Financial report
H1 2014

DEXIA
CRÉDIT
LOCAL
DCL

CONTENTS

MANAGEMENT REPORT[1]

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT			
in millions of EUR	H1 2013	H1 2014	Variation
Net banking income	**-395**	**-33**	**362**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-197	-182	15
Gross operating income	**-592**	**-215**	**377**
Cost of risk and net gains or losses on other assets	-91	-42	49
Pre-tax income	**-683**	**-257**	**426**
Income tax	-32	-20	12
Result from discontinued operations, net of tax	-142	0	142
Net income	**-857**	**-277**	**580**
Minority interests	-8	7	15
Net income Group share	**-849**	**-284**	**565**

BALANCE SHEET KEY FIGURES – ANC FORMAT			
in millions of EUR	31/12/13	30/06/14	Variation
Total assets	**221,634**	**236,823**	**+6.9%**
of which			
Cash and central banks	1,542	9,105	+490.5%
Financial assets at fair value through profit or loss	18,347	20,592	+12.2%
Hedging derivatives	5,945	7,030	+18.3%
Financial assets available for sale	29,224	29,307	+0.3%
Customer loans and advances	128,552	128,016	-0.4%
Accruals and other assets	27,260	31,213	+14.5%
Total liabilities	**219,096**	**234,235**	**+6.9%**
of which			
Central banks	34,274	34,014	-0.8%
Financial liabilities at fair value through profit or loss	18,839	21,571	+14.5%
Hedging derivatives	22,265	26,997	+21.3%
Interbank borrowings and deposits	31,969	40,032	+25.2%
Debt securities	96,368	95,272	-1.1%
Total equity	**2,538**	**2,588**	**+2.0%**
of which			
Equity, Group share	2,130	2,205	+3.5%

(1) The management report data are unaudited.

INTRODUCTION

The first half-year of 2014 was marked by a global improvement of the macroeconomic environment. In the euro zone, the fears weighing on the economies of the peripheral European countries now seem to have disappeared, although the economic health of banks and local authorities in those countries still remains fragile. In the United States, the economic recovery is likely to be accompanied by a tightening of the monetary policy by the Federal Reserve, although the calendar and the impact of this on the financial sector are still difficult to predict.

Against this background, the Dexia Crédit Local Group reached its target scope as set out in the Dexia Group's orderly resolution plan and continued to adapt its operational model within the framework of a "Company Project" launched in 2013.

The first-time application of the new prudential standards contained in the Capital Requirements Directive IV, transposing the Basel III regulatory framework in Europe, resulted in a downward adjustment of Dexia Crédit Local solvency ratios from January 2014. Beyond this prudential impact, solvency evolved favourably over the half-year.

Under sound market conditions, Dexia Crédit Local formed a temporary liquidity reserve, anticipating significant redemptions at the end of 2014 and in 2015. The momentum of funding cost reduction continued with the repayment of the last outstanding issues under the 2008 guarantee. The Group funding cost over the half-year is lower than the income on asset portfolios.

INFORMATION RELATED TO THE PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF DEXIA CRÉDIT LOCAL AS AT 30 JUNE 2014

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2014 were established in accordance with the accounting rules applicable to a going concern, which assume a certain number of hypotheses explained within the framework of previous accounting closures. These hypotheses of continuity rely on a business plan which served as the basis for the establishment of a resolution plan for the Dexia Group, and which was validated by the European Commission on 28 December 2012.

The business plan contains a funding guarantee granted by the Belgian, French and Luxembourg States in an amount of EUR 85 billion in principal, without collateral requirement. This guarantee came into force on 24 January 2013.

It relies moreover on the hypothesis of a restoration of confidence on the capital markets enabling Dexia Crédit Local to increase the proportion of its funding raised on the markets and to reduce is central bank funding. From this perspective, the Group's funding structure evolved favourably in 2013 and in 2014.

The business plan was revised on the basis of elements known or foreseeable in December 2013, within the framework of a biennial review. The business plan thus revised and ratified by the Dexia Group's Board of Directors on 24 March 2014 does not lead to any significant deviation over the term of the plan compared to the plan initially validated. There will be a new update of the plan in the second half-year of 2014.

Some uncertainties remain however associated with its realisation. The plan is sensitive in particular to the evolution of the interest rates and the credit environment, the unfavourable development of which would adversely affect Dexia and Dexia Crédit Local's performance. It is also sensitive to regulatory developments, in particular the implementation of the IFRS 9 accounting standard and, as is the case for all the banks subject to the full assessment of the European Central Bank within the framework of the single supervisory mechanism in Europe, it could be impacted by the final results of the review in progress. To date, the Dexia Group is not aware of more precise elements and the adjustments made do not prejudge the final results of the ongoing review.

Finally, Dexia Crédit Local remains exposed to a liquidity risk and the realisation of the orderly resolution plan assumes that Dexia Crédit Local will retain a robust funding capacity based in particular on investors' appetite for guaranteed debt.

1. SIGNIFICANT EVENTS AND TRANSACTIONS

- Reaching Dexia Crédit Local's target scope as set out in the Dexia orderly resolution plan
- Favourable evolution of the French legal framework for structured loans
- Reduction of the exposures to Detroit and Puerto Rico; strengthening of collective provisions on renewable energies in Spain

A. Implementation of the orderly resolution plan

The Dexia Group orderly resolution plan, validated by the European Commission on 28 December 2012, provides for the disposal of the main operational entities considered perennial and the management of the Group's residual assets in run-off. With the sale Dexia Asset Management (DAM) on 3 February 2014 and that of its holding in Popular Banca Privada to Banco Popular Espanol on 19 February 2014, Dexia finalised all the disposals provided for in the orderly resolution plan. The last sale within Dexia Crédit Local's consolidation scope and which was provided for in the orderly resolution, was that of Sofaxis on 30 September 2013.

The Dexia Group orderly resolution plan does not require the disposal of Dexia Crediop, a 70%-owned subsidiary of Dexia Crédit Local, but nonetheless authorises its sale. From the point of view of that sale and to protect the entity's commercial franchise, the European Commission granted Dexia Crediop a production envelope of EUR 200 million, enabling it to grant funding to its existing clients, for a period of one year to run from the date of validation of the resolution plan by the Commission. As negotiations had been undertaken with a potential purchaser, the Group received at the beginning of 2014 authorisation from the European Commission to extend the production window by an additional six months, until 28 June 2014. In the absence of a firm offer at the end of that period, the European Commission confirmed to the Dexia Group on 15 July 2014 the run-off status of Dexia Crediop. However, this does not prejudge the continuation of the discussions related to the sale of Dexia Crediop.

In parallel to the disposal process, the Dexia Group launched in 2013 a "Company Project" aimed at redefining its strategic objectives, its governance and the optimal operational model for the implementation of its resolution plan. This project, which largely impacts Dexia Crédit Local as the Group's largest operational platform, aims to establish a structure ensuring the Group the robustness and flexibility required to maintain operational continuity, whilst managing the decrease of Dexia and Dexia Crédit Local's scope. A certain number of key projects have been identified to simplify and to optimise the operational efficiency. The target organisation was the subject of a detailed presentation in the section of the Dexia SA Annual Report 2013 entitled "The Dexia Group Company Project: what will the future profile of Dexia Group and Dexia Crédit Local Group look like?"

B. Evolution of the credit environment

a. Update on the structured loans of Dexia Crédit Local

Continuation of the policy to desensitise the outstanding on sensitive loans(1) of Dexia Crédit Local

In order to reduce the litigation risk in relation to structured loans, the Group's orderly resolution plan provides for two production windows granted to Dexia Crédit Local, for a total amount of EUR 600 million. The second window runs from June to November 2014.

During the first half-year of 2014, Dexia Crédit Local continued its desensitisation efforts, without new production flows. The outstanding on sensitive structured loans is down therefore by 7.2% over the half-year to EUR 1,336 million as at 30 June 2014.

Evolution of the French legal framework

The legal framework for structured loans evolved considerably in the first half-year of 2014. These evolutions on the one hand led to securing the legal environment for lenders and on the other hand enabled assistance mechanisms to be defined for borrowers facing financial difficulties.

(1) The most structured loans, under the Gissler nomenclature (categories 3E, 4E and 5E) or according to the Group's internal classification.

As such, the creation of a support fund for local authorities was enacted by two decrees, published on 29 April 2014 and 18 July 2014. This fund will be allocated EUR 100 million per annum over 15 years and its access will be conditional on the borrower waiving any legal action in relation to the loans for which financial support has been requested.

On 23 April 2014, a bill of law was announced in relation to a similar assistance mechanism for the hospital sector.

Finally, on 17 July 2014, the bill of law on "the securitisation of structured loan contracts subscribed by legal entities under public law" was definitively passed by the Senate. Following an appeal, this text was then confirmed by the Constitutional Council on 24 July 2014. The law has been published in the Official Journal on 29 July 2014. This law contributes to securing the legal environment for Dexia Group, by validating the contracts contested for the absence of mention of the Effective Annual Percentage Rate (EAPR) in the faxes precedent to the contract or default in communicating the rate and term. Furthermore, if the borrower can prove that the EAPR is erroneous, the law stipulates that, if the original EAPR is higher than the correctly calculated EAPR, the borrower can benefit from the difference between both rates, applied to the capital remaining due at each payment date.

As at 30 June 2014, Dexia Crédit Local had been summonsed by 224 clients, of which 41 have an outstanding on the bank, the residual outstanding being transferred to the Caisse Française de Financement Local (CAFFIL). Nevertheless, Dexia Crédit Local, which was responsible for the commercialisation of the loans of CAFFIL until the moment of its sale by the Group, remains under certain conditions liable for any damages granted to a borrower due to the non-respect of its obligations relating to the origination or the commercialisation by Dexia Crédit Local of the structured loans held by CAFFIL at the moment of the sale. The judgements have been pronounced at first instance and are hence likely to be appealed.

b. Situation concerning the city of Detroit and the Commonwealth of Puerto Rico

The financial situation of the city of Detroit, which was placed under the protection of Chapter 9 of the Bankruptcy Code on 18 July 2013, and the Commonwealth of Puerto Rico, in great financial difficulty, remained objects of attention over the half-year.

After increasing the level of provisions for its exposures to the city of Detroit in the first quarter 2014, Dexia Crédit Local took advantage of favourable market conditions, associated with the improving situations of some reinsurers, to reduce its exposure to the city by USD 75 million during the second quarter. As at 30 June 2014, the gross book value of Dexia Crédit Local's commitments on Detroit affected by the debt restructuring measures amounted to USD 255 million, of which USD 230 million is subject to a risk of value deterioration. The established provision amounts to USD 157 million, including the provisions relating to hedging instruments. Dexia Crédit Local also has other public sector receivables associated with the city of Detroit for an amount of USD 136 million, which are not affected by the Detroit debt restructuring under Chapter 9. Furthermore, an outstanding of USD 55 million has been sold in July 2014, bringing the total exposure of Dexia Crédit Local to the city of Detroit to USD 175 million.

Over the half-year, Dexia Crédit Local also disposed of some of its exposures to the Commonwealth of Puerto Rico. The gross book value of its commitments on Puerto Rico amounted to USD 411 million at the end of June 2014, provisioned up to USD 34 million (including provisions relating to hedging instruments). The deterioration of the credit quality of several public agencies of the Commonwealth, associated with the implementation of a legal framework enabling their debt to be restructured, does not have a direct impact on Dexia Crédit Local, as its exposures to these counterparties are guaranteed by good quality reinsurers.

c. The renewable energy sector in Spain

In order to promote the development of renewable energies, the Spanish government adopted extremely favourable feed-in tariffs for green electricity. Observing a situation of production over-capacity and taking account of the cost resulting from the green electricity feed-in tariffs for consumers, the Spanish government approved a new regulation reducing the feed-in tariffs for electricity produced from renewable energies. This decision is retroactive and therefore also impacts infrastructures already in operation or under construction, the financial equilibrium of which relies on the former tariffs. Consequently, in order to take into account a weakening of the sector due to this evolution, Dexia Crédit Local booked an additional collective provision of EUR 56 million on the renewable energy sector in Spain, increasing the total provision to EUR 81 million as at 30 June 2014. At that date the gross book value on that sector amounts to EUR 2.25 billion.

C. Disposals and early repayments of assets and funding

Taking advantage of favourable market conditions, Dexia Crédit Local disposed of EUR 484 million in assets over the half-year. These disposals were made within the framework of the policy to reduce the Group's risk profile or reflect a desire to reduce the weighted risks. They resulted in a gain of EUR 25 million over the half-year as well as in a reduction of the cost of risk, following the reversals of provisions on the assets sold.

In the context of an active risk management policy, Dexia Crédit Local accelerated the repayment of loans and bonds for an amount of EUR 253 million, resulting in a gain of EUR 3.6 million.

Overall, these active portfolio management transactions generated a balance sheet reduction of EUR 737 million over the first half-year of 2014. The disposal of provisioned assets reduced the outstanding of impaired loans and advances to customers from EUR 1,386 million as at 31 December 2013 to EUR 1,107 million as at 30 June 2014.

Dexia Crédit Local also made early liability redemptions of EUR 203 million, mainly in relation to GICs in the United States and on issues of Dexia Kommunalbank Deutschland. These transactions led to gain of EUR 17 million being booked over the half-year.

D. Update on the full assessment made by the European Central Bank

With the implementation of a single supervisory mechanism for banking institutions in Europe, the European Central Bank launched a full assessment of the bank balance sheets which will come under its supervision as from November 2014. Dexia, including Dexia Crédit Local, is one of the banks subject to this assessment, that is being carried out jointly with the competent national authorities, the National Bank of Belgium and the French "Autorité de Contrôle Prudentiel et de Résolution" in Dexia's case, between November 2013 and November 2014 and comprises two main components:

- An Asset Quality Review, including an analysis of the asset valuations and the level of provisions booked by the bank;
- A stress test to ensure the bank's resilience in the case of a deterioration of its economic and financial environment.

The final results of the full assessment will be published in November 2014.

On the basis of the preliminary works done in this context, the regulators asked the Dexia Group to make a prudential adjustment on the regulatory capital of Dexia SA and Dexia Crédit Local consolidated on 31 March 2014(2). At 30 June 2014, the impact of this adjustment for these two groups amounts to EUR -83 million. By way of reference, the Total Capital of Dexia SA amounts to EUR 9,391 million at that date and that of Dexia Crédit Local to EUR 7,123 million.

To date, the Dexia Group is not aware of more precise elements and the adjustments made do not prejudge the final results of the review under way for the Dexia Group or for Dexia Crédit Local.

2. RESULTS FOR THE 1ST HALF-YEAR 2014

A. Presentation of the condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2014

a. Going concern

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2014 were established in accordance with the accounting rules applicable to a going concern, (cf. section "Information related to the presentation of the condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2014").

b. Application of the IFRS 5 accounting standard relating to "non-current assets and groups held for sale"

The structural measures undertaken by the Group in October 2011 have also been reflected by the application of the IFRS 5 accounting standard relating to "non-current assets and groups held for sale".

The Dexia Group having finalised in 2013 all disposals within the scope of Dexia Crédit Local and provided for by the orderly resolution plan, the IFRS 5 accounting standard does not apply to the presentation of the condensed financial statements of Dexia Crédit Local as at 30 June 2014.

(2) Cf press release "Interim Statement – Q1 2014" of 14 May 2014, published on the website *www.dexia.com*

B. Consolidated income statement for the 1st half-year of 2014

Over the 1st half-year of 2014, Dexia Crédit Local's **net income Group share** is EUR -284 million, of which EUR 7 million are attributable to minority interests. Dexia Crédit Local achieved a net income Group share of EUR -210 million over the 1st quarter and of EUR -75 million over the 2nd quarter of 2014.

Over the half-year, the **net banking income** is EUR -33 million. Over the 2nd quarter 2014, Dexia Crédit Local posted a net banking income of EUR 55 million against EUR -87 million in the 1st quarter. The net banking income includes accounting volatility elements, mainly due to the valuation of collateralised derivatives on the basis of an OIS curve, and to the increase of the provisions for litigations. Excluding those impacts, net banking income covers operating costs.

As at 30 June 2014, **costs** amount to EUR -182 million. They notably include consultancy costs associated with work done within the context of the Asset Quality Review.

Gross operating income is EUR -215 million over the half-year.

At the end of June 2014, the **cost of risk** remains contained at EUR -42 million.

The half-year **pre-tax income** amounts to EUR -257 million.

Over the half-year, the **tax charge** is EUR -20 million, and as a consequence the **net income from continuing activities** is EUR -277 million.

Considering the result of EUR 7 million attributable to minority interests, the **net income Group share** for the 1st half-year of 2014 is EUR -284 million.

3. EVOLUTION OF THE BALANCE SHEET AND THE LIQUIDITY SITUATION OF DEXIA CRÉDIT LOCAL

A. Balance sheet

- Increase of the balance sheet total of EUR 15 billion over the 1st half-year, as a result of the fall of the long-term interest rates and the establishment of a liquidity reserve

As at 30 June 2014, Dexia Crédit Local's balance sheet total is EUR 237 billion, up EUR 15 billion compared to 31 December 2013. The balance sheet posted a significant increase during the 1st half-year of 2014, essentially by virtue of the Dexia Group's prudent liquidity management and the fall of long-term interest rates in euro and in sterling, illustrating the sensitivity of the Dexia Crédit Local balance sheet to the evolution of these external factors.

Over the 1st half-year of 2014, the increase of balance sheet assets is mainly linked to:

- an increase in the fair value of assets and derivatives of EUR +8.6 billion as well as an increase of EUR +3.9 billion in the cash collateral posted by Dexia Crédit Local due to the fall of the long-term rates;
- an increase of EUR +7.6 billion in cash placed with central banks reflecting the liquidity surplus built up by the Dexia Group over the period (cf. Section entitled "Liquidity situation");
- these developments have more than offset the EUR -5 billion reduction of the asset portfolio.

On the liabilities side, the half-yearly balance sheet evolution is mainly explained by:

- the new funding collected, mainly in the form of guaranteed issues, resulting in a rise of +EUR 5.6 billion in the stock of market funding and EUR +0.6 billion in deposits collected;
- the increase of the fair value of liabilities and derivatives representing EUR +8.7 billion.

B. Liquidity situation

- Sharp increase in the use of secured market funding
- Sustained activity in issues under guaranteed format, enabling the amortisation of the latest outstanding issued under the 2008 guarantee agreement to be offset

During the 1st quarter of 2014, Dexia Crédit Local took advantage of favourable market conditions to anticipate significant funding redemptions in the second half of 2014 and in the 1st quarter of 2015, associated in particular with the repayment of guaranteed outstanding amounts subscribed by Belfius (EUR 12.8 billion) as well as the end of the eligibility of own-used government guaranteed bank bonds to Eurosystem refinancing operations (EUR 13.4 billion)(3).

The amount of secured funding rose from EUR 55.9 billion to EUR 61.4 billion over the half-year, mainly due to an increase of repo-transactions, resulting from Dexia Crédit Local's efforts to develop this market segment.

This is in particular reflected by an increase in the number of counterparties for bilateral transactions, both in Europe and in the United States, and greater access to the main market platforms in Europe. The development of this type of funding enables Dexia Crédit Local assets to be enhanced best in terms of liquidity, including assets not eligible for central bank refinancing.

The outstanding on covered bonds fell slightly over the half-year, with the EUR 500 million 5-year Pfandbriefe issue realised by Dexia Kommunalbank Deutschland at 3 June 2014 only partially offsetting the amortisation of the outstanding financing.

Guaranteed debt outstanding remained relatively stable over the half-year at EUR 77 billion. Amortisation of the latest outstanding covered under the 2008 guarantee agreement was offset by flows from new issues.

Over the first half-year, Dexia Crédit Local launched several guaranteed issues in euros and US dollars with maturities ranging from 3 to 7 years, in favourable market conditions. These issues were all over-subscribed and present extremely diversified order books. These issues as a whole enabled an amount of EUR 4.1 billion to be raised and extended the maturity of Group funding in different currencies. The half-year was also marked by sustained activity in private placements, raising EUR 4.6 billion. At the same time, Dexia Crédit Local was very active on its short-term refinancing, via various guaranteed programmes in euros and US dollars.

Dexia Crédit Local maintained a sustained issuance pace in July 2014, with new long-term guaranteed funding raised at EUR 13.2 billion at that date, of which EUR 7.3 billion benchmark transactions and EUR 5.9 billion private placements. These new issues offset the redemption flows, bringing outstanding guaranteed issues to EUR 77.8 billion as at 31 July 2014.

Following on from 2013, Dexia Crédit Local continued to present its guaranteed funding strategy to investors, particularly with road shows in Europe, the United States and Latin America.

As at 30 June 2014, guaranteed and secured funding represented 67% of the total funding of Dexia Crédit Local.

The use of central bank funding remained stable over the half-year, at EUR 34 billion, only in the form of VLTRO(4), which represents 19% of the Group's funding requirement. Dexia Crédit Local did not make use of the emergency liquidity allowance (ELA) during the past half-year and complied with the regulatory thresholds defined for calculation of the liquidity ratio.

Dexia Crédit Local's liquidity situation improved during the first half year and this in terms of volume, cost and maturity of the funding raised. Despite an advance on the projections made under the orderly resolution plan, Dexia Crédit Local's balance sheet structure continues to show structural imbalances and will remain sensitive to the evolution of external factors.

(3) Decisions taken by the Governing Council ECB/2012/12 of 3 July 2012 and ECB/2013/6 of 20 March 2013.
(4) The VLTRO or Very Long Term Refinancing Operations are exceptional refinancing operations for a period of 3 years launched in December 2011 and February 2012 by the European Central Bank in order to support the interbank market liquidity and to facilitate real economy financing.

4. SOLVENCY

- First-time application of the CRD IV: Total Capital ratio at 13.8% and Common Equity Tier 1 ratio at 13.5%

Impact of the first-time application of the Basel III solvency rules

The Basel III solvency rules came into force on 1 January 2014. They amend the modes of calculating the regulatory capital and provide for the booking of additional weighted risks.

On 1 January 2014 the adoption of these new rules generated a reduction of the regulatory capital of EUR -0.8 billion for Dexia Crédit Local, mainly due to following elements:

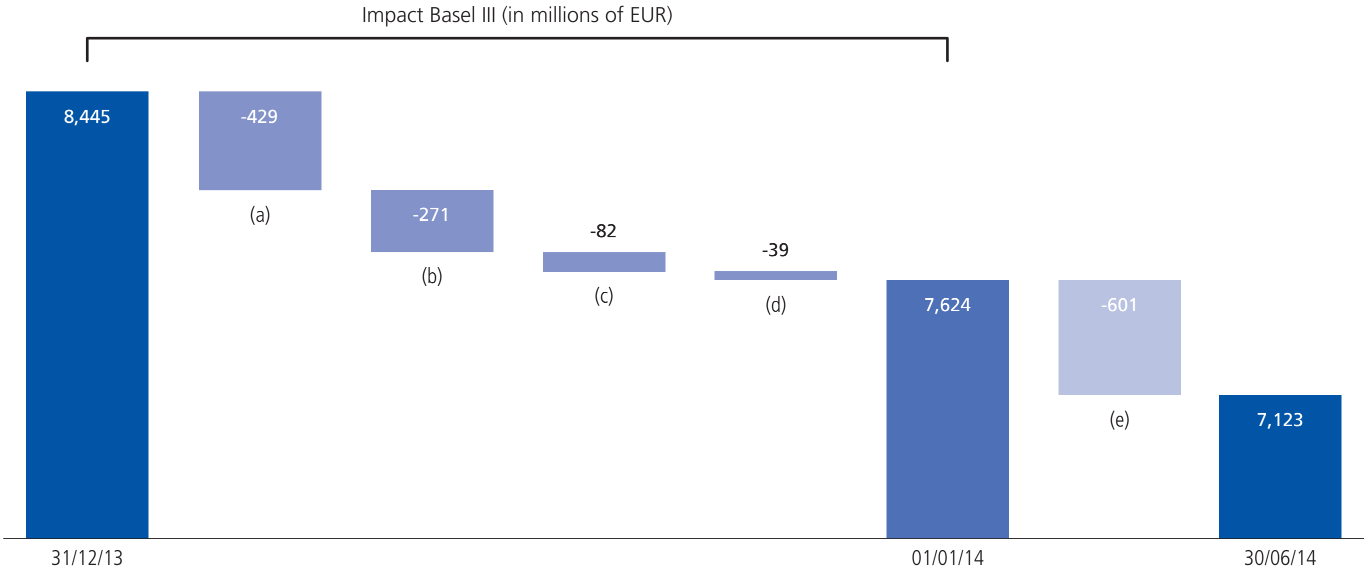
- 20% deduction from the AFS (Available For Sale) reserve on non-sovereign securities, with an impact of EUR -429 million;
- reduction of the recognition of subordinated loans, with an impact of EUR -271 million;
- deduction of the Debit Value Adjustment (DVA), for EUR -82 million.

At the same time, this change of regulatory framework generated an increase in the total of weighted risks, particularly associated with the taking into account of a modification of the Credit Value Adjustment (CVA) and the Asset Value Correlation (AVC) and a change of mode of calculating the Exposure at Default (EaD).

Harmonisation of national discretions applicable to Dexia SA and Dexia Crédit Local

The CRD IV Directive, which establishes the Basel III regulatory framework, provides for the deductibility of the AFS reserve from the regulatory capital, whilst authorising national discretions. The National Bank of Belgium and the French "Autorité de Contrôle Prudentiel et de Résolution" have confirmed that the rules applied to Dexia SA and to Dexia Crédit Local for the calculation of their regulatory solvency ratios during the transitional period from 1 January 2014 to 31 December 2017 would henceforth be identical. The AFS reserve on sovereign securities is not taken into account in the calculation of the solvency ratios and the AFS reserve relating to non-sovereign exposures is deducted from the regulatory capital up to an amount of 20% per annum.

MAIN IMPACTS OF THE CRD IV / CRR IMPLEMENTATION ON THE REGULATORY CAPITAL OF DEXIA SA



(a) Deduction of 20% of the negative available-for-sale reserve for non-sovereign bonds and loans and receivables.
(b) Limited recognition of subordinated loans.
(c) Full deduction of the Debit Value Adjustment (DVA).
(d) Other: limited recognition of minority interests, deduction of deferred taxes for losses carried forward and overshooting of the threshold for subordinated debt and receivables in financial institutions not representing an important investment.
(e) Impact of the half-year.

CAPITAL ADEQUACY		
in millions of EUR	Basel II 31/12/13	Basel III 30/06/14
Common Equity Tier 1	7,974	6,974
Total Capital	8,445	7,123
Weighted risks	44,445	51,763
Common Equity Tier 1 ratio	17,8%	13,5%
Total Capital ratio	19,0%	13,8%

WEIGHTED RISKS		
in millions of EUR	Basel II 31/12/13	Basel III 30/06/14
Weighted credit risks	41,405	49,048
Weighted market risks	2,668	2,537
Weighted operational risks	372	178
Total	**44,445**	**51,763**

Solvency ratios at the end of June 2014

As at 30 June 2014, Dexia Crédit Local's Total Capital is EUR 7,123 million, against EUR 8,445 million as at 31 December 2013. This reduction of EUR -1,322 million is principally explained by the impact of the first-time application of Basel III (EUR -0.8 billion) and the losses booked over the first half-year of 2014 (EUR -329 million). The Common Equity Tier 1 is following a similar trend, passing from EUR 7,974 million as at 31 December 2013 to EUR 6,974 million as at 30 June 2014.

Gains and losses recognised directly in equity (Other Comprehensive Income – OCI) amount to EUR -5.2 billion as at 30 June 2014, up EUR 0.8 billion since the end of 2013, explained by a tightening of credit spreads on sovereigns from Southern Europe and the natural portfolio amortisation, in part offset by the unfavourable evolution of the Swiss franc.

In addition, the prudential adjustment requested by the regulator represents an amount of EUR -83 million at 30 June 2014 (cf section "Update on the full assessment made by the European Central Bank").

As at 30 June 2014, weighted risks amount to EUR 51.8 billion, of which EUR 49.0 billion for credit risk, EUR 2.5 billion for market risk and EUR 0.2 billion for operational risk. Weighted risks are up EUR 7 billion since 31 December 2013, in view of the first-time application of the Basel III rules.

Considering these elements, Dexia Crédit Local Total Capital ratio stands at 13.8% and the Common Equity Tier 1 ratio is 13.5% as at 30 June 2014, down by -5.2% and -4.4% respectively since 31 December 2013, mainly as a consequence of the first application of the Basel III regulatory framework.

Although the macroeconomic environment improved during the 1st half-year 2014, Dexia Crédit Local continues to evolve in an uncertain climate. Within the euro zone, the economic health of the banks and local authorities of the peripheral countries still remains fragile. Outside the euro zone, several countries, like Hungary, are still facing a situation of severe indebtedness.

Even though 86% of the assets in the Dexia Crédit Local portfolio are Investment Grade, they nonetheless require close monitoring, in view of the significant concentration on certain sectors or types of funding which might be a source of risk. Against that background, Dexia Crédit Local paid particular attention to the evolution of the financial situation of local authorities, both in Europe and in the United States.

RISK MONITORING

Credit risk

Fundamentals of Dexia Crédit Local credit risk in the 1st half-year 2014

The European Union saw a slight economic recovery in the majority of its Member States. growth levels remain weak overall, although activity improved in Germany and in some industrial countries of Central Europe. Despite the persisting political and economic difficulties, State funding conditions continue to improve. Considering the very low level of inflation and the limited growth levels, the European Central Bank decided to ease its monetary policy even further in order to promote funding of the so-called real economy, more particularly in the countries of Southern Europe where the economic environment remains fragile.

In the United States, numerous macroeconomic indicators continue to evolve positively. In particular, these include a fall in unemployment, an increase of inflation and of manufacturing activity. These elements inter alia justify the tightening of quantitative easing announced by the Federal Reserve at the end of 2013. However, the level of growth in the 1st half-year 2014 has been characterised by a contraction of activity in the 1st quarter closely linked to reforms of the healthcare system.

Exposure to credit risk

Credit risk is expressed as Maximum Credit Risk Exposure (MCRE) and represents the net carrying amount of exposures, or the notional amounts after deduction of specific impairments and available-for-sale reserve amounts, and taking account of accrued interests and the impact of faire-value hedge accounting.

As at 30 June 2014, Dexia Crédit Local's maximum credit risk exposure is EUR 181,171 million.

Exposure by geographic area

in millions of EUR	Total
United States and Canada	35,213
France (Including Dom-Tom)	27,879
Italy	27,728
Germany	21,565
Spain	19,538
United Kingdom (not Norm.Isd/Man)	17,401
Others	7,279
Japan	6,177
Portugal	4,158
Central and eastern Europe	3,479
Belgium	3,416
Austria	1,596
Hungary	1,107
Southeast Asia	945
Scandinavian countries	860
South and Central America	667
Netherlands	597
Turkey	504
Switzerland	487
Ireland	250
Luxembourg	169
Greece	157
Total	181,171

Exposure by rating (internal rating)

	30/06/2014
AAA	19%
AA	21%
A	28%
BBB	19%
D	0%
Non Investment Grade	12%
Not Rated	1%
Total	**100%**

Exposure by type of counterparty

in millions of EUR	Total
Local public sector	88,608
Central governments	36,376
Financial institutions	26,823
Project finance	14,584
ABS/MBS	6,433
Corporate	5,554
Monolines	2,791
Individuals, SME and self-employed	0
Total exposure	**181,171**

Sovereigns

The evolution of sovereign outstanding on countries presenting a potential risk for the Group is outlined below.

- **Italy**

Italy saw the new Prime Minister, Matteo Renzi, take power following a vote of confidence in parliament. Mr Renzi rapidly embarked on a series of structural reforms aimed at continuing the budget stabilisation begun by his predecessor, whilst sustaining the domestic economy.

Dexia Crédit Local's sovereign exposure to Italy amounted to EUR 14.3 billion at the end of June 2014, mainly consisting of bonds.

- **Poland**

The economic recovery which began in the 2nd half-year 2013 continued throughout the 1st half-year 2014.

Dexia Crédit Local's sovereign exposure to Poland amounted to EUR 2.0 billion at the end of June 2014, mainly consisting of bonds.

- **Portugal**

Despite a still challenging economic and social situation, the improvement of the budget situation enabled Portugal to exit the European Union and IMF rescue plan in May. The bond issues launched by the sovereign in June and July 2014 were extremely successful. Portugal thus covered all of its funding requirements for 2014 at a relatively low cost.

Dexia Crédit Local's sovereign exposure to Portugal amounted to EUR 1.8 billion at the end of June 2014, mainly consisting of bonds.

- **Hungary**

Hungary saw its foreign debt reduce considerably over the 1st half-year 2014 on the basis of the economic recovery associated with dynamic exports and sustained domestic demand. Nevertheless, external vulnerabilities remain high and the risk of political isolation has been real since the re-election of Prime Minister Viktor Orban.

Dexia Crédit Local's sovereign exposure to Hungary amounted to EUR 1.0 billion at the end of June 2014, mainly consisting of bonds.

GROUP SECTORIAL EXPOSURE TO CERTAIN COUNTRIES

in millions of EUR	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereign exposures	o/w monolines
Greece	157	78	69	0	10	0	0
Hungary	1,107	33	36	29	0	1,009	0
Ireland	250	0	74	101	75	0	0
Italy	27,728	11,358	1,340	591	180	14,259	0
Portugal	4,158	1,914	217	151	97	1,779	0
Spain	19,538	8,930	2,525	6,787	778	517	0
USA	33,054,	9,855,	765	4,870	4,212	10,942,	2,411

GROUP EXPOSURE TO GOVERNMENT BONDS OF PERIPHERAL EUROPEAN COUNTRIES				
in millions of EUR	31/12/13 Nominal	30/06/14 Nominal	30/06/14 MCRE (banking portfolio)	Change nominal 30/06/14 31/12/13
Italy	10,027	9,953	11,399	-0.7%
Portugal	1,822	1,822	1,779	n.s.
Hungary	1,076	893	964	-17.0%
Spain	443	438	499	-1.1%

■ United States

Dexia Crédit Local's sovereign exposure to the United States increased sharply over the half-year and amounted to EUR 10.9 billion at the end of June 2014. This increase is explained by the constitution of a temporary liquidity surplus, placed to a large extent with the Federal Reserve (cf. section entitled "Liquidity Situation" in this half-yearly report).

Local public sector

■ France

The reduction of State grants, combined with the rise of expenditure due to the increasing mass of social aid expenses and the rise of personnel costs, is weighing on the savings rates of local authorities. This phenomenon is likely to be accentuated over coming years, with a further grant reduction of EUR 3.7 billion over the period 2015-2017 (against EUR 1.5 billion in 2014) as part of the savings plan announced by the Government. Nevertheless, capital expenditure should fall. The municipal elections held in March will have an impact on the investment cycle. Under those conditions, recourse to borrowing should be between EUR 16 and 20 billion, with a volume outstanding of more than EUR 170 billion. Considering the fall in savings, the debt reduction capacity will probably deteriorate, although remaining at a reasonable level of 5 years.

Structural reforms were begun in order to simplify the organisation of local authorities. A simplification of the map of the Regions was passed by Parliament.

Dexia Crédit Local's exposure to the French local public sector amounted to EUR 18.7 billion at the end of June 2014. The portfolio is of very good quality: as at 30 June 2014, 67% of outstanding was rated at least A-. Only 4% of the portfolio is *Non Investment Grade*. Efforts to reduce credit defaults have borne fruit: they represent only 2% of outstanding.

More detailed information on the structured loans issue is provided in the section entitled "Significant events and transactions" in this half-yearly report.

■ Germany

At *Länder* level, the 2014 budget year could be more difficult than in recent years, particularly for those in the West and Berlin. The Länder of the East should remain in surplus.

Despite an increase of social expenditure expected this year, communes should continue to present a global budget surplus. The financial aid programmes associated with a recovery plan concluded between many *Länder* and more fragile communes enabled the financial situation to be improved for the communes concerned.

At the beginning of 2013 the German parliament ratified Germany's adhesion to the European Fiscal Compact. It thus strengthened the Federal State's commitment to keeping the annual increase of its debt below 0.35% of GDP from 2016 and the obligation of Länder no longer to run budget deficits from 2020. The Federal State will also be bound to relieve communes of some social expenditure.

Dexia Crédit Local's exposure to German local public sector amounted to EUR 17.2 billion at the end of June 2014.

■ Italy

In 2013 the Italian government introduced various measures with the aim of reducing delays in payment by national and local public administrations to their suppliers: the plan opened a "liquidity fund" for local authorities with EUR 10 billion for 2013 and EUR 16 billion for 2014. The opening of breach proceedings by the European Commission at the end of the 1st half-year 2014 should result in an acceleration of the implementation of this plan, which should stimulate economic growth with a direct effect on investment and jobs.

The year 2014 will also see the introduction of a reform of local authority accounting, leading to a harmonisation of methods for regions, provinces and communes, a consolidation of authority accounts with those of the entities which control them and a migration from cash accounting to liability accounting.

Dexia Crédit Local's exposure to the Italian local public sector amounted to EUR 11.4 billion at the end of June 2014.

- Spain

The beginning of 2014 was marked by the raising of the sovereign rating and those of local authorities by the rating agencies. At the same time, several Regions, particularly the Community of Madrid, were able finance themselves on the markets under better conditions.

The local public sector reduced its deficit overall in 2013, with the remarkable result of a surplus for all provinces and communes equivalent to 0.4% of GDP. The level of deficit for the Regions was slightly reduced, from 1.7% of GDP in 2012 to 1.5% in 2013. They are set the target for 2014 of 1% of GDP.

The State continues to support the funding of territorial administrations. Liquidity mechanisms have been renewed: the Fondo de Liquidez Autonomico (FLA) was allocated EUR 26 billion for 2014, taking the total for the years 2012-2014 to EUR 63 billion. Funds opened in two phases at the end of 2013 and the beginning of 2014, and given to the Regions under the plan to settle supplier debts, are at EUR 30 billion.

The government also implemented a programme to support a number of municipalities in weaker financial situations, with a rescheduling of debts to the central administration, consolidation of supplier debts and liquidity advances in return for a budget adjustment plan.

Finally, the budget stability law was amended to tighten obligations, controls and sanctions regarding supplier debts.

Payment arrears remain limited and are still focussed on debt repurchases (and principally on the Region of Valencia).

Dexia Crédit Local's exposure to the Spanish local public sector amounted to EUR 8.9 billion at the end of June 2014.

- Portugal

In May 2014, Portugal exited the financial aid programme for EUR 78 billion put in place by the European Union and the IMF in May 2011. The relative success of the programme and the liquidity reserve of EUR 15 billion, constituted to cover any market turbulence, are reflected by a clear reduction of funding costs to historically low levels and by an improvement of ratings agency assessments.

The return of the public finances to balance, combined with the continuing structural reforms nonetheless remains a target for Portugal, which must endeavour to reach a deficit of 4% in 2015 and 2.5% in 2016, whilst favouring a level of growth enabling it to reduce current unemployment (>16%) and to reduce its debt (129% of GDP).

At a local level, despite the communal aid programmes, some sixty – or close to 20% – Portuguese communes are in weak financial situations. A new assistance mechanism is currently being discussed in the Assembly, planning an austerity programme in return for financial support and work on the debt to creditors including the banks.

Dexia Crédit Local's exposure to the Portuguese local public sector amounted to EUR 1.9 billion at the end of June 2014.

- United Kingdom

The strictness of the regulatory framework governing the British local public sector was effective protection.

The government reduced its grants to local authorities. Only one local authority, not a Dexia Crédit Local client, found itself in financial difficulties and was placed under investigation by the Secretary of State since the 2nd quarter of 2014.

At the same time, Housing Associations have adapted to investment subsidies well below the traditional level of 40% still frequent a few years ago. To complete the financing of their social housing developments, they have been forced to transfer housing in their estate to the occupants and to develop small programmes for sale. The supervisory authority is still very active, in particular monitoring the practice of commercial developments and launching a new campaign to encourage mergers between associations.

Dexia Crédit Local's exposure to the British local public sector, including social housing, is EUR 9.1 billion at the end of June 2014.

- United States

Considering that the national economic environment is again favourable, the situation of local authorities and other entities forming the local public sector in the United States is improving overall, with the positive evolution of their receipts. The effects of the recession are becoming less pronounced, despite the reduction of Federal grants.

The institutional framework is generally protective for creditors:

- access to debtor protection proceedings limited to the social sector and prohibited in the federated states,
- extended practice of allocating receipts to repaying debts.

Nevertheless, the mechanism does not prevent the emergence of complex cases, rare but serious, like Detroit in the 2nd half-year 2013. It arises from these situations, which have been or are still being dealt with, that the terms of resolution are still not very predictable, atypical and often a burden on non-guaranteed creditors, like the recent examples of the city of Detroit and the Commonwealth of Puerto Rico.

More detailed information on Dexia Crédit Local's exposure to Detroit and to Puerto Rico are provided in the section entitled "Significant events and transactions" in this half-yearly report.

Dexia Crédit Local's exposure to the US local public sector amounted to EUR 9.9 billion at the end of June 2014.

Exposure to project and corporate finance

The project and corporate finance portfolio amounting nominally to EUR 20.1 billion at the end of June 2014, is of good average credit quality, with 75% of exposures rated Investment Grade.

The portfolio has been reduced by EUR 153 million since the end of 2013, due to natural amortisation, early repayments by borrowers refinancing their debt with lenders other than Dexia Crédit Local and exchange rate movements over the period, particularly on the pound sterling and the Australian dollar.

This half-year saw the continuation of restructuring on certain leveraged deals as well as the improvement of Public-Private Partnerships in Spain, various State mechanisms to support Spanish local authorities (FLE and FFPP) allowing the clearing of all or some of the payment arrears recorded on those Public-Private Partnerships. In contrast, modification of the Spanish regulatory framework for renewable energies passed on 16 June last (Royal Decree 413/2014 and Ministerial Order IET/10452014) revising existing tariffs will have an unfavourable impact on a part of the portfolio of Spanish renewable energy projects for Dexia Crédit Local. More detailed information on Dexia Crédit Local's exposure to the Spanish renewable energy sector are provided in the section entitled "Significant events and transactions" in this half-yearly report.

ABS

As at 30 June 2014, Dexia Crédit Local's ABS portfolio amounted to EUR 6.4 billion. The EUR 0.3 billion fall compared to the end of December 2013 is explained by the natural amortisation of the portfolio and some targeted asset sales.

The ABS portfolio consists of an amount of EUR 3.8 billion in US government student loans which present a rather long amortisation profile and good credit quality, benefiting from the US state guarantee. The balance is principally in residential mortgage-backed securities in an amount of EUR 1.1 billion, of which EUR 0.5 billion in Spain and EUR 0.2 billion the United Kingdom.

The quality of the ABS portfolio remained stable over the 1st half-year 2014 with 82% of the portfolio rated Investment Grade at the end of June 2014. Dexia Crédit Local almost exclusively invested in senior tranches.

Credit enhancers

Credit enhancers provide investors with an unconditional and irrevocable guarantee on the full and immediate payment of loan capital and interest if the borrower is not in a position to fulfil its financial obligations.

Dexia Crédit Local's enhanced portfolio includes bonds issued by the US government or local authorities, securities issued to finance international infrastructure projects and securitisations.

As at 30 June 2014, the Dexia Crédit Local portfolio guaranteed by credit enhancers amounted to EUR 2.8 billion. More than 50% of these liabilities have guarantees from credit enhancers rated Investment Grade by S&P and Moody's.

With the exception of FGIC and Ambac's Segregated Account, all the credit enhancers continue to pay the assurance indemnities in full and immediately in accordance with the contractual conditions. In the cases of FGIC and Ambac's Segregated Account, these pay a part of the indemnities due.

Financial institutions

Dexia Crédit Local's exposure to financial institutions amounted to EUR 27 billion as at 30 June 2014, a relatively stable amount compared with the end of 2013.

These exposures are 63% composed of bonds, covered bonds and loans to financial institutions. The remainder corresponds to exposures related to reverse repurchase agreements (repos) with financial institutions and derivatives.

Dexia Crédit Local's exposures are 18% concentrated on the United States and 71% in Europe, principally in Spain (25%), Germany (13%), France (13%), Belgium (6%) and the United Kingdom (6%).

This half-year saw a favourable evolution of the ratings of Spanish banks, considering the gradual improvement of the Spanish sovereign situation. Moreover, the majority of Dexia Crédit Local's exposures to the Spanish financial sector are in covered bonds which, taking account of their systemic importance for the Spanish banking system, would very probably benefit from Spanish and European authority support if there were any major difficulty.

On the other hand, the ratings of average-sized Italian banks came under downward pressure in view particularly of the deterioration of the quality of their assets.

Dexia Crédit Local holds senior bonds issued by Hypo Alpe Adria International Bank International, guaranteed by the Land of Carinthia. Hypo Alpe Adria has been in difficulty for some months. The Austrian State rescue plan launched in the spring of 2014 provides in particular for a contribution from subordinated creditors although also benefiting from a guarantee by the Land of Carinthia. However, taking account of the Austrian State undertaking not to involve senior creditors in the current bail-out process, there are no immediate fears on Dexia Crédit Local's exposure.

Impairments on counterparty risk – Asset quality

The 1st half-year 2014 was marked by a reduction of the stock of impaired loans and advances to customers of EUR -279 million, as well as a reduction of specific impairments of EUR -85 million. These are explained by particular:

- by the disposal of several receivables including the financing of a motorway in the Mid-West United States, three securities on Porto Rico and a Greek ABS;
- by repayments within the framework of debt restructurings and natural asset amortisation.

Dexia Crédit Local nonetheless had to provision some of its exposures over the half-year, particularly the financing of coal-fired power stations in Australia, the financing of a wind farm in the United States and the financing of motorways in France and Spain. The unfavourable evolution of some files also led to increasing the provision allocated to them.

In addition to specific impairments, Dexia Crédit Local has statistical and collective provisions in a total amount of EUR 452 million as at 30 June 2014, against EUR 414 million as at 31 December 2013. The increase observed during the half-year is due to an increase of sector provision on renewable energies in Spain, justified by regulatory developments liable to have a negative impact on some projects. More detailed information on Dexia Crédit Local's exposure to the Spanish renewable energy sector are provided in the section entitled "Significant events and transactions" in this half-yearly report.

ASSET QUALITY

in millions of EUR	31/12/13	30/06/14
Impaired loans and advances to customers	1,386	1,107
Specific impairments on loans and advances to customers	541	446
Asset quality ratio(1)	1.2%	1.0%
Coverage ratio(2)	39.0%	40.3%

(1) The ratio between the impaired loans and advances to customers and the gross outstanding loans and advances to customers.
(2) The ratio between the specific impairments on loans and advances to customers and the impaired loans and advances to customers.

VALUE AT RISK OF MARKET ACTIVITIES AS AT 30 JUNE 2014					
VaR (10 days, 99%) *in millions of EUR*	Interest and FX (Banking and Trading)	Spread (Trading)	Other risks	Total	Limit
Average	5.6	5.6	0.1	11.3	
End of period	6.7	5.6	0.1	12.4	40
Maximum	7.1	5.8	0.3	12.7	
Minimum	3.6	5.5	0	0.2	

Market risk

Value at Risk

The table above shows the details of VaR used for market activities. The bond portfolio is not included in the retained scope.

At the end of June 2014, total VaR consumption stood at EUR 12.4 million, compared with EUR 12.2 million at the end of 2013, and remains well below the global limit of EUR 40 million.

Sensitivity of AFS portfolios to the evolution of credit margins

The sensitivity in economic value of the bond portfolios to interest rate fluctuations is very limited, as the interest rate risk is hedged. Furthermore, a large proportion of the bond portfolio is classified as "Loans and receivables". The AFS reserve associated with those securities is not sensitive to market evolution.

For portfolios classified as AFS, the sensitivity of fair value (and of the AFS reserve) to an increase of credit spreads of one basis point amounted to EUR -22.2 million as at 30 June 2014, for a portfolio of EUR 72.8 billion.

Considering the low market liquidity and the poorer visibility on prices/credit spreads in the valuation process, valuations by model have been applied to the "illiquid" scope of assets available for sale (AFS).

Balance sheet management

Management of interest rate and foreign exchange risk

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect the balance sheet's exposure to a 1% movement in the yield curve. The main indicator used to determine limits and to measure and monitor risk is the sensitivity of the net present value of accrued interest positions to interest rate fluctuations.

The main risk indicators used by asset and liability committees (ALCos) to manage risk are overall and partial sensitivities by time period. Dexia Crédit Local's structural interest rate risk is mainly concentrated in European long-term interest rates, and arises from the imbalance between Dexia Crédit Local's assets and liabilities after hedging for interest rate risk.

The sensitivity of long-term ALM was EUR -4.3 million as at 30 June 2014 for Dexia Crédit Local, compared with EUR 10.5 million as at 31 December 2013. This is in line with the ALM strategy, which seeks to minimise income statement volatility.

in millions of EUR	31/12/13	30/06/14
Sensibility of the Net Asset Value (NAV)(1)	10.5	-4.3
Limits	96	96

(1) Sensitivity of the NAV to a 1%-movement in the yield curve.

Managing liquidity risk

The management of liquidity risk is under the direct responsibility of the Management Board.

Dexia Crédit Local's liquidity risk is also managed in particular via the liquidity ratio monitored by its regulator, the French "Autorité de Contrôle Prudentiel et de Résolution" (ACPR). The ACPR coefficient is defined as the ratio of cash to liabilities over a forecast one month period. The coefficient thus calculated must always be above 100. It is submitted to the ACPR on a monthly basis.

Operational risk

On the regulator's request in the 1st half-year 2014, the Operational Risk and Permanent Control teams were separated, the latter henceforth under the supervision of the General Secretariat within the Compliance – Permanent Control team.

During the 1st half-year 2014, incident monitoring detected no major incident. The update of 2013 mapping of subsidiaries and branches was presented to the operational risk committee and major risks to the Management Board.

Eleven incidents[1] were recorded in the 1st half-year 2014, of which the breakdown by standard event types is as follows:

Execution, delivery and process management	8
Clients, products and business practices	2
Failure of system or infrastructure	1

(1) Incidents whose financial impact is above EUR 1,000.

As well as building a history of losses, Dexia Crédit Local's exposure to key risks is determined via an annual risk mapping exercise. Dexia Crédit Local, its subsidiaries and branches conduct risk self-assessment exercises that take existing controls into account, thus providing senior management with an overall view of most areas of risk within the various entities and businesses. Mitigation actions may be defined where applicable.

In the 1st half-year 2014, the team responsible for the management of operational risks also developed two elements contributing significantly to global operational risk management.

- Key Risk Indicators (KRI) were introduced in collaboration with the heads of activity lines on major risks identified in operational risk mapping. These KRI are assessed quarterly and the assessment is reported to the governance bodies.
- A scenario analysis on internal fraud by embezzlement of funds was developed and presented to the operational risk committee and to the Management Board, with the measures to be taken immediately and additional analyses to mitigate risk.

The resolution process to which the Group is committed is naturally propitious to the development of operational risks, particularly by virtue of the alteration of processes for circumstances when operational applications have to be replaced and so on.

The separation between Dexia and the SFIL was specifically monitored, particularly from the point of view of duplication of IT tools.

INTERNAL STRESS TESTS

On a regular basis, Dexia Crédit Local performs stress tests aimed at measuring the bank's sensitivity in the event of adverse shocks, in terms of expected losses, weighted risks, liquidity requirements or capital requirements.

APPLICATION AND EVOLUTION OF THE REGULATORY FRAMEWORK

Relying on all the mechanisms put in place to meet the requirements arising from the Basel regulations and subsequent changes to those regulations, Dexia Crédit Local did everything to achieve compliance with the new Basel III regulations when they entered into force on 1 January 2014.

The work done on the Basel III project in the 1st half-year 2014 related in particular to capital requirements linked to exposure to central counterparties and the treatment of large financial sector entities and unregulated financial entities as well as the production of new formats for reporting and new ratios.

Regarding market activities, Dexia Crédit Local has put procedures in place relating to the prudent valuation of its positions, in accordance with the requirements of Basel III.

LITIGATIONS

Like many financial institutions, Dexia Crédit Local is subject to a number of regulatory investigations and litigations, including class action lawsuits in the US and Israel. In addition, the downsizing of the Dexia Crédit Local's balance sheet and other measures implementing the Orderly Resolution Plan give rise to challenges by certain stakeholders and counterparties of Dexia Crédit Local.

The most significant events and developments in the 1st half-year of 2014 in the principal regulatory investigations and litigations in which Dexia Crédit Local is named as a defendant, are summarized below.

The following updated data are provided for comparison and should be read in conjunction with the corresponding summaries contained or mentioned in the chapter "Litigations" of the Dexia Crédit Local Annual Report 2013 (pages 39-41), available on *www.dexia-creditlocal.fr*.

On the basis of the information available to Dexia Crédit Local on 30 June 2014, events or developments in the 1st half-year 2014 in pending regulatory investigations and litigations mentioned in the chapter "Litigations" of the Dexia Crédit Local Annual Report 2013 but for which no update is provided below, are not expected to have a material impact on the Group's financial situation of that date does not allow it to assess whether they may or may not have such an impact.

The consequences, as assessed by Dexia Crédit Local based on the information available to it on the aforementioned date, of the most significant litigations and investigations that are liable to have a material impact on the Group's financial situation, its results or its business generally are provided in the Group's condensed consolidated financial statements. Subject to the terms and conditions of the professional liability insurance and Directors' liability insurance policies entered into by Dexia, the adverse financial consequences of all or certain litigations and investigations may be covered, in whole or in part, under one or other of such insurance policies, and, upon acceptance of such risks by the relevant insurers, be offset against any payout Dexia would receive pursuant thereto.

Dexia Crediop

On 5 May 2014, the Italian Supreme Court declared the appeal filed by the region of Piedmont against the decision of the Administrative Court of 21 December 2012 inadmissible. This decision confirms the judgment of the Administrative Court which stated that Italian administrative courts are not competent to hear the case between the Region of Piedmont and the bank. It concluded that civil courts – and more particularly the Courts of London under the terms of the contracts – are competent to confirm the validity of the conditions of the contracts concluded between the Region of Piedmont and the bank.

Litigations in relation to structured loans

As at 30 June 2014, 224 clients had summonsed Dexia Crédit Local: 183 of these cases relate to CAFFIL loans, 21 relate to DCL loans and 20 cases involved both DCL and CAFFIL loans at the same time.

We refer to the section "Update on the structured loans of Dexia Crédit Local" of this financial report for the most recent legal and regulatory developments.

RATINGS

RATINGS AS AT 7 AUGUST 2014

	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	A	Negative	F1
Moody's	Baa2	Negative	P-2
Standard & Poor's	BBB	Stable	A-2
Dexia Crédit Local (guaranteed debt)			
Fitch	AA	-	F1+
Moody's	Aa3	Stable	P-1
Standard & Poor's	AA	-	A-1+
Dexia Kommunalbank Deutschland (Pfandbriefe)			
Standard & Poor's	A+	Stable	-

MAIN RISKS AND UNCERTAINTIES FOR THE NEXT SIX MONTHS

Although it has been evolving favourably overall, the economic environment in which the Dexia Crédit Local group carries on its business is still marked by areas of weakness, particularly with regard to the heath of banks and the local sector in the peripheral countries of the euro zone. The credit risk associated with those sectors will therefore continue to be monitored with great care in view of Dexia Crédit Local's various exposures. Special attention will also be paid to the evolution of the local sector in the US and its satellites and of the regulations applicable to the renewable energy sector in Spain.

As Dexia Crédit Local has reached the target scope as set out in the Dexia Group's orderly resolution plan, teams will focus on finalising the latest unwinding endeavours and on commencing vital work on the company project. The latter is in response to the Group's strategic objectives and is aimed particularly at optimising its operational model whilst managing the decrease of the Dexia Group's scope. Against that background, Dexia Crédit Local will remain attentive to the management of operational risk and will ensure that it has the resources necessary to complete that transformation.

Finally, Dexia Crédit Local will remain sensitive to the perception of sovereign risk within the euro zone, which severely impacts its guaranteed funding capacity. A deterioration of investors' perception would in fact be liable to have an adverse effect on Dexia Crédit Local's ability to obtain funding in that format. Access to liquidity is still a matter for attention at Dexia Crédit Local, considering the funding redemptions expected at the end of 2014 and the beginning of 2015.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS *in millions of EUR*		30/06/13	31/12/13	30/06/14
I.	Cash and central banks	639	1,542	9,105
II.	Financial assets at fair value through profit or loss	24,421	18,347	20,592
III.	Hedging derivatives	6,450	5,945	7,030
IV.	Financial assets available for sale	32,179	29,224	29,307
V.	Interbank loans and advances	9,461	8,908	9,452
VI.	Customer loans and advances	138,639	128,552	128,016
VII.	Fair value revaluation of portfolio hedges	1,336	1,035	1,402
VIII.	Financial assets held to maturity	440	384	285
IX.	Current tax assets	20	17	12
X.	Deferred tax assets	19	42	39
XI.	Accruals and other assets	31,277	27,260	31,213
XII.	Non current assets held for sale	367	12	12
XV.	Tangible fixed assets	493	338	334
XVI.	Intangible assets	34	28	24
TOTAL ASSETS		245,775	221,634	236,823

LIABILITIES *in millions of EUR*		30/06/13	31/12/13	30/06/14
I.	Central banks	41,163	34,274	34,014
II.	Financial liabilities at fair value through profit or loss	25,549	18,839	21,571
III.	Hedging derivatives	25,620	22,265	26,997
IV.	Interbank borrowings and deposits	34,734	31,969	40,032
V.	Customer borrowings and deposits	10,891	8,590	8,770
VI.	Debt securities	97,718	96,368	95,272
VII.	Fair value revaluation of portfolio hedges	261	231	235
VIII.	Current tax liabilities	20	6	2
IX.	Deferred tax liabilities	35	40	38
X.	Accruals and other liabilities	6,526	5,697	6,488
XI.	Liabilities included in disposal groups held for sale	294	0	0
XIII.	Provisions	156	173	210
XIV.	Subordinated debt	689	644	606
Total liabilities		**243,656**	**219,096**	**234,235**
XV.	**Equity**	**2,119**	**2,538**	**2,588**
XVI.	Equity, Group share	1,725	2,130	2,205
XVII.	Capital stock and related reserves	3,227	3,227	3,227
XVIII.	Consolidated reserves	5,407	5,404	4,500
XIX.	Gains and losses directly recognised in equity	(6,060)	(5,597)	(5,238)
XX.	Net result for the period	(849)	(904)	(284)
XXI.	Minority interests	394	408	383
TOTAL LIABILITIES AND EQUITY		245,775	221,634	236,823

The notes on pages 29 to 41 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

in millions of EUR		30/06/13	30/06/14
I.	Interest income	7,760	5,950
II.	Interest expense	(7,743)	(5,764)
III.	Commission income	45	10
IV.	Commission expense	(26)	(15)
V.	Net gains (losses) on financial instruments at fair value though profit or loss	(345)	(195)
VI.	Net gains (losses) on financial assets available for sale	(28)	40
VII.	Other income	30	15
VIII.	Other expenses	(88)	(74)
IX.	**Net banking income**	**(395)**	**(33)**
X.	Operating expenses	(182)	(169)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(15)	(13)
XII.	**Gross operating income**	**(592)**	**(215)**
XIII.	Cost of risk	(88)	(42)
XIV.	**Operating income**	**(680)**	**(257)**
XVI.	Net gains (losses) on other assets	(3)	0
XVIII.	**Net result before tax**	**(683)**	**(257)**
XIX.	Income tax	(32)	(20)
XX.	Result from discontinued operations, net of tax	(142)	0
XXI.	**Net income**	**(857)**	**(277)**
XXII.	Minority interests	(8)	7
XXIII.	**Net income, Group share**	**(849)**	**(284)**
Earnings per share, Group share *(in EUR)*			
	Basic	(3.80)	(1.27)
	- from continuing operations	*(3.16)*	*(1.27)*
	- from discontinued operations	*(0.64)*	*0.00*
	Diluted (in EUR)	(3.80)	(1.27)
	- from continuing operations	*(3.16)*	*(1.27)*
	- from discontinued operations	*(0.64)*	*0.00*

The notes on pages 29 to 41 are an integral part of these condensed consolidated financial statements.

STATEMENT OF NET INCOME AND GAINS AND LOSSES DIRECTLY RECOGNISED IN EQUITY

in millions of EUR	30/06/13 Before-tax amount	30/06/13 Tax (expense) benefit	30/06/13 Net-of-tax amount	30/06/14 Before-tax amount	30/06/14 Tax (expense) benefit	30/06/14 Net-of-tax amount
Net income			(857)			(277)
Elements reclassified or likely to be subsequently reclassified in net income						
- Cumulative translation adjustments	13		13	8		8
- Revaluation of financial assets available for sale or reclassified as loans and receivables	873	(7)	866	563	5	568
- Revaluation of hedging derivatives	(74)	4	(70)	(247)	(4)	(251)
- Other comprehensive income from disposal groups held for sale	210	(68)	142			
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
- Actuarial gains and losses on defined benefit plans	(7)	3	(4)	3		3
Total gains and losses directly recognised in equity	1 015	(68)	947	327	1	328
Net result and gains and losses directly recognised in equity			90			51
of which, Group share			92			75
of which, Minority interests			(2)			(24)
Net result and gains and losses directly recognised in equity from continuing activities	122	(32)	90	70	(19)	51
of which, Group share			92			75
of which, Minority interests			(2)			(24)

The notes on pages 29 to 41 are an integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2014 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Core equity			Gains and losses directly recognised in equity					Equity, Group share	Minority interests			Equity
in millions of EUR	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 or reclassified as loans and receivables, net of taxes	Change in fair value of cash flow hedges, net of taxes	Actuarial gains and losses on defined benefit plans	Cumulative translation differences	Total		Core equity	Gains and losses directly recognised in equity	Total	
As at 31 December 2012	3,227	5,274	8,501	(6,141)	(878)	0	17	(7,002)	1,499	412	(15)	397	1,896
Movements during the period													
- Translation adjustments				(53)	1		11	(41)	(41)		2	2	(39)
- Changes in fair value of financial assets available for sale or reclassified as loans and receivables through equity				898				898	898		8	8	906
- Changes in fair value of derivatives through equity					(41)			(41)	(41)		(3)	(3)	(44)
- Changes in fair value of financial assets available for sale or reclassified as loans and receivables through profit or loss				127				127	127				127
- Changes in actuarial gains and losses on defined benefit plans						(1)		(1)	(1)		(2)	(2)	(3)
- Net income for the period		(849)	(849)						(849)	(8)		(8)	(857)
- Other movements(1)		133	133						133				133
As at 30 June 2013	3,227	4,558	7,785	(5,169)	(918)	(1)	28	(6,060)	1,725	404	(10)	394	2,119
As at 31 December 2013	3,227	4,500	7,727	(4,656)	(930)	(3)	(8)	(5,597)	2,130	406	2	408	2,538
Movements during the period													
- Translation adjustments				9	(5)		7	11	11		1	1	12
- Changes in fair value of financial assets available for sale or reclassified as loans and receivables through equity				542				542	542		(35)	(35)	507
- Changes in fair value of derivatives through equity					(249)			(249)	(249)		3	3	(246)
- Changes in fair value of financial assets available for sale or reclassified as loans and receivables through profit or loss				53				53	53		(1)	(1)	52
- Changes in actuarial gains and losses on defined benefit plans						2		2	2				2
- Net income for the period		(284)	(284)						(284)	7		7	(277)
As at 30 June 2014	3,227	4,216	7,443	(4,052)	(1,184)	(1)	(1)	(5,238)	2,205	413	(30)	383	2,588

(1) The difference of EUR 133 million between the estimated impact in 2012 and the realised impact due to the settlement of derivatives between Dexia Crédit Local and Dexia Municipal Agency was shown in equity, conform the IFRS rules on corrections of estimations.

The notes on pages 29 to 41 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in millions of EUR	30/06/13	30/06/14
Cash flow from operating activities		
Net income after income taxes	(857)	(277)
Adjustments for:		
- Depreciation, amortisation and other impairment	28	13
- Impairment on bonds, equities, loans and other assets	77	(96)
- Net (gains) or losses on investments	1	(2)
- Charges for provisions	8	80
- Unrealised (gains) or losses	225	104
- Deferred taxes	(7)	3
Changes in operating assets and liabilities	(1,027)	8,567
Net cash provided (used) by operating activities	**(1,552)**	**8,392**
Cash flow from investing activities		
Purchases of fixed assets	(50)	(5)
Sales of fixed assets	27	
Acquisitions of unconsolidated equity shares	(1)	
Sales of unconsolidated equity shares	32	8
Sales of subsidiaries and of business units	(2,562)	
Net cash provided (used) by investing activities	**(2,554)**	**3**
Cash flow from financing activities		
Reimbursement of subordinated debts	(11)	(31)
Net cash provided (used) by financing activities	**(11)**	**(31)**
Net cash provided	**(4,117)**	**8,364**
Cash and cash equivalents at the beginning of the period	**6,468**	**2,509**
Cash flow from operating activities	(1,552)	8,392
Cash flow from investing activities	(2,554)	3
Cash flow from financing activities	(11)	(31)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	10	33
Cash and cash equivalents at the end of the period	**2,361**	**10,906**
Additional information		
Income tax paid	(24)	(17)
Dividends received	0	1
Interest received	8,122	6,357
Interest paid	(7,988)	(6,234)

The notes on pages 29 to 41 are an integral part of these condensed consolidated financial statements.

NOTE I. ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – CHANGES IN SCOPE OF CONSOLIDATION – SIGNIFICANT EVENTS OF H1 2014 – POST-BALANCE-SHEET EVENTS

ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

Dexia Crédit Local is a French limited company (société anonyme) with a Board of Directors. Its registered office is located at Tour Dexia La Défense 2 - 1, Passerelle des Reflets, 92913 La Défense.

These condensed consolidated financial statements were authorised for issue by the Board of Directors on 7 August 2014.

Accounting policies

The principal accounting policies adopted in the preparation of these condensed consolidated financial statements are set out below. The common used abbreviations below are:

- IASB: International Accounting Standards Board
- IFRS IC : IFRS Interpretations Committee (ex IFRIC)
- IFRS: International Financial Reporting Standards

1. Basis of accounting

Dexia Crédit Local's condensed consolidated financial statements have been prepared in accordance with IFRS endorsed by the European Commission up to 30 June 2014.

The interim financial statements have been prepared in accordance with the same accounting policies and methods of computation as those used in the preparation of the 2013 annual financial statements, except for the elements stated in the section 2. "Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local".

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

As was the case for 31 December 2013, Dexia Crédit Local's condensed consolidated financial statements as at 30 June 2014 were established in accordance with the accounting rules applicable to a going concern, which assume a certain number of hypotheses explained within the framework of previous accounting closures. These hypotheses of continuity rely on a business plan which served as the basis for the establishment of a resolution plan for the Dexia Group, and which was validated by the European Commission on 28 December 2012.

The business plan contains a funding guarantee granted by the Belgian, French and Luxembourg States in an amount of EUR 85 billion in principal, without collateral requirement. This guarantee came into force on 24 January 2013.

It relies moreover on the hypothesis of a restoration of confidence on the capital markets enabling Dexia Crédit Local to increase the proportion of its funding raised on the markets and to reduce its central bank funding. From this perspective, the funding structure evolved favourably in 2013 and in 2014.

The business plan was revised on the basis of elements known or foreseeable in December 2013, within the framework of a biennial review. The business plan thus revised and ratified by the Dexia Group's Board of Directors on 24 March 2014 does not lead to any significant deviation over the term of the plan compared to the plan initially validated. There will be a new update of the plan in the second half-year of 2014.

Some uncertainties remain however associated with its realisation. The plan is sensitive in particular to the evolution of the interest rates and the credit environment, the unfavourable development of which would adversely affect Dexia Crédit Local's performance. It is also sensitive to regulatory developments, in particular the implementation of the IFRS 9 accounting standard and, as is the case for all the banks subject to the full assessment of the European Central Bank within the framework of the single supervisory mechanism in Europe, it could be impacted by the final results of the review in progress. To date, the Dexia Group is not aware of more precise elements and the adjustments made do not prejudge the final results of the ongoing review.

Finally, Dexia Crédit Local remains exposed to a liquidity risk and the realisation of the orderly resolution plan assumes that Dexia Crédit Local will retain a robust funding capacity based in particular on investors' appetite for guaranteed debt.

Update on the full assessment made by the European Central Bank

With the implementation of a single supervisory mechanism for banking institutions in Europe, the European Central Bank launched a full assessment of the bank balance sheets which will come under its supervision as from November 2014. Dexia, including Dexia Crédit Local, is one of the banks subject to this assessment, that is being carried out jointly with the competent national authorities, the National Bank of Belgium and the French "Autorité de Contrôle Prudentiel et de Résolution" in Dexia's case, between November 2013 and November 2014 and comprises two main components:

- an Asset Quality Review, including an analysis of the asset valuations and the level of provisions booked by the bank;
- a stress test to ensure the bank's resilience in the case of a deterioration of its economic and financial environment.

The final results of the full assessment will be published in November 2014.

On the basis of the preliminary works done in this context, the regulators asked the Dexia Group to make a prudential adjustment on the regulatory capital of Dexia SA and Dexia Crédit Local consolidated on 31 March 2014[1]. As at 30 June 2014, the impact of this adjustment for these two groups amounts to EUR -83 million. By way of reference, the "Total Capital" of Dexia SA amounts to EUR 9,391 million at that date and that of Dexia Crédit Local to EUR 7,123 million.

To date, the Dexia Group is not aware of more precise elements and the adjustments made do not prejudge the final results of the review under way for the Dexia Group or for Dexia Crédit Local.

In preparing the condensed 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 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.

Judgements are made principally in the following areas:

- classification of financial instruments into the appropriate category "loans and receivables", "held to maturity", "available for sale", "held for trading" and "fair value option" for measurement purposes based on instrument's characteristic and Dexia Crédit Local's intention;
- financial instruments for which no quoted market prices in active markets are available are valued by means of valuation techniques. The determination whether or not there is an active market is based on criteria such as volume traded, market liquidity, bid offer spread etc;
- determination of fair value for financial instruments measured at fair value by means of valuation techniques;
- determination on whether Dexia Crédit Local controls the investee, including structured entities (IFRS 10);
- identification of non-current assets and disposal groups held for sale and discontinued operations (IFRS 5);
- hedge accounting;
- existence of a present obligation with probable outflows in the context of litigations;
- identification of impairment triggers.

Estimates are principally made in the following areas:

- determination of the recoverable amount of impaired financial assets and fair value less costs to sell for non-current assets and disposal groups held for sale;
- the measurement of hedge effectiveness in hedging relations;
- determination of the market value correction to adjust for market value and model uncertainty;
- determination of the useful life and the residual value of property, plant and equipment, and intangible assets;
- actuarial assumptions related to the measurement of employee benefits obligations and plan assets;

(1) Cf press release « Interim Statement – Q1 2014" of 14 May 2014, published on the website *www.dexia.com*

- estimate of future taxable profit for the recognition and measurement of deferred tax assets;
- estimate of the recoverable amount of cash-generating units for goodwill impairment.

The condensed consolidated financial statements are stated in millions of euros (EUR) unless otherwise stated.

They are compliant with ANC Recommendation 2013-04 issued on 7 November 2013 "on the presentation of the consolidated financial statements of banks prepared in accordance with International Financial Reporting Standards" which cancels and replaces the Recommendation 2009-R.04 issued on 2 July 2009.

2. Changes in accounting policies since the previous annual publication that may impact Dexia Crédit Local

2.1. IASB texts and IFRIC interpretations endorsed by the European Commission and applied as from 1 January 2014

- A "package of five" new and revised standards on the accounting treatment and disclosure requirements for interests in other entities. These new and revised standards comprise the following:
  - IFRS 10 "Consolidated Financial Statements" introduces a single consolidation model for all entities, based on control and regardless the nature of the investee. IFRS 10 replaces IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities" (called "structured entities" under the new standard). IFRS 10 amends the definition of control and now states that an investor controls an investee if and only if the investor has all the following:
    (a) power over the investee,
    (b) exposure, or rights, to variable returns from its involvement with the investee, and
    (c) the ability to use its power over the investee to affect the amount of the investor's returns.

This standard does not have a material impact on Dexia Crédit Local's financial statements.

  - IFRS 11 "Joint Arrangements" does not permit any longer the proportional consolidation method when accounting for jointly-controlled entities. This standard does not have a material impact on Dexia Crédit Local's financial statements.
  - IFRS 12 "Disclosure of Interests in Other Entities" requires enhanced disclosures on Dexia Crédit Local's interests in subsidiaries, joint arrangements, associates and non-consolidated structured entities in which Dexia Crédit Local has an involvement. This standard will impact the notes to Dexia Crédit Local's annual financial statements.
  - IAS 27 "Separate Financial Statements", which supersedes IAS 27 "Consolidated and Separate Financial Statements" (as amended in 2008), continues to be a standard dealing solely with separate financial statements and thus has no impact on the consolidated financial statements of Dexia Crédit Local.
  - IAS 28 "Investments in Associates and Joint Ventures", which supersedes IAS 28 "Investments in Associates" (as revised in 2003), is amended to reflect the changes stemming from the issuance of IFRS 10, IFRS 11 and IFRS 12.
- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance". These amendments do not have a material impact on Dexia Crédit Local's financial statements.
- Investment entities – Amendments to IFRS 10, IFRS 12 and IAS 27. These amendments do not impact the financial statements of Dexia Crédit Local.
- Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets". This amendment has no impact on Dexia Crédit Local.
- Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting".This amendment does not have a material impact on Dexia Crédit Local's financial statements.
- Amendment to IAS 32 "Financial instruments: Presentation". This amendment provides clarifications on the rules for offsetting financial assets and financial liabilities and does not have a material impact on Dexia Crédit Local's financial statements.

2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2014

- IFRIC 21 "Levies". This interpretation is effective, at the latest, as from the commencement date of its first financial year starting on or after 17 June 2014. Dexia Crédit Local does not expect this interpretation to have a material impact on its financial statements.

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

- IFRS 14 "Regulatory Deferral Accounts" (issued by IASB in January 2014). This standard is effective as from 1 January 2016 and will not impact the financial statements of Dexia Crédit Local, which is no longer a first-time adopter.
- IFRS 15 "Revenue from Contracts with Customers" (issued by IASB in May 2014). This standard establishes the principles for accounting for revenue arising from contracts with customers. It is effective as from 1 January 2017 and the impact on Dexia Crédit Local's financial statements is currently being assessed.

- Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations" (issued by IASB in May 2014). This amendment is effective as from 1 January 2016 and Dexia Crédit Local does not expect this amendment to have a material impact on its financial statements.
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" (issued by IASB in May 2014).These amendments are effective as from 1 January 2016 and will have no impact on the financial statements of Dexia Crédit Local.
- Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants" (issued by IASB in June 2014). These amendments are effective as from 1 January 2016 and will have no impact on the financial statements of Dexia Crédit Local.

CHANGES IN SCOPE OF CONSOLIDATION

As at 30 June 2013

The entities Dexia Municipal Agency, Dexia Kommunalkredit Bank Polska et Dexia Bail were deconsolidated as at 1 January 2013, following their disposal outside the Group.

The consolidated result of H1 2013 recorded losses of EUR 142 million for Dexia Municipal Agency and of EUR 6 million for Dexia Bail.

On 28 June 2013 Dexia signed an agreement to sell Sofaxis for an amount of EUR 136 million.

In the financial statements as at 30 June 2013, in accordance with the IFRS 5 accounting standard, the assets and liabilities of Sofaxis are transferred into respectively *Non current assets held for sale* and *Liabilities included in disposal groups held for sale*.

As at 30 June 2014

Nil

SIGNIFICANT EVENTS OF H1 2014

- The evolution of market parameters during the first semester and the booking of a valuation reserve of EUR 81 million covering mainly additional costs on long-term derivatives in currency led to a recognition of a charge of EUR 236 million, in *Net gains (losses) on financial instruments at fair value through profit or loss*.
- The change in fair value adjustment of derivatives related to the counterparty's risk (CVA and DVA) contributes positively by EUR 23 million in *Net gains (losses) on financial instruments at fair value through profit or loss*.
- A provision for litigations on structured credits in France subject to a writ of summons was recorded for an amount of EUR 63 million as at 31 December 2013. An additional charge of EUR -56 million was booked during the first half-year 2014, in *Other expenses*, to take into account the sensitive evolutions of the French legal framework occurred over the period, leading to a provision of EUR 119 million.
- The *Cost of risk* was impacted by EUR -56 million by the booking of a sectorial provision on renewable energy due to financial risk related to legislative changes in Spain. In addition, after having increased the provisioning level on exposures on the City of Detroit in the first quarter, the group took advantage of favourable market conditions to dispose of the exposure guaranteed by Syncora. As a result, the net expenses recognised in cost of risk for the City of Detroit amounted to EUR -18 million as at 30 June 2014. However, the *Cost of risk*, which benefited from reversal of provisions on assets sold, amounted to EUR -41 million as at 30 June 2014.

POST-BALANCE-SHEET EVENTS

Update on the situation of Dexia Crediop S.p.A.

The Dexia Group orderly resolution plan does not require the disposal of Dexia Crediop, but nonetheless authorises the sale of that entity. From the point of view of that sale and to protect the entity's commercial franchise, the European Commission granted Dexia Crediop a production envelope of EUR 200 million, enabling it to grant funding to its existing clients, for a period of one year to run from the date of validation of the resolution plan by the Commission. As negotiations had been undertaken with a potential purchaser, the Group received at the beginning of 2014 authorisation from the European Commission to extend the production window by an additional six months, until 28 June 2014. In the absence of a firm offer at the end of that period, the European Commission confirmed to the Dexia Group on 15 July 2014 the run-off status of Dexia Crediop. However, this does not prejudge the continuation of the discussions related to the sale of Dexia Crediop.

NOTE II. SEGMENT REPORTING

Following approval of its orderly resolution plan by the European Commission in December 2012, and considering the progress made in implementing the resolution process, Dexia Crédit Local presents its performance at a consolidation level on the basis of a single "Management of activities in run-off" division without specific allocation of funding and operating expenses. This presentation is in line with the new profile of the Group and its strategic orientation, of which one of the main objectives is to minimise the risk represented by the Dexia Crédit Local Group for the guarantor States and to optimise its asset value for its ultimate shareholders.

Information to the management consists of two kinds of reports:

- Reports linked to activities in run-off, which are globally consolidated and assessed through the income statement, on the basis of future results and associated expenses. These activities are regarded as a single division.
- Reports linked to activities held for sale, which are not assessed through their intrinsic profitability but are assessed within the context of the best negotiation of the proceed from sale within 12 months.

The results of the discontinued activities as well as of the activities held for sale have to be considered in the analysis of the performance of the Group. Indeed, one of the objectives of the Group is to sell the operational entities at the best price in order to maximise the preservation of capital.

NOTE III. EXCHANGE RATES

EXCHANGE RATES

		Closing rate			Average rate	
		30/06/13	31/12/13	30/06/14	30/06/13	30/06/14
US Dollar	USD	1.3019	1.3788	1.3680	1.3108	1.3710

NOTE IV. SOVEREIGNS – DIRECT EXPOSURES

Some amounts may not add up due to roundings off.

	31/12/2013							
	Italy		Hungary		Portugal		Spain	
in millions of EUR	AFS(1)	L&R and HTM(2)	AFS(1)	L&R and HTM(2)	AFS(1)	L&R and HTM(2)	AFS(1)	L&R and HTM(2)
Accounting value before fair value adjustments	4,049	8,660	1,105	58	1,806	46	429	22
Fair value adjustments due to interest rate hedges	1,435	950	86		481	16	3	9
Fair value adjustments not hedged	(969)		(54)		(928)		2	
Total	**4,515**	**9,610**	**1,138**	**58**	**1,359**	**62**	**434**	**31**
Available for sale reserve								
Available for sale reserve (gross)	(969)	(63)	(54)		(928)		2	
Deferred tax	17	19						
Available for sale reserve (net)	(951)	(44)	(54)		(928)		2	

(1) AFS: Available-for-sale.
(2) L&R: Loans and Receivables; HTM: Held to maturity.

Dexia does not have any net position on credit default swaps on Italian sovereign debt: this position consists in EUR 803 million of CDS sold to customers and is reversed in the market with a purchase of the same notional amount.

	30/06/2014							
	Italy		Hungary		Portugal		Spain	
in millions of EUR	AFS(1)	L&R and HTM(2)	AFS(1)	L&R and HTM(2)	AFS(1)	L&R and HTM(2)	AFS(1)	L&R and HTM(2)
Accounting value before fair value adjustments	4,077	8,440	909	71	1,770	45	427	19
Fair value adjustments due to interest rate hedges	1,803	1,303	85		703	22	144	11
Fair value adjustments not hedged	(814)		(29)		(739)		(92)	
Total	**5,066**	**9,743**	**964**	**71**	**1,735**	**67**	**479**	**30**
Available for sale reserve								
Available for sale reserve (gross)	(814)	(62)	(29)		(739)		(92)	
Deferred tax	15	18						
Available for sale reserve (net)	(799)	(43)	(29)		(739)		(92)	

(1) AFS: Available-for-sale.
(2) L&R: Loans and Receivables; HTM: Held to maturity.

Dexia does not have any net position on credit default swaps on Italian sovereign debt: this position consists in EUR 803 million of CDS sold to customers and is reversed in the market with a purchase of the same notional amount.

We also refer to the management report page 12, where Dexia's total exposure is broken down by geographic region.

NOTE V. FAIR VALUE

Some amounts may not add up due to roundings off.

FAIR VALUE MEASUREMENT AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

1. Valuation principles

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted market prices in an active market for identical instruments are to be used as fair value, as they are the best evidence of the fair value of a financial instrument.

If a financial instrument is not traded on an active market, recourse is provided by valuation models. The objective of a valuation model is to determine the value that is most representative of fair value under current market conditions. Dexia Crédit Local's valuation techniques maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

The valuation model should take into account all factors that market participants would consider when pricing the asset. Measuring the fair value of a financial instrument requires consideration of current market conditions. To the extent that observable inputs are available, they should be incorporated into the model.

Financial assets and liabilities recognised at fair value or for which fair value is calculated for disclosures are categorized into one of three fair value hierarchy levels. The following definitions used by Dexia Crédit Local for the hierarchy levels are in line with IFRS 13 texts:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: valuation techniques based on inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly;
- Level 3: valuation techniques for which significant inputs are not based on observable market data.

All fair values should be approved by Dexia Crédit Local validation team. This is an independent team that is part of the Risk Management Department.

2. Valuation techniques

Dexia Crédit Local's approach to the valuation of its financial instruments (instruments at fair value through profit or loss, assets available for sale and valuations for disclosures) can be summarised as follows:

2.1. Financial instruments measured at fair value (held for trading, fair value option, available for sale, derivatives)

2.1.1. Financial instruments measured at fair value for which reliable quoted market prices are available

If the market is active, market prices are the most reliable evidence of fair value and therefore shall be used for valuation purposes.

The use of market prices quoted in an active market for identical instruments with no adjustments qualifies for inclusion in level 1 within IFRS 13 fair value hierarchy, contrary to the use of quoted prices in inactive markets or the use of quoted spreads.

2.1.2. Financial instruments measured at fair value for which no reliable quoted market prices are available and for which valuations are obtained by means of valuation techniques

Financial instruments for which no quoted market prices are available in an active market are valued by means of valuation techniques. The models that Dexia Crédit Local uses range from standard market models (discount models) to in-house developed valuation models.

In order for a fair value to qualify for level 2 inclusion, observable market data should be significantly used. The market data that Dexia Crédit Local incorporates in its valuation models are either directly observable data (prices), indirectly observable data (spreads) or own assumptions about unobservable market data. Fair value measurements that rely significantly on own assumptions qualify for level 3 disclosure.

In order to comply with IFRS 13 and to be in line with market practices, Dexia Crédit Local has used as from 1 January 2013 an OIS curve to determine the value of its collateralised derivatives.

Dexia Crédit Local also recognises a *Credit Value Adjustment* (CVA) and a *Debit Value Adjustment* (DVA) for derivatives. A CVA reflects the counterparty's risk of default and a DVA reflects Dexia Crédit Local's own credit risk.

When determining the CVA / DVA, Dexia Crédit Local considers two different markets:

- the market of collateralised derivatives, where there is a daily exchange of collateral, for which the CVA / DVA is calculated based on expected changes of value over a short period of time.
- the market of uncollateralised derivatives, where there is a risk on the fair value of the derivative at balance-sheet date and also on the expected change of value over the life of the derivative.

Based on projections, positive expected exposures are used for a CVA calculation and negative expected exposures are used for a DVA calculation.

For CVA/DVA calculation, the Probability of Default (PD) parameters are based on market data. The Loss Given Default (LGD) parameters are based on market data, except for counterparties belonging to project and local authorities sectors for which historical data are used.

For bonds and loans for which no active market exists, Dexia Crédit Local uses a mark-to-model approach. The valuation price is composed of a market price component and a model price component. The weight granted to the model price component reflects an assessment of the activity level of the market.

For its mark-to-model price, Dexia Crédit Local uses a discount cash-flow model, based on a discounted spread that incorporates both CDS/credit spread and cash/CDS basis. The credit spread is estimated from the security specific characteristics (sector, rating, Loss Given Default, …) and from the level of some liquid CDS indices. A cash/CDS component is added to the credit component to obtain the bond's spread.

Dexia Crédit Local performs regular back testing for mark-to-model prices.

2.2. Financial instruments measured at amortised cost (valuations in IFRS disclosures on fair value)

Financial instruments reclassified from Trading or AFS to L&R

As a response to the financial crisis, the IASB issued on 13 October 2008 an amendment to IAS 39 permitting the reclassification of certain illiquid financial assets. Dexia Crédit Local decided to benefit from this opportunity to reclassify assets for which an active market, as well as reliable quoted prices, was no longer available.

These assets are valued using Dexia Crédit Local's mark-to-model approach described above for the bonds for which no active market exists.

2.3. Financial instruments classified in HTM and L&R since inception and liabilities

Loans and Receivables, including mortgages loans, and liabilities are valued based on the following valuation principles

General principles

- the carrying amount of loans maturing within 12 months is assumed to reflect their fair value;
- for bonds classified in HTM and L&R since inception and for liabilities, the valuation is done as for bonds classified in AFS.

Interest rate part

- the fair value of fixed-rate loans or liabilities and mortgages reflects interest rate movements since inception;
- embedded derivatives, like caps, floors and prepayment options are included in determining the fair value of loans and receivables or liabilities;
- the fair value of variable-rate loans or liabilities is assumed to be approximated by their carrying amounts.

Credit risk part

- credit spreads changes since inception are reflected in the fair value.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables compare fair value with carrying amount of financial instruments not measured at fair value.

In accordance with our validation rules, fair value is equal to accounting value for some kinds of financial instruments.

FAIR VALUE OF FINANCIAL INSTRUMENTS

	31/12/13			30/06/14		
in millions of EUR	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	1,542	1,542	0	9,105	9,105	0
Interbank loans and advances	8,908	8,668	(240)	9,452	9,524	72
Customer loans and advances	128,552	125,353	(3,199)	128,016	125,296	(2,720)
Financial assets held to maturity	384	419	35	285	311	26
Central banks	34,274	34,274	0	34,014	34,014	0
Interbank borrowings and deposits	31,969	32,015	46	40,032	39,944	(88)
Customer borrowings and deposits	8,590	8,574	(16)	8,770	8,727	(43)
Debt securities	96,368	95,323	(1,045)	95,272	94,975	(297)
Subordinated debt	644	606	(38)	606	592	(14)

ANALYSIS OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide an analysis of assets and liabilities that are measured subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the fair value is observable. The fair value measurement is recurring. The non-recurring fair value measurement is not significant for Dexia crédit Local.

FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS (RECURRENT MEASUREMENT)

	31/12/13				30/06/14			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and securities held for trading			1,774	1,774			1,844	1,844
Financial assets designated at fair value – bonds and other fixed-income instruments			27	27			27	27
Derivatives held for trading		15,127	1,419	16,546		16,599	2,122	18,721
Hedging derivatives		5,292	653	5,945		6,274	756	7,030
Financial assets available for sale – bonds(1)	6,157	15,402	7,297	28,856	6,673	14,960	7,427	29,060
Financial assets available for sale – equities	19	75	274	368	22	91	134	247
Total	**6,176**	**35,896**	**11,444**	**53,516**	**6,695**	**37,924**	**12,310**	**56,929**

(1) Given the improvement in the market liquidity at the end of 2013, the Spanish covered bonds were reclassified from level 3 to level 2 as at 31 December 2013

FAIR VALUE MEASUREMENT OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/13				30/06/14			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities designated at fair value		1,229	1,097	2,326		1,247	914	2,161
Derivatives held for trading		15,392	1,121	16,513		17,853	1,557	19,410
Hedging derivatives		20,847	1,418	22,265		22,560	4,437	26,997
Total		**37,468**	**3,636**	**41,104**		**41,660**	**6,908**	**48,568**

TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

Nil.

ANALYSIS OF THE EVOLUTION OF LEVEL 3

in millions of EUR	30/06/2013 – continuing operations										
	Opening balance	Total gains/ losses in P&L	Gains and losses directly recognised in equity	Purchase	Sale	Settle-ment	Transfer into level 3	Transfer out of level 3	Other move-ments(1)	Changes in scope of consolida-tion(2)	Closing
Loans and securities held for trading	2,198	99			(8)	(74)			(86)		2,128
Financial assets designated at fair value – bonds and other fixed-income instruments	27				(5)						22
Derivatives	2,018	(835)		601			2	(1)	(44)	710	2,451
Financial assets available for sale – bonds(3)	17,017	(444)	24	511	(164)	(812)		(39)	4		16,098
Financial assets available for sale – equities	332	6	(11)		(12)	(32)			2		285
Total financial assets	**21,591**	**(1,174)**	**13**	**1,112**	**(189)**	**(918)**	**2**	**(40)**	**(123)**	**710**	**20,984**
Financial liabilities designated at fair value	1,154					(19)	1,489		28		2,652
Derivatives	3,213	(871)		472			24		(27)		2,811
Total financial liabilities	**4,367**	**(871)**		**472**		**(19)**	**1,513**		**1**		**5,463**

(1) Other movements include notably the impact of changes in exchange rates during the year
(2) Derivatives with Dexia Municipal Agency are no longer eliminated from the consolidated financial statements due to the disposal of the company
(3) The opening balance of available for sale bonds has been restated for an amount of EUR 2,110 million relating to debt instruments mainly frome public sector, measured in level 3 and wrongly reported in level 2 in 2012. This has no impact on the valuation of these instruments.

in millions of EUR	30/06/14									
	Opening balance	Total gains/ losses in P&L	Gains and losses directly recognised in equity	Purchase	Sale	Settlement	Transfer into level 3(1)	Transfer out of level 3	Other move-ments(2)	Closing
Loans and securities held for trading	1,774	34				(20)			56	1,844
Financial assets designated at fair value – bonds and other fixed-income instruments	27	,								27
Derivatives held for trading	1,419	130		3			560	(9)	19	2,122
Hedging derivatives	653	75		2			65	(39)		756
Financial assets available for sale – bonds	7,297	74	195	142	(50)	(298)	10		57	7,427
Financial assets available for sale – equities	274	(6)	(134)							134
Total financial assets	**11,444**	**307**	**61**	**147**	**(50)**	**(318)**	**635**	**(48)**	**132**	**12,310**
Financial liabilities designated at fair value	1,097					(192)			9	914
Derivatives held for trading	1,122	(6)		2			436	(3)	6	1,557
Hedging derivatives	1,418	29					2,995	(17)	12	4,437
Total financial liabilities	**3,637**	**23**		**2**		**(192)**	**3,431**	**(20)**	**27**	**6,908**

(1) Dexia regularly reviews its methodologies of valuation of assets, liabilities and derivatives. Some derivatives considered as level 2 in the past have been reassessed as level 3 as the market parameters used in the models are no longer considered as enough liquid and observable. If the impact of using those illiquid or unobservable parameters is immaterial so that the models are considered as reliable, the derivatives can be considered as level 2. In this case, the impact has been considered as material. Therefore, transfers were recorded in this period. Impact in trading derivatives assets and liabilities are compensating themselves, as the economic positions are nearly closed. However, due to large positions in long term loans and bonds, hedging derivatives are also very long and therefore were subject to reassessment based on the new methodologies put in place.
(2) Other movements include notably the impact of changes in exchange rates during the year.

SENSITIVITY OF LEVEL 3 VALUATIONS TO ALTERNATIVE ASSUMPTIONS

The detail of sensitivity of level 3 valuations to alternative assumptions is presented in note 7.1. f of the Annual Report 2013.

Dexia Crédit Local's fair value applied to bonds and CDS is partly based on a mark-to-model. The sensitivity analysis described below measures the impact on fair value of alternative assumptions used for unobservable parameters at closing date.

Dexia Crédit Local decided to elaborate alternative assumptions on the following unobservable parameters:

- credit spreads, depending on availability of credit spreads for the same counterparty, or credit spreads based on similar counterparties, similar sectors or by using credit risk indexed on liquid CDS indices;
- the basis Cash – CDS that allows to deduct bonds spreads from CDS spreads;
- the liquidity of the financial instrument, depending on the activity of the instrument's market.

Tests have been performed on bonds and CDS.

As at 30 June 2014, the AFS portfolio amounted to EUR 29,307 million, gains and losses directly recognised in equity amounted to EUR -5,238 million, of which EUR -2,303 million were accounted for as available for sale reserve. The following alternative assumptions have been applied on the entire AFS portfolio:

- A 2% credit spread variation applied to all instruments together with spreads between 0 bp and 40 bp on certain types of assets;
- A change in the liquidity premium (basis cash – CDS) to take it to a level closer to the market at 0 basis point;
- A 10% change in the liquidity percentage for all positions.

For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated between a positive impact of EUR +152 million and a negative impact of EUR -45 million in June 2014, while in 2013, it was estimated between a positive impact of EUR +151 million and a negative impact of EUR -31 million.

According to the accounting policies and valuation methods described in section 2. Valuation techniques of the paragraph "Fair value measurement and fair value hierarchy of financial instruments" here above, Dexia Crédit Local mostly uses for the valuation of types of assets a model subject to regular back-testing based on market data. Dexia Crédit Local regularly reviews its assumptions used in the valuation of types of assets, particularly the liquidity assumptions, which will drive the use of 3rd party quotations and model price and the credit spread level used in the model's valuation. The definition of liquidity used by Dexia Crédit Local corresponds to active market definition as defined by IFRS 13. Within the AFS portfolio, a significant portion of which is classified as level 3 as a result of an insufficient volume of data representing transactions that took place on the market, Dexia Crédit Local holds an important volume of securities issued by Spanish local public authorities. The evolution of the credit spread of this type of assets is likely to have a significant impact on the gains and losses directly recognised in equity. As for the portfolio of Spanish local public authorities securities, whose nominal value reaches EUR 1,357 million and the gains and losses directly recognised in equity amount to EUR -253 million, the liquidity rate is 0%. A 25 points increase in the liquidity percentage would have a non-significant impact on the available for sale reserve and a 100 basis points credit spread increase would affect the AFS reserve by EUR -156 million.

Negative Basis Trades are considered as one single product and are accounted at Fair Value through profits and losses. Those strategies are made of a bond, a swap to hedge the interest rate and a credit default swap to hedge the credit component of the bond. The unhedged factor is the cash-CDS basis. The bond and its related CDS are therefore tested together. The main assumption having an impact on their fair value is the unwinding impact. As the underlying assets are illiquid, there is no observable cash-CDS basis for this product on the market, thus Dexia Crédit Local uses the average basis seen on the historical unwinds of those strategies. For 2014, based on the important number of unwinds performed by Dexia Crédit Local since 2009, and taking into account the stock of remaining NBT transactions, the positive impact (average of 2009 unwinds cost) is EUR +5.8 million whereas the negative impact (average of 2011 unwinds cost) gives an impact of EUR -32.6 million. For 2013, the positive impact (unwind costs of 2009) was EUR +5.8 million whereas the negative impact (unwind cost of 2011) gave an impact of EUR -31.6 million.

The impact of the credit spread alternative assumptions on Dexia Crédit Local's credit derivatives is estimated at EUR +2.5 million (positive scenario) versus EUR -2.4 million (negative scenario) before tax, while in 2013, it was estimated at EUR +2.7million (positive scenario) versus EUR -2.8 million (negative scenario).

DIFFERENCE BETWEEN TRANSACTION PRICES AND MODELLED VALUES (DEFERRED DAY ONE PROFIT)

No significant amounts are recognised as deferred Day one Profit (DOP) as at 30 June 2014. DOP amounted to less than EUR 1 million as at 30 June 2013.

NOTE VI. RELATED-PARTY TRANSACTIONS

ANALYSIS BY NATURE

	Parent company (Dexia)		Other related parties[1]	
in millions of EUR	30/06/13	30/06/14	30/06/13	30/06/14
Loans	415			
Interest income on loans	2			
Assets disposals	72			
Losses on assets disposals	(9)			
Borrowings	802	784		
Interest expense on borrowings	(3)	(3)		
Net commissions				(1)
Guarantees issued by the Group				
Guarantees received by the Group				

(1) This section includes transactions with legal entities included in Dexia Credit Local's parent company (Dexia SA) perimeter.

As from 31 December 2012, due to subscription by Belgian and French States to the capital increase initiated by Dexia, Dexia Credit Local's parent company, they are the two only shareholders having a significant influence on Dexia Crédit Local.

Group transactions with these shareholders are described in the note 4.4 C of Dexia Crédit Local's annual report 2013. Persuant to IAS 24 § 25, the detail of loans, borrowings or commitments with the Shareholders States are not subject to a separate disclosure.

There were no significant transactions in 1H 2013, other than the 2013 Guarantee Agreement, described in detail in the Dexia Crédit Local Annual Report 2013 (cf. page 144).

During 1H 2014, there were no significant transaction too.

Loans to the key management have been granted at market conditions and their amounts is not significant.

NOTE VII. LITIGATIONS

We refer to the part "Litigations" of the Management Report, page 19.

CERTIFICATE OF THE RESPONSIBLE PERSON

I the undersigned, Karel De Boeck, Chief Executive Officer of Dexia Crédit Local,

hereby declare that, to the best of my knowledge, the condensed consolidated financial statements for the past half year 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 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 43).

La Défense, 7 August 2014

Karel De Boeck
Chief Executive Officer

DEXIA CRÉDIT LOCAL STATUTORY AUDITORS' REVIEW REPORT ON FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2014

PERIOD FROM JANUARY 1ST, 2014 TO JUNE 30TH, 2014

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 Annual General Meeting and in accordance with the requirements of article L. 451-1-2 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 Credit Local, for the period from January 1st, 2014 to June 30th, 2014,
- the verification of the information contained in the interim management report.

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

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 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. Accordingly, we do not express an audit opinion.

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 matter set out in:

- Note I.1 to the half-year condensed consolidated financial statements which stipulate that the consolidated financial statements of Dexia Credit Local have been prepared on a going concern basis, in accordance with IAS1.
- Note I.2 to the condensed half-year consolidated financial statements which set out changes in accounting policies following the first application of IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements".

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 its and consistency with the condensed half-year consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, August, 7th 2014

The Statutory Auditors
French original signed by

Deloitte & Associes	Mazars
Pascal Colin	Claire Gueydan-Brun
Charlotte Vandeputte	Franck Boyer

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