DEXIA CRÉDIT LOCAL DCL

HALF-YEAR FINANCIAL REPORT

30 JUNE 2012

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This free translation of the half-year financial report published in the French language is provided solely for the convenience of English-speaking readers. The French version of the Dexia Crédit Local half-year financial report was filed with the French Financial Market Authority (Autorité des Marchés Financiers) on August 3, 2012, in compliance with Article L. 451-1-2 of the Code Monétaire et Financier.

HALF-YEAR BUSINESS REPORT

BUSINESS REVIEW

1. OVERVIEW

For Dexia Crédit Local, the first half of 2012 saw the continuation of the Dexia Group's orderly resolution plan. As such, on 31 May 2012, the European Commission approved the extension, for a period of four months, of the EUR 45 billion guarantee mechanism and, on 6 June 2012, authorised the limit to be raised to EUR 55 billion. On 15 March 2012, the draft agreement in principle between the French state, Caisse des Dépôts, La Banque Postale and Dexia concerning the sale of Dexia Municipal Agency and the creation of a joint venture to market financing to the local public sector in France was presented to Dexia Crédit Local's Works Council and was approved by the Boards of Directors of Dexia SA and Dexia Crédit Local. This agreement follows the discussions initiated in October 2011 for the implementation of a lasting solution for the financing of the local public sector in France by formally allowing the French state to participate in fundraising for the acquisition of Dexia Municipal Agency and the creation of a new financial institution, a supporting structure and manager of Dexia Municipal Agency, which will assume the operational and human resources necessary for its management.

This first six months of 2012 also featured the discontinuation of the Global Project Finance business in France, Germany, the United Kingdom and North America due to:

- increased constraints on the project finance market, characterized by:
  - the future Basel III regulations, which are detrimental to the project finance business;
  - a difficult liquidity climate that looks set to last for several years;
  - wariness shown by British and American investors towards European banks and difficulties in obtaining funding in US dollars and British pounds, rendering project finance markets outside the euro zone much less attractive; and
- a substantially impaired ability to pursue the project finance business due to the difficulties faced by the Group in raising the resources needed to put in place such financing.

In the local public sector segment, total loans as at 30 June 2012 stood at EUR 142.4 billion, down EUR 4.4 billion (-3%) compared with 30 June 2011. Excluding currency effects, the decline was 6%. These balances include the very low volume of new loans granted in the first half of 2012. The commercial policy aims to restrict new production: the only new commitments entered into, and these for a very limited amount, are loans granted in connection with transactions aimed at desensitising structured loans in France together with loans that do not weaken the liquidity position:

- in France, as loans were granted in respect of the EIB or PLS (*Prêt Locatif Social* – loan for the construction of affordable rental housing) budgets and on savings funds;
- in Israel, as the subsidiary is autonomous in terms of funding.

At 30 June 2012, the Dexia Crédit Local Group's Public & Wholesale Banking's long-term lending book stood at EUR 165.1 billion, down EUR 7.6 billion (i.e. -4%) year-on-year. The assets of the Legacy division (which houses the run-off activities and includes, in particular, former Public & Wholesale Banking loans in non-strategic markets and the entire bond portfolio) declined by EUR 37.5 billion (-34%), with a decline of EUR 11.3 billion (-51%) for loans alone.

All in all, for the Public & Wholesale Banking business as a whole, new long-term commitments were EUR 0.7 billion compared with EUR 2 billion for the first half of 2011, representing a decline of 66%.

At the same time, Dexia Crédit Local obtained good results in terms of new deposits (deposit intake up 25% in the first six months of the year), thanks notably to buoyant activity in Germany.

On the liabilities side of the balance sheet, Dexia Crédit Local implemented its long-term wholesale funding programme, revolving around two key areas. The first involved the use of issues benefiting from the guarantee provided by the Belgian, French and Luxembourg states (total of EUR 15 billion) while the second focused on further optimisation of the balance sheet through collateralised refinancing operations (total of EUR 1 billion). Through these two channels, the Dexia Crédit Local Group had total long-term borrowings of EUR 16.2 billion at 30 June 2012.

Lastly, it should be noted that the condensed half-year consolidated financial statements were drawn up in accordance with the accounting regulations applicable in a going concern situation, which is based on certain factors and assumptions, including approval by the European Commission of the resolution plan submitted by the States, described in the sections of this report relating to the business results and the financial statements.

BUSINESS REVIEW BY LOCATION

A. FRANCE

Dexia Crédit Local's long-term lending totalled EUR 78.9 billion at 30 June 2012, down 4% compared with one year earlier.

Pursuant to the Group's restructuring plan that restricts all new lending to loans based on specific funding sources and those relating to the desensitisation of structured loans, new lending at 30 June 2012 came to EUR 0.5 billion, down sharply (-58%) compared with the volume at end-June 2011.

Own resources dedicated to this activity totalled EUR 0.2 billion, virtually all of this being devoted to the desensitisation of structured loans. The remaining EUR 0.3 billion came from external financing sources (EIB, PLS/PSLA, emergency budget for savings funds). Meanwhile, Dexia Crédit Local continues to diversify across its Public & Wholesale Banking customer base (statutory insurance, investments, CESU-type employment cheques, long-term vehicle leasing, etc.).

B. INTERNATIONAL

GERMANY

In Germany, Dexia Kommunalbank Deutschland refinances German assets and certain assets originated in other Group countries and which have been transferred to it through the issue of *Pfandbriefe* (covered bonds), as part of a programme amounting to EUR 6.7 billion since 2009.

On a complementary basis, the subsidiary continued to successfully pursue the deposit-taking business launched in early 2010, such deposits having topped EUR 3.5 billion.

NORTH AMERICA (UNITED STATES AND CANADA)

None of the North American locations have any new commercial business following the discontinuation of the project finance business, and are now focused on managing existing lending portfolios.

UNITED KINGDOM

Following the discontinuation of the project finance business across the entire Dexia Group, Dexia Management Services has suspended its project finance origination activities to focus on the management of existing lending and the associated client interface.

IBERIAN PENINSULA

In an economic environment made extremely complex by the sovereign debt crisis, Dexia Sabadell concentrated on monitoring its outstanding balances and optimisation of its financing.

ITALY

In an equally difficult context, Dexia Crediop's commercial business slowed substantially. The banking market serving local authorities remained sluggish in the first half. Also, like all other entities in the Dexia Group, Dexia Crediop focused on managing its liquidity position by identifying and diversifying local sources of funding and selling off non-core assets. New loan production was minimal and strictly limited to funding raised locally.

ISRAEL

In the first half of 2012, Dexia Israel maintained its position as the bank of reference for local governments and continued to operate autonomously in terms of funding. In accordance with the various announcements made earlier by the Dexia Group, the process for the sale of this entity is still in progress.

CENTRAL AND EASTERN EUROPE

The various entities present in Central and Eastern Europe no longer have any commercial activity. Existing lending, already transferred to the information systems of Dexia Crédit Local Paris, is managed by small local teams and coordinated from Vienna, the overall objective being to reduce the balance sheet size and limit operational risks.

MEXICO

The local entity's sole purpose now is to carry the assets retained on the balance sheet, management of which has been transferred to the Dexia Crédit Local branch in New York. Outstanding loans have been reduced substantially following the sale of a significant portion of the portfolio.

AUSTRALIA

The Australian subsidiary was closed in May 2012.

2. PUBLIC AND WHOLESALE BANKING (PWB)

At end-June 2012, long-term lending in the Core segment was down EUR 7.6 billion (i.e. -4%) compared with 30 June 2011 at EUR 165.1 billion. Excluding currency effects, the contraction in outstandings came to 8%. The decline was more marked in the project finance segment (-12%) than in the local public sector segment (-3%).

Public and Wholesale Banking loans of entities in run-off (Legacy PWB) were down sharply (-51%) at EUR 10.8 billion. The biggest decline was observed in the United States (-EUR 8.8 billion, i.e. -78%), mainly due to the amortisation of the Standby Bond Purchase Agreement (SBPA) portfolio. The balance of EUR 0.3 billion in Germany at 30 June 2012 related to loans recorded within France in 2011.

Between 30 June 2011 and 30 June 2012, the outstandings of Dexia Crédit Local's Public and Wholesale Banking business as a whole fell by 10% (i.e. -EUR 18.9 billion) and by 13% excluding currency effects.

New long-term loan production in the first half of 2012 was intentionally very limited. At end-June 2012, it came to EUR 0.7 billion compared with EUR 2 billion for the first half of 2011, down 66%. Activity in France represented 83% of the total amount, almost exclusively in connection with the local public sector business.

In other countries, there were no new long-term loans other than in Israel (which enjoys autonomy in terms of funding) for EUR 31 million and Italy for EUR 37 million (including EUR 20 million off-balance sheet) back-to-back with local funding.

Public and Wholesale Banking

(EUR millions)	Outstanding long-term loans			New long-term loans		
	30/06/2011	30/06/2012	Change	30/06/2011	30/06/2012	Change
CORE	**172,703**	**165,140**	**-4%**	**1,965**	**662**	**-66%**
o.w. Local Public Sector	*146,752*	*142,379*	*-3%*	*1,259*	*590*	*-53%*
o.w. Project Finance	*25,951*	*22,789*	*-12%*	*706*	*72*	*-90%*
France	82,617	78,917	-4%	1,315	548	-58%
Italy	32,599	30,749	-6%	102	37	-64%
United States and Canada	6,414	5,871	-8%	38	0	-100%
Iberian Peninsula (Spain and Portugal)	17,025	15,383	-10%	412	0	-100%
Germany	21,289	21,131	-1%	0	0	-
United Kingdom	11,640	11,935	+3%	34	0	-100%
Israel	1,119	1,153	+3%	64	78	+22%
LEGACY PORTFOLIO PWB (Loans)	**22,189**	**10,840**	**-51%**	**0**	**0**	**-**
International headquarters (Public Banking)	7,949	6,340	-20%	0	0	-
Central and Eastern Europe	1,674	1,345	-20%	0	0	-
Mexico	1,220	348	-71%	0	0	-
United States (SBPA)	11,346	2,523	-78%	0	0	-
Germany	0	284	+100%	0	0	-
TOTAL DEXIA CRÉDIT LOCAL	**194,892**	**175,980**	**-10%**	**1,965**	**662**	**-66%**

2.1. LOCAL PUBLIC SECTOR

At the end of the period, long-term loans totalled EUR 142.4 billion, down EUR 4.4 billion (-3%) compared with 30 June 2011. Excluding currency effects, the decline in outstandings was more marked (-6%), largely due to the depreciation of the euro against the US dollar and the British pound. The decrease in outstanding loans, excluding currency effects, in the United States and the United Kingdom came to 20% and 4% respectively.

At EUR 590 million, new lending to the local public sector fell by 53% compared with end-June 2011. This sharp contraction reflects:

- the very low level of activity internationally (only EUR 78 million of new loans recorded in Israel, Dexia Israel being authorised to grant new loans due to its funding autonomy); and
- significantly lower activity in France (-41%): the only loans granted were those based on external funding (PLS, EIB, emergency budget for savings funds) or those relating to the desensitisation of structured loans.

Local Public Sector

(EUR millions)	Outstanding long-term loans			New long-term loans		
	30/06/2011	30/06/2012	Change	30/06/2011	30/06/2012	Change
CORE	**146,752**	**142,354**	**-3%**	**1,259**	**590**	**-53%**
France	73,178	70,002	-4%	868	512	-41%
Iberian Peninsula (Spain and Portugal)	12,914	11,655	-10%	327	0	-100%
Israel	1,119	1,153	+3%	64	78	+22%
Italy	27,566	27,262	-1%	0	0	-
United States and Canada (excluding SBPA)	2,667	2,442	-8%	0	0	-
Germany	20,812	20,740	+0%	0	0	-
United Kingdom	8,496	9,100	+7%	0	0	-

BUSINESS REVIEW BY LOCATION

A. France

At end-June 2012, long-term loans stood at EUR 70 billion, down 4% compared with 30 June 2011.

Total new lending to the public sector at 30 June 2012 (EUR 512 million) was down 41% compared with production at the end of the first half of 2011.

At 30 June 2012, total new lending to local government market amounted to EUR 324 million (-21% compared with end-June 2011). This decline reflects the decision to limit new lending to:

- the flows needed for the desensitisation of structured loans; and
- flows relating to external funding: note the marketing of EUR 140 million as part of the 2012 budget for savings funds coming from the Caisse des Dépôts et Consignations.

The amount of balance sheet receivables relating to local authorities (EUR 44.4 billion) was cut further in 2012 (-3%).

Total new lending to other segments of the local government market came to EUR 188 million, down 59% compared with the same period in 2011. 71% of this production was carried out with funding provided by Caisse des Dépôts (after being classified as PLS lending) and the European Investment Bank (EIB) and as part of the 2012 budget for savings funds.

Total balance sheet outstandings in respect of these markets stood at EUR 20.8 billion at 30 June 2012, down 5% compared with end-June 2011:

- total new lending to the healthcare sector came to EUR 79 million (-62% compared with 2011), of which 63% was funded by EIB resources, as part of the PLS and savings funds budgets. Total outstanding loans at 30 June 2012 stood at EUR 10.1 billion, slightly lower than at end-June 2011;
- total new lending to the social public housing and urban development sector came to EUR 88 million (-46% compared with the same period in 2011), of which 94% related to PLS/PSLA funding. At 30 June 2012, total outstanding loans came to EUR 8.7 billion, down 5% compared with 30 June 2011.

In early July 2012, Dexia Crédit Local initiated action to revoke the drawing rights on CLTR contracts (*Crédits Long Terme Renouvelables* – long-term renewable loans) for which the drawing rights were revocable by the lender. These contracts enable customers to make drawdowns up to the limits set, bearing in mind that any repayment restores the drawing right.

The aim of this action is to reduce Dexia Crédit Local's liquidity needs and to comply with the European Commission's requirements. The drawing rights cancelled total EUR 1.7 billion and will reduce the loans outstanding at the start of the second half of 2012 by the same amount.

Lastly, the total volume of the loan restructuring business at 30 June 2012 amounted to EUR 1.7 billion, down 21% from one year earlier.

b. Iberian Peninsula

Total outstanding loans (EUR 11.7 billion) were down 10% year-on-year. There was no new lending in 2012 whereas new lending came to EUR 327 million at 30 June 2011.

c. Italy

Outstanding loans at 30 June 2012 (EUR 27.2 billion) were down just 1% compared with one year earlier.

d. Israel

New lending inched up to EUR 78 million, this subsidiary's autonomous funding arrangements releasing it from the very strict limits for new international lending.

e. United Kingdom

Outstanding loans at 30 June 2012 (EUR 9.1 billion) were up 7% due solely to a currency effect. Excluding currency effects, lending declined by 4%.

2.2. PROJECT FINANCE

Long-term lending totalled EUR 22.8 billion, representing a sharp decline compared with 30 June 2011 (-EUR 3.2 billion, i.e. -12%). Excluding currency effects, the decline was more marked (-15%), due mainly to the depreciation of the euro against the US dollar and the British pound. Excluding currency effects, lending in the United States and the United Kingdom was down 20% and 19% respectively.

In the first quarter of 2012, Dexia decided to halt all new project finance origination and all advisory mandates, with the exception of operations in Italy and Spain. Two new transactions were signed in the first half of 2012.

(EUR millions)	Outstanding long-term loans			New long-term loans		
	30/06/2011	30/06/2012	Change	30/06/2011	30/06/2012	Change
CORE	**25,951**	**22,786**	**-12%**	**706**	**72**	**-90%**
France	9,439	8,915	-6%	447	36	-92%
Italy	5,033	3,487	-31%	102	37	-64%
United States and Canada (excluding SBPA)	3,747	3,429	-8%	38	0	-100%
Iberian Peninsula (Spain and Portugal)	4,111	3,728	-9%	85	0	-100%
Germany	476	391	-18%	0	0	-
United Kingdom	3,145	2,836	-10%	34	0	-100%

BUSINESS REVIEW BY LOCATION

France

Under a public-private partnership (PPP), Dexia arranged the financing for the construction and operation of social affairs centres and social integration houses for the department of Gironde.

This operation was initiated in 2011 but was signed only in early 2012, with Dexia Crédit Local's exposure amounting to EUR 36 million (essentially eligible with regard to Dexia Municipal Agency).

Italy

Dexia Crédit Local financed a portfolio of photovoltaic solar power plants located in the Latium region and in Sicily. Dexia acted as arranger and hedging bank in the transaction. Of the EUR 36 million recorded in the first half of 2012, EUR 20 million are off-balance sheet commitments.

2.3. SOFAXIS

INSURANCE BUSINESS ON THE STATUTORY MARKET

The volume of premiums for statutory insurance policies for the period ended 30 June 2012 (EUR 347 million) was the result of the commercial activity in 2011, which featured:

- a campaign to enhance the premium rates sought by insurers in order to pass on the financial impact of the lengthening of working hours and the increase in the retirement age;
- also, a campaign to revise certain policies, in agreement with insurers, due to their lower technical results;
- active prospecting for new business with almost EUR 15 million of premiums collected from new clients; and
- the very low increase in local public service pay, which serves as the basis for the calculation of insurance premiums.

The overall bottom line reflects a relatively stable level of total premiums collected for the period ended 30 June 2012, likewise for the number of clients and agents insured (more than 710,000 in all).

At the same time, claims in the first few months of the year continued to trend up, as they have done since 2009.

In this context, initiatives aimed at preventing and reducing claims and promoting a return to work paid for by partner insurance companies remain a key strategic area in managing this trend. Medical examinations continued to rise (up almost 10%) in the first half of 2012, as did return-to-work cases, up 26% compared with 2011.

SERVICES BUSINESS

Outsourcing services to major local governments remained buoyant in areas associated with health in the workplace, the optimisation of the organisation and human resources management:

- more than 4 million offers made to customers in the first six months of the year;
- more than 1.5 million agreements received in this same period.

PUBLISERVICES BUSINESS

PubliServices, a subsidiary of Sofaxis, is the company that develops a commercial offering to meet the needs created by the laws passed in February 2007 on the modernisation of local public services in the areas of healthcare, accidental death and disability and social action for public employees.

Following the publication in November 2011 of the application decree for the laws of 2007 on the participation of local authorities and their public agencies in the financing of this additional social protection, PubliServices' commercial business focused on answering calls for tender published in the first half.

3. FUNDING PROVIDED BY PUBLIC AND WHOLESALE BANKING CLIENTELE

Total deposits for the Public and Wholesale Banking business line amounted to EUR 8.6 billion at 30 June 2012, up 25% compared with end-December 2011:

- in France, total deposits stood at EUR 2.5 billion, down 11% compared with end-December 2011, and comprised as follows: EUR 0.4 billion of demand deposits, EUR 1.2 billion of term deposits and EUR 0.9 billion of certificates of deposit and medium-term notes (MTN) issued by Dexia Crédit Local and marketed by Dexia CLF Banque;
- in Germany, the deposit business grew rapidly, with total deposits standing at EUR 3.44 billion at end-June 2012 (compared with EUR 1.36 billion at end-December 2011), up 153% over the period; Dexia Kommunalbank Deutschland thus regained the level of deposits seen prior to the announcement of the dismantling of Dexia in October 2011;
- in Israel, total deposits reached EUR 1.5 billion, stable compared with end-December 2011, and comprised EUR 0.4 billion of demand deposits, EUR 0.4 billion of term deposits and EUR 0.7 billion of certificates of deposit;
- in Italy, total deposits stood at EUR 0.9 billion, down 5% compared with end-December 2011, and comprised EUR 0.3 billion of demand deposits, EUR 0.4 billion of term deposits and EUR 0.2 billion of securities issued by the Group;
- in the Iberian Peninsula, total deposits amounted to EUR 0.2 billion, unchanged compared with end-December 2011, and consisted almost exclusively of demand deposits;
- in the United States, total deposits (exclusively term deposits) stood at EUR 20 million at end-June 2012, the same level as at end-December 2011.

Off-balance sheet investment products relating to the Public and Wholesale Banking business line totalled EUR 1.8 billion, down 34% compared with end-December 2011. This decline was mainly due to a decrease in outstandings on Dexia Asset Management products (Sicav-type investment companies, mutual funds, etc.).

4. LONG-TERM FUNDING

Senior debt (EUR millions)	New issues in 1st half 2011	New issues in 1st half 2012
France		
Dexia Municipal Agency	6,102	-
Dexia Crédit Local	4,132	14,333
Italy		
Dexia Crediop	579	1,400
Germany		
Dexia Kommunalbank Deutschland	2,300	118
USA		
Dexia Crédit Local - New York branch	1,379	338
TOTAL	**14,492**	**16,189**

Market conditions remained difficult in the first half of 2012. The first quarter was positive overall, the markets taking advantage of the long-term refinancing measures taken by the ECB. However, uncertainties surrounding sovereign risk in the euro zone combined with political uncertainties in Greece triggered renewed risk aversion and resulted in the virtual shutdown of the primary markets.

In this environment, the Dexia Group implemented its long-term wholesale funding programme, drawing on two key mechanisms. The first involved the use of issues benefiting from State guarantee, while the second focused on further optimisation of the balance sheet through collateralised refinancing operations.

The Dexia Crédit Local Group issued a total of EUR 16.2 billion in the six months to 30 June 2012.

5. FINANCIAL MARKETS ACTIVITIES

5.1. CASH MANAGEMENT AND SHORT-TERM FUNDING

For Dexia Crédit Local, the first half of 2012 was marked by a deterioration in its funding capacity. In particular, the downward trend in interest rates accentuated the need for liquidity via margin calls on derivatives. The effective closure of the money markets only served to aggravate the situation.

In this context, Dexia Crédit Local made use of funding benefiting from the State guarantee, the ECB's very long-term refinancing operations (VLTRO), and emergency measures implemented by central banks to stabilise its short-term funding structure.

5.2. HEDGING OF CLIENT OPERATIONS

Some 177 debt management transactions with French public clients were hedged in the first half of 2012 representing a total nominal amount of EUR 1.3 billion.

6. DEVELOPMENTS WITHIN THE ORGANISATION AND SOCIAL RESPONSIBILITY

6.1. GOVERNANCE

At the Board of Directors meeting held on 29 June 2012, Mr Jean-Luc Dehaene announced his resignation from the role of Chairman of the Board and his position as a director.

The Board appointed Mr Karel De Boeck as Chairman of the Board of Directors.

6.2. NEW ORGANISATION

For Dexia Crédit Local, the first six months of 2012 featured in particular:

THE DECISION TO INITIATE RUN-OFF MANAGEMENT OF THE PROJECT FINANCE BUSINESS

This business faced new constraints due to market developments and Dexia's own situation.

In terms of the market, the Group observed the following:

- a difficult liquidity climate that looks set to last for several years;
- wariness shown by British and American investors towards European banks and difficulties in obtaining funding in US dollars and British pounds, rendering project finance markets outside the euro zone much less attractive; and
- future constraints stemming from the Basel III regulations, which are detrimental to the project finance business.

In parallel, Dexia had to contend with:

- funding difficulties, especially on the unsecured market, as a result of which the resources needed for the project finance business are unavailable;
- failure of discussions held with a view to selling the project finance business to a third party to reach a successful outcome;
- the lack of a recovery of this business under the arrangements discussed with Caisse des Dépôts et Consignations and La Banque Postale.

Dexia's project finance business consisted of 140 positions, of which 82 were within Dexia Crédit Local and 58 were international positions.

The new organisation structure resulted in the elimination of 54 positions, including five international roles.

Using an approach based on social management, Dexia Crédit Local has opted to seek solutions enabling employees affected by job cuts to be found new positions. As such, on 10 February 2012, an agreement on the social approach within the Dexia Crédit Local-Dexia CLF Banque grouping was signed by management and all the trade unions concerned. This agreement was supplemented by another agreement signed on 25 April 2012 relative to the social management of the project finance staff.

Like the agreement signed in 2009 (employment protection plan measures), these agreements provide in particular a support mechanism for the redeployment of staff and, where applicable, the possibility to postulate for a voluntary early redundancy scheme authorising an employee with a confirmed external professional project (e.g. company creation, new permanent employment contract, etc.) to benefit from temporary suspension of his or her employment contract pending launch of the social procedure as a whole.

Application of this approach meant that, as at 21 June 2012, three employees were transferred to new positions and 15 to other divisions, while 14 employment contracts were suspended prior to implementation of the voluntary redundancy plan.

IMPLEMENTATION OF A TRANSITIONAL ORGANISATION STRUCTURE FOR CERTAIN FUNCTIONS OF DEXIA CREDIT LOCAL AND DEXIA S.A. IN CONNECTION WITH THE DISMANTLING OF THE GROUP

THE RISK FUNCTION

As a reminder, the organisation of the Risk function established in 2009 revolved around transversal centres of competence, serving the entire Group, and mostly housed within Dexia SA. This method of operation served to optimise the competences and operation of the Risk function, local Risk departments being able to draw on the local centres of competence as well as these transversal centres of competence in managing their entity's risks.

The sale of Dexia Bank Belgium, renamed Belfius, and the transfer of a significant portion of the staff of Dexia SA Brussels to Belfius resulted in changes being made to the organisation and a resizing of the Risk teams based in Paris.

So as to be able to perform all the risk management functions needed to cover all the activities of Dexia and Dexia Crédit Local, it was decided to develop new functions in Paris. This development involved reorganising the existing teams of Dexia SA and Dexia Crédit Local in Paris and increasing staff numbers in the risk function in France.

This reorganisation will mean that 171 budgeted positions can be maintained in Paris and certain teams strengthened through the creation of 19 budgeted positions.

OTHER FUNCTIONS CONCERNED

Besides the Risk function, whose internal operating procedures were most affected by the dismantling of the Group, it should be noted that the Communication function, as well as the Balance Sheet Management department (part of the Finance division) also adopted transitional organisation structures in order to take responsibility for the activities previously managed by Brussels (within Dexia SA or Dexia Bank Belgium, renamed Belfius). The impact in terms of positions remained limited.

Opening of positions within La Banque Postale (LBP) to Dexia Crédit Local employees

With regards to the launch of a short-term credit offering by La Banque Postale for the local government market with effect from the end of June 2012, a partnership was established in terms of job opportunities. As such, Dexia Crédit Local employees are eligible to apply for new positions created at La Banque Postale as a result of this new activity.

6.3. LABOUR RELATIONS

A number of collective negotiations were conducted during the first half of 2012, resulting in six agreements being signed with the social partners.

An agreement on the social approach within the Dexia Crédit Local-Dexia CLF Banque grouping was signed by Management and trade unions on 10 February 2012.

The purpose of this agreement is to establish the information procedures for the Works Council with the aim of strengthening labour relations within the company and also to describe the staff support measures with respect to any potential Employment Protection Plan.

In this regard, this agreement guarantees until 31 December 2014 the application of staff support measures, corresponding to those negotiated as part of the 2009 Employment Protection Plan, on the assumption that, under a possible employment protection plan, the reorganisation of the company is likely to result in job cuts or revisions to employment contracts.

The first half was also devoted to negotiations on professional equality (agreement of 13 April 2012). The existing agreement within the company had been entered into for a period of three years and expired on 24 July 2011.

A specific agreement on project finance social management was signed on 25 April 2012 enabling employees who wished to do so to benefit from employment contract suspensions pending implementation of an employment protection plan. This agreement was subject to a rider signed on 20 June 2012 extending the deadline for the mechanism for requests to suspend employment contracts from 30 June to 30 September 2012.

Agreements on statutory profit-sharing and discretionary profit-sharing schemes were signed on 29 June 2012. The incentive scheme agreement entered into in 2011 was subject to a rider revising the calculation parameters for 2012 and a new profit-sharing agreement was entered into for 2012 based on the statutory formula de participation.

6.4. WELL-BEING IN THE WORKPLACE

Since 2010, management has implemented initiatives for the prevention of distress and stress in the workplace, in particular by conducting a survey on stress and publishing the results, providing a telephone helpline for psychological issues, organising seminars aimed at making all staff aware of how to detect burnout and implementing a steering committee dealing with well-being in the workplace (HR department, staff representatives and the company doctor). This committee's main mission is to draw up an action plan on the prevention of psychosocial risks.

During the first half of 2012, Management pursued these initiatives by staging seminars on well-being in the workplace. Two further modules have already been scheduled for the second half of 2012 on:

- for all employees, developing skills in the face of stress;
- for managers, learning to better communicate in a changing climate.

The Group has also scheduled workshops, to be hosted jointly by internal and external coaches, providing all employees with an opportunity to exchange and share actual experiences in the context of Dexia's orderly resolution.

RISK MANAGEMENT

HIGHLIGHTS FOR THE FIRST HALF OF 2012

ORGANISATION

The risk function adopted a new transformation plan following the October 2011 announcement of the orderly resolution of the Dexia Group. Following the sale of Belfius and the subsequent transfer to Belfius of staff working in the Group centres of competence, the decision was taken to implement a transition plan enabling Dexia and Dexia Crédit Local to monitor all their risks independently, resulting notably in the creation of new functions in Paris within Dexia Crédit Local and Dexia S.A.

DECREASE IN THE PORTFOLIO

Dexia Crédit Local's risk profile was further reduced in the first half of 2012 with the sale of EUR 3.2 billion of bond lines.

EXPOSURE

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

Exposures comprise the net amount of assets recorded on the balance sheet other than derivative products (i.e. the carrying amount after deducting specific provisions), the mark-to-market value of derivative products, off-balance sheet commitments made up of the portion of credit facilities not drawn down and guarantees given.

It is important to remember that, in accordance with the principles of Basel II, exposure to credit risk is considered after taking account of the credit risk mitigation mechanisms in place. Exposure is broken down by counterparty type and region, taking into account guarantees. By contrast, substitution is allowed only if the guarantor's risk weighting is lower than that of the borrower.

In the first half of 2012, Dexia Crédit Local's maximum credit risk exposure (MCRE), excluding Global Funding, fell by 7.8% (down EUR 25 billion) compared with 31 December 2011 to EUR 294 billion.

Weighted credit risks (including Global Funding) increased by EUR 2.8 billion compared with end-2011 to reach EUR 50.8 billion at end-June 2012.

COST OF RISK

Cost of risk amounted to a charge of EUR 194 million in the first half of 2012, compared with EUR 200 million in the first six months of 2011, and mainly comprised:

- a charge of EUR 184 million on securities received in connection with the restructuring of the Kommunalkredit Austria group in 2009;
- income of EUR 54 million on Greek state debt covered by the debt exchange plan negotiated between the Greek state and private creditors; and
- a charge of EUR 49 million due to an increase in sector and specific provisions and losses recorded during the period.

EQUITY

The core capital ratio (Tier 1) decreased from 16.4% at end-2011 to 13.5% at end-June 2012.

LIQUIDITY

Changes in the Group's liquidity position in the first half remained closely linked to developments in the economic and financial environment, which deteriorated substantially due to continuing tensions on euro zone sovereign debt. Nevertheless, funds raised with the help of the temporary guarantee provided by the Belgian, French and Luxembourg states, the increase in the limit on this guarantee and its extension to end-September 2012, combined with actions taken by the Group, enabled the Group to pursue implementation of its orderly resolution programme, one of whose objectives is to improve its liquidity profile.

MARKET ACTIVITY

In 2012, the Risk Management and Permanent Control department continued the work aimed at improving the models for valuing structured derivatives. In terms of market limits, Dexia Crédit Local's 10-day 99% VaR limit was reduced from EUR 21 million at end-2011 to EUR 20 million at 30 June 2012.

OPERATIONAL RISKS

The compilation of operational risk incidents continued during the first half of 2012, with no major incidents being detected. Updated risk mappings were presented to the Management Board. Collaboration with other departments in charge of Risk Management and Control (notably Permanent Control) were also reinforced, by linking, whenever possible, major risks with permanent controls.

Transversal projects

- Even though Dexia participated in the stress tests conducted by the European Banking Authority (EBA) in 2011, the Group was not subject in the first half of 2012 to the recapitalisation requirements stemming from the exercise of establishing a capital reserve to reach a Core Tier 1 ratio of 9% at 30 June 2012. In accordance with the Group's restructuring plan, which includes selling off Dexia Banque Internationale à Luxembourg, RBC Dexia Investor Services, Dexia Asset Management, Dexia Municipal Agency and Denizbank, the Group will become significantly smaller. Also, in ensuring the success of this plan, the Group will benefit from the support of the guarantee provided by the Belgian, French and Luxembourg states, which was granted temporary approval by the European Commission on 21 December 2011 for an amount of EUR 45 billion, subsequently renewed on 30 May 2012, then increased to EUR 55 billion on 6 June 2012 and expiring on 30 September 2012.

- Dexia was not required to participate in the stress tests staged by the IMF in France in the first half of 2012 in connection with the Financial Sector Assessment Programme (FSAP) and coordinated by the Autorité de Contrôle Prudentiel.

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 a deterioration in a counterparty's solvency.

1.2. RISK MANAGEMENT

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

Overall credit risk environment in the first half of 2012

PROJECT FINANCE AND CORPORATE

For the sensitive sectors of the corporate and project finance segments, it is worth noting the further restructuring moves in the LBO sector, especially in England, as well as, in the PPP sector in Spain, late rental payments by public counterparties to project companies.

SOVEREIGN RISK

In terms of credit risk, the first half of 2012 saw a deepening of the crisis in the euro zone, resulting in particular in the restructuring of Greek sovereign debt involving private creditors, who accepted a 53.5% loss on their assets in nominal terms (and around 75% in terms of net present value). This restructuring was accompanied by the granting of a second aid plan for Greece amounting to EUR 130 billion.

Two other countries, Spain and Cyprus, sought European help with a view to weathering the crisis in their respective banking sectors, stemming from overexposure to the domestic property sector in the first case and a high level of commitments relating to the Greek economy in the second case.

The deterioration in the economic situation within the euro zone (especially weak or even negative growth, and unemployment at socially unacceptable levels) also stimulated debate over the ways and means to resolve the crisis, between champions of strict fiscal orthodoxy and those in favour of a relaxation of assistance plans as a means of facilitating renewed economic growth.

On the institutional front, ideological rivalries have not prevented significant advances from being made, starting with the signing of the Budgetary Pact, reinforcing the fiscal discipline imposed on euro zone Member States (notably via the inclusion in national laws of the balanced budget rule). It is also worth noting the signing of a revised version of the treaty on the creation of the European Stability Mechanism (the institution intended to permanently replace the European Financial Stability Fund) and the implementation of mechanisms created in 2011 aimed at ensuring better coordination of economic policies and governance rules, in the fiscal domain (by strengthening the provisions of the Stability and Growth Pact) and in matters of macroeconomic imbalances.

The attention paid to the euro zone's difficulties cannot overshadow other crisis situations in the world, particularly the persistent tensions in MENA countries (Middle East and North Africa), to which Dexia Crédit Local has relatively low exposure. It is also worth mentioning concerns regarding the matter of a decline in growth rates in the major economies outside Europe.

LOCAL PUBLIC SECTOR – FRANCE

In 2012, French local authority financing is characterized by a scarcity of resources. In addition to the freezing of State allocations and the credit crunch already present in 2011, fiscal revenue displayed weak growth.

Revenues replacing the local business tax have proved to be less dynamic: this has been partially offset by allocations frozen over time and the new taxes are more sensitive to the economic climate, which remains fragile. In addition, fiscal reform has profoundly altered the way in which local authorities can set rates. Fiscal leverage has thus disappeared for the regions; it has been significantly dented for the departments and now weighs more heavily on

households for the local authorities and associations of local authorities. Creating financial room for manoeuvre through higher tax rates has thus become increasingly complicated, especially as rates are currently high in certain territories and the local elections are approaching.

In addition to these low direct contributions, there is the expected decline in property transfer duties (DMTO). If developments observed in the first half of 2012 are confirmed for the rest of the year, these revenues would effectively decline.

Even though the population's needs remain and are even increasing (social action, training, public transport, networks, environment, etc.), the substantial constraints on revenues have a knock-on effect on local authority spending.

Therefore, as we saw in 2011, local authorities are displaying a determination in 2012 to control their day-to-day spending, particularly by slowing the growth in staff costs.

Local authorities' investment spending could stabilise, or even decline, a fact that seems to be borne out by an examination of the initial budgets of major local governments. The departments, hardest hit due to a scissors effect between their spending patterns and their revenues, are set to cut their investments, while the regions expect to maintain the status quo. Local authorities and associations of local authorities are expected to maintain the investment momentum given the electoral cycle, but concerns over funding options could limit or delay projects.

Against this background, the differences between territories are likely to remain, or even widen, which warrants the efforts currently being made to even things out. Several horizontal adjustment mechanisms (between local governments) have been created for each level of government. In 2012, the first year of implementation of the inter-communal and communal balancing exercise, the amounts involved are relatively low (EUR 150 million) and, for now, prevent the optimum correction of the wealth gaps. We must wait until 2016, when the mechanism will be fully operational, and any adjustments made in the intervening years, to analyse the real effects of the mechanism.

LOCAL PUBLIC SECTOR – INTERNATIONAL

Outside France, the situation varies considerably according to the country.

Spain saw a marked deterioration. Already perceptible in certain regions in 2009, this weakening affected the whole country in 2010. Overall, the budget deficit in the regions amounted to 2.9% of GDP (surplus of 2.0% in 2009). Initial estimates for 2011 show an unchanged deficit, i.e. 2.9% of GDP, far from the initial objective of a surplus of 1.3% (no region met this target), with debt increasing, although at a slightly slower pace, by 17%.

However, it should be noted that a shift is currently taking place in relations between the State and the autonomous communities, with the centre regaining power over the regions. In particular, this shift takes three forms:

- announcement by the State of its support for the regions;
- financial aid, notably via liquidity lines provided by the *Instituto Official de Credito* (ICO) and one-off funding to discharge trade payables;
- increased supervision, with approval of the law on Budgetary Stability and Financial Sustainability, introduction of limits on deficits and debt, the requirement to present a balanced budget, etc.

In mid-July 2012, the Spanish State announced the creation of a special fund totalling EUR 18 billion, fed by ICO issues and funds from the national lottery. It will be used to cover the regions' liquidity needs in exchange for increased State control over regional finances (requirement to submit monthly treasury budget reports, State authorisation required prior to any new debt transactions, even short term, etc.). The regions' funding needs are estimated at between EUR 15 billion and EUR 20 billion for the second half of 2012. The Valencia region (BB) has indicated that it would subscribe to this fund (EUR 2.8 billion of refinancing needed between now and end-2012), along with the Murcia region (BBB-), while Catalonia (BBB-) said it will consider doing so (around EUR 5 billion of redemptions between now and end-2012).

In Italy, the situation is relatively stable, although there are significant variances between the regions: while the 2010 data indicates a deterioration in savings rates and debt for Piedmont, Latium and Molise, for others, like Campania, Pouilles, Calabria and Sardinia, it shows an improvement.

In Germany, there are no major changes to highlight. The solidarity between *Länder* is evident in the horizontal equalisation, thanks to which EUR 7 billion is deducted from the budgets of four *Länder* for redistribution among 12 others. Furthermore, that *Länder* experiences difficulties in accessing the market or temporary liquidity strains, they can use the system of inter-*Länder* short-term loans. Fiscal orthodoxy is also reflected in the inclusion in the Constitution of the zero debt brake rule, according to which the debt of the *Länder* cannot increase any further as from 2020 and, to help the four most fragile *Länder* to achieve this, they will receive annual subsidies until this date.

Local authorities in Eastern Europe are proving to be less affected by the crisis than their western counterparts, although with a few variations for certain countries. Poland still recorded growth of almost 4% in 2011. Its cities and regions continue to post good economic performances on the whole, even though borrowings are rising, in certain cases reaching the statutory cap. Hungarian local authorities, very often with Swiss franc borrowings, continued to benefit from favourable interest rates. The State initiated moves to recentralise competences from the Counties in 2011, resulting in the latter's debt being taken up at central level. These moves continued in 2012 for the towns and cities, with the transfer of certain responsibilities relating to healthcare and education.

Lastly, in the United States, the institutional framework of the federated States, although varying from one State to the next (each having its own Constitution) remains rather protective: autonomy in setting receipts, obligation to balance the budget and requirement to constitute reserves. However, the States' receipts being very directly linked to the economic environment (around 40% comes from personal income tax, 30% from sales tax and 8% from

corporate income tax), the States have been impacted by the significant slowdown in economic activity and the sharp rise in unemployment. As such, their receipts (General Fund) contracted by 6% overall in 2010. This decline was offset by the additional receipts paid by the federal State in connection with the Recovery Act.

An upturn has been observed since early 2011: tax receipts have grown by 9%, although they have still not returned to their pre-crisis levels.

Faced with the recession, the States made drastic spending cuts and, above all, dipped into their reserves, which, for the better-rated counterparties, now stand at only half the level seen before the crisis and, for the rest, virtually zero, or even negative. This means that the weight of debt servicing has remained at a stable level. The American States' credit quality is still very good, with 92% being rated at least AA- by Moody's, 90% for S&P and 76% for Fitch. More generally, the risk profile of all Municipal Sector players is also very healthy, despite a handful of rather strained cases, resulting in certain towns and cities being placed under State supervision.

BOND PORTFOLIO

Dexia continued to reduce its bond portfolio in the first half of 2012.

Even though there were no incidents or significant deterioration in terms of performance or expected losses, the impact of the crisis continued to produce rating downgrades. The worsening 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.

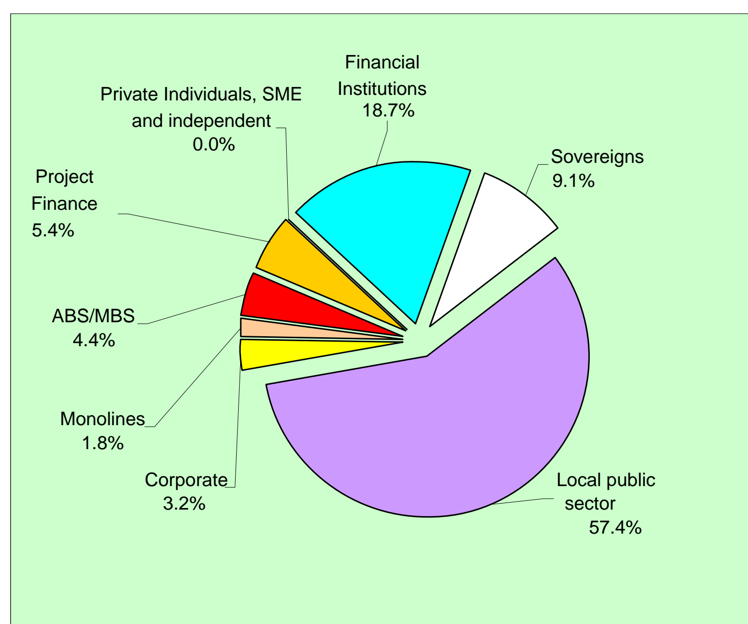
Following the deleveraging/derisking process, exposure to banks and financial institutions continued to fall. There were no defaults within the portfolio, whose quality remained stable throughout the first half of 2012. The sovereign debt crisis had a knock-on effect on banks in the countries concerned (Portugal, Italy, Ireland, Greece and Spain), which are being monitored more closely. Lastly, bank exposures in the MENA region are minimal and are not under pressure.

1.3. DEXIA CRÉDIT LOCAL PORTFOLIO

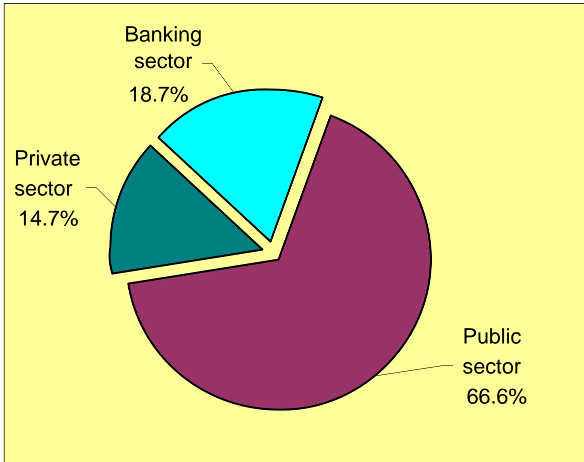
Credit risk exposure includes:

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

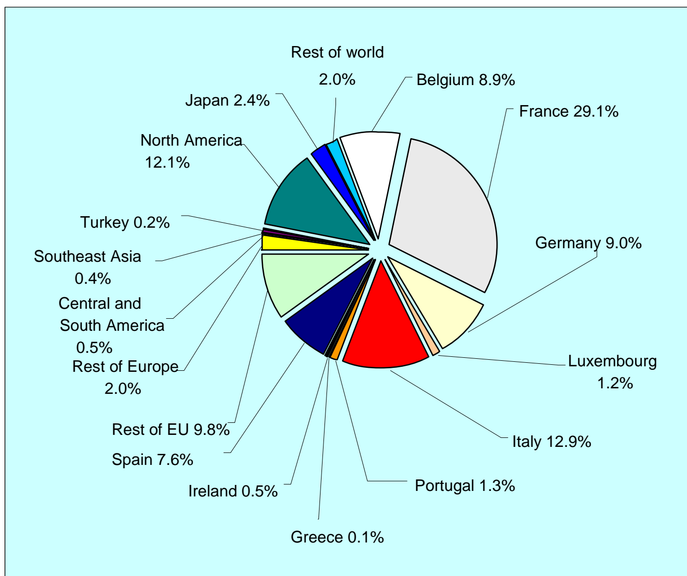
MAXIMUM CREDIT RISK EXPOSURE BY TYPE OF COUNTERPARTY – SPECIFIC (EXCLUDING GLOBAL FUNDING)



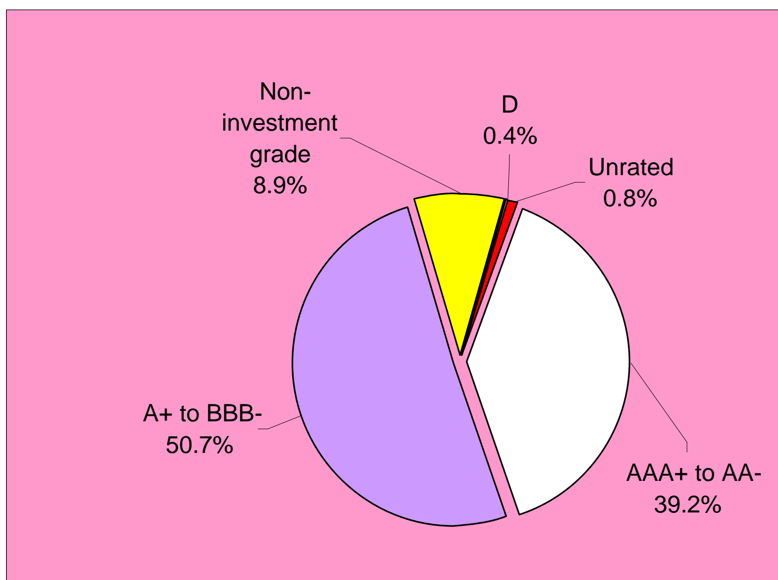
MAXIMUM CREDIT RISK EXPOSURE BY TYPE OF COUNTERPARTY - GENERAL (EXCLUDING GLOBAL FUNDING)



MAXIMUM CREDIT RISK EXPOSURE BY REGION (EXCLUDING GLOBAL FUNDING)



MAXIMUM CREDIT RISK EXPOSURE BY CREDIT RATING (EXCLUDING GLOBAL FUNDING)



IMPAIRMENT FOR COUNTERPARTY RISK (CONSOLIDATED DEXIA CREDIT LOCAL EXCLUDING GLOBAL FUNDING)

Loans and advances, including securities reclassified in loans and advances (EUR millions) excluding FP and GF	31/12/2011	30/06/2012	Change (value) June 2012 – Dec 2011	Change (%) June 2012 – Dec 2011
Non-performing loans and disputed loans*	1,018	839	(179)	-18%
Reserves allocated *	364	251	(113)	-31%

* At 31 December 2011, includes EUR 138 million of non-performing loans and disputed loans and EUR 112 million of provisions on Hellenic Railways: during the first half of 2012, these receivables were swapped with the EFSF (European Financial Stability Facility).

Securities and derivatives (EUR millions) excluding FP and GF	31/12/2011	30/06/2012	Change (value) June 2012 - Dec 2011	Change (%) June 2012 – Dec 2011
Provisions on banks	98	99	1	1%
Provisions on mid-corporate	-	-	-	-
Provisions on Greek sovereign debt*	2,788	0	(2,788)	-100%
Provisions on Hellenic Railways*	23	0	(23)	-100%

* During the first half of 2012, securities relating to the Greek state and Hellenic Railways were swapped with the EFSF (European Financial Stability Facility).

2. MARKET RISK

2.1. DEFINITION

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

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

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

2.2. RISK MANAGEMENT

RISK MEASUREMENT

In line with the Dexia Group, Dexia Crédit Local 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 10-day holding period. Multiple VaR approaches are implemented to accurately measure the market risk inherent in the various portfolios and market activities:

- general interest rate risk is measured using a parametric VaR;
- specific interest rate risk (spread) is measured using a historic VaR;
- non-linear and individual risks are measured using specific VaRs and historic VaRs so as to obtain a better assessment of exposure to market volatility.

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

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

EXPOSURE TO MARKET RISK

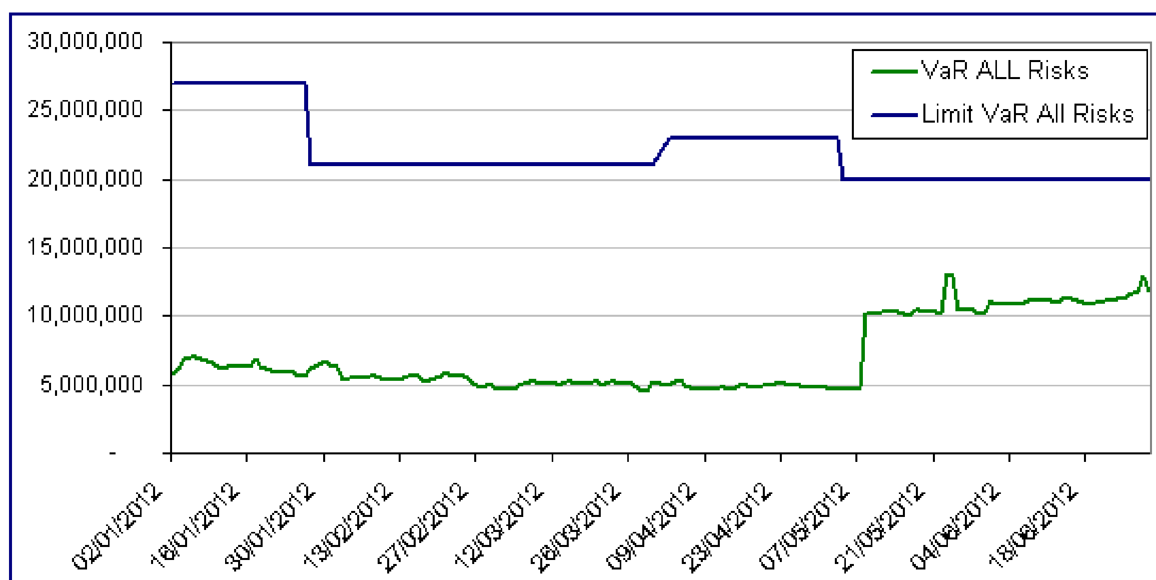
VALUE AT RISK

Details of the VaR used by the TFM business (excluding the investment portfolio) are shown in the table below.

The limits have been lowered so as to comply with the principle of reducing risk appetite, as set out in the Dexia transformation plan. The TFM limit was cut from EUR 21 million at end-2011 to EUR 20 million at 30 June 2012.

(EUR millions)	Dexia Crédit Local's markets VaR			
	Average	Maximum	Month end	Limit
First quarter 2012	5.6	7.1	5.2	21
Second quarter 2012	8.6	13	11.8	20

CHANGES IN VAR ON FINANCIAL RISKS (IN EUR)*



(*) Rate and spread VaR for markets business.

BOND PORTFOLIO

Dexia Crédit Local manages bond portfolios, essentially on a run-off basis, totalling EUR 97.1 billion at 30 June 2012 (compared with EUR 98.2 billion at 31 December 2011). The sensitivity of these bond portfolios to in terms of economic value to changes in interest rates is very limited as the interest rate risk is hedged. A significant part of the bond portfolios is classified as loans and other receivables. The AFS reserve on these securities is not sensitive to changes in market spreads. For other bond portfolios classified as AFS, the sensitivity of the fair value (and of the AFS reserve) to a one basis point increase in the spread amounts to negative EUR 28.3 million (compared with negative EUR 27.4 million per basis point at 31 December 2011).

3. BALANCE SHEET MANAGEMENT

3.1. DEFINITION

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

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

Liquidity risk is defined as the probability of the bank being unable to meet its current and future cash flow requirements, both expected and unexpected.

3.2. RISK MANAGEMENT

RISK MEASUREMENT

INTEREST RATES

Dexia Crédit Local is conservative in terms of asset-liability management. The main aim is to minimise earnings volatility and preserve value. There is no objective to create additional revenue by voluntarily taking risks on interest rates, attention being focused on the overall stabilisation of the bank's income.

Measuring interest rate sensitivity is considered as the main tool for risk measurement (total revaluation expressed in terms of sensitivity). A parametric VaR is calculated for indicative purposes at Dexia Group level and is based on interest rate sensitivities. However, overall and partial sensitivities by time band remain the main risk indicators upon which the Asset & Liabilities Committees (ALCO) manage risk.

Risk exposure, as measured in economic and accounting terms, mainly concerns European long-term 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.

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

CREDIT SPREAD

Credit spread risk is defined as the specific interest rate risk linked to the issuer. It is due to changes in a specific issuer's spread within a rating category and is measured on the basis of the sensitivity expressed in basis points.

CURRENCY RISK (STRUCTURAL)

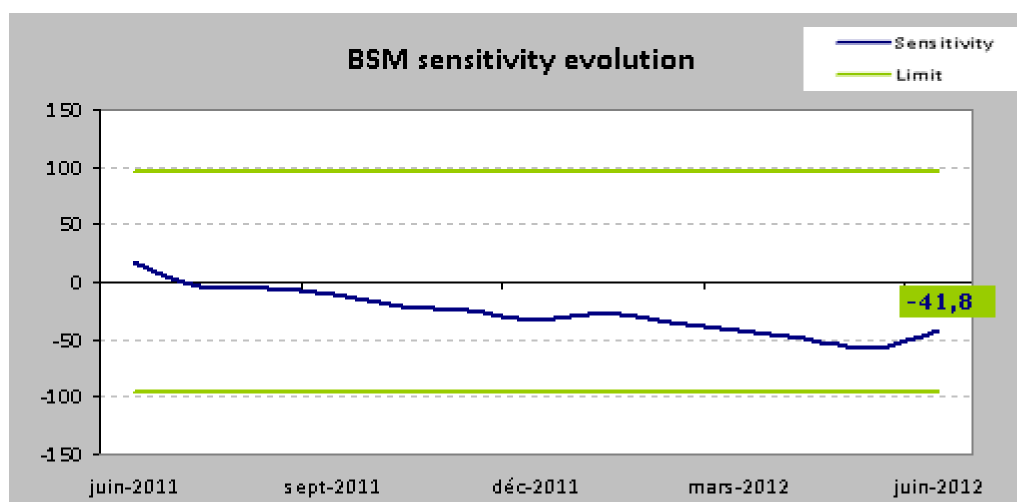
Dexia's consolidation currency is the euro but its assets, liabilities, income and costs are also denominated in other currencies. Group ALCO determines the hedging to be put in place in order to reduce earnings volatility, which is the corollary of structural currency risk.

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 in the event of a 1% increase in interest rates across the entire curve. Dexia Crédit Local's long-term ALM sensitivity amounted to negative EUR 41.8 million at 30 June 2012 (compared with negative EUR 33.2 million at 31 December 2011). At 30 June 2012, the sensitivity limit to interest rates was EUR 96 million for a 1% change.

BALANCE SHEET INTEREST RATE SENSITIVITY IN THE FIRST HALF OF 2012 (EUR MILLIONS)



3.3. LIQUIDITY RISK

Dexia Crédit Local's liquidity position was influenced during the first half by the maturity of long-term funding (EUR 13 billion during the period, including EUR 7.8 billion of unsecured funding), which exceeded the amount of asset amortisation over the period (EUR 8 billion). It was also affected by operations relating to the withdrawal from Belfius Banque et Assurances (formerly Dexia Bank Belgium) and the deterioration in market conditions (the amount paid as a guarantee for the derivatives portfolio increased by EUR 1.8 billion in the first half of 2012).

This negative impact was partially offset by asset disposals, which totalled EUR 3.2 billion in the first half, and mainly concerned Dexia Crédit Local Paris' structured finance assets, Dexia Credito Local Mexico's loan portfolio and securities of the Dublin and New York branches.

The Group was also able to put in place new long-term funding, outside the scope of the guarantee provided by the Belgian, French and Luxembourg states, amounting to EUR 2.6 billion and comprising notably new secured funding (EUR 1 billion) and long-term funding issued by Dexia Crediop with a guarantee from the Italian state (EUR 1.4 billion). The long-term funding activity also saw the redemption by Dexia Municipal Agency and Dexia Kommunalkredit Deutschland of covered bonds, totalling EUR 0.8 billion and EUR 2.8 billion respectively. These transactions made use of part of the liquidity derived from asset amortisations and unused by the Group's funding vehicles to make gains that helped strengthen these entities' capital base.

Funding received in connection with the European Central Bank's tender offers totalled EUR 50 billion at end-June 2012, i.e. EUR 20 billion more than at end-2011. On top of this, Dexia Crédit Local made drawdowns on the emergency liquidity assistance (ELA) provided by the central banks system, which amounted to EUR 14.2 billion at end-June 2012 (down EUR 4.5 billion compared with December 2011).

The extension until end-September 2012 of the temporary guarantee mechanism granted by the Belgian, French and Luxembourg states, accompanied by an increase in the issuance cap to EUR 55 billion, also allowed additional funding to be raised: funding raised with the help of the guarantee thus reached EUR 46.7 billion at end-June 2012 and EUR 48.3 billion on 12 July 2012, whereas it stood at EUR 21.6 billion at end-2011. The portion of this funding raised for more than one year in the form of bonds totalled EUR 13.3 billion. These issues of guaranteed debt were used, first and foremost, to reduce the drawdown on the ELA line (see above). They also facilitated repayment of unsecured funding granted to the Group by Belfius Banque et Assurances, in accordance with the agreements entered into between the two institutions when Dexia Bank Belgium was sold to the Belgian state.

In terms of off-balance sheet funding commitments, the risk profile associated with the commitments of the New York branch was further reduced: funding commitments given on standby bond purchase agreements stood at USD 3 billion at 30 June 2012, down 50% compared with end-2011, and the fraction of these commitments resulting in a carry on the branch's balance sheet now amounts to only USD 123 million. In addition, initiatives for the remarketing of securities implemented by the branch and favourable market conditions allowed the outstandings on tender option bonds to be reduced to USD 782 million at end-June 2012 and USD 426 million on 12 July 2012, whereas they still stood at USD 979 million at end-2011.

The Dexia Crédit Local Group's liquidity needs at one month declined from EUR 34.5 billion at end-December 2011 to EUR 21.5 billion at end-June 2012.

Nevertheless, the liquidity position of Dexia Crédit Local and the Dexia Group remains fragile and heavily dependent on funding received from Eurosystem central banks. Dexia Crédit Local's liquidity ratio remained below the minimum regulatory threshold during the first half.

Lastly, during the first six months of the year, Dexia Crédit Local's long-term rating was downgraded to BBB by Standard & Poor's and to Baa2 by Moody's, both agencies placing these ratings on negative outlook. Dexia Crédit Local's short-term ratings are A-2 at Standard & Poor's and P–2 at Moody's.

Implementation of the agreement entered into on 10 February 2012 with the French state, Caisse des Dépôts et Consignations and La Banque Postale on the procedures for the withdrawal of Dexia Municipal Agency from the Group scope should help improve the Group's liquidity profile by around EUR 12 billion. Meanwhile, the conclusion on 8 June 2012 of an agreement on the sale of Denizbank means that Dexia SA can hope to boost its liquidity by just under EUR 3 billion.

4. OPERATIONAL RISK

4.1. DEFINITION

Dexia defines operational risk as the financial or non-financial impact arising 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 that given by the Basel Committee, which emphasises losses (negative financial impacts). As a result, Dexia's policy also assumes that data is collected on events that have generated financial gains.

4.2. RISK MANAGEMENT

The process for managing operational risk 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 (standard or advanced measurement approach): "past loss events 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 on operating incidents enables Dexia Crédit Local to comply with its regulatory requirements and obtain valuable information for improving the quality of its internal control 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 a timely manner (the mandatory reporting threshold is set at EUR 1,000). Every quarter, the Management Board receives from the Operational Risk Management (ORM) function a report on the main events, including the action plans aimed at reducing risk, as defined by the Risk Management function.

SELF-ASSESSMENT OF RISKS AND ASSOCIATED CONTROLS

In addition to compiling information on past losses, there is also a need to determine Dexia Crédit Local's exposure to the main risks by mapping the risks of all significant activities. To do this, all Dexia Crédit Local Group entities conduct bottom-up self-assessment exercises of the risks and associated controls. These exercises may result in the drawing up of risk limitation actions. They provide an overview of most of the risk areas in the various entities and activities, making it possible to report the results to all levels of the company's management. These exercises are repeated every year in all Head Office departments, branches and subsidiaries. The main risks and associated action plans are presented each year to the Management Board.

MANAGEMENT OF DATA SECURITY AND BUSINESS CONTINUITY

The policy on data security and the related instructions, standards and practices are designed to ensure the security of Dexia Crédit Local's IT assets. All the Bank's business lines operate within a framework of security programmes with defined responsibilities.

As required by the Group's policy on business continuity, the business lines must draw up impact analyses for the critical areas of their business. They are required to define and support recovery plans so that the business continuity plans can be tested and updated at least once a year. Based on regular reports, the Management Board approves the recovery strategies, residual risks and action plans with a view to making continuous improvements. 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. A series of tests was performed in 2011 and in the first half of 2012.

In addition, an assessment of the business continuity mechanisms and an evaluation of data security management were conducted in the first half of 2012 for all subsidiaries and branches of Dexia Crédit Local.

5. LEGAL RISK

The main legal risks are described in Dexia Crédit Local's 2011 reference document (pages 36 and 37).

The updated data below is provided for comparison purposes and must be read in conjunction with the corresponding summaries included or mentioned in the "Legal risk" section of the 2011 annual report.

With regard to structured credits, a total of 33 clients had issued writs against the bank at 30 June 2012. Legal proceedings are in progress: no verdicts have been handed down and none are expected before the end of the year.

At this stage, due notably to the specific nature of each situation, Dexia Crédit Local is not able to reasonably predict the duration or outcome of these legal proceedings, or their potential financial repercussions.

Regarding the consolidated subsidiaries:

KOMMUNALKREDIT AUSTRIA

In November 2008, the Republic of Austria assumed control of Kommunalkredit Austria AG, in which Dexia Crédit Local held a 49% stake, alongside the majority shareholder ÖVAG. At the time, to facilitate this operation, Dexia Crédit Local agreed to convert EUR 200 million of its exposure to Kommunalkredit Austria AG into participating capital, treated as Tier 1 securities under Austrian banking regulations. When Kommunalkredit Austria AG was demerged, the EUR 200 million was divided as follows: EUR 151.66 million in KA Finanz AG and EUR 48.34 million in "KA new".

On 25 April 2012, at the general meeting of KA Finanz AG, a resolution was approved, under which the accumulated losses were to be offset by cancelling the participating capital allocated to KA Finanz AG, retrospectively at 31 December 2011. On 13 April 2012, Dexia Crédit Local initiated legal action (summary proceedings) against the Republic of Austria and KA Finanz AG aimed at preventing said cancellation of the participating capital at the general meeting of 25 April. However, this action was rejected by a tribunal decision handed down on 24 April 2012.

On 24 May 2012, Dexia Crédit Local brought a legal action for rescission, founded on company law, against the decision of the general meeting of 25 April. Dexia Crédit Local will take all other measures necessary in order to assert its rights.

At this stage, Dexia is not able to reasonably predict the duration or outcome of these proceedings, or their potential financial consequences, bearing in mind that the summary decision of 24 April 2012 in no way prejudges the outcome, which will be determined by the case tribunals on the merits of the case.

DEXIA CREDIOP

Regarding the dispute between Dexia Crediop and the province of Pisa, as indicated in the 2011 annual report, the technical expert appointed by the State Council filed an initial report in January 2012, which was favourable to Dexia Crediop. A second report was drawn up by this expert following a decision of the State Council of 28 February 2012,

which sought clarification on certain additional points. This second expert report (filed on 14 May 2012) confirmed in substance the conclusions of the first report. Furthermore, the province of Pisa's request to replace the expert appointed by the Council was rejected by the Council in a decision dated 20 April 2012. A hearing was held before the State Council on 19 June 2012. The decision has not yet been handed down by the State Council.

Furthermore, still in connection with the dispute with the province of Pisa, Dexia Crediop contested before the Italian Supreme Court the decision of the State Council, which considers that the Italian administrative tribunals have exclusive jurisdiction in such matters, regardless of the choice of English jurisdiction made by the parties. These proceedings are in progress.

In addition, criminal proceedings are under way against an employee of Dexia Crediop accused of fraud in connection with transactions entered into by Dexia Crediop with the local authorities. Dexia Crediop's administrative responsibility is being challenged on the grounds that it did not adopt the necessary measures to prevent the fraudulent acts allegedly committed by its employee. This employee firmly denies having committed any fraudulent acts, and similarly, Dexia Crediop denies any shortcomings on its part in this regard.

Dexia Israel

On 17 June 2012, the Supreme Court handed down its decision, ruling that Dexia Crédit Local should have acquired the shares held by the State of Israel via a public tender offer. The Supreme Court thus referred the entire case (recognition of the class action, existence of damage and, where applicable, appropriate compensation) to the District Court of Tel Aviv.

Regarding the non-consolidated entities:

Dexia banka Slovensko

On 25 January 2011, the Bratislava Court of Appeal annulled the two first instance judgements. The Court of Appeal invalidated the legal reasoning of the Court of First Instance, stressing in particular that the court had not established the facts in a satisfactory manner.

The Court of Appeal's ruling was the subject of an extraordinary appeal brought by Ritro Finance before the Slovak Supreme Court, which is still in progress.

Following the Court of Appeal's decision, Dexia banka Slovensko withdrew its counter claim for an amount of EUR 92.2 million pending before the Court of First Instance and submitted it to the Slovak banking association's Permanent Arbitration Court. These proceedings are still in progress.

Financial Security Assurance

The only major development in this affair in the first half of 2012 concerned Mr Goldberg and his two former colleagues who were found guilty on 11 May 2012 in connection with criminal proceedings held in New York.

There were no other noteworthy developments during the first half of 2012.

6. ECONOMIC CAPITAL

Economic capital is defined as the potential deviation in Dexia Crédit Local's economic value compared with the expected value at a given confidence interval and a given time in the future. The quantification process for economic capital involves three stages: identification of any risks (definition and mapping updated annually down to the level of the subsidiaries and branches), measuring them (essentially based on statistical methods) and their aggregation at Group level based on an inter-risk diversification matrix. Most risks are capitalised based on measurement of the expected loss; however, certain risks are not capitalised if other management methods (limits, scenarios, governance, etc.) are considered as being more likely to cover them.

The assessment of capitalised risks is based on a high confidence interval (99.97% at one year). The calculation method is currently being revised to take into account the new Dexia Group scope after restructuring.

7. MAIN RISKS AND UNCERTAINTIES FOR THE COMING SIX MONTHS

In the second half of 2012, the economic environment in which the Dexia Crédit Local Group operates will continue to be affected by significant uncertainties, mainly associated with developments in the euro zone.

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

- the banking sector, especially in Spain;
- the local public sector and PPP projects (Public Private Partnership), especially in Spain and Portugal and, to a lesser extent, in Italy;
- the ABS sector, especially for European RMBS, notably in Spain, Greece and Ireland, as well as Triple-X[1] transactions;
- the LBO sectors, when the companies subject to the LBO carry on a business that is closely correlated to GDP growth.

Overall, Dexia Crédit Local's business in the six months ahead is likely to be affected by risks and uncertainties of a similar nature to those described in this report for the past six months. In particular, further country rating downgrades in the euro zone would have negative consequences on Dexia Crédit Local's situation.

It is important to remember the going concern context in which Dexia Crédit Local operates and the underlying assumptions, including approval by the European Commission of the resolution plan submitted by the States.

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

OPERATING RESULTS

Dexia Crédit Local's condensed half-year consolidated financial statements for the period ended 30 June 2012 were drawn up in accordance with the accounting regulations applicable in a going concern situation, which is based on certain factors and assumptions, including notably:

- approval by the European Commission of the resolution plan submitted by the States in March 2012 and including, in particular, a guarantee from the Belgian, French and Luxembourg states;

- the granting by the Belgian, French and Luxembourg states of a permanent guarantee for an amount of EUR 90 billion, which was announced in principle in October 2011 and reflected in the enabling acts adopted by the Belgian, French and Luxembourg states. Under the terms of Article 15 (f) of the First Demand Guarantee Agreement entered into on 16 December 2011 between the Belgian, French and Luxembourg states, Dexia SA and Dexia Crédit Local, the States undertook to negotiate in good faith the renewal of the guarantee agreement, which could make provision for an increase in the overall cap on the guarantee to EUR 90 billion;

- remuneration on the State guarantee compatible with the Group's future viability. The remuneration paid in respect of the guarantee will be one of the key elements likely to influence the Group's profitability;

- State support of the Group's liquidity position in order to successfully carry out the extensive restructuring measures announced in October 2011.

These assumptions are based on a number of external factors that are beyond the control of Dexia Crédit Local. Their realisation thus remains uncertain and depends, amongst other factors, on the European Commission's decision.

In the absence of additional corrective measures, the non-materialisation of one or more of these assumptions could have an impact on Dexia Crédit Local's going concern situation and strain the Group's liquidity position and solvency.

Accordingly, no changes were made to the valuation methods used at end June 2012.

This going concern assumption was supported by a business plan approved by the Boards of Directors of the Group and Dexia Crédit Local, based on a number of critical assumptions and uncertainties, whose key features are described below.

Technically, this plan was produced by compiling the business plans prepared by each Group entity based on common scenarios and assumptions applied to all entities. These consolidated plans were checked for consistency and subjected to various stress scenarios that impacted both the entities' balance sheets and profitability. As such, the entities' sensitivity to the following key risk factors was tested: interest rates, exchange rates and credit spreads.

Finally, Dexia factored in the impacts of all planned entity disposals (capital gain or loss, balance sheet impact, liquidity and capital ratios).

As announced by Dexia in October 2011, the plan consists of selling off the Group's viable commercial franchises, then managing the natural, gradual run-off of the portfolios left within the new scope.

The macroeconomic scenario used is based on a mild recession during the coming two years, followed by a gradual recovery as from 2014. No major negative events have been assumed during this period.

One of the core assumptions of the business plan is European Commission approval of the plan submitted by the States.

This plan includes a definitive EUR 90 billion funding guarantee, granted by the States and with no collateral requirement.

The cost of funding will be a key factor in the Group's profitability. In this regard, the assumption that the favourable terms of access to central bank funding currently enjoyed by European banks will be maintained over the long term is likely to be revised over time, especially if market conditions improve. Moreover, Dexia assumes that the remuneration to be paid on the State guarantee will be low enough to allow the Group to successfully carry out its restructuring. In any event, it is highly likely that any possible improvement in Dexia SA's financial circumstances will benefit, first and foremost, the Guarantor States, to compensate the risk they are bearing.

The scenario assumes that the entities' banking licences are maintained, and this despite any failure to comply with certain regulatory liquidity ratios. It is also assumed that the credit ratings of Dexia SA and Dexia Crédit Local will be maintained at their current levels.

The resulting business plan concludes that the Dexia Group is viable, based on the assumptions and scenarios used.

While Dexia's management considers this scenario the most plausible, there are still significant risks attached to the working assumptions used not being substantiated.

For example, a deeper-than-expected recession could generate significant credit losses (notably on the Group's holdings of sovereign securities) and keep the fair value reserves on the Group's available-for-sale securities at strongly negative levels.

Similarly, if interest rates do not behave as the market expects, or remain at a very low level in the future, a higher-than-expected level of collateral would need to be provided on the Group's hedging derivatives, and this would significantly increase Dexia's funding needs and consequently its use of the State guarantee.

Any downgrading of the credit ratings of Dexia SA or Dexia Crédit Local, or of the Guarantor States, could also, below a certain threshold, have an adverse impact on the Group's liquidity and cost of funding.

In addition, implementation of the definitive guarantee is subject to a number of prior conditions, such as obtaining European Commission approval. Any delay in the implementation of this guarantee could have a very significant impact on the Group's results, as Dexia will need to roll over large amounts of funding starting in early 2013.

More generally, the plan requires the support of key non-Dexia players: the Guarantor States and central banks in particular play an important role in the success of the business plan drawn up by the Group, working closely with the regulators.

1. CHANGES IN THE CONSOLIDATION SCOPE

Changes in the consolidation scope having a significant impact on the condensed half-year consolidated financial statements for the first half of 2012 relate to the point discussed below concerning Dexia Municipal Agency.

2. CHANGES IN ACCOUNTING REGULATIONS

Dexia Crédit Local's condensed half-year consolidated financial statements have been drawn up in accordance with IFRS in compliance with all the standards and interpretations published and adopted by the European Commission at the accounts closing, as stated in point 1 "Overall context for the presentation and assessment of the condensed half-year consolidated financial statements" in the notes to the condensed half-year consolidated financial statements.

3. CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

3.1. FIRST HALF HIGHLIGHTS AND EVENTS AFTER THE REPORTING PERIOD

FIRST HALF HIGHLIGHTS

Major transactions with an impact on the condensed half-year consolidated financial statements for the period ended 30 June 2012 are set out below.

- Dexia Crédit Local undertook to sell its subsidiary Dexia Municipal Agency in connection with the agreement in principle signed in March 2012 (see below, note 7. Information on activities held for sale).
  Implementation of this agreement remains subject to agreement from the competent prudential supervisory and anti-trust authorities, but Dexia Crédit Local considers its realisation to be highly probable and, in accordance with IFRS 5, applies the following treatment in the condensed half-year consolidated financial statements:
  - Dexia Municipal Agency's assets and liabilities are presented on a separate line on the consolidated balance sheet;
  - Dexia Municipal Agency's activity is considered to be discontinued and its income statement items are presented on a separate line in the consolidated income statement;
  - the difference between the equity sold and the selling price adjusted for incidental expenses is recognised in "Income from discontinued operations, net of tax". Updating this valuation had a negative impact of EUR 53 million on net income for the period ended 30 June 2012. By virtue of the agreement in principle, Dexia Municipal Agency's net income (EUR 79 million for the period ended 30 June 2012) is attributable to the Dexia Crédit Local Group.

- The debt exchange plan negotiated between the Greek state and private creditors resulted in the exchange of sovereign debt in the first half. The new Greek debt together with the European Financial Stability Facility securities have been classified as available-for-sale securities: the exchange value was used as the entry value and the securities indexed to changes in the Greek GNP were valued at zero at the time of this transaction. Execution of this plan had a positive impact of EUR 49 million on net income for the first half. The receivable due from Dexia SA by virtue of the guarantee received on part of the portfolio

of Greek securities was adjusted accordingly: it stood at EUR 1,954 million at end-June 2012, compared with EUR 1,934 million at 31 December 2011. This receivable relates to the Greek assets of the funding subsidiaries Dexia Municipal Agency and Dexia Kommunalbank Deutschland and the securities received during the exchange, for which Dexia Crédit Local benefits from the support of its parent company.

- Dexia Crédit Local recognised a loss of EUR 151.6 million on the securities of Kommunalkredit Austria Finanz following their cancellation, as decided by Kommunalkredit Austria Finanz' general meeting of 25 April 2012. Kommunalkredit Austria's preference shares (EUR 48 million) received in connection with the restructuring of the Kommunalkredit Austria group in 2009 were subject to a EUR 32 million impairment writedown during the period.

- Since 22 December 2011, the Dexia Group has benefited from a temporary guarantee provided by certain European States (Belgian state for 60.5%, French state for 36.5% and Luxembourg state for 3%), initially valid until 31 May 2012, that enabled it to issue bonds with maturities of up to three years, guaranteed up to a maximum of EUR 45 billion. On 31 May 2012, the European Commission approved the extension, for a period of four months, of the EUR 45 billion guarantee mechanism, and, on 6 June 2012, authorised the raising of this limit to EUR 55 billion. This temporary guarantee constitutes the first step in the three States' commitment to provide a permanent guarantee of EUR 90 billion, whose implementation is subject to a final decision by the European Commission. In connection with this new agreement, the Dexia Crédit Local Group issued medium-term debt totalling EUR 46.7 billion at 30 June 2012. The arrangement fee of EUR 275 million initially borne by Dexia SA was recharged to Dexia Crédit Local, representing a charge of EUR 31 million in the first half of 2012.
  For its issues made up to 30 June 2010, Dexia continues to benefit from the State guarantee mechanism put in place in October 2008. At 30 June 2012, instruments covered by this guarantee represented total outstandings of EUR 20.1 billion.
  The charge paid by Dexia Crédit Local and its branches in respect of the remuneration on these guarantees amounted to EUR 289 million in the first half of 2012 (compared with EUR 156 million in the same period in 2011).

- In connection with Dexia SA's agreements for the sale of Banque Internationale à Luxembourg, Dexia Crédit Local purchased a EUR 2.1 billion portfolio of Legacy securities from Banque Internationale à Luxembourg group and committed to buying between now and the year end the rest of this Legacy portfolio, which had an estimated value of EUR 3.4 billion at 30 June 2012. An off-balance sheet commitment was recognised accordingly.

- On 2 March 2012, Dexia Crédit Local launched a buyback offer for the entire EUR 700 million of Super Subordinated Notes at fixed and variable rates issued on 18 November 2005, at a purchase price of 24% (expressed as a percentage of the nominal value). This offer was opened to institutional investors from 2 to 14 March 2012. Investors contributed a total amount of EUR 643.75 million to the offer, i.e. 92% of the nominal amount of the issue.
  Settlement of this buyback offer took place on 19 March 2012, and the balance now stands at EUR 56.25 million. The gain on this buyback (i.e. EUR 486 million net of costs) is recognised in equity, Group share, in accordance with IFRS.

EVENTS AFTER THE REPORTING PERIOD

On 6 July 2012, pursuant to an agreement dating back to 2001, Banco Sabadell informed Dexia of its intention to exercise its put option on its 40% stake in Dexia Sabadell in favour of Dexia Crédit Local. On completion of this transaction, Dexia Crédit Local would own 100% of Dexia Sabadell. Dexia noted Banco Sabadell's decision, which constitutes the starting point of a process governed by this agreement.

3.2. EARNINGS REVIEW

Following the announcement of the Group's restructuring, comparative information relating to discontinued operations is presented separately, in accordance with IFRS 5 (see note 7. Information on activities held for sale).

Consolidated net banking income in the first half of 2012 came to negative EUR 480 million compared with negative EUR 142 million in the first half of 2011, i.e. a decrease of EUR 338 million.

Net banking income in 2012 was significantly affected by the EUR 392 million decline in the interest margin (negative margin of EUR 340 million in the first half of 2012 compared with a positive margin of EUR 52 million in the first six months of 2011), which was generally due to increased funding costs as a result of the widening of spreads in 2012, representing EUR 324 million, and the higher cost of the remuneration on the State guarantees, representing EUR 110 million.

Operating expenses (overheads and depreciation charges) on a consolidated basis were stable: EUR 166 million in the first half of 2012 compared with EUR 169 million in the first half of 2011.

The gross operating loss came to EUR 646 million in the first half of 2012 compared with a loss of EUR 311 million in the six months to 30 June 2011.

The cost of risk came to EUR 194 million in the first half of 2012 compared with EUR 200 million in the same period in 2011. It included the following components:

(EUR millions)	**1st half 2011**	**1st half 2012**
Credit (loans, commitments, held-to-maturity securities)	(139)	116
Available-for-sale fixed-income securities	(61)	(310)
Total	(200)	(194)

In the first half of 2012, it mainly included:

- a charge of EUR 184 million on the securities received in connection with the restructuring of the Kommunalkredit Austria group in 2009;
- income of EUR 54 million on Greek sovereign debt having benefited from the exchange plan negotiated between the Greek state and private creditors;
- a charge of EUR 49 million due to higher sector and specific provisions and losses recorded during the year.

The pre-tax loss amounted to EUR 840 million in the six months to 30 June 2012 compared with a loss of EUR 1,724 million in the first half of 2011.

The pre-tax loss in the first half of 2012 was not impacted by the following non-recurring items that had a significant impact on earnings in the first half of 2011:

- a charge of EUR 1,398 million stemming from the measurement at selling price of EUR 13 billion of assets;
- a gain of EUR 327 million due to the deconsolidation of Dexia Holdings Inc and Dexia FP Holdings Inc.;
- goodwill impairment of EUR 141 million.

The consolidated net loss (Group share) came to EUR 819 million for the six months ended 30 June 2012 compared with a loss of EUR 1,568 million in the same period in 2011.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

	Assets (EUR millions)	As at 30 June 2011	As at 31 December 2011	As at 30 June 2012
I.	Cash, central banks and postal checking accounts	1 700	3 056	777
II.	Financial assets at fair value through profit or loss	13 963	21 554	23 225
III.	Hedging derivatives	9 373	7 879	8 541
IV.	Financial assets available for sale	31 498	29 560	30 168
V.	Interbank loans and advances	17 568	12 534	15 090
VI.	Customer loans and advances	209 326	155 180	152 426
VII.	Fair value revaluation of portfolio hedges	1 727	3 020	3 360
VIII.	Financial assets held to maturity	651	561	457
IX.	Current tax assets	69	47	42
X.	Deferred tax assets	1 271	715	33
XI.	Accruals and other assets	23 486	38 181	41 027
XII.	Non current assets held for sale	11 757	89 185	86 509
XIII.	Investments in associates	0	0	0
XV.	Tangible fixed assets	507	506	503
XVI.	Intangible assets	46	46	43
XVII.	Goodwill	59	59	59
	Total Assets	323 001	362 083	362 260

	Liabilities (EUR millions)	As at 30 June 2011	As at 31 December 2011	As at 30 June 2012
I.	Central banks and postal checking accounts	19 807	27 315	45 869
II.	Financial liabilities at fair value through profit or loss	15 488	24 780	26 307
III.	Hedging derivatives	26 750	32 114	34 414
IV.	Interbank borrowings and deposits	74 542	73 425	56 257
V.	Customer borrowings and deposits	8 510	7 172	8 558
VI.	Debt securities	166 359	104 892	103 645
VII.	Fair value revaluation of portfolio hedges	1 427	445	368
VIII.	Current tax liabilities	49	9	5
IX.	Deferred tax liabilities	21	26	32
X.	Accruals and other liabilities	4 280	3 080	3 932
XI.	Liabilities included in disposal groups held for sale	0	85 830	81 416
XIII.	Provisions	383	62	76
XIV.	Subordinated debt	4 137	1 762	1 435
XV.	Equity	1 248	1 171	(54)
XVI.	Equity, Group share	674	688	(486)
XVII.	Capital stock and additional paid-in capital	1 871	6 071	1 227
XVIII.	Reserves and retained earnings	4 864	4 859	6 844
XIX.	Unrealised or deferred gains and losses	(4 493)	(7 541)	(7 738)
XX.	Net income for the period	(1 568)	(2 701)	(819)
XXI.	Minority interests	574	483	432
	Total Liabilities	323 001	362 083	362 260

CONSOLIDATED INCOME STATEMENT

	(EUR millions)	Half-Year 2011 *	Year 2011	Half-Year 2012
I.	Interest income	10 668	21 635	9 058
II.	Interest expense	(10 616)	(21 649)	(9 398)
III.	Fee and commission income	76	143	55
IV.	Fee and commission expense	(21)	(40)	(19)
V.	Net gains (losses) on financial instruments at fair value though profit or loss	(41)	(13)	(71)
VI.	Net gains (losses) on financial assets available for sale	(213)	(430)	(112)
VII.	Other income	27	53	29
VIII.	Other expenses	(22)	(45)	(22)
IX.	NET BANKING INCOME	(142)	(346)	(480)
X.	Operating expenses	(146)	(297)	(149)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(23)	(42)	(17)
XII.	GROSS OPERATING INCOME	(311)	(685)	(646)
XIII.	Cost of risk	(200)	(962)	(194)
XIV.	OPERATING INCOME	(511)	(1 647)	(840)
XV.	Income (losses) from associates	0	0	0
XVI.	Net gains (losses) on other assets	(1 072)	91	0
XVII.	Impairment of goodwill	(141)	(141)	0
XVIII.	INCOME BEFORE TAX	(1 724)	(1 697)	(840)
XIX.	Income tax	103	(21)	(29)
XX.	Income from discontinued operations, net of tax	66	(1 005)	30
XXI.	NET INCOME	(1 555)	(2 723)	(839)
XXII.	Minority interests	13	(22)	(20)
XXIII.	NET INCOME, GROUP SHARE	(1 568)	(2 701)	(819)
	Earnings per share, Group share			
	Basic (in EUR)	-18.01	-31.03	-9.41
	- of which, related to ongoing activities	-18.77	-19.49	-9.75
	- of which, related to discontinued activities	0.76	-11.54	0.34
	Diluted (in EUR)	-18.01	-31.03	-9.41
	- of which, related to ongoing activities	-18.77	-19.49	-9.75
	- of which, related to discontinued activities	0.76	-11.54	0.34

* Following the announcement of the group's restructuring, comparative information on discontinued operations is disclosed separately, in accordance with IFRS 5 standard (see note 7 "Information on activities held for sale").

NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY

	(EUR millions)	Half-Year 2011	Year 2011	Half-Year 2012
I.	Net income	(1 555)	(2 723)	(839)
II.	Translation adjustments	(30)	66	13
III.	Unrealised or deferred gains and losses on financial assets available for sale	2 629	85	431
IV.	Unrealised or deferred gains and losses on cash flow hedges	131	(381)	29
VIII.	Taxes	(354)	(497)	(701)
IX.	Total unrealised or deferred gains and losses through equity (1)	2 376	(727)	(228)
X.	Net income and unrealised or deferred gains and losses through equity	821	(3 450)	(1 067)
XI.	Of which, Group share	621	(3 560)	(1 016)
XII.	Of which, minority interests	200	110	(51)
	(1) Of which, related to non current assets held for sale	*(98)*	*(252)*	*49*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR millions)	Core equity			Unrealised or deferred gains and losses					Minority interests			
	Capital stock, Additional paid-in capital	Reserves, retained earnings and net income for the period	Total	Change in fair value of financial assets available for sale, net of taxes	Change in fair value of cash flow hedges, net of taxes	Cumulative translation differences	Total	**Equity, Group share**	Core equity	Unrealised or deferred gains and losses	Total	**Equity**
As at 31 December 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	**0**
- Dividends		0	0				0	**0**	0		0	**0**
- Translation adjustments			0	139	31	(41)	129	**129**		11	11	**140**
- Change in fair value of financial assets available for sale through equity			0	1 356			1 356	**1 356**		171	171	**1 527**
- Change in fair value of derivatives through equity			0		74		74	**74**		0	0	**74**
- Change in fair value of financial assets available for sale through profit or loss			0	632			632	**632**		5	5	**637**
- Change 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**
As at 30 June 2011	**1 871**	**3 296**	**5 167**	**(3 942)**	**(466)**	**(85)**	**(4 493)**	**674**	**640**	**(66)**	**574**	**1 248**
Movements during the period												
- Changes in capital	0	0	0				0	**0**	0		0	**0**
- Changes in additional paid-in capital	4 200	0	4 200				0	**4 200**	0		0	**4 200**
- Dividends		0	0				0	**0**	0		0	**0**
- Translation adjustments			0	(60)	(19)	96	17	**17**		0	0	**17**
- Change in fair value of financial assets available for sale through equity			0	(3 837)			(3 837)	**(3 837)**		(62)	(62)	**(3 899)**
- Change in fair value of derivatives through equity			0		(418)		(418)	**(418)**		1	1	**(417)**
- Change in fair value of financial assets available for sale through profit or loss			0	1 155			1 155	**1 155**		5	5	**1 160**
- Change in fair value of derivatives through profit or loss			0		35		35	**35**		0	0	**35**
- Net income for the period		(1 133)	(1 133)				0	**(1 133)**	(35)		(35)	**(1 168)**
- Other movements	0	(5)	(5)	0	0	0	0	**(5)**	0	0	0	**(5)**
As at 31 December 2011	**6 071**	**2 158**	**8 229**	**(6 684)**	**(868)**	**11**	**(7 541)**	**688**	**605**	**(122)**	**483**	**1 171**
Movements during the period												
- Changes in capital	0	0	0				0	**0**	0		0	**0**
- Changes in additional paid-in capital	(4 200)	4 200	0				0	**0**	0		0	**0**
- Dividends		0	0				0	**0**	0		0	**0**
- Translation adjustments			0	(8)	(11)	13	(6)	**(6)**		0	0	**(6)**
- Change in fair value of financial assets available for sale through equity			0	(293)			(293)	**(293)**		3	3	**(290)**
- Change in fair value of derivatives through equity			0		(12)		(12)	**(12)**		(35)	(35)	**(47)**
- Change in fair value of financial assets available for sale through profit or loss			0	113			113	**113**		0	0	**113**
- Change in fair value of derivatives through profit or loss			0		1		1	**1**		1	1	**2**
- Net income for the period		(819)	(819)				0	**(819)**	(20)		(20)	**(839)**
- Other movements (1)	(644)	486	(158)	0	0	0	0	**(158)**	0	0	0	**(158)**
As at 30 June 2012	**1 227**	**6 025**	**7 252**	**(6 872)**	**(890)**	**24**	**(7 738)**	**(486)**	**585**	**(153)**	**432**	**(54)**

(1) Other movements in core equity relate to the repurchase of EUR 700 million of super-subordinated perpetual notes (see note 3. "First-half highlights and events after the reporting period").

Dexia Crédit Local has share capital of EUR 500,513,102, consisting of 87,045,757 shares, with a par value of EUR 5.75 per share.
There are no other securities giving access to Dexia Crédit Local's capital.

CONSOLIDATED CASH FLOW STATEMENT

(EUR millions)	Half-Year 2011	Year 2011	Half-Year 2012
Cash flow from operating activities			
Net income	(1 555)	(2 723)	(839)
Adjustments for:			
- Depreciation, amortisation and other impairment	179	213	33
- Impairment of bonds, equities, loans and other assets	139	2 790	2
- Net (gains) or losses on investments	(6)	(23)	47
- Changes in provisions	7	24	23
- Unrealised gains and losses	1 393	53	(5)
- Income (losses) from associates	0	0	0
- Dividends from associates	0	0	0
- Deferred taxes	(158)	137	10
- Other adjustments	0	0	0
Changes in operating assets and liabilities	(6 260)	(4 155)	116
Net cash provided (used) by operating activities	**(6 261)**	**(3 684)**	**(613)**
Cash flow from investing activities			
Purchases of fixed assets	(63)	(101)	(43)
Sales of fixed assets	19	38	17
Acquisitions of unconsolidated equity shares	(7)	(23)	(12)
Sales of unconsolidated equity shares	17	83	14
Acquisitions of subsidiaries	0	0	0
Sales of subsidiaries	(11)	(11)	0
Net cash provided (used) by investing activities	**(45)**	**(14)**	**(24)**
Cash flow from financing activities			
Issuance of new shares	7	4 207	0
Redemption of capital (1)	0	0	(158)
Issuance of subordinated debt	0	26	4
Redemption of subordinated debt	(22)	(2 570)	(314)
Purchases of treasury stock	0	0	0
Sales of treasury stock	0	0	0
Dividends paid	0	0	0
Net cash provided (used) by financing activities	**(15)**	**1 663**	**(468)**
Net cash provided	**(6 321)**	**(2 035)**	**(1 105)**
Cash and cash equivalents at the beginning of the period	**13 122**	**13 122**	**10 733**
Cash flow provided (used) by operating activities	(6 261)	(3 684)	(613)
Cash flow provided (used) by investing activities	(45)	(14)	(24)
Cash flow provided (used) by financing activities	(15)	1 663	(468)
Effect of exchange rate changes and changes in consolidation scope on cash and cash equivalents	(567)	(354)	13
Cash and cash equivalents at the end of the period	**6 234**	**10 733**	**9 641**
Additional information			
Income tax paid	(71)	102	(43)
Dividends received	4	6	0
Interest received	13 089	25 776	11 514
Interest paid	(13 022)	(25 486)	(11 578)

(1) In 2012, relates to the repurchase of EUR 700 million of super-subordinated perpetual notes (see note 3. "First-half highlights and events after the reporting period").

NOTES TO THE CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

Dexia Crédit Local's condensed half-year consolidated financial statements for the period ended 30 June 2012 were drawn up in accordance with the accounting regulations applicable in a going concern situation, which is based on certain factors and assumptions, including notably:

- approval by the European Commission of the resolution plan submitted by the States in March 2012 and including, notably, a guarantee provided by the Belgian, French and Luxembourg states;

- the granting by the Belgian, French and Luxembourg States of a EUR 90 billion permanent guarantee, which was announced in principle in October 2011 and reflected in the enabling acts adopted by the Belgian, French and Luxembourg states. Moreover, under the terms of Article 15 (f) of the First Demand Guarantee Agreement entered into on 16 December 2011 by the Belgian, French and Luxembourg states, Dexia SA and Dexia Crédit Local, the States all undertook to negotiate in good faith the renewal of the guarantee agreement, which could see the overall ceiling of the guarantee increased to EUR 90 billion;

- remuneration on the State guarantee compatible with the Group's future viability. The remuneration paid in respect of the guarantee will be one of the key elements likely to influence the Group's profitability;

- State support of the Group's liquidity position in order to successfully carry out the extensive restructuring measures announced in October 2011.

These assumptions are based on a number of external factors that are beyond the control of Dexia Crédit Local. Their realisation thus remains uncertain and depends, amongst other factors, on the European Commission's decision.

In the absence of additional corrective measures, the non-materialisation of one or more of these assumptions could have an impact on Dexia Crédit Local's going concern situation and strain the Group's liquidity position and solvency.

Accordingly, no changes were made to the valuation methods used in 2012.

The going concern assumption was supported by a business plan approved by the Boards of Directors of the Group and Dexia Crédit Local, based on a number of critical assumptions and uncertainties, whose key features are described below.

Technically, this plan was produced by compiling the business plans prepared by each Group entity based on common scenarios and assumptions applied to all entities. These consolidated plans were checked for consistency and subjected to various stress scenarios that impacted both the entities' balance sheets and profitability. As such, the entities' sensitivity to the following key risk factors was tested: interest rates, exchange rates and credit spreads.

Finally, Dexia factored in the impacts of all planned entity disposals (capital gain or loss, balance sheet impact, liquidity and capital ratios).

As announced by Dexia in October 2011, the plan consists of selling off the Group's viable commercial franchises, then managing the natural, gradual run-off of the portfolios left within the new scope.

The macroeconomic scenario used is based on a mild recession during the coming two years, followed by a gradual recovery as from 2014. No major negative events have been assumed during this period.

One of the core assumptions of the business plan is European Commission approval of the plan submitted by the States.

The plan includes a definitive EUR 90 billion funding guarantee, granted by the States and with no collateral requirement.

The cost of funding will be a key factor in the Group's profitability. In this regard, the assumption that the favourable terms of access to central bank funding currently enjoyed by European banks will be maintained over the long term is likely to be revised over time, especially if market conditions improve. Moreover, Dexia assumes that the remuneration to be paid on the State guarantee will be low enough to allow the Group to successfully carry out its restructuring. In any event, it is highly likely that any possible improvement in Dexia SA's financial circumstances will benefit, first and foremost, the Guarantor States, to compensate the risk they are bearing.

The scenario assumes that the entities' banking licences are maintained, and this despite any failure to comply with certain regulatory liquidity ratios. It is also assumed that the credit ratings of Dexia SA and Dexia Crédit Local will be maintained at their current levels.

The resulting business plan concludes that the Dexia Group is viable, based on the assumptions and scenarios used.

While Dexia's management considers this scenario the most plausible, there are still significant risks attached to the working assumptions used not being substantiated.

For example, a deeper-than-expected recession could generate significant credit losses (notably on the Group's holdings of sovereign securities) and keep the fair value reserves on the Group's available-for-sale securities at strongly negative levels.

Similarly, if interest rates do not behave as the market expects, or remain at a very low level in the future, a higher-than-expected level of collateral would need to be provided on the Group's hedging derivatives, and this would significantly increase Dexia's funding needs and consequently its use of the State guarantee.

Any downgrading of the credit ratings of Dexia SA or Dexia Crédit Local, or of the Guarantor States, could also, below a certain threshold, have an adverse impact on the Group's liquidity and cost of funding.

In addition, implementation of the definitive guarantee is subject to a number of prior conditions, such as obtaining European Commission approval. Any delay in the implementation of the guarantee could have a very significant impact on the Group's results, as Dexia will need to roll over large amounts of funding starting in early 2013.

More generally, the plan requires the support of key non-Dexia players: the Guarantor States and central banks in particular play an important role in the success of the business plan drawn up by the Group, working closely with the regulatory authorities.

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

Dexia Crédit Local's condensed half-year consolidated financial statements have been prepared in accordance with all IFRS endorsed by the European Commission up to the closing.

In particular, the condensed half-year consolidated financial statements have been prepared and presented in accordance with IAS 34 Interim Financial Reporting, which provides for the publication of condensed 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 purposes are set out in paragraph 9 – Accounting policies and valuation methods for the half-year condensed consolidated financial statements.

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

Judgments are principally made in the following areas:

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

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

Estimates are principally made in the following areas:

- determination of fair value for financial instruments measured at fair value;
- determination of the recoverable amount of impaired financial assets;
- determination of fair value less costs to sell for non-current assets 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 condensed half-year consolidated financial statements are stated in millions of euros (EUR) unless stated otherwise. They are compliant with CNC recommendation 2009 R-04, published on 2 July 2009.

2. CHANGES IN THE CONSOLIDATION SCOPE

The changes in scope that have a material impact on the condensed consolidated financial statements for the first half of 2012 are described in the point below concerning Dexia Municipal Agency.

The list of companies included in the consolidation scope at 31 December 2011 is provided in the 2011 Annual report (section 1.2, pages 107 to 110).

3. FIRST-HALF HIGHLIGHTS AND EVENTS AFTER THE REPORTING PERIOD

3.1. FIRST-HALF HIGHLIGHTS

Major operations with an impact on the condensed half-year consolidated financial statements for the period ended 30 June 2012 are set out below.

- Dexia Crédit Local undertook to sell its subsidiary Dexia Municipal Agency in connection with the agreement in principle signed in March 2012 (see below, note 7. Information on activities held for sale).
  Implementation of this agreement remains subject to agreement from the competent prudential supervisory and anti-trust authorities, but Dexia Crédit Local considers its realisation to be highly probable and, in accordance with IFRS 5, applies the following treatment in the consolidated financial statements:
  - Dexia Municipal Agency's assets and liabilities are presented on a separate line on the consolidated balance sheet;
  - Dexia Municipal Agency's activity is considered to be discontinued and its income statement items are presented on a separate line in the consolidated income statement;
  - the difference between the equity sold and the selling price adjusted for incidental expenses is recognised in "Income from discontinued operations, net of tax". Updating this valuation had a negative impact of EUR 53 million on net income for the period ended 30 June 2012. By virtue of the agreement in principle, Dexia Municipal Agency's net income (EUR 79 million for the period ended 30 June 2012) is attributable to the Dexia Crédit Local group.

- The debt exchange plan negotiated between the Greek state and private creditors resulted in the exchange of sovereign debt in the first half. The new Greek receivables together with the European Financial Stability Facility securities have been classified as available-for-sale securities: the exchange value was used as the entry value and the securities indexed to changes in the Greek GNP were valued at zero at the time of this transaction. Execution of this plan had a positive impact of EUR 49 million on net income for the first half. The receivable due from Dexia SA by virtue of the guarantee received on part of the portfolio of Greek securities was adjusted accordingly: it stood at EUR 1,954 million at end-June 2012, compared with EUR 1,934 million at 31 December 2011. This receivable relates to the Greek assets of the funding subsidiaries Dexia Municipal Agency and Dexia Kommunalbank Deutschland and the securities received during the exchange, for which Dexia Crédit Local benefits from the support of its parent company.

- Dexia Crédit Local recognised a loss of EUR 151.6 million on the securities of Kommunalkredit Austria Finanz following their cancellation, as decided by Kommunalkredit Austria Finanz' general meeting of 25 April 2012. Kommunalkredit Austria's preference shares (EUR 48 million) received in connection with the restructuring of the Kommunalkredit Austria group in 2009 were subject to a EUR 32 million impairment writedown during the period.

- Since 22 December 2011, the Dexia Group has benefited from a temporary guarantee provided by certain European States (Belgian state for 60.5%, French state for 36.5% and Luxembourg state for 3%), initially valid until 31 May 2012, that enabled it to issue bonds with maturities of up to three years, guaranteed up to a maximum of EUR 45 billion. On 31 May 2012, the European Commission approved the extension, for a period of four months, of the EUR 45 billion guarantee mechanism, and, on 6 June 2012, authorised the raising of the ceiling to EUR 55 billion. This temporary guarantee constitutes the first step in the three States' commitment to provide a permanent guarantee of EUR 90 billion, whose implementation is subject to a final decision by the European Commission. In connection with this new agreement, the Dexia Crédit Local Group issued medium-term debt totalling EUR 46.7 billion at 30 June 2012. The arrangement fee of EUR 275 million initially borne by Dexia SA was recharged to Dexia Crédit Local, representing a charge of EUR 31 million in the first half of 2012.

- For its issues made up to 30 June 2010, Dexia continues to benefit from the State guarantee mechanism put in place in October 2008. At 30 June 2012, instruments covered by this guarantee represented total outstandings of EUR 20.1 billion.

- The charge paid by Dexia Credit Local and its branches in respect of the remuneration on these guarantees amounted to EUR 289 million in the first half of 2012 (compared with EUR 156 million in the same period in 2011).

- In connection with Dexia SA's agreements for the sale of Banque Internationale à Luxembourg, Dexia Crédit Local purchased a EUR 2.1 billion portfolio of Legacy securities from Banque Internationale à Luxembourg group and committed to buying between now and the year end the rest of this Legacy portfolio, which had an estimated value of EUR 3.4 billion at 30 June 2012. An off-balance sheet commitment was recognised accordingly.

- On 2 March 2012, Dexia Crédit Local launched a buyback offer for the entire EUR 700 million of Super Subordinated Notes at fixed and variable rates issued on 18 November 2005, at a purchase price of 24% (expressed as a percentage of the nominal value). This offer was opened to institutional investors from 2 to 14 March 2012. Investors contributed a total amount of EUR 643.75 million to the offer, i.e. 92% of the nominal amount of the issue.
  Settlement of this buyback offer took place on 19 March 2012, and the balance now stands at EUR 56.25 million. The gain on this buyback (i.e. EUR 486 million net of costs) is recognised in equity, Group share, in accordance with IFRS.

3.2. EVENTS AFTER THE REPORTING PERIOD

On 6 July 2012, pursuant to the agreement dating back to 2001, Banco Sabadell informed Dexia of its intention to exercise its put option on its 40% stake in Dexia Sabadell in favour of Dexia Crédit Local. On completion of this transaction, Dexia Crédit Local would own 100% of Dexia Sabadell. Dexia noted Banco Sabadell's decision, which constitutes the starting point of a process governed by this agreement.

4. RELATED-PARTY TRANSACTIONS

Analysis by nature

(EUR millions)	Directors and key management		Parent company (Dexia)		Entities exercising joint control or significant influence over the entity (2)		Subsidiaries (3)		Associates (3)		Joint ventures in which the entity has an interest (3)		Other related parties (4)	
	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012	June 2011	June 2012
Loans (1)	1	1	1 749	4 159	31	0	0	0	0	0	0	0	17 888	3 814
Interest income on loans	0	0	7	36	0	0	0	0	0	0	0	0	107	41
Asset disposals			0		0	0	0	0	0	0	0	0	330	0
Losses on asset disposals			0		0	0	0	0	0	0	0	0	21	0
Deposits	0	0	53	71	2 918	4 676	0	0	0	0	0	0	50 353	1 949
Interest expense on deposits	0	0	0	(2)	(39)	(74)	0	0	0	0	0	0	(332)	(19)
Net commissions	0	0	0		16	16	0	0	0	0	0	0	3	0
Guarantees issued by the Group	0	0	0		169	2 125	0	0	0	0	0	0	28 272	10 642
Guarantees received by the Group	0	0	0	2 268	0	0	0	0	0	0	0	0	8 845	5 072

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

(2) This refers to the main shareholders of Dexia (in 2011 and 2012): Arco group, Holding Communal and 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 2011 annual report.

(4) This item includes loans and borrowings with entities of the Belgian and Luxemburg sub-groups consolidated by Dexia, the parent company of Dexia Crédit Local.

In 2011, Dexia Bank Belgium was removed from the consolidation scope of Dexia group.

5. NOTES ON THE INCOME STATEMENT

Following the announcement of the Group's restructuring, the comparative information for the discontinued operations is disclosed separately, in accordance with IFRS 5 standard (see note 7 "Information on activities held for sale").

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

(EUR millions)	Half-Year 2011	Half-Year 2012
Net trading income	2	(9)
Net result of hedge accounting	1	5
Net result of financial instruments designated at fair value through profit or loss (*)	3	1
Change in own credit risk	(23)	(65)
Net result of foreign exchange transactions	(24)	(3)
Total	**(41)**	**(71)**
(*) of which, trading derivatives included in a fair value option strategy	*(9)*	*9*

Analysis of net result of hedge accounting

(EUR millions)	Half-Year 2011	Half-Year 2012
Fair value hedges	**3**	**9**
Change in fair value of hedged items attributable to the hedged risk	(1 207)	1 206
Change in fair value of hedging derivatives	1 210	(1 197)
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 hedges	**(2)**	**(4)**
Change in fair value of hedged items	140	346
Change in fair value of hedging derivatives	(142)	(350)
Total	**1**	**5**

Amount transferred to net interest income from the fair value reserve on cash-flow hedges (due to derivatives for which the hedging relationship was interrupted)	**3**	**1**

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

(EUR millions)	Half-Year 2011	Half-Year 2012
Dividends on securities available for sale	4	0
Net gains (losses) on disposals of loans and securities available for sale	(214)	(158)
Impairment of variable-income securities available for sale	(4)	(1)
Net gains (losses) on disposals of securities held to maturity	0	0
Net gains (losses) on disposals of debt securities	1	47
Total	**(213)**	**(112)**

In 2012, the net gains (losses) on disposals of loans and securities available for sale mainly include losses of EUR 186 million on asset disposals made in connection with the policy of reducing the Group's overall exposure. The net gains (losses) on disposals of debt securities include income of EUR 46 million relating to the purchase by Dexia Kommunalbank Deutschland of its own issues amounting to EUR 2.8 billion.

Operating expenses
(item X. of the income statement)

(EUR millions)	Half-Year 2011	Half-Year 2012
Payroll costs	(120)	(107)
General and administrative expenses	(26)	(42)
Total	**(146)**	**(149)**

General and administrative expenses include notably restructuring costs relating to the Group's orderly resolution.

Cost of risk
(item XIII. of the income statement)

(EUR millions)	Half-Year 2011			Half-Year 2012		
	Collective Impairment	Specific impairment and losses	TOTAL	Collective Impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and securities held to maturity)	(22)	(117)	**(139)**	(26)	142	**116**
Fixed-income securities available for sale	0	(61)	**(61)**	0	(310)	**(310)**
Total	**(22)**	**(178)**	**(200)**	**(26)**	**(168)**	**(194)**

In 2012, Dexia Crédit Local Group's cost of risk mainly includes:
- a charge of EUR 184 million on securities received in connection with the Kommunalkredit Austria group's restructuring in 2009,
- income of EUR 54 million on receivables due from the Greek state having benefited from the debt exchange plan negotiated between the Greek state and private creditors,
- a charge of EUR 49 million due to the increase in sector and specific provisions and losses recorded during the half year.

6. ANALYSIS BY GEOGRAPHIC REGION AND LINE OF BUSINESS

6.1. ANALYSIS BY GEOGRAPHIC REGION

(EUR millions)	Half-Year 2011	Half-Year 2012
Net banking income	**(142)**	**(480)**
Euro zone (countries employing the euro)	(95)	(311)
Rest of Europe	5	4
United States	(66)	(111)
Rest of world	14	(62)
Income before income tax	**(1 724)**	**(840)**
Euro zone (countries employing the euro)	(1 205)	(639)
Rest of Europe	32	0
United States	(351)	(142)
Rest of world	(200)	(59)

6.2. ANALYSIS BY LINE OF BUSINESS

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

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

(EUR millions)	Half-Year 2011	Half-Year 2012
Net banking income	**(142)**	**(480)**
Core Division	136	(110)
- Public and Wholesale Banking	132	48
- Retail and Commercial Banking	0	0
- Group Centre	4	(158)
Legacy portfolio management division	(278)	(370)
Income before income tax	**(1 724)**	**(840)**
Core Division	(115)	(485)
- Public and Wholesale Banking	(11)	(115)
- Retail and Commercial Banking	0	0
- Group Centre	(104)	(370)
Legacy portfolio management division	(1 609)	(355)

7. INFORMATION ON ACTIVITIES HELD FOR SALE

DEXIA MUNICIPAL AGENCY

Dexia Crédit Local undertook to sell its subsidiary Dexia Municipal Agency in connection with the agreement in principle signed in March 2012.

Implementation of this agreeemnt remains subject to the agreement of the competent prudential supervisory and anti-trust authorities, but Dexia Crédit Local considers its realisation highly probable and, in accordance with IFRS5, applies the following treatment in the condensed half-year consolidated financial statements:

- Dexia Municipal Agency's assets and liabilities are presented on a separate line on the consolidated balance sheet;
- Dexia Municipal Agency's activity is considered to be discontinued and its income statement items are presented on a separate line in the consolidated income statement;
- the difference between the equity sold and the sale price, adjusted for incidental expenses, is recognised in "Income from discontinued operations, net of tax". Updating this valuation had a negative impact of EUR 53 million on net income for the period ended 30 June 2012. By virtue of the agreement in principle, Dexia Municipal Agency's net income (EUR 79 million for the period ended 30 June 2012) is attributable to the Dexia Crédit Local Group.

Use of this accounting option (IFRS 5) was made possible by the fact that Dexia Municipal Agency represents an independent business: as required by the standard, the notes impacted are presented after taking into consideration the effect of accounting for Dexia Municipal Agency in accordance with IFRS 5. Dexia Municipal Agency is France's leading local public issuer, is rated independently of its parent company and is run by independent management bodies.

EUR millions	As at 30 June 2012
Core equity	1470
Unrealised or deferred gains and losses	(203)
Total	1267
Sale price less incidental sale costs	452
Loss arising from the fair value adjustment of activities held for sale	(815)
*- of which relating to 2011 **	*(762)*
- of which relating to 2012	*(53)*
Additional loss booked at the closing of the transaction	(203)

Loss net of prior years' intercompany profit or loss and incidental costs booked in 2011 in the line "Income from discontinued operations, net of tax".

8. DIRECTE SOVEREIGN DEBT - DIRECT EXPOSURE

	As at 30 June 2012						
	Greece	Italy		Portugal		Spain	
Exposure	Securities available for sale	Securities available for sale	Loans	Securities available for sale	Loans	Securities available for sale	Loans
Carrying amount before fair value adjustments	197	4 050	6 533	1 768	45	470	19
Fair value adjustment due to interest rate hedged	0	1 640	799	667	21	14	0
Fair value adjustment not hedged	(92)	(1 828)	(4)	(1 267)	0	(67)	11
Total	**105**	**3 862**	**7 328**	**1 168**	**66**	**417**	**30**
Available-for-sale reserve							
Available-for-sale reserve (gross)	(92)	(1 828)	(4)	(1 267)	0	(67)	0
Deferred taxes	0	21	0	0	0	0	0
Available-for-sale reserve (net)	(92)	(1 807)	(4)	(1 267)	0	(67)	0

The Dexia Crédit Local Group has no exposure to Irish sovereign assets.

The Dexia Crédit Local Group has a nil position on credit default swaps on Italian sovereign assets: this position consists of EUR 803 million of credit default swaps sold, offset by purchases for the same nominal. The group has no other exposure on credit default swaps related to sovereign risk.

9. ACCOUNTING POLICIES AND VALUATION METHODS FOR THE CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

The accounting policies and valuation methods adopted by Dexia Crédit local for these condensed half-year consolidated financial statements are consistent with those described in the 2011 annual report (section 1.3, pages 111 to 122).

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

IASB and IFRIC texts endorsed by the European Commission and applied as from 1 January 2012

- Amendment to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets. The impact of this amendment on Dexia Crédit Local's condensed half-year consolidated financial statements relates to disclosures.

IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from 1 January 2012

- Amendment to IAS 19 Employee Benefits principally changes the recognition and measurement of post-employment defined benefit plans (including removal of the corridor mechanism) and enhances the disclosure requirements for these plans. This amendment is effective as from 1 January 2013. Dexia Crédit Local does not expect this amendment to have a material impact on its condensed half-year consolidated financial statements.

- Amendment to IAS 1 Presentation of Items of Other Comprehensive Income 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 other comprehensive income.

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

- Amendment to IFRS 1 Government Loans (issued by the IASB in March 2012). This amendment is effective as from 1 January 2013 and will not impact the financial statements of Dexia Crédit Local, which is no longer a first-time adopter.
- Annual Improvements 2009-2011 cycle (issued by the IASB in May 2012), which are a collection of amendments to existing International Financial Reporting Standards. These amendments are effective as from 1 January 2013. Dexia Crédit Local does not expect these amendments to have a material impact on its financial statements.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (issued by the IASB in June 2012). These amendments are effective as from 1 January 2013 and the impact on Dexia Crédit Local's financial statements is currently being assessed.

STATEMENT OF THE PERSON RESPONSIBLE

I, Alain Clot, 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 a true and fair view of the assets, financial position and earnings of all the companies included in the consolidation, and that the interim business 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 financial year.

The half-year financial information presented in this report is covered by an audit report prepared by the statutory auditors, which contains observations relating notably to application of the going concern concept (see page 41).

La Défense, 3 August 2012

Alain Clot

Chief Executive Officer

STATUTORY AUDITORS' REVIEW REPORT ON FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2012

Period from January 1, 2012 to June 30, 2012

This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report includes information relating to the specific verification of information presented in the Group's interim management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders:

In compliance with the assignment entrusted to us by the Shareholder's Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (*"Code monétaire et financier"*), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Dexia Crédit Local, for the period from January 1, 2012 to June 30, 2012;
- the verification of the information provided in the interim management report.

These condensed half-year consolidated financial statements were prepared under the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

I. CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

Without qualifying our conclusion, we draw your attention to the preliminary note to the condensed half-year consolidated financial statements which:

- stipulates that the condensed half-year consolidated financial statements of Dexia Crédit Local have been prepared on a going concern basis;

- sets out the key items and assumptions taken into consideration by the Board of Directors to approve the condensed half-year consolidated financial statements under this basis of accounting and more specifically:

  - the European Commission's approval of a resolution plan submitted by the States in March 2012 and incorporating a Belgian, French and Luxembourg State guarantee;
  - the granting by the Belgian, French and Luxembourg States of a final definitive guarantee totaling EUR 90 billion, the principle of which has already been reflected in the authorizing legislations adopted by the Belgian, French and Luxembourg States;
  - a final remuneration of the States' guarantee compatible with the Group's future viability;
  - the support from the States, with regard to the Group's liquidity situation, for the proper implementation of the restructuring measures announced in October 2011.

As indicated in the preliminary note, maintenance of the going concern basis of accounting is justified by the business plan prepared by the Dexia Group which is based on a number of assumptions. Some of the assumptions used rely on external factors beyond the control of the Dexia Group and more specifically on the European Commission's decision. Their realisation is therefore uncertain. Accordingly, non-realisation of the assumptions could result in Dexia Crédit Local having to examine the potential consequences of such a situation on the going concern basis of accounting in the preparation of the financial statements of the fiscal years to come.

II. Specific verification

We have also verified the information presented in the interim management report commenting the condensed half-year consolidated financial statements subject to our review.

We have no matters to report as to its fair presentation and its consistency with the condensed half-year consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, August 3rd, 2012

The statutory auditors

French original signed by

DELOITTE & ASSOCIÉS		MAZARS	
José Luis GARCIA	Charlotte VANDEPUTTE	Hervé HELIAS	Virginie CHAUVIN