	GROSS OPERATING INCOME (LOSS)	8	(333)	(205)
XIII.	Cost of risk	(288)	(443)	(207)
XIV.	OPERATING LOSS	(280)	(776)	(412)
XV.	Income from associates	0	0	0
XVI.	Net gains (losses) on other assets	0	31	(1 072)
XVII.	Impairment on goodwill	0	0	(141)
XVIII.	LOSS BEFORE TAX	(280)	(745)	(1 625)
XIX.	Income tax	91	18	70
XXI.	NET LOSS	(189)	(727)	(1 555)
XXII.	Minority interests	1	(31)	13
XXIII.	NET LOSS, GROUP SHARE	(190)	(696)	(1 568)
	Earning per share, Group share			
	- Basic (in EUR)	-2,18	-7,99	-18,01
	- Diluted (in EUR)	-2,18	-7,99	-18,01

NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY

(EUR millions)		Half-Year 2010	Year 2010	Half-Year 2011
I.	Net income	(189)	(727)	(1 555)
II.	Translation adjustments	61	76	(30)
III.	Unrealised or deferred gains and losses on available-for-sale financial assets	(2 188)	(664)	2 629
IV.	Unrealised or deferred gains and losses on cash flow hedges	(109)	91	131
VIII.	Taxes	131	(403)	(354)
IX.	Total unrealised or deferred gains and losses through equity	(2 105)	(900)	2 376
X.	Net income (loss) and unrealised or deferred gains and losses through equity	(2 294)	(1 627)	821
XI.	Of which, Group share	(2 130)	(1 512)	621
XII.	Of which, minority interests	(164)	(115)	200

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR millions)	Core equity			Unrealised or deferred gains and losses					Minority interests			
	Capital stock, Additional paid-in capital	Reserves, retained earnings and net income for the period	Total	Change in fair value of financial assets available for sale , net of taxes	Change in fair value of cash flow hedges, net of taxes	Cumulative translation differences	Total	**Equity, Group share**	Core equity	Unrealised or deferred gains and losses	Total	**Equity**
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			0	(1 741)			(1 741)	**(1 741)**		(185)	(185)	**(1 926)**
- Changes in fair value of derivatives through equity			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)**
Movements during the period												
- Changes in capital	0	0	0				0	**0**	0		0	**0**
- Changes in additional paid-in capital	640	0	640				0	**640**	0		0	**640**
- Dividends		0	0				0	**0**	0		0	**0**
- Translation adjustments			0	324	35	6	365	**365**		9	9	**374**
- Changes in fair value of financial assets available for sale through equity			0	114			114	**114**		40	40	**154**
- Changes in fair value of derivatives through equity			0		97		97	**97**		(4)	(4)	**93**
- Changes in fair value of financial assets available for sale through profit or loss			0	547			547	**547**		37	37	**584**
- Changes in fair value of derivatives through profit or loss			0		0		0	**0**		0	0	**0**
- Net income for the period		(506)	(506)				0	**(506)**	(32)		(32)	**(538)**
- Other movements	0	(11)	(11)	0	0	0	0	**(11)**	10	0	10	**(1)**
At December 31, 2010	**2 702**	**4 012**	**6 714**	**(6 069)**	**(569)**	**(44)**	**(6 682)**	**32**	**503**	**(253)**	**250**	**282**
Movements during the period												
- Changes in capital	0	0	0				0	**0**	7		7	**7**
- Changes in additional paid-in capital	(831)	831	0				0	**0**			0	**0**
- Dividends		0	0				0	**0**	0		0	**0**
- Translation adjustments			0	139	31	(41)	129	**129**		11	11	**140**
- Changes in fair value of financial assets available for sale through equity (1)			0	1 356			1 356	**1 356**		171	171	**1 527**
- Changes in fair value of derivatives through equity (1)			0		74		74	**74**		0	0	**74**
- Changes in fair value of financial assets available for sale through profit or loss			0	632			632	**632**		5	5	**637**
- Changes in fair value of derivatives through profit or loss			0		(2)		(2)	**(2)**		0	0	**(2)**
- Net income for the period		(1 568)	(1 568)				0	**(1 568)**	13		13	**(1 555)**
- Other movements	0	21	21	0	0	0	0	**21**	117	0	117	**138**
At June 30, 2011	**1 871**	**3 296**	**5 167**	**(3 942)**	**(466)**	**(85)**	**(4 493)**	**674**	**640**	**(66)**	**574**	**1 248**

Dexia Credit 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 30 June 2010	At 31 December 2010	At 30 June 2011
Cash flow from operating activities			
Net loss	(189)	(727)	(1 555)
Adjustments for:			
- Depreciation, amortisation and other impairment	40	81	179
- Impairment on bonds, equities, loans and other assets	288	444	139
- Net (gains) losses on investments	40	42	(6)
- Changes in provisions	(90)	(206)	7
- Unrealised gains and losses	(10)	(6)	1 393
- Income from associates	0	0	0
- Dividends from associates	0	0	0
- Deferred taxes	(177)	(37)	(158)
- Other adjustments	0	0	0
Changes in operating assets and liabilities (1)	(4 452)	(1 962)	(6 260)
NET CASH USED BY OPERATING ACTIVITIES (1)	**(4 550)**	**(2 371)**	**(6 261)**
Cash flow from investing activities			
Purchases of fixed assets	(67)	(118)	(63)
Sales of fixed assets	9	18	19
Acquisitions of unconsolidated equity shares	(17)	(15)	(7)
Sales of unconsolidated equity shares	16	39	17
Acquisitions of subsidiaries	0	0	0
Sales of subsidiaries	0	0	(11)
NET CASH USED BY INVESTING ACTIVITIES	**(59)**	**(76)**	**(45)**
Cash flow from financing activities			
Issuance of new shares	0	640	7
Reimbursement of capital	0	0	0
Issuance of subordinated debt	0	0	0
Reimbursement of subordinated debt	(18)	(661)	(22)
Purchases of treasury stock	0	0	0
Sales of treasury stock	0	0	0
Dividends paid	(6)	(6)	0
NET CASH USED BY FINANCING ACTIVITIES	**(24)**	**(27)**	**(15)**
NET CASH USED (1)	**(4 633)**	**(2 474)**	**(6 321)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**14 961**	**14 961**	**13 122**
Cash flow used by operating activities (1)	(4 550)	(2 371)	(6 261)
Cash flow used by investing activities	(59)	(76)	(45)
Cash flow used by financing activities	(24)	(27)	(15)
Effect of exchange rate changes and changes in scope of consolidation on cash and cash equivalents	1 235	635	(567)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**11 563**	**13 122**	**6 234**
Additional information			
Income tax paid	(142)	(120)	(71)
Dividends received	6	8	4
Interest received	13 108	26 127	13 089
Interest paid	(12 594)	(25 525)	(13 022)

(1) Loans and securities held for trading, loans and securities designated at fair value and cash collateral are excluded from cash and cash equivalents: figures as at 30 June 2010 have been restated accordingly, generating an adjustment of negative EUR 8,595 million.

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 10 – Accounting policies and valuation methods.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the consolidated financial statements.

Judgments are principally made in the following areas:

- classification of financial instruments;
- determination of whether or not there is an active market;
- consolidation (control, including special-purpose entities);
- identification of non-current assets and disposal groups held for sale and discontinued operations;
- hedge accounting;
- existence of a present obligation with probable outflows in the context of litigations;
- identification of impairment triggers.

These judgments are set out in the corresponding sections of the accounting policies.

Estimates are principally made in the following areas:

- determination of the recoverable amount of impaired financial assets;
- determination of fair value less costs to sell for non-current assets and disposal groups held for sale;
- determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets;
- estimate of future taxable profit for the measurement of deferred tax assets;
- estimate of the recoverable amount of cash-generating units for goodwill impairment.

The consolidated financial statements are stated in millions of euros (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 Crédit Local Group since the first half of 2010 are summarised below:

- Dexia Management Services Ltd is fully consolidated as from 1 January 2011, in connection with the restructuration of the operations set up by London branch;
- Dexia Crédit Local deconsolidated Dexia banka Slovensko on 1 January 2011, further to its sale to the Penta group;
- Dexia Holdings Inc and Dexia FP Holdings Inc left the consolidation scope of Dexia Crédit Local on 1 April 2011, due to the signing, on 30 June 2011, of two agreements transferring the control of both entities from Dexia Crédit Local to Dexia SA, with a retroactive application to 1 April 2011;
- The percentage of interest in FSA Global Funding Ltd and Dexia Real Estate Capital Markets went from 90% to 100% on 1 January 2011;
- Dexia Asia Pacific was deconsolidated on 1 June 2011, on the basis of its May financial statements.

The list of companies included in the consolidation scope at 31 December 2010 is provided in the 2010 annual report (paragraph 1.2, pages 104 to 109).

3. FIRST HALF HIGHLIGHTS

Major operations having an impact on the consolidated financial statements at 30 June 2011 are set out below.

- On 27 May 2011, in order to improve its risk profile, profitability and liquidity, the Dexia Group announced a decision to expedite its financial restructuring, the main lines of which were approved by the European Commission in February 2010. This decision had the following effects on the consolidated financial statements of the Dexia Crédit Local Group at 30 June 2011:

- a portfolio of EUR 13 billion of assets held for sale within a period of 12 months was reclassified into "Non-current assets held for sale": the valuation of this portfolio at the selling price resulted in a EUR 1,398 million charge being recognised to earnings for the first half of 2011,

- Dexia Holdings Inc and Dexia FP Holdings Inc were deconsolidated on 1 April 2011, as the result of the signing, on 30 June 2011, of a sale option contract on the securities in Dexia Holdings Inc owned by Dexia Crédit Local, and a guarantee contract with Dexia SA limiting the losses attributable to Dexia Crédit Local to USD 1,447 million (EUR 1,020 million). A gain of EUR 327 million linked to the deconsolidation of these two companies were recorded at 30 June 2011,

- the goodwill on Dexia Crediop (EUR 129 million) and Dexia Israel Bank Ltd (EUR 12 million) were written down in full on 30 June 2011.

- In line with the decision of the European Commission, a total of EUR 6.9 billion of bonds and non-strategic loans was sold over the first half of 2011 (EUR 0.3 billion of which to other Dexia Group companies), with a negative effect on the income statement of EUR 139 million (EUR 21 million of which linked to internal transfers). At the end of 2010, the total amount of assets disposed of was EUR 24 billion.

- On 30 June 2010, Dexia completed its exit from the State guarantee mechanism on its financing put in place in October 2008. This withdrawal was gradual, with Dexia having given up the guarantee on contracts with a term of less than one month or with indefinite terms in October 2009. In line with the agreement with the European Commission, it was agreed that Dexia would exit the guarantee mechanism four months before the date initially scheduled in October 2010. As a result, the Group undertook not to make use of the guarantee from the end of May 2010 for its financing at less than one year, and not to do so for its medium- and long-term financing from 30 June 2010.

  All instruments not yet reimbursed issued under the State guarantee before 30 June 2010 continue to benefit from this guarantee, in accordance with their terms. By way of the remuneration of this guarantee, Dexia Crédit Local and its branches recorded a charge of EUR 156 million for the period (EUR 158 million at 30 June 2010).

- Following the announcement made by the European Union on 21 July 2011 to support the Greek State in its financial difficulties, the Dexia Crédit Local Group wrote down its Greek sovereign debts maturing prior to 31 December 2020, based on an impairment in value of 21%, and recorded a loss of EUR 192 million in its results for the first half of 2011.

- On 31 March 2011, the Dexia Group announced the sale of its 88.71% stake in Dexia banka Slovensko (DBS) to Penta Investments, an investment group based in Central Europe. The Slovak anti-monopoly agency and the National Bank of Slovakia granted the regulatory authorisations. Finalisation of this transaction followed the agreement reached with Penta and announced on 11 November 2010. This pre-dates the European Commission's requirement, which stipulated the disposal of Dexia banka Slovensko by 31 October 2012 at the latest. The selling price was EUR 82 million, which corresponded to the long-term value of the company, valued at 31 December 2010: an impairment provision of EUR 3 million had already been recorded in the consolidated financial statements for the Dexia Crédit Local Group at the end of December 2010. As a result, the sale of Dexia banka Slovensko will have no effect on the results for 2011. Dexia banka Slovensko was deconsolidated on 1 January 2011.

- The unrealised or deferred gains or losses on the portfolio of available-for-sale securities appreciated over the period: the Group share, after tax, improved to a net loss of EUR 3,941 million at the end of June 2011 from a net loss of EUR 6,068 million at 31 December 2010. This improvement of EUR 2,127 million is linked to a large extent to the deconsolidation of Dexia FP Holdings Inc (positive effect on the line of EUR 1,336 million), as well as to the reclassification of assets into "Non-current assets held for sale" (EUR 320 million) and the write-down of Greek sovereign debts (EUR 192 million).

In the second half of 2011, the economic environment in which Dexia Crédit Local operates will remain affected by significant uncertainties, especially in the eurozone. Even if there was reasonable hope for the world economic situation to stabilise, the rate of recovery remains uncertain at this stage and further disruptions cannot be ruled out.

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 2010	**June 2011**	**June 2010**	**June 2011**	**June 2010**	**June 2011**	**June 2010**	**June 2011**	**June 2010**	**June 2011**	**June 2010**	**June 2011**	**June 2010**	**June 2011**
Loans (1)	1	1	2 067	1 749	14	31	0	0	0	0	0	0	20 367	17 888
Interest income on loans*	0	0	8	7	0	0	0	0	0	0	0	0	63	107
Asset disposals			0	0	0	0	0	0	0	0	0	0	1 051	330
Losses on asset disposals			0	0	0	0	0	0	0	0	0	0	184	21
Deposits*	0	0	48	53	2 192	2 918	0	0	0	0	0	0	57 065	50 353
Interest expense on deposits	0	0	0	0	(22)	(39)	0	0	0	0	0	0	(247)	(332)
Net commissions**	0	0	0		16	16	0	0	0	0	0	0	2	3
Guarantees issued by the Group	0	0	0		200	169	0	0	0	0	0	0	24 555	28 272
Guarantees received by the Group	0	0	0		0		0	0	0	0	0	0	1 650	8 845

(1) Loans to key management personnel were granted at general market conditions.
(2) This refers to the main shareholders of Dexia (2010 - 2011): Group Arco, Holding Communal, Groupe Caisse des Dépôts.
(3) This includes the non-consolidated investments listed in notes 1.2.b "Non-consolidated subsidiaries", 1.2.d "Joint companies not consolidated by the proportionate method", and 1.2.f "Associated companies not accounted for by the equity method" of the 2010 annual report.
(4) This item includes loans with entities of Belgian and Luxemburg sub-groups consolidated by Dexia, the parent company of Dexia Crédit Local.

* Data for "Interest income on loans" and "Deposits with other related parties" for 2010 was updated.
** Data for "Net commissions" received from "Entities exercising joint control or significant influence over the entity" for 2010 was updated.

5. NOTES ON THE INCOME STATEMENT

Net gains (losses) on financial instruments at fair value through profit or loss
(item V - income statement)

(EUR millions)	Half-year 2010	Half-year 2011
Net trading income	63	2
Net result of hedge accounting	6	1
Net result of financial instruments designated at fair value through profit or loss (*)	(33)	3
Change in own credit risk	7	(23)
Net result of foreign exchange transactions	(6)	(24)
Total	**37**	**(41)**
(*) Of which trading derivatives included in a fair value option strategy	*167*	*(9)*

Analysis of net result of hedge accounting

(EUR millions)	Half-year 2010	Half-year 2011
Fair value hedges	**8**	**3**
Change in fair value of hedged item attributable to the hedged risk	6 735	(1 207)
Change in fair value of hedging derivatives	(6 727)	1 210
Cash flow hedges	**0**	**0**
Change in fair value of hedging derivatives – ineffective portion	0	0
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	0	0
Hedges of net investments in a foreign operation	**0**	**0**
Change in fair value of hedging derivatives – ineffective portion	0	0
Portfolio hedge	**(2)**	**(2)**
Change in fair value of hedged item	493	140
Change in fair value of hedging derivatives	(495)	(142)
Total	**6**	**1**

Amount recycled in net interest income from the fair value reserve on cash flow hedges (on derivatives for which the hedging relationship has been interrupted)	**4**	**3**

Net gains (losses) on available-for-sale financial assets
(item VI - income statement)

(EUR millions)	Half-year 2010	Half-year 2011
Dividends on available-for-sale securities	6	4
Net losses on disposals of available-for-sale loans and securities	(252)	(214)
Impairment of available-for-sale variable-income securities	(1)	(4)
Net gains on disposals of held-to-maturity securities	0	0
Net gains on disposals of debt securities	17	1
Total	**(230)**	**(213)**

In 2011, this item includes notably losses of EUR 139 million on asset disposals made in connection with the policy of reducing the Group's overall exposure (of which EUR 21 million on transfers to other Dexia Group entities), as well as a EUR 89 million loss on the disposal of Lehman securities that had been written down in fully (see note on "Cost of risk", below).

Operating expenses (item X - income statement)

(EUR millions)	Half-year 2010	Half-year 2011
Payroll costs	(150)	(120)
General and administrative expenses	(71)	(75)
Deferred acquisition expenses	0	0
Total	**(221)**	**(195)**

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

Cost of risk (item XIII - income statement)

(EUR millions)	Half-year 2010			Half-year 2011		
	Collective impairment	Specific impairment and losses	TOTAL	Collective impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and held-to-maturity securities)	88	(376)	**(288)**	(20)	(119)	**(139)**
Credit enhancement	0	0	**0**	0	0	**0**
Available-for-sale fixed-income securities		0	**0**	0	(68)	**(68)**
Total	**88**	**(376)**	**(288)**	**(20)**	**(187)**	**(207)**

In 2011, the cost of risk of the Dexia Crédit Local Group mainly includes:
- a charge of EUR 192 million on Greek sovereign bonds maturing before 2020;
- a charge of EUR 91 million (USD 127 million) on the Financial Products portfolio, booked in the first quarter of 2011, before the deconsolidation of Dexia FP Holdings Inc;
- a gain of EUR 89 million on disposal of Lehman securities that had been written down in full (see above note "Net gains (losses) on available-for-sale financial assets").

Net gains (losses) on other assets (item XVI - income statement)

(EUR millions)	Half-year 2010	Half-year 2011
Net gains (losses) on disposals of buildings	0	0
Net gains (losses) on disposals of other fixed assets (1)	0	(1 398)
Net gains (losses) on disposals of consolidated equity investments (2)	0	326
Total	**0**	**(1 072)**

(1) In 2011, this item includes a charge of EUR 1,398 million linked to the valuation at their selling price of EUR 13 billion of assets that the Dexia Crédit Local has decided to dispose of within a period of 12 months as part of the programme to expedite the reduction in its overall exposure, announced on 27 May 2011.
(2) In 2011, this item mainly includes a gain of EUR 327 million regarding the deconsolidation of Dexia Holdings Inc and Dexia FP Holdings Inc.

Impairment on goodwill (item XVII - income statement)

Impairment on goodwill amounts to EUR 141 million as at 30 June 2011.
The following goodwills were written down in full:
- Dexia Crediop (acquired in 1996), for EUR 129 million,
- Dexia Israel Bank Ltd (acquired in 2001), for EUR 12 million.

6. ANALYSIS BY REGION AND BY LINE OF BUSINESS

Analysis by region

(EUR millions)	Half-year 2010	Half-year 2011
Net banking income	**253**	**13**
Euro zone (countries employing the euro)	224	60
Rest of Europe	30	5
United States	25	(66)
Rest of world	(26)	14
Income before income tax	**(280)**	**(1 625)**
Eurozone (countries employing the euro)	19	(1 106)
Rest of Europe	22	32
United States	(296)	(351)
Rest of world	(25)	(200)

Analysis by line of business

The business segmentation was adapted to Dexia Crédit Local's new profile and strategic directions, and has now been split into two divisions:

- the Core Division, which includes the two lines of business consisting of operational activities focused on homogeneous customer franchises (Public and Wholesale Banking and Retail and Commercial Banking), as well as a third segment, named Group Center, that includes treasury operations and the former Central Asset segment;
- the Legacy Portfolio Management Division, which includes portfolios in run-off, in accordance with the European Commission decision.

(EUR millions)	Half-year 2010	Half-year 2011
Net banking income (loss)	**253**	**13**
Core Division	324	291
- Public and Wholesale Banking	255	247
- Retail and Commercial Banking	30	0
- Group Center	39	44
Legacy Portfolio Management Division	(71)	(278)
Income (loss) before tax	**(280)**	**(1 625)**
Core Division	100	(16)
- Public and Wholesale Banking	93	96
- Retail and Commercial Banking	4	0
- Group Center	3	(112)
Legacy Portfolio Management Division	(380)	(1 609)

7. INFORMATION ON DECONSOLIDATION OF DEXIA HOLDINGS INC AND DEXIA FP HOLDINGS INC

As the result of the signing, on 30 June 2011, of a sale option contract on the securities in Dexia Holdings Inc held by Dexia Crédit Local, and a guarantee contract with Dexia SA, control of Dexia Holdings Inc and Dexia FP Holdings Inc was transferred from Dexia Crédit Local to Dexia SA, with retroactive effect to 1 April 2011. As a result, the two companies left the consolidation scope of Dexia Crédit Local on 1 April 2011, based on their financial statements at 31 March, and remain included within the consolidated financial statements of the Dexia Group.

Under the terms of this guarantee contract, the amount of the losses attributable to Dexia Crédit Local is USD 1,447 million, calculated notably based on the assumption by Dexia SA of the losses incurred by Dexia Holdings Inc on the securities in the FP portfolio beyond the amount of USD 1 890 million, representing the valuation of the economic losses expected at the end of March 2011 on this portfolio.

As a result, a gain of EUR 314 millions was recorded in “Net gains or losses on other assets”, to which was added a gain of EUR 13 million linked to the taking of the translation difference into profit: the total profit on the deconsolidation of the two companies therefore amounts to EUR 327 million.

	Dexia Holdings Inc and Dexia FP Holdings Inc	
	At 31 March 2011	
(EUR millions)	Assets and liabilities	Contribution to consolidated financial statements
Derivatives	590	498
Available-for-sale financial assets	1 663	1 663
Interbank loans and advances	384	240
Customer loans and advances	4 963	4 963
Tax assets	157	157
Other assets	6	0
Tangible and intangible assets	2	2
Intercompany accounts: net liabilities less assets		(2 579)
Financial liabilities at fair value through profit or loss	2 793	2 390
Derivatives	471	418
Interbank borrowings and deposits	5 520	3 166
Customer borrowings and deposits	1 824	1 824
Other liabilities	64	53
Provisions	57	57
Unrealised or deferred gains and losses on available-for-sale financial assets and cash flow hedges	(1 481)	(1 481)
NET ASSETS	**(1 483)**	**(1 483)**

8. DISPOSAL OF GROUP OF NON–CURRENT ASSETS HELD FOR SALE: DELEVERAGING

The Board of Directors of Dexia SA decided on 27 May 2011 to accelerate the financial restructuring of the Group, the guidelines for which were approved by the European Commission in February 2010. This decision will translate into early disposals of assets, whose financial impact on the Dexia SA Group was projected to be EUR 3.6 billion. The Board of Directors of Dexia Crédit Local validated these decisions at its 28 June 2011 meeting.

That programme has the three-fold advantage of lightening the burden of the Legacy Division, improving liquidity and increasing the Group’s ability to achieve recurring profits in a more challenging economic environment.

In this prospect, the following assets have been transferred to disposal groups held for sale under IFRS 5:

a) Guaranteed assets in the Financial Products portfolio. Divestment of all of the guaranteed assets in the Financial Products portfolio will reduce the weighted risks of the Legacy Division by one third;

b) Assets in the Legacy bond and PWB loan portfolios, as set out in the Group’s restructuring plan. Since portfolios are involved, those divestments will assign priority to long-term assets;

c) Tangible and intangible assets related to the disposal of certain operations and the resulting closure of offices.

ACCELERATED DELEVERAGING OF THE LEGACY BOND AND PWB LOAN PORTFOLIOS

The criteria used to select the disposal groups were based, firstly on the improvement of the funding and the liquidity of the Group, and secondly on the decrease of the credit risk and the concentration risk on some counterparties. Therefore, the disposal groups include assets in USD, bonds and loans maturing after 2014, assets having a favourable impact on the liquidity ratio and assets having an acceptable loss in comparison with the volume of assets sold. All assets selected were reviewed by the front office and commercial departments for loans, to ensure that a market and/or demand for such groups of assets exists so that Dexia could sell them within the next 12 months. The finalisation of the sales depends on the evolution of the markets and economic conditions in the coming 12 months.

The disposal groups held for sale are comprised mostly of financial assets. If the disposal group's fair value less costs to sell exceeds its carrying amount net of impairment for non-current assets within the scope of IFRS 5, the difference is allocated to the other assets of the disposal group, including financial assets, and is recognised in earnings for the period and updated at the end of every reporting period.

In order to recognise in earnings for the period the total loss relating to the assets classified in loans and receivables, the frozen fair value adjustment (AFS reserve) on those loans that have reclassified as loans and receivables is recycled into earnings.

If a non-current asset can no longer be classified as held for sale due to changes in market conditions, to the impossibility of selling it due to a lack of counterparties or other reasons, the asset shall cease to be classified among assets held for sale and will be reclassified in its original portfolio at the value at which it would have been recognised if it had never been classified as held for sale. In this case, the difference between the fair value less cost to sell and the value if no reclassification had taken place is taken back into earnings for the period. For those AFS bonds that had been reclassified in loans and receivables in 2008, the adjustment of the "frozen" fair value (AFS reserve) of the financial assets reclassified in loans and receivables will not be reconstituted.

The amounts involved are the following (EUR millions)[1]:

Carrying amount	Before tax	Tax	After Tax
Loans and receivables	6 070		
Financial as reclassified in loans and receivables	4 546		
Available-for-sale financial assets	1 839		
Financial assets at fair value through profit or loss	822		
Total	13 277		
Fair value less cost to sell	12 188		
Difference	-1 090		
Adjustment of the frozen fair value on financial assets reclassified in loans and receivables	-321		
Impact recognised	-1 411	33	-1 378
- in earnings for the period	-1 398	31	-1 367
- in the AFS reserve	-13	2	-11

[1] *Excluding tangible and intangible assets*

9. ANALYSIS OF SOVEREIGN BONDS FOR A SELECTION OF EUROPEAN COUNTRIES AND IMPAIRMENT OF SOVEREIGN BONDS ISSUED BY COUNTRIES INCLUDED IN AN EUROPEAN SUPPORT PLAN

9.1 RISK EXPOSURE OF SOVEREIGN BONDS FOR A SELECTION OF EUROPEAN COUNTRIES

The maximum credit risk exposure (MCRE) reported represents the net carrying amount of exposures, i.e. the notional amounts after deduction of specific impairment and AFS reserves, and including accrued interest and the impact of fair value hedge accounting.

30/06/2011 (EUR millions)	**Spain**	**Ireland**	**Italy**	**Portugal**	**Greece**	**TOTAL**
o/w Banking activities	311		7 075	1 822	2 287	11 495
TOTAL	**311**	**0**	**7 075**	**1 822**	**2 287**	**11 495**
31/12/2010 (EUR millions)	**Spain**	**Ireland**	**Italy**	**Portugal**	**Greece**	**TOTAL**
o/w Banking activities	315		7 112	1 822	2 532	11 781
TOTAL	**315**	**0**	**7 112**	**1 822**	**2 532**	**11 781**

MCRE	**Spain**	**Ireland**	**Italy**	**Portugal**	**Greece**	**TOTAL**
Available-for sale-financial assets	311		4 257	1 772	2 151	8 490
Financial assets at fair value through profit or loss						0
Held-to-maturity financial assets					136	136
Loans and receivables			2 819	50		2 869
Total as at 30 June 2011	**311**	**0**	**7 075**	**1 822**	**2 287**	**11 494**
AFS reserve	**-68**	**0**	**-785**	**-284**	**-641**	**-1 778**

MCRE	**Spain**	**Ireland**	**Italy**	**Portugal**	**Greece**	**TOTAL**
Available-for sale-financial assets	315		4 293	1 772	2 347	8 727
Financial assets at fair value through profit or loss						0
Held-to-maturity financial assets					185	185
Loans and receivables			2 819	50		2 869
Total as at 31 December 2010	**315**	**0**	**7 112**	**1 822**	**2 532**	**11 781**
AFS reserve	**-80**	**0**	**-797**	**-360**	**-677**	**-1 914**

9.2 IMPAIRMENT OF GREEK SOVEREIGN BONDS

The MCRE exposure on sovereign debts may be analysed as followed as at 30 June 2011:

Exposure to Greek sovereign debt	Gross MCRE	Impairment	Net MCRE
AFS securities	740	-156	584
HTM securities	172	-36	136
HFT securities	0	0	0
Total maturing in less than 10 years	912	-192	720
Total maturing in more than 10 years	1 567	0	1 567
Total MCRE	**2 479**	**-192**	**2 287**

Dexia has decided to participate in the Institute of International Finance (IIF) plan and to exchange its bonds for new bonds.

The plan offers four instruments in exchange of the existing bonds. The exchange will result in a loss estimated to be 21% on the face value based on the documentation provided by the IIF and other documents at date of approval of the financial statements by the Board of Directors. Depending on the instrument selected, the accounting consequences may differ for bonds hedged against interest rate risk.

As Dexia participated in discussions at the IIF and was therefore aware, before 30 June 2011, that an exchange will be proposed and is committed to participate to the IIF plan, the valuation of the Greek sovereign bonds maturing within 10 years has been adjusted as at 30 June 2011 to reflect a discount of 21% on the face value. The resulting AFS reserve on these bonds has been transferred to the P&L, as only the bonds maturing before 2021 are considered impaired.

Only those bonds maturing before 31 December 2020 have been written down for impairment. If the conditions of the plan are respected, Dexia believes that Greece will be able to meet its commitments going forward and therefore does not record any impairment on the bonds maturing after 31 December 2020.

9.3 MEASUREMENT OF SOVEREIGN BONDS ISSUED BY COUNTRIES INCLUDED IN AN EUROPEAN SUPPORT PLAN

Notwithstanding the restructuring plan for Greece, Dexia considered the Greek sovereign bonds market illiquid and estimated their fair value by using a model (valuation technique) which incorporates market data still available. The negative AFS reserve, including the hedge accounting impact, of the Greek sovereign bonds maturing before 2021 based on this model was not materially different from the 21% discount on the face value when factoring in the fair value hedge accounting impacts on these bonds.

Furthermore, Portuguese sovereign bonds are also measured at fair value using a mix of market value and model value, as there is no more primary market and the secondary market for those bonds is nearly inexistent, as is the case for Greek sovereign bonds.

10. ACCOUNTING POLICIES AND VALUATION METHODS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accounting policies adopted by Dexia Crédit Local for these interim consolidated statements are consistent with those described in the 2010 annual report (paragraph 1.3, pages 109 to 121).

CHANGES IN ACCOUNTING POLICIES AND STANDARDS SINCE THE PREVIOUS ANNUAL PUBLICATION THAT MAY IMPACT THE DEXIA CRÉDIT LOCAL GROUP:

IFRIC and IASB texts adopted by the European Commission and applied as from 1 January 2011

The following standards, interpretations and amendments have been adopted by the European Commission and are applied as from 1 January 2011:

- Annual improvements made in 2010 to IFRS and IAS, a series of amendments to IFRS applied as from 1 January 2011. The impact of these improvements to IFRS and IAS on the financial statements of Dexia Crédit Local mainly relates to disclosures provided in the notes to the financial statements.

- IAS 24 Related Party Disclosures. This standard supersedes IAS 24 Related Party Disclosures (as revised in 2003) and has no significantly impact on the financial statements of Dexia Crédit Local.
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirements. This amendment has no impact on the financial statements of Dexia Crédit Local.
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. This amendment has no impact on the financial statements of Dexia Crédit Local, which is no longer a first-time adopter.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. This interpretation has no impact on the financial statements of Dexia Crédit Local.
- Amendment to IAS 32 Financial instruments: Presentation - Classification of Rights Issue. This amendment has no impact on the financial statements of Dexia Crédit Local.

IASB and IFRIC texts adopted by the European Commission during the current year but not yet applicable as at 1 January 2011

None

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

- Amendment to IAS 19 Employee Benefits (issued by IASB on June 2011) principally changes the recognition and measurement of defined pension benefit plans (e.g. removal of corridor mechanism) and enhances the disclosure requirements for these plans. This amendment is effective as from 1 January 2013. Dexia Crédit Local does not expect this standard to have a material impact on its financial statements.
- Amendment to IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (issued by IASB on June 2011) clarifies the requirements on the presentation of the statement of comprehensive income and introduces a presentation of items in other comprehensive income (OCI) on the basis of recyclability. This amendment is effective as from 1 January 2013 and will impact Dexia Crédit Local's presentation of unrealised or deferred gains and losses through equity.
- IFRS 13 Fair Value Measurement (issued by IASB on May 2011) describes how to measure fair value under IFRS and introduces new and enhanced disclosure requirements. This standard is effective as from 1 January 2013 and the impact on the financial statements of Dexia Crédit Local is currently being assessed.
- A set of five new and revised standards (issued by IASB on May 2011) on the accounting treatment and disclosure requirements of interests in other entities. These new and revised standards are effective as from 1 January 2013. This publication comprises the following:
    - IFRS 10 Consolidated Financial Statements introduces one single consolidation model for all entities, based on control and regardless the nature of the consolidated entity. Dexia Crédit Local does not expect this standard to have a material impact on its financial statements.
    - IFRS 11 Joint Arrangements will no longer admit the proportional consolidation method when accounting for jointly-controlled entities. Dexia Crédit Local does not expect this standard to have a material impact on its financial statements.
    - IFRS 12 Disclosures of Interests in Other Entities will require enhanced disclosures about Dexia Crédit Local's interests in subsidiaries, joint ventures, associates and unconsolidated structured entities in which Dexia Crédit Local has an involvement.
    - IAS 27 Separate Financial Statements, which supersedes IAS 27 Consolidated and Separate Financial Statements (as amended in 2008), continues to be a standard dealing solely with separate financial statements: the existing guidance is unchanged.
    - IAS 28 Investments in Associates and Joint Ventures, which supersedes IAS 28 Investments in Associates (as revised in 2003), is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

STATEMENT OF THE PERSON RESPONSIBLE

I, Alain CLOT, the undersigned, Chief Executive Officer of Dexia Crédit 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 2011

Alain CLOT
Chief Executive
Officer

STATUTORY AUDITORS' REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

Period from 1 January 2011 to 30 June 2011

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.

Further to the assignment entrusted to us by your Shareholders' Meeting and in application of Article L.451-1-2 III of the French Monetary and Financial Code, we have performed:

- a limited examination of the condensed consolidated half-yearly financial statements of Dexia Crédit Local, relating to the period from 1 January 2011 to 30 June 2011, as attached to this report;
- a verification of the information provided in the half-year business report.

These condensed consolidated half-yearly financial statements were drawn up under the responsibility of the Board of Directors, against a background characterised by a crisis in the public finances of certain countries in the eurozone and Greece in particular, the effects of which are set out in note 9 of the notes to the financial statements. It is our duty, based on our limited examination, to express our conclusions about these financial statements.

I. Conclusion on the financial statements

We conducted our limited examination in accordance with the standards of professional practice that apply in France. A limited examination consists essentially of speaking with the members of management responsible for the accounting and financial aspects of the financial statements and conducting analytical procedures. This work is less extensive than that required for an audit conducted in accordance with the standards of professional practice that apply in France. As a result, our assurance that the financial statements, taken overall, do not include any significant anomalies, obtained as part of a limited examination, is a cautious assurance, less thorough than one obtained in the context of an audit.

On the basis of our limited examination, we did not discover any significant anomalies of a nature to call into question the compliance of the condensed consolidated half-yearly financial statements with the IAS 34 standard, which is the standard applied by the benchmark IFRS regulations, as adopted in the European Union relative to interim financial information.

Without doubting the conclusion expressed above, we would draw your attention to note 8 in the notes to the condensed consolidated financial statements which, in the context of expediting the implementation of the financial restructuring plan decided on by the Board of Directors, sets out the terms for accounting reclassification and the change in the method of valuing assets intended for sale, and its principal impacts on the financial statements.

II. Specific verification

We have also proceeded to verify the information stated in the half-year business report, commenting on the condensed consolidated half-yearly financial statements dealt with in our limited examination.
We have no observations to make as to their sincerity and their concordance with the condensed consolidated half-yearly financial statements.

Courbevoie and Neuilly-sur-Seine, 8 August 2011

The Auditors

MAZARS

DELOITTE & ASSOCIÉS

Hervé HELIAS Virginie CHAUVIN

José Luis GARCIA