Financial report
H1 2015

DEXIA
CRÉDIT
LOCAL

CONTENTS

MANAGEMENT REPORT[1]

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT

in millions of EUR	H1 2014	H1 2015	Variation
Net banking income	**-33**	**510**	**+543**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-182	-227	-45
Gross operating income	**-215**	**283**	**+498**
Cost of risk and net gains or losses on other assets	-42	-161	-119
Pre-tax income	**-257**	**122**	**+379**
Income tax	-20	-21	-1
Net income	**-277**	**100**	**+377**
Minority interests	7	11	+4
Net income Group share	**-284**	**89**	**+373**

BALANCE SHEET KEY FIGURES – ANC FORMAT

in millions of EUR	31/12/14	30/06/15	Variation
Total assets	**246,163**	**239,998**	**-3%**
of which			
Cash and central banks	3,103	8,269	166%
Financial assets at fair value through profit or loss	24,214	22,031	-9%
Hedging derivatives	8,374	6,802	-19%
Financial assets available for sale	26,526	23,570	-11%
Customer loans and advances	134,886	131,956	-2%
Accruals and other assets	38,250	36,952	-3%
Total liabilities	**244,474**	**237,579**	**-3%**
of which			
Central banks	33,845	26,312	-22%
Financial liabilities at fair value through profit or loss	25,731	23,871	-7%
Hedging derivatives	33,832	30,250	-11%
Interbank borrowings and deposits	45,393	48,293	6%
Debt securities	89,518	92,755	4%
Total equity	**1,689**	**2,419**	**43%**
of which			
Equity, Group share	1,328	2,038	53%

(1) The management report data are unaudited.

INTRODUCTION

The economic recovery of the euro zone was confirmed during the first half-year 2015, aided in particular by the weakening of the euro and the accommodating monetary policy of the European Central Bank. As from Q2, the acceleration of the recovery resulted in a strengthening of the euro as well as a slight increase of interest rates. Despite this positive trend, the zone's financial stability is still weakened by the uncertainty associated with the Greek crisis.

During the first half-year 2015, the volatility of the macroeconomic environment was a central theme explaining the severe variation of funding requirements and the size of Dexia Crédit Local's balance sheet. It was also reflected in the Group's half-yearly results, particularly via the considerable variation from one quarter to the next in accounting volatility elements.

INFORMATION RELATED TO THE PRESENTATION OF THE DEXIA CRÉDIT LOCAL CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2015

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2015 were prepared in accordance with the accounting rules applicable to a going concern. The assumptions detailed hereafter were the basis of the business plan underlying the Dexia Group resolution plan and were already explained in previous accounting closures.

- The business plan is based on the market environment observed at the end of September 2012. The underlying macroeconomic assumptions are revised semi-annually.
  In particular, the end of 2014 review of the plan takes account of the evolution of the interest and foreign exchange rate parameters based on market conditions observed as at 31 December 2014 and reflects Dexia and Dexia Crédit Local's active balance sheet management, particularly the successful execution of the funding programme, resulting in a positive evolution of the net interest margin. The plan revision also incorporates regulatory developments to date, such as the definitive text of CRD IV, the implementation of the IFRS 13 accounting standard, and the impact of using an OIS curve for OTC derivatives valuation. Finally, the revised plan takes into account Dexia and Dexia Crédit Local's decision to increase the use of market data for the valuation of illiquid securities classified as assets available for sale and for the calculation of the Credit Valuation Adjustment (CVA).
  The revised business plan was approved by the Dexia Board of Directors on 20 April 2015. While it contains adjustments to the plan originally validated, the resolution trajectory in the revised plan remains unchanged over the long term.
- The plan assumes maintaining various local banking licences. Dexia Crédit Local ratings are also assumed to remain at current levels.
- It relies, moreover, on a robust funding programme based on Dexia Crédit Local's ability to issue debt guaranteed by Belgium, France and Luxembourg and to raise secured funding.
  In this context, the Group's ability to tap markets at a lower cost and for longer maturities than forecasted in the original plan, had a positive effect on the funding mix in H1 2015. These positive developments enabled Dexia and Dexia Crédit Local to reduce reliance on central bank funding and to repay significant maturities at the end of 2014 and the beginning of 2015.
  Some uncertainties remain however over the resolution period, in the implementation of the business plan due to the potential impact of new regulatory and accounting developments. Moreover, Dexia and Dexia Crédit Local's balance sheet still exhibit structural imbalances and the limited resources available since the beginning of their resolution to remedy this situation may not allow compliance with certain regulatory ratios during the resolution process. For instance, the orderly resolution crystallised a funding structure heavily dependent on market and central bank funding, since the Dexia Group no longer has retail franchises and is unable to increase its deposit base. This will be reflected in the future level of the Liquidity Coverage Ratio (LCR).
  The business plan remains exposed to the evolution of the macroeconomic environment. A 10 basis point decline in interest rates over the entire curve could result in an increase of EUR 1.1 billion in Dexia and Dexia Crédit Local's liquidity requirement over the next two years due to higher cash collateral[1] needs. Similarly, a less optimistic rating environment and/or the widening of credit spreads could also have a negative impact on the income statement and available liquidity reserves and may increase regulatory capital requirements.
  Finally, if market demand for government-guaranteed debt decreases, Dexia Crédit Local may need to tap more costly funding sources which could have a negative impact on the profitability assumed in the original business plan. In particular, 2015 and 2016 may be challenging in light of a more volatile foreign exchange environment and very low interest rates.

(1) Deposits or financial instruments posted by Dexia Credit Local to its counterparties in order to secure obligations under interest rate or currency swaps.

The most recent update of the business plan reflects surplus liquidity over the life of the plan. However, at the end of 2014 and the beginning of 2015, Dexia and Dexia Crédit Local's liquidity requirement increased dramatically, mainly due to the high levels of cash collateral posting to market counterparties. This growing liquidity requirement was offset by sustained issuance of long-term government-guaranteed debt and secured funding in H1 2015 and the increase of interest rates in Q2 2015 resulted in a lower funding requirement over the period.

The next review of the plan, based on market conditions observed as at 30 June 2015, will incorporate the impact of prudential and accounting developments implemented by Dexia at that date.

More detailed information on liquidity is provided in section "Evolution of the liquidity situation"

1. SIGNIFICANT EVENTS AND TRANSACTIONS

- Account taken of new accounting and prudential requirements impacting Dexia Crédit Local's result and solvency
- Impairment of Dexia Crédit Local's exposure to Heta Asset Resolution AG and commencement of legal proceedings
- Continuing implementation of the Dexia Group's orderly resolution: launch of a restructuring plan at Dexia Crediop and analysis of the opportunities for outsourcing certain activities

A. Accounting and regulatory developments

a. Weight of new contributions and taxes paid to a public authority

At the end of June 2015, Dexia Crédit Local's results were impacted by EUR -68 million of various taxes and contributions.

In particular, Dexia Crédit Local booked in 1Q 2015 its first annual contribution, estimated at EUR -21 million, to the Single Resolution Fund, set up by the European Authorities in the framework of the Single Supervisory Mechanism. The Group also booked EUR -14 million in relation with the annual tax for systemic risk. Being due on a yearly basis, those expenses are considered as recurrent.

Aside this, Dexia Crédit Local took a EUR -28 million provision covering its total voluntary multiannual contribution to the support funds to local authorities and hospitals in France.

All those levies and contributions were booked in compliance with the IFRIC 21[2] accounting standard, applied by Dexia Crédit Local since 1 January 2015. Those amounts being not significant, Dexia Crédit Local decided not to restate the financial statements as at 30 June 2014.

b. Introduction of a Funding Valuation Adjustment in the financial statements

In line with the IFRS 13 accounting standard and market practice, the Dexia Group developed a methodology to calculate a Funding Valuation Adjustment (FVA) as from June 2015 intended to take account of the funding costs associated with its uncollateralised derivative positions. As these uncollateralised derivatives are not subject to margin calls, the holder of this type of instrument benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives. The FVA takes account of the implicit funding rates for this theoretical collateral and integrates the funding cost in the valuation of these derivatives.

The FVA is one of several valuation adjustments implemented within the framework of the IFRS 13 accounting standard and the evolution of market practice, such as the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) as well as valuation of collateralised derivatives on the basis of an OIS curve. As explained in previous press releases, the impact of these adjustments does not correspond to cash flows and are taken over the lifespan of the assets or liabilities. Nonetheless, they generate volatility on each accounting date.

The first-time application of the FVA resulted in a negative impact of EUR -140 million in Dexia Crédit Local's results for the first half-year 2015.

c. Implementation of the prudent valuation and account taken of an Additional Valuation Adjustment in the calculation of regulatory capital

On 23 January 2015, the European Banking Authority (EBA) published its final regulatory technical standards on the prudent valuation calculation. The concept of prudent valuation relates to fair value positions, defined by the IFRS 13 accounting standard 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 measurement date". For the calculation of this exit price IFRS 13 takes into account best estimates,

(2) IFRIC: International Financial Reporting Interpretations Committee.

while the regulatory perspective is to look at the downside scenario in order to ensure that banks carry enough capital to offset the risk of the fair value positions. In this respect, the Additional Valuation Adjustment (AVA) represents the difference between the fair value valuation and the prudent valuation.

Following the Capital Requirements Regulation, Dexia Crédit Local takes into account in its regulatory capital the Additional Valuation Adjustment that stems from a prudent valuation as defined by the EBA. As at 30 June 2015, the first application resulted in an Additional Valuation Adjustment of EUR -165 million, deducted from Dexia Crédit Local's Common Equity Tier 1 capital.

B. Evolution of the credit environment

a. Point on the Group's exposure to Heta Asset Resolution AG

On 1 March 2015, within the framework of the Federal Law on bank stabilisation and resolution, the Austrian Financial Market Authority published a decree on the adoption of resolution measures consisting of a temporary moratorium until 31 May 2016 on a substantial portion of the debt (capital and interest) of Heta Asset Resolution AG.

Dexia Crédit Local has an exposure of a total notional amount of EUR 395 million to Heta Asset Resolution AG, through its subsidiary Dexia Kommunalbank Deutschland.

More information on Dexia Crédit Local's exposure to Heta Asset Resolution AG is provided in the chapter "Risk Management".

b. Greek crisis

Subsequent to the 'No' vote from the Greek voters on 5 July 2015 on the referendum on whether to accept or reject the final proposal from the creditor institutions, a new bailout program to reform the Greek economy has been negotiated and approved on 13 July 2015 by the Greek government. Although this bailout program includes tough austerity measures and structural reforms which will hamper short-term economic growth in Greece, the financial markets reacted cautiously positive on this long-awaited agreement.

Dexia Crédit Local has no direct exposures to the Greek sovereign.

More information on Dexia Crédit Local's exposure to Greek counterparties is provided in the chapter "Risk Management".

c. Point on the situation of the Commonwealth of Puerto Rico

Dexia Crédit Local has exposure to certain public corporations linked to the Commonwealth of Puerto Rico, with a gross book value of USD 430 million as at 30 June 2015.

More information on Dexia Crédit Local's exposure to the Commonwealth of Puerto Rico is provided in the chapter "Risk Management".

C. Continuation of the Group's orderly resolution plan

a. Dexia Crediop

In accordance with the undertakings made by the States to the European Commission, on 15 July 2014 the Dexia Group announced that Dexia Crediop would be placed in run-off. Following that decision, the management of Dexia Crediop began a period of reflection on simplifying the organisation of the bank and reducing its costs. This ended in an agreement with the social partners on 18 March 2015 relating to 53 redundancies and a reduction of the workforce to 124. The major part of the planned departures is effective; the last departures will take place in the second half of 2015.

b. Reflection on the opportunity to outsource certain activities

In order to manage the run-off of its residual assets more effectively, the Dexia Group must maintain its operational continuity. That objective not only assumes possession of the skills required to implement the Group's resolution properly, but also maintenance and updating of the tools needed for that resolution.

Maintaining the Group's operational capacities on certain activities will require significant financial investments, the weight of which must be analysed having regard to the Group' financial capacities and expected profitability up to resolution.

Considering those elements, the Dexia Group began a period of reflection on the opportunity to outsource certain activities with one or more service providers. In addition to preserving a high level of service, the use of outsourcing for certain activities would enable Dexia and Dexia Crédit Local to reduce costs and to avoid the threshold effect associated with the gradual reduction of the balance sheet. If those reflections result in more advanced plans, Dexia and Dexia Crédit Local will take account of social aspects and ensure that the best conditions are reserved for the members of staff concerned.

2. RESULTS FOR H1 2015

A. Presentation of the Dexia Crédit Local condensed consolidated financial statements as at 30 June 2015

The condensed consolidated financial statements of Dexia as at 30 June 2015 were established in accordance with the accounting rules applicable to a going concern, (cf. section "Information related to the presentation of the Dexia Crédit Local condensed consolidated financial statements as at 30 June 2015").

B. Dexia Crédit Local's consolidated results for H1 2015

In H1 2015, the **net income Group share** of Dexia Crédit Local was EUR 89 million. EUR 11 million are attributable to minority interests.

Over the half-year, net banking income amounted tp EUR 510 million. Income from commercial portfolios covered the funding cost. The momentum of funding cost reduction continued over the half-year, due on the one hand to the reduction of the funding requirement, associated principally with the reduction of the amount of cash collateral posted by Dexia Crédit Local in Q2, and on the other hand to the repayment during Q1 of the last guaranteed outstanding subscribed by Belfius, which eases Dexia Crédit Local's funding cost. Dexia Crédit Local's net banking income included EUR 317 million of fair value adjustments of assets and liabilities including in particular the impact of the IFRS 13 accounting standard (CVA, DVA, FVA) and the valuation of OTC derivatives, the own credit risk (OCR), the variation of the WISE portfolio (synthetic securitisation on a portfolio of enhanced bonds). This positive contribution is essentially due to the favourable evolution of the valuation of collateralised derivatives on the basis of an OIS curve and of the CVA and the DVA. These elements were partially offset by the impact of the first-time application of a Funding Valuation Adjustment, of EUR -140 million, and by the evolution of own credit risk.

Over the period, **costs** amounted to EUR -227 million. In particular, applying the IFRIC 21 accounting standard, Dexia Crédit Local booked in 1Q 2015 its first annual contribution, estimated at EUR -21 million, to the Single Resolution Fund, set up by the European Authorities in the framework of the Single Supervisory Mechanism. The Group also booked EUR -14 million in relation with the annual tax for systemic risk. Being due on a yearly basis, those expenses are considered as recurrent. Aside this, Dexia Crédit Local took a EUR -28 million provision covering its total voluntary multiannual contribution to the support funds to local authorities and hospitals in France. Excluding the impact of taxes and contributions, in an amount of EUR -68 million over the half-year, operating expenses were well under control.

Gross operating income was EUR 283 million over the half-year.

At the end of June 2015, the **cost of risk** amounted EUR -161 million, principally due to the provisioning of the Dexia Crédit Local's exposure to Heta Asset Resolution AG in Q1. In Q2, Dexia Crédit Local booked provisions on project finance in Spain and exposures to the local public sector in Greece, against the background of the Greek crisis. In addition, Dexia Crédit Local increased its provision on Kommunalkredit Austria AG, following the announcement by the Supervisory Board of KA AG that they would only repay 25% of the participation notes. These allocations were partially offset by reversals of collective provisions.

The half-year **pre-tax income** reached EUR 122 million over the half-year.

Over the half-year, the **tax charge** was EUR -21 million. As a result, the net income amounted to EUR 100 million.

Considering the result of EUR 11 million attributable to minority interests, **net income Group share** for H1 2015 totalled EUR 89 million.

3. EVOLUTION OF DEXIA CRÉDIT LOCAL'S BALANCE SHEET, SOLVENCY AND LIQUIDITY SITUATION

A. Balance sheet and solvency

- Reduction of the balance sheet total by EUR 6 billion over H1, as a result of the increase of long-term interest rates and the reduction of the asset portfolio
- Dexia Crédit Local's Common Equity Tier 1 ratio at 11.7%: deduction of an additional 20% of the non-sovereign AFS reserve from regulatory capital and first-time application of the Additional Valuation Adjustment

a. Half-yearly evolution of the balance sheet

As at 30 June 2015, Dexia Crédit Local's balance sheet total was EUR 240 billion, down EUR 6 billion on 31 December 2014. The half-yearly evolution of the balance sheet was mixed. In Q1, the balance sheet total rose significantly, essentially with the impact of exchange variations and the fall of long-term interest rates. In Q2, the increase of long-term interest rates reversed the trend and resulted in a sharp fall of the balance sheet total, increased by the decrease of the asset portfolio.

Indeed, over H1 2015, at a constant exchange rate, the reduction of assets on the balance sheet is mainly linked to:

- a fall in the fair value of assets and derivatives of EUR -6.5 billion as well as a EUR -1.6 billion reduction of the cash collateral paid by the Group to its derivatives counterparties;
- a EUR -6.4 billion reduction of the asset portfolio;
- these developments were partially offset by the EUR +5 billion increase of the liquidity reserve placed with the Federal Reserve.

On the liabilities side, and at a constant exchange rate, the half-yearly fall of the balance sheet total is mainly attributable to:

- the reduction of the fair value of liabilities and derivatives representing EUR -7.1 billion;
- a EUR -1.3 billion reduction of the stock of market funding.

The impact of exchange variations on the evolution of the balance sheet amounted to EUR +2.3 billion over the half-year.

b. Solvency ratios

As at 30 June 2015, Common Equity Tier 1 capital was EUR 6,308 million, against EUR 6,786 million as at 31 December 2014. This evolution is mainly explained by the deduction from regulatory capital of an additional 20% of the AFS reserve linked to non-sovereign securities in line with the timetable set by the CRD IV Directive. At the end of June 2015, the total amount deducted, corresponding to 40% of the AFS reserve linked to non-sovereign securities was EUR -1,037 million. Furthermore, the first-time application of the Additional Valuation Adjustment (AVA) as at 30 June 2015 is reflected by a EUR -165 million capital reduction (cf. section "Significant events and transactions").

The gains and losses directly recognised in equity reached EUR -5.3 billion at the end of June 2015, against EUR -5.9 billion at the end of 2014. This evolution is mainly explained by the tightening of credit spreads observed over the half-year and by natural portfolio amortisation, in part offset by unfavourable exchange effects. In addition, the provisioning of the exposure to Heta Asset Resolution AG also resulted in a reduction of the AFS reserve.

As at 30 June 2015, risk-weighted assets amounted to EUR 54.0 billion, of which EUR 50.5 billion for credit risk, EUR 2.5 billion for market risk and EUR 1 billion for operational risk. Regarding credit risk, the sharp increase observed in Q1 and due in particular to the migration of internal ratings is neutralised in Q2, particularly by the impact of the reduction of the asset portfolio and variations of the fair value.

These elements lead to a Common Equity Tier 1 ratio of 11.7% for Dexia Crédit Local at the end of June 2015.

CAPITAL ADEQUACY

in millions of EUR	31/12/14	30/06/15
Common equity Tier 1	6,786	6,308
Risk-weighted assets	53,193	54,004
Common equity Tier 1 ratio	12.8%	11.7%

RISK-WEIGHTED ASSETS

in millions of EUR	31/12/14	30/06/15
Credit risk	49,252	50,469
Market risk	2,941	2,535
Operational risk	1,000	1,000
Total	**53,193**	**54,004**

B. Evolution of the liquidity situation

- Significant funding repayments in Q1
- Repayment of the VLTRO and decrease of the recourse to central bank funding in Q1
- Increase of market funding, with sustained activity on secured funding and the execution of several long-term guaranteed public benchmark transactions

The funding requirement of Dexia Crédit Local was subject to contrasting developments in the first half-year 2015 in a context of highly volatile interest and exchange rates:

- Over the first quarter, the decline of the long-term interest rates as well as the weakening of the euro, in particular against the US dollar and the sterling, caused a rise in the net cash collateral to be posted by Dexia Crédit Local up to EUR 36 billion as at 31 March 2015 and resulted in an increase of the funding requirement.
- The subsequent recovery of the Euro, as well as the increase in interest rates over the second quarter reduced the net cash collateral again to reach EUR 30 billion as at 30 June 2015, corresponding to a decrease of the funding requirement over the period.

Although the overall funding need remained quite stable over the half-year, the funding structure evolved significantly.

In 1Q 2015, the Group had to cope with important funding redemptions, in particular the repayment of the last outstanding guaranteed debt subscribed by Belfius as well as the repayment of the first tranche of EUR 13 billion granted by the European Central Bank under the exceptional own-use mechanism(3). The last tranche of EUR 6 billion will be repaid during the fourth quarter of 2015 and will mark the exit from this exceptional mechanism.

Funding activity was extremely dynamic over the half-year, marked by the increase of secured market funding and the continuation of guaranteed issues.

Under favourable market conditions, Dexia Crédit Local issued various long-term public benchmark transactions in euros, US dollars and sterling, with maturities ranging from 5 to 10 years, enabling it to raise almost EUR 10.3 billion over the half-year. In particular, two issues in sterling with maturities of 5 and 10 years and for a total amount of GBP 1.2 billion, allowed the Dexia Group to significantly reduce its long-term funding gap in this currency. The Group also executed an additional EUR 3.8 billion in private placements over the half-year. The average maturity of these financings is of 5.6 years, corresponding to a significant increase in the average maturity of new long term funding raised. Short-term guaranteed funding activity was also sustained. The outstanding on guaranteed debt was EUR 67 billion as at 30 June 2015.

The development of secured market funding also continued over the half-year, outstanding rising by EUR 1.7 billion and relying particularly on the use of assets not eligible for central bank refinancing.

As at 30 June 2015, guaranteed and secured funding represented 74% of total Dexia Group funding, against 69% at the end of 2014.

In the first quarter of 2015, Dexia Crédit Local repaid the outstanding of EUR 33.5 billion subscribed with the European Central Bank in the form of VLTRO(4), partially replaced by recourse to the LTRO(5), in an amount of EUR 22 billion and the MRO(6), in an amount of EUR 4 billion.

At the end of June 2015, Dexia Crédit Local has a temporary liquidity reserve of EUR 13.2 billion, of which EUR 7.2 billion placed with central banks and EUR 6 billion in assets eligible for central bank refinancing. This liquidity buffer illustrates the Dexia Group's prudent management of its liquidity risk.

(3) "Own use" securities: Government-guaranteed securities issued by Dexia Crédit Local and used by the Dexia Group as collateral with the Eurosystem.
(4) VLTRO, or Very Long Term Refinancing Operations, are exceptional refinancing operations at 3 years launched in December 2011 and February 2012 by the European Central Bank to support liquidity on the interbank market and to facilitate the financing of the real economy.
(5) LTRO or Long-Term Refinancing Operations, are long-term refinancing operations. They constitute a standard refinancing tool used by banks with the Eurosystem.
(6) MRO, or Main Refinancing Operations, are short-term refinancing operations. They constitute a standard refinancing tool used by banks with the Eurosystem.

CREDIT RISK

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

As at 30 June 2015, Dexia Crédit Local's maximum credit risk exposure amounted to EUR 171.3 billion, compared to EUR 171.7 billion at the end of December 2014. The fall linked to natural portfolio amortisation and asset disposals is offset by an exchange effect due to the appreciation of the US dollar and the sterling against the euro over the first half-year 2015 and by fair value adjustments resulting from the tightening of credit spreads. At a constant exchange rate, the reduction was EUR 5.8 billion over the half-year.

EUR 85 billion of the exposure is in loans and EUR 74 billion in bonds.

Exposure is mostly concentrated in the European Union as well as the United States and Canada.

BREAKDOWN BY GEOGRAPHIC REGION

in millions of EUR	31/12/14	30/06/15
United States	26,327	31,625
Italy	27,178	25,624
France	26,588	24,847
United Kingdom	17,854	20,437
Germany	21,307	19,999
Spain	18,955	16,851
Japan	5,839	6,305
Portugal	4,079	3,961
Central and Eastern Europe	3,539	3,120
Canada	2,313	2,349
Belgium	3,059	1,786
Austria	1,481	1,363
Scandinavia	1,113	1,160
Hungary	1,102	997
South East Asia	990	825
South and Central America	584	595
Switzerland	553	511
Turkey	502	506
Netherlands	419	376
Ireland	221	197
Greece	156	127
Luxembourg	153	70
Other	7,369	7,680
Total	**171,679**	**171,312**

As at 30 June 2015, exposure is still mostly concentrated on the local public sector, considering the historical activity of Dexia Crédit Local. The evolution of exchange rates (US dollar and sterling) and the tightening of credit spreads explain the increasing exposure to certain sectors, particularly project finance and sovereigns.

BREAKDOWN BY TYPE OF COUNTERPARTY

in millions of EUR	31/12/14	30/06/15
Local public sector	86,526	85,055
Sovereigns	28,148	31,956
Financial institutions	26,977	24,036
Project finance	14,761	14,292
ABS/MBS	6,524	7,995
Corporates	5,511	6,078
Credit enhancers	3,232	1,900
Individuals, SME, self-employed	0	0
Total	**171,679**	**171,312**

The average credit quality of the Dexia Crédit Local portfolio remained high, with almost 88% of exposure rated "Investment Grade" as at 30 June 2015.

BREAKDOWN BY RATING (INTERNAL RATING SYSTEM)

	31/12/14	30/06/15
AAA	15%	19%
AA	23%	20%
A	28%	21%
BBB	20%	29%
Non Investment Grade	12%	10%
D	1%	1%
No rating	1%	1%
Total	**100%**	**100%**

DEXIA CRÉDIT LOCAL'S SECTOR EXPOSURE TO CERTAIN COUNTRIES							
in millions of EUR	Total	Local public sector	Project finance and corporates	Financial institutions	ABS/MBS	Sovereign exposures	Credit enhancers
United States	31,625	11,095	969	4,899	4,645	8,118	1,900
Italy	25,624	10,864	1,139	452	145	13,023	0
France	24,847	17,220	4,263	2,394	0	970	0
United Kingdom	20,437	9,910	6,377	1,831	2,243	76	0
Germany	19,999	15,827	452	3,508	9	203	0
Spain	16,851	7,335	2,415	6,042	560	499	0
Japan	6,305	3,692	0	1,261	0	1,353	0
Portugal	3,961	1,737	200	11	92	1,922	0
Poland	1,997	15	0	1	0	1,982	0
Hungary	997	29	35	1	0	933	0
Greece	127	52	69	0	6	0	0

Particular attention is paid to the countries presented in the table above because of the significant outstanding amounts or the sensitivity of the exposure. The main developments and significant facts for these sectors and countries in the first half-year 2015 are discussed in the following paragraphs.

Dexia Crédit Local commitments on sovereigns

Dexia Crédit Local outstanding on sovereigns is focussed essentially on Italy and to a lesser extent on Portugal, Hungary, the United States, Poland, Japan and Spain.

Over the first half-year 2015, although it is still weak and varies in intensity from one country to another, the economic recovery in the euro zone was confirmed. This slight improvement at an economic level is accompanied by continuing endeavours to re-establish public finances.

The economic and social context nonetheless remains difficult in some countries in the eurozone and tends to weaken the political parties in power, confronted by low popularity levels. This trend was confirmed in several local elections, particularly in Spain and Italy, and limits the capacity of executive powers to introduce certain structural reforms, generating political uncertainty. Despite the trend towards a normalisation of market conditions, these elements are liable to arouse tensions on the financial markets and weigh on the refinancing capacities of certain States.

The crisis linked to the Greek situation also highlighted the weaknesses of the euro zone, and the poor political and budgetary integration of Member States. It reawakened fears of a possible contagion to the weaker European countries, and this was reflected by an increase of credit spreads on some sovereigns, particularly those of Southern Europe.

Over the half-year, Greece saw its economic and financial situation deteriorate considerably. Faced with a lack of liquidities, the country was unable to make a repayment due to the International Monetary Fund on 30 June 2015.

The negotiations which began with the country's main creditors, the Eurogroup, the European Central Bank and the International Monetary Fund, to release the last instalment of aid and to renew the financial support programme, were difficult, as creditors wanted to see new structural reform measures before considering any restructuring of the country's debt, whilst the party in power, Syriza, won the elections in January by promising to end the policy of budget austerity.

The choice by the government to submit the Eurogroup's proposals to the Greek people in a referendum increased tensions between the various parties, a Greek exit from the euro zone and a default of payment on public debt not then being excluded. After the referendum, under strong political and financial pressure, Greece finally accepted the proposals from the Eurogroup, despite their rejection by Greek voters. This agreement, approved by the Greek Parliament, enabled new loans to be released to Greece and the risk of default subsided. However, Greece remains dependent on aid provided by institutional creditors to deal with its short-term commitments.

Dexia Crédit Local has no direct exposure to Greek sovereigns. The outstanding on other Greek counterparties, mainly local public sector and project finance, amount to EUR 127 million as at 30 June 2015. This outstanding is provisioned in amount of EUR 36.3 million.

Dexia Crédit Local commitments on the local public sector

Considering Dexia Crédit Local's historic activity as a lender to local authorities, the local public sector represents a significant proportion of the Group's outstanding, principally focussed in the countries of Western Europe (France, Italy, Germany, Spain, the United Kingdom) and North America.

The financial situation of local authorities remains satisfactory overall, despite the economic and financial situation, which tends to increase social expenditure and limit tax revenues. At the same time, in Europe, policies to reduce public expenditure, particularly via a fall in the level of transfers from central states, reduce the financial flexibility of local authorities. Faced with this situation, for some years the latter have been implementing structural reforms and simplification measures. Finally, in the most difficult instances, they can benefit from safeguard mechanisms or support funds enabling them to deal with their commitments, as illustrated by the support mechanisms in Spain and Italy.

Main points of attention

- Greece

Dexia Crédit Local is exposed, in an amount of EUR 52 million at the end of June 2015, to two local authorities in Greece, the municipalities of Athens and Acharnai, the latter being entirely dependent on State payments to service its debt. In view of the severe financial and macroeconomic uncertainties weighing on Greece, the outstanding on the municipalities of Athens and Acharnai have been provisioned in relation to the level of financial dependency on the central State.

Dexia Crédit Local continues to pay particular attention to the situation in Greece. There could still be adjustments of provisioning depending on future developments.

- Puerto Rico

On 6 February 2015, the US District Court rejected the Puerto Rico Public Corporation Debt Enforcement and Recovery Act signed in 2014, with the object of restructuring the debt of certain Puerto Rico public corporations.

Despite discussions commenced at the beginning of July 2015 between the Governor of Puerto Rico and its creditors to restructure its debt, a public corporation linked to the Commonwealth failed to make a debt payment at the beginning of August 2015.

Dexia Crédit Local has exposure to certain public corporations linked to the Commonwealth of Puerto Rico, with a gross book value of USD 430 million as at 30 June 2015, against USD 411 million at the end of 2014. The increase of the outstanding amount is not linked to a new purchase of securities during the half-year. It results from two elements:

  - An adjustment in the calculation of the exposure amount following the booking of a provision[1];
  - The specific nature of an accreting bond, the nominal of which increases until 2047 to reach USD 200 million on that maturity. As at 30 June 2015, this exposure amounted to USD 47 million.

95% of Dexia Crédit Local's exposure to Puerto Rico is covered by good quality credit enhancers.

The provisions constituted by Dexia Crédit Local on Puerto Rico and its public corporations amounted to USD 45 million. They cover outstanding amounts not enhanced by good quality credit enhancers and the possibility of an acceleration of payments if the guarantee is called, with costs incurred for unwinding hedge instruments.

- Structured loans in France

In January 2015, the decision by the Swiss National Bank to abandon the cap for the Swiss franc resulted in a sharp fall of the euro against the Swiss franc. These exchange variations had an impact on the level of interest rates on structured loans linked to the EUR/CHF exchange rate. The exceeding of trigger thresholds provided in these contracts resulted in an increase of rates on some loans. This situation led the French State to review the dimensioning of support funds, increased from EUR 1.5 billion to EUR 3 billion for local authorities and from EUR 100 million to EUR 400 million for public hospitals. This increase of the envelope was approved by Parliament for the effective establishment of support funds at the end of the year. Moreover, the maximum amount of aid provided by the support fund for local authorities was raised from 45% up to 75% of the total early redemption costs.

Dexia Crédit Local is very carefully following the situation regarding these loans, both as to the level of credit risk and the level of legal risks. Over the half-year, Dexia Crédit Local continued actions undertaken to desensitise the outstanding of its clients. Dexia Crédit Local's outstanding of sensitive structured loans was reduced to EUR 1.1 billion as at 30 June 2015.

More information on the evolution of the legal issues is provided in the section "Litigations" at the end of this chapter.

(1) The provisioning of a an exposure generates a break in booking hedge relationships with the derivatives covering that position. As the hedge relationship is broken, the amount corresponding to the market value of the hedge is reintegrated with the line initially hedged in order to assess the overall position. Furthermore, the derivatives are booked in the trading portfolio.

Dexia Group commitments on project finance and corporates

The project finance and corporate loan portfolio amounted to EUR 20.4 billion as at 30 June 2015, up slightly on the end of 2014, fair value and exchange rate variations having more than offset the natural portfolio amortisation and early redemptions. This portfolio is composed 70% of project finance[2], the balance being in corporate finance, such as acquisition funding, commercial transactions and corporate bonds.

As at 30 June 2015, the project finance portfolio amounted to EUR 14.3 billion. It consists 53% of Public-Private Partnerships (PPP), principally in the United Kingdom and France, 21% in energy sector projects, mostly in the field of renewable energies, and 13% in projects presenting a traffic risk. 72% of the portfolio is placed in Western Europe, 19% in the United States, Canada and Australia. 70% of the portfolio is on average rated "investment grade".

Some projects require very close monitoring. The changes to the Spanish regulatory framework on renewable energies adopted on 16 June 2014, revising existing tariffs, have an unfavourable impact on part of Dexia's portfolio of Spanish renewable energy projects, mainly solar projects, and may lead to debt restructuring. Several projects have already been restructured to date. Negotiations are ongoing with regard to others. Considering that situation, Dexia made specific provisions on some of them, leading at the same time to a reduction of the sector provision made in 2014 to cover this risk.

The corporate finance portfolio was approximately EUR 6.1 billion at the end of June 2015. It consists 44% of companies in the utilities sector (water, environment, distribution and transmission of energy or gas) and 38% of companies in the infrastructure sector (motorway operators, airports, ports and car parks). 80% of the portfolio is situated in Western Europe, 17% in the United States, Canada and Australia. 89% of the portfolio is rated "investment grade".

Dexia Crédit Local commitments on ABS

As at 30 June 2015, Dexia Crédit Local's ABS portfolio amounted to EUR 8 billion, up EUR 1.5 billion on the end of 2014 as a result of the increase of the US dollar against the euro, despite the disposal of some commitments over the half-year.

This portfolio consists of EUR 4.3 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 (RMBS) in an amount of EUR 0.9 billion with EUR 0.4 billion in Spain.

The quality of the ABS portfolio remained stable overall, with 95% of the portfolio rated "investment grade" at the end of June 2015, almost all of the tranches in which Dexia invested being senior level.

Dexia Crédit Local commitments on credit enhancers

Inherited from Dexia Crédit Local's activity on the US municipalities sector and on ABS, traditionally enhanced, the Dexia Crédit Local portfolio guaranteed by credit enhancers amounted to EUR 18 billion (notional amount) as at 30 June 2015. 84% of the underlying assets are "investment grade". Considering the ratings of counterparties and credit enhancers, the notional amount of the portfolio on which rating substitution is applied under the Basel rules was EUR 2.6 billion.

Only Assured Guaranty and NPFG, enhancing 48% and 18% respectively of Dexia Crédit Local's guaranteed outstanding, are still active on the credit enhancement market. The other enhancers are managed in run-off.

In general, credit enhancers have put various mechanisms in place, such as commutations, court actions with the originators of securitisations in the United States or securities repurchases to consolidate their solvency and to be in a position to fulfill their obligations as insurers.

With the exception of FGIC and Ambac's Segregated Account, all the credit enhancers continue to pay insurance indemnities in full and without delay in accordance with contractual conditions. FGIC and Ambac's Segregated Account pay a part of the indemnities due. Dexia Crédit Local is carefully following the liquidity situation of credit enhancers guaranteeing Group exposures.

(2) Transactions without recourse to their sponsors the redemption of which is only on the basis of their own cash-flows and strongly secured in favour of the bank, for example via sureties on assets and contracts or a limitation of dividends.

Dexia Crédit Local commitments on financial institutions

Dexia Crédit Local's commitments on financial institutions amounted to EUR 24 billion as at 30 June 2015, down by EUR 3 billion since December 2014 due to the reduction of the bond portfolio.

68% of these are bonds, covered bonds and exposures associated with Repo. The balance consists of exposures associated with loans to financial institutions and derivatives transactions.

Dexia Crédit Local's exposure is concentrated 20% in the United States and 66% in Europe, principally in Spain (25%), Germany (15%), France (10%) and the United Kingdom (8%).

The first half-year was marked by the unfavourable evolution of the situation concerning Heta Asset Resolution AG. On 1 March 2015, within the framework of the Federal Law on bank stabilisation and resolution, the Austrian Financial Market Authority published a decree on the adoption of resolution measures consisting of a temporary moratorium until 31 May 2016 on a substantial portion of the debt (capital and interest) of Heta Asset Resolution AG. Taking this decision into account, Dexia Crédit Local decided to provision 44% of its exposure to Heta Asset Resolution AG, the notional amount of which stands at EUR 395 million and 5% of that amount to cover its exposure to the associated derivatives, leading to the establishment of a new specific provision of EUR 197 million. At the same time, the exposure to Heta Asset Resolution AG is excluded from the base for calculating sectorial provisions, resulting in a reversal of EUR 21 million.

Furthermore, on 15 July 2015, Dexia Kommunalbank Deutschland, together with a pool of 10 other creditors, filed a lawsuit against Heta Asset Resolution AG, at the Regional Court of Frankfurt/Main, claiming immediate repayment of receivables in an aggregate amount of approximately EUR 1 billion.

Dexia Kommunalbank Deutschland, together with other members of the pool, also started legal proceedings in Austria by filing opposition against the moratorium on debt repayments by Heta Asset Resolution AG.

With the exception of Heta Asset Resolution AG, the portfolio's credit quality remained stable overall in the first half-year 2015, despite several changes of rating of counterparties by the rating agencies (methodological changes to integrate legislative changes resulting from the introduction of new resolution mechanisms, including the directive European Banking Recovery and Resolution Directive (BRRD).

Impairments of counterparty risk – Asset quality

The first half-year 2015 was marked by an increase of impaired outstanding of EUR 461 million, as well as an increase of specific provisions of EUR 274 million. This is explained in particular by:

- the constitution of a provision on Heta Asset Resolution AG (cf. above);
- the allocation of provisions on several debts associated with the renewable energy and motorway sectors in Spain;
- the provisioning of debts on Greek municipalities.

Dexia Crédit Local also disposed of certain impaired securities (Washington Mutual) and continued the restructuring of impaired outstanding, particularly in the funding of wind farms in the United States and Spain.

As a consequence, the coverage ratio was 36.8% as at 30 June 2015.

As a complement to specific provisions, Dexia Crédit Local has collective (statistical and sector) provisions the amount of which was EUR 386 million as at 30 June 2015, against EUR 503 million as at 31 December 2014. The reduction observed over the half-year is mainly due to the constitution of new specific provisions, those files then leaving the base for the calculation of collective provisions.

ASSET QUALITY

in millions of EUR	31/12/14	30/06/15
Impaired assets	1,230	1,691
o/w impaired loans and advances to customers	*1,158*	*1,431*
Specific provisions	349	623
o/w specific provisions on impaired loans and advances to customers	*306*	*489*
Coverage ratio[1]	28.4%	36.8%
Coverage ratio on loans and advances to customers	*26.4%*	*34.2%*
Collective provisions	498	386

(1) Ratio between the specific impairments and the impaired assets.

MARKET RISK

To ensure that market risk is monitored effectively, Dexia Crédit Local has developed a framework based on the following components:

- a system for market risk measurement, built on historical and probability models (VaR: Value at Risk)
- a structure of limits and procedures governing risk-taking, consistent with the end-to-end risk measurement and management process.

Value at Risk

At the end of June 2015, total VaR consumption stood at EUR 14.4 million, compared with EUR 13.3 million at the end of 2014, a level lower than the global limit of EUR 40 million.

Sensitivity of portfolios classified as "Available For Sale" to the evolution of credit spreads

The sensitivity in economic value of the bond portfolios to interest rate variations is extremely limited, as the interest rate risk is hedged. Furthermore, a significant proportion of the bond portfolio is classified as "Loans and receivables". The AFS reserve associated with these securities is insensitive to market evolution.

For bond portfolios classified as AFS, the sensitivity of the fair value (and the AFS reserve) to an increase of credit spreads by one basis point was EUR -18 million as at 30 June 2015.

Management of interest rate and exchange rate risk

Interest rate risk is measured via sensitivity. Risk sensitivity measures reflect balance sheet exposure to a 1% parallel movement on 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 overall and partial sensitivities by time bucket are the main risk indicators used by the ALM risk committees to manage risk. Dexia Crédit Local's structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between its assets and liabilities after hedging for interest rate risk.

The sensitivity of long-term ALM was EUR +1.5 million as at 30 June 2015. for the entire Dexia Crédit Local Group, compared with EUR -14.2 million as at 31 December 2014.

This is in line with the ALM strategy, which seeks to minimise P&L volatility.

in millions of EUR	30/06/15
Sensibility	+1.5
Limit	±80

Management of liquidity risk

Liquidity risk management is the direct responsibility of the Management Board.

Liquidity projections at 4 weeks as well as the 12-month funding plan are based on different scenarios.

Furthermore, on a monthly basis Dexia Crédit Local measures and reports to its various regulators, the European Central Bank, the National Bank of Belgium and the French Autorité de Contrôle Prudentiel et de Résolution, on the Liquidity Coverage Ratio (LCR) for the Group and its main banking subsidiaries, from the viewpoint of the entry into force of a minimum requirement on 1 October 2015. This ratio, defined by the Delegated Act of October 2014 and completed by the technical standards dated June 2015, aims to measure the cover for liquidity requirements at 30 days in a stress environment by a volume of liquid assets.

OPERATIONAL RISK AND IT SYSTEMS SECURITY

The company project identifies the management of operational risk as one of the pillars of Dexia Crédit Local's strategy, in the context of its orderly resolution.

The operational risk management mechanism relies on the standard approach provided by the Basle regulatory framework.

A singly incident involving a loss of more than EUR 1,000 was recorded in the first half-year 2015. This was an incident listed in the category "Execution of transactions", involving a loss of EUR 5,200.

In 2015, Dexia Crédit Local is continuing the adaptation of its structure and its operational processes to its orderly resolution mandate. This resolution phase is by nature propitious to the development of operational risks, particularly through elements such as the departure of key people, a possible decline in the motivation of members of staff or changes to processes when operational applications have to be replaced or duplicated.

Moreover, psycho-social risks are monitored carefully by Dexia Crédit Local, accompanied by prevention and assistance actions.

STRESS TESTS

Dexia Crédit Local performs regular stress tests aimed, in the event of adverse shocks, at measuring the bank's sensitivity in terms of expected loss, risk-weighted assets, liquidity and capital requirements.

LITIGATIONS

Like many financial institutions, Dexia and Dexia Crédit Local are subject to a number of regulatory investigations and litigations as defendant or as claimant. The reduction of the Dexia Group's scope and other measures implementing the Orderly Resolution Plan give rise to challenges by Dexia and Dexia Crédit Local's stakeholders and counterparties.

The most significant events and developments in the 2nd quarter of 2015 in the principal investigations and litigations that are relevant and in which Dexia Crédit Local Group entities are named as 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 Dexia Crédit Local Registration Document 2014 (available at *www.dexia-creditlocal.fr*).

On the basis of the information available to Dexia Crédit Local on 30 June 2015, events or developments that occurred during the 2nd quarter of 2015 in pending regulatory investigations and litigations which are mentioned in the Dexia Credit Local Registration Document 2014, but for which no update is provided below, are not expected to have a material impact on the Group's financial situation as of that date, or do not allow Dexia to assess whether they may or may not have such a material impact on the Group's financial situation.

The consequences, as assessed by Dexia Crédit Local based on the information available to it as of 30 June 2015, 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 Dexia Crédit Local'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 payment Dexia Crédit Local would receive pursuant thereto.

Dexia Crediop

On 25 June 2015, the High Court in London handed down a judgment declaring an interest rate swap entered into in 2006 by Dexia Crediop and the Italian local authority of Prato to be null and void. Dexia Crediop has appealed the decision - the matter is however still pending in first instance in order to allow the court to decide on other elements which have not yet been addressed.

Litigations in relation to structured loans

In a dispute between a municipality on one hand and Caisse Française de Financement Local (CAFFIL) and Dexia Crédit Local on the other hand, with respect to a structured loan reported on the balance sheet of CAFFIL, ruled in June 2015, the Superior Court of Nanterre dismissed the request of the borrower for the nullity of the contract, the interest clause and the early repayment clause and confirmed the validity of the loan agreement until its maturity date.

The Court, however, found Dexia Crédit Local and CAFFIL to be liable in view of Dexia Crédit Local's failure to respect its duty of information and warning, which would have translated into a loss of opportunity for the borrower not to enter into the structured loan. The Court held that the compensation for this loss of opportunity should be based on a decrease of the interests to be paid by the borrower to the lender and ordered the compensation with the unpaid amounts due by the borrower.

This decision is being analysed in order to decide, together with CAFFIL, which further actions could be taken.

As to the structured loan litigations pending before German courts, Dexia Kommunalbank Deutschland obtained a favourable decision in first instance in one of the few proceedings pending. The city has filed an appeal against this decision and appeal proceedings are pending.

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 economic and financial heath of the peripheral countries of the euro zone and of their local public sector. 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 of the related public entities and of possible consequences of changes in 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 commencing vital work on the company project, including impact studies of outsourcing certain activities. Those projects are in response to the Group's strategic objectives and are 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. Dexia Crédit Local adopted a prudent management of its liquidity risk, in order to be able to face potential tensions in the financial markets.

RATINGS

RATINGS AS AT 5 AUGUST 2015

	Long term	Outlook	Short term
Dexia Crédit Local			
Fitch	BBB+	Stable	F2
Moody's	Baa3	Stable	P-3
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	-

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET

ASSETS *in millions of EUR*		30/06/14	31/12/14	30/06/15
I.	Cash and central banks	9,105	3,103	8,269
II.	Financial assets at fair value through profit or loss	20,592	24,214	22,032
III.	Hedging derivatives	7,030	8,374	6,802
IV.	Financial assets available for sale	29,307	26,526	23,570
V.	Interbank loans and advances	9,452	8,209	8,132
VI.	Customer loans and advances	128,016	134,886	131,956
VII.	Fair value revaluation of portfolio hedges	1,402	1,910	1,634
VIII.	Financial assets held to maturity	285	255	225
IX.	Current tax assets	12	29	30
X.	Deferred tax assets	39	41	32
XI.	Accruals and other assets	31,213	38,250	36,952
XII.	Non current assets held for sale	12	13	14
XV.	Tangible fixed assets	334	330	326
XVI.	Intangible assets	24	23	23
Total assets		**236,823**	**246,163**	**239,997**

LIABILITIES *in millions of EUR*		30/06/14	31/12/14	30/06/15
I.	Central banks	34,014	33,845	26,312
II.	Financial liabilities at fair value through profit or loss	21,571	25,731	23,871
III.	Hedging derivatives	26,997	33,832	30,250
IV.	Interbank borrowings and deposits	40,032	45,392	48,293
V.	Customer borrowings and deposits	8,770	7,958	8,594
VI.	Debt securities	95,272	89,518	92,755
VII.	Fair value revaluation of portfolio hedges	235	227	192
VIII.	Current tax liabilities	2	2	4
IX.	Deferred tax liabilities	38	63	88
X.	Accruals and other liabilities	6,488	7,150	6,450
XIII.	Provisions	210	257	268
XIV.	Subordinated debt	606	498	501
Total liabilities		**234,235**	**244,473**	**237,578**
XV.	Equity	**2,588**	**1,690**	**2,419**
XVI.	Equity, Group share	2,205	1,329	2,038
XVII.	Capital stock and related reserves(1)	3,277	2,215	2,215
XVIII.	Consolidated reserves(1)	4,450	5,512	5,033
XIX.	Gains and losses directly recognised in equity	(5,238)	(5,920)	(5,299)
XX.	Net result of the period	(284)	(478)	89
XXI.	Minority interests	383	361	381
Total liabilities and equity		**236,823**	**246,163**	**239,997**

(1) Figures as at 30 June 2014 have been restated to disclose the legal reserve in Capital stock and related reserves and no longer in Consolidated reserves.

The notes on pages 25 to 35 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

in millions of EUR		30/06/14	30/06/15
I.	Interest income	5,950	5,542
II.	Interest expense	(5,764)	(5,347)
III.	Commission income	10	9
IV.	Commission expense	(15)	(9)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	(195)	318
VI.	Net gains (losses) on financial assets available for sale	40	21
VII.	Other income	15	15
VIII.	Other expenses	(74)	(39)
IX.	**Net banking income**	**(33)**	**510**
X.	Operating expenses	(169)	(217)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(13)	(10)
XII.	**Gross operating income**	**(215)**	**283**
XIII.	Cost of risk	(42)	(162)
XIV.	**Operating income**	**(257)**	**121**
XVI.	Net gains (losses) on other assets	0	0
XVIII.	**Net result before tax**	**(257)**	**121**
XIX.	Income tax	(20)	(21)
XXI.	**Net income**	**(277)**	**100**
XXII.	Minority interests	7	11
XXIII.	**Net income, group share**	**(284)**	**89**
Earnings per share, Group share *(in EUR)*			
	Basic	(1.27)	0.40
	Diluted	(1.27)	0.40

The notes on pages 25 to 35 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in millions of EUR	30/06/14 Before-tax amount	30/06/14 Tax (expense) benefit	30/06/14 Net-of-tax amount	30/06/15 Before-tax amount	30/06/15 Tax (expense) benefit	30/06/15 Net-of-tax amount
Net income			**(277)**			**100**
Elements reclassified or likely to be subsequently reclassified in net income						
- Cumulative translation adjustments	8		8	83		83
- Revaluation of financial assets available for sale or reclassified as loans and advances	563	5	568	349	(8)	341
- Revaluation of hedging derivatives	(247)	(4)	(251)	206		206
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
- Actuarial gains and losses on defined benefit plans	3		3			
Total unrealised or deferred gains and losses through equity	**327**	**1**	**328**	**638**	**(8)**	**630**
Net result and unrealised or deferred gains and losses through equity			**51**			**730**
of which, Group share			75			710
of which, Minority interests			(24)			20

The notes on pages 25 to 35 are an integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2015 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Capital stock and related reserves				Consolidated Reserves	Gains and losses directly recognised in equity					Net income, Group share	Equity, Group share	Minority interests			Equity
in millions of EUR	Capital stock	Related reserves	Treasury shares	Total		Change in fair value of financial assets available for sale or reclassified as loans and advances, net of taxes	Change in fair value of cash flow hedges, net of taxes	Actuarial gains and losses on defined benefit plans	Translation adjustments	Total			Capital and reserves	Gains and losses directly recognised in equity	Total	
As at 31 December 2013	1,286	1,991	0	3,277	5,354	(4,656)	(930)	(3)	(8)	(5,597)	(904)	2,130	406	2	408	2,538
Movements during the period																
- Appropriation of net income 2013					(904)						904	0				0
- Subtotal of shareholders related movements					**(904)**						**904**	**0**				**0**
- Translation adjustments						9	(5)		7	11		11		1	1	12
- Changes in fair value of financial assets available for sale, 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 advances, through profit or loss						53				53		53		(1)	(1)	52
- Changes in actuarial gains and losses on defined benefit plans								2		2		2				2
- Subtotal of changes in gains and losses directly recognized in equity						**604**	**(254)**	**2**	**7**	**359**		**359**		**(32)**	**(32)**	**327**
- Net income for the period											(284)	(284)	7		7	(277)
As at 30 June 2014	1,286	1,991	0	3,277	4,450	(4,052)	(1,184)	(1)	(1)	(5,238)	(284)	2,205	413	(30)	383	2,588
As at 31 December 2014	224	1,991	0	2,215	5,512	(4,543)	(1,447)	(9)	79	(5,920)	(478)	1,329	399	(38)	361	1,690
Movements during the period																
- Appropriation of net income 2014					(478)						478	0				0
- Subtotal of shareholders related movements					**(478)**						**478**	**0**				**0**
- Translation adjustments						(150)	(39)		75	(114)		(114)		8	8	(106)
- Changes in fair value of financial assets available for sale, through equity						354				354		354		2	2	356
- Changes in fair value of derivatives through equity							247			247		247				247
- Changes in fair value of financial assets available for sale or reclassified as loans and advances, through profit or loss						134				134		134		(1)	(1)	133
- Subtotal of changes in gains and losses directly recognized in equity						**338**	**208**		**75**	**621**		**621**		**9**	**9**	**630**
- Net income for the period			0	0							89	89	11		11	100
As at 30 June 2015	224	1,991	0	2,215	5,033	(4,205)	(1,239)	(9)	154	(5,299)	89	2,038	410	(29)	381	2,419

The notes on pages 25 to 35 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in millions of EUR	30/06/14	30/06/15
Cash flow from operating activities		
Net income after income taxes	(277)	100
Adjustment for:		
- Depreciation, amortization and other impairment	13	10
- Impairment on bonds, equities, loans and other assets	(96)	265
- Net (gains) or losses on investments	(2)	(1)
- Charges for provisions	80	(107)
- Unrealised (gains) or losses	104	(431)
- Deferred taxes	3	24
Changes in operating assets and liabilities	8,567	4,171
Net cash provided (used) by operating activities	**8,392**	**4,031**
Cash flow from investing activities		
Purchase of fixed assets	(5)	(6)
Acquisitions of unconsolidated equity shares	0	(4)
Sales of unconsolidated equity shares	8	5
Net cash provided (used) by investing activities	**3**	**(5)**
Cash flow from financing activities		
Reimbursement of subordinated debts	(31)	
Net cash provided (used) by financing activities	**(31)**	**0**
Net cash provided	**8,364**	**4,026**
Cash and cash equivalents at the beginning of the period	**2,509**	**5,052**
Cash flow from operating activities	8,392	4,031
Cash flow from investing activities	3	(5)
Cash flow from financing activities	(31)	0
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	33	219
Cash and cash equivalents at the end of the period	**10,906**	**9,297**
Additional information		
Income tax paid	(17)	
Dividends received	1	1
Interest received	6,357	5,797
Interest paid	(6,234)	(6,002)

The notes on pages 25 to 35 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 2015

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 5 August 2015.

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 2015.

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 2014 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.

Like as at 31 December 2014, Dexia Crédit Local's condensed consolidated financial statements as at 30 June 2015 were established in accordance with the accounting rules applicable to a going concern. The assumptions detailed hereafter were the basis of the business plan underlying the Dexia Group resolution plan and were already explained in previous accounting closures.

- The business plan is based on the market environment observed at the end of September 2012. The underlying macroeconomic assumptions are revised semi-annually.
  In particular, the end of 2014 review of the plan takes account of the evolution of the interest and foreign exchange rate parameters based on market conditions observed as at 31 December 2014 and reflects Dexia and Dexia Crédit Local's active balance sheet management, particularly the successful execution of the funding programme, resulting in a positive evolution of the net interest margin. The plan revision also incorporates regulatory developments to date, such as the definitive text of CRD IV, the implementation of the IFRS 13 accounting standard, and the impact of using an OIS curve for OTC derivatives valuation. Finally, the revised plan takes into account Dexia and Dexia Crédit Local's decision to increase the use of market data for the valuation of illiquid securities classified as assets available for sale and for the calculation of the Credit Valuation Adjustment (CVA).
  The revised business plan was approved by the Dexia Board of Directors on 20 April 2015. While it contains adjustments to the plan originally validated, the resolution trajectory in the revised plan remains unchanged over the long term.
- The plan assumes maintaining various local banking licences. Dexia Crédit Local ratings are also assumed to remain at current levels.
- It relies, moreover, on a robust funding programme based on Dexia Crédit Local's ability to issue debt guaranteed by Belgium, France and Luxembourg and to raise secured funding.
  In this context, the Group's ability to tap markets at a lower cost and for longer maturities than forecasted in the original plan, had a positive effect on the funding mix in H1 2015. These positive developments enabled Dexia and Dexia Crédit Local to reduce reliance on central bank funding and to repay significant maturities at the end of 2014 and the beginning of 2015.

Some uncertainties remain however over the resolution period, in the implementation of the business plan due to the potential impact of new regulatory and accounting developments. Moreover, Dexia and Dexia Crédit Local's balance sheet still exhibit structural imbalances and the limited resources available since the beginning of their resolution to remedy this situation may not allow compliance with certain regulatory ratios during the resolution process. For instance, the orderly resolution crystallised a funding structure heavily dependent on market and central bank funding, since the Dexia Group no longer has retail franchises and is unable to increase its deposit base. This will be reflected in the future level of the Liquidity Coverage Ratio (LCR).

The business plan remains exposed to the evolution of the macro-economic environment. A 10 basis point decline in interest rates over the entire curve could result in an increase of EUR 1.1 billion in Dexia and Dexia Crédit Local's liquidity requirement over the next two years due to higher cash collateral needs. Similarly, a less optimistic rating environment and/or the widening of credit spreads could also have a negative impact on the income statement and available liquidity reserves and may increase regulatory capital requirements.

Finally, if market demand for government-guaranteed debt decreases, Dexia Crédit Local may need to tap more costly funding sources which could have a negative impact on the profitability assumed in the original business plan. In particular, 2015 and 2016 may be challenging in light of a more volatile foreign exchange environment and very low interest rates.

The most recent update of the business plan reflects surplus liquidity over the life of the plan. However, at the end of 2014 and the beginning of 2015, Dexia and Dexia Crédit Local's liquidity requirement increased dramatically, mainly due to the high levels of cash collateral posting to market counterparties. This growing liquidity requirement was offset by sustained issuance of long-term government-guaranteed debt and secured funding in H1 2015 and the increase of interest rates in Q2 2015 resulted in a lower funding requirement over the period.

The next review of the plan, based on market conditions observed as at 30 June 2015, will incorporate the impact of prudential and accounting developments implemented by Dexia at that date.

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 not quoted in an active market 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;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets;

As mentioned in the note Significant events of H1 2015, in 2015, in order to be in line with market practices, Dexia Crédit Local incorporated a Funding Valuation Adjustment (FVA) in the fair value of non-collateralised derivative instruments. This additional valuation adjustment under IFRS 13 reflects the costs of funding related to non-collateralised derivatives. This change in the estimate of the fair value of non-collateralised derivatives was recognised as an expense in Dexia Crédit Local's financial statements.

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 2015

- IFRIC 21 "Levies". This interpretation clarifies the accounting for levies imposed by public authorities which are within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" (excluding income taxes covered by IAS 12 "Income Taxes", fines and other penalties). It addresses, amongst others, the issue of trigger event for levy recognition and so aims to clarify :
  - the date on which a liability to pay a levy shall be recognised;
  - and whether a levy liability can be accrued progressively over the financial year.

The main taxes impacted by the application of IFRIC 21 at Dexia Crédit Local are the bank tax for systemic risk and the ACPR supervisory tax. These taxes are no longer recognised progressively over the financial year and their total annual amounts are recognised as an expense in the 1st quarter of the financial year. The same treatment is applied regarding the annual contribution to the Single Resolution Fund (SRF) effective as from 2015. Furthermore, in the 1st quarter of 2015, Dexia Crédit Local recognised a provision covering its total voluntary multi-annual contribution to the support funds to local authorities and hospitals in France. The impacts resulting from the application of IFRIC 21 are disclosed in the note Significant events of H1 2015.

IFRIC 21 does not have a material impact on Dexia Crédit Local's annual financial statements. The impact of retrospective application of IFRIC 21 on the financial statements as at 30 June 2014 is not material.

- "Annual Improvements 2011-2013 cycle", which are a collection of minor amendments to some IFRS standards. These amendments have no impact on Dexia Crédit Local.

2.2. IASB texts and IFRIC interpretations endorsed by the European Commission during the current year but not yet applicable as from 1 January 2015

- Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions". 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, due to limited impact of defined benefit plans at group level.
- "Annual Improvements 2010-2012 cycle", which are a collection of amendments to existing IFRS. These amendments are effective as from 1 January 2016. Dexia Crédit Local does not expect these amendments to have a material impact on its financial statements as those amendments are related to minor adjustments of some IFRS standards.

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

None.

CHANGES IN SCOPE OF CONSOLIDATION

As at 30 June 2014

None

As at 30 June 2015

There wasn't any significant variation in the scope of consolidation.

SIGNIFICANT EVENTS OF H1 2015

- The *Net gains and losses on financial instruments at fair value through profit or loss*, at EUR + 318 million, benefit from the favourable evolution of the valuation of collateralised derivatives on the basis of an OIS curve and of the counterparty risk on derivatives (Credit Valuation Adjustment and Debit Valuation Adjustment). These elements are partially offset by the evolution of own credit risk (OCR) and by the impact of the first-time application of a Funding Valuation Adjustment (FVA) of EUR – 140 million. Indeed, in line with the IFRS 13 accounting standard and market practice, the Dexia Crédit Local Group developed a methodology to calculate a Funding Valuation Adjustment (FVA) as from June 2015 intended to take account of the funding costs associated with its uncollateralised derivative positions.

  As these uncollateralized derivatives are not subject to margin calls, the holder of this type of instrument benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives.

  The FVA takes account of the implicit funding rates for this theoretical collateral and integrates the funding cost in the valuation of these derivatives.

- As at 30 June 2015, the Group booked in Operating expenses its first annual contribution, estimated at EUR -21 million, to the Single Resolution Fund, set up by the European Authorities in the framework of the Single Supervisory Mechanism. The Group also booked EUR -14 million in relation with the annual tax for systemic risk. Being due on a yearly basis, those expenses are considered as recurrent. Aside this, the Group took a EUR -28 million provision covering its total voluntary multiannual contribution to the support funds to local authorities and hospitals in France.
  All those levies and contributions were booked in compliance with the IFRIC 21 "Levies" accounting standard, applied by Dexia Crédit Local since 1st January 2015.
- The *Cost of risk* is impacted by the provision of the exposures on Heta Asset Resolution AG (HETA) for an amount of EUR - 176 million following the decree published on 1st March 2015 by the Austrian Financial Market Authority in the framework of the Federal Law on bank stabilisation and resolution. This decree announces the adoption of resolution measures consisting of a temporary moratorium until 31 May 2016 on a substantial portion of the debt (capital and interest) of Heta Asset Resolution AG.

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal programme as required under the resolution plan, Dexia and Dexia Crédit Local are now focused on managing their residual assets in run-off, protecting the interests of the Group's State shareholders and guarantors.

In line with the Group's profile and strategy, Dexia Crédit Local's performance is now shown at a consolidated level on the basis of a single division entitled "Management of activities in run-off", without specific allocation of funding and operating expenses by segment of activity.

This analytical presentation of performance is in line with Dexia Crédit Local's structure no longer consisting of homogenous operating units with their own decision-taking power in terms of resource allocation (funding and operating expenses). Consequently, operating charges must be considered globally and by geographic entity to ensure optimum management.

NOTE III. EXCHANGE RATES

EXCHANGE RATES

		Closing rate			Average rate	
		30/06/14	31/12/14	30/06/15	30/06/14	30/06/15
US dollar	USD	1.3680	1.2126	1.1183	1.3710	1.1101

NOTE IV. 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.

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 summarized as follows:

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

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.

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.

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 deducted from observable data (price or spread) for similar instruments. Fair value measurements that rely significantly on unobservable data or on own assumptions qualify for level 3 disclosure.

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

Dexia Crédit Local has also adjusted its methodology for calculating the Credit Value Adjustment (CVA) and has recognised the 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 collateralized 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 uncollateralized derivatives, where there is a risk on the fair value of the derivative at the 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 and market conventions. The Loss Given Default (LGD) parameters are based on market conventions or on internal statistical data taking into account observed recovery rates.

Additionally, in line with market practice, Dexia Crédit Local developed a methodology to calculate as from June 2015 a Funding Valuation Adjustment (FVA) in order to take into account the funding costs associated to its uncollateralized derivative positions.

As these uncollateralised derivatives are not subject to margin calls, the holder of this type of instrument benefits from savings in funding or bears the cost depending on the direction of their net balance sheet position, and on the market values of these derivatives. The FVA takes account of the implicit funding rates for this theoretical collateral and integrates the funding cost in the valuation of these derivatives.

Dexia Crédit Local will continue to improve its models in the next periods following market practice.

For bonds and loans for which no active market exists, Dexia Crédit Local maximises the use of market data.

Dexia Crédit Local uses a discount cash-flow model, based on a credit spread. The credit spread is estimated from market data which are directly available from external contributors (Bloomberg, Markit,…) or, when there is no data available for a given instrument, from the issuer credit curve which is adjusted to take into account the characteristics of the specific instrument (maturity,…), or, if the issuer curve is not available, from available market data for similar instruments (from the same economic sector, rating, currency,…).

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 October 13th, 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. A reclassification occurred also in 2014.

These assets are valued using Dexia Crédit Local's 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.

The valuation of loans classified in L&R or borrowing liabilities is based on in-house developed valuation models. For this model price, Dexia Crédit Local uses a discount cash-flow model, based on a 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 cash instruments spread.

Dexia Crédit Local will improve its models in the next periods in order to maximise the use of observable market data.

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 items.

FAIR VALUE OF FINANCIAL INSTRUMENTS

	31/12/14			30/06/15		
in millions of EUR	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	3,103	3,103	0	8,269	8,269	0
Interbank loans and advances	8,209	8,084	(125)	8,132	7,868	(264)
Customer loans and advances	134,886	129,739	(5,147)	131,956	126,773	(5,183)
Financial assets held to maturity	255	272	17	225	241	16
Central banks	33,845	33,845	0	26,312	26,312	0
Interbank borrowings and deposits	45,392	45,387	(5)	48,293	48,258	(35)
Customer borrowings and deposits	7,958	7,945	(13)	8,594	8,650	56
Debt securities	89,518	90,469	951	92,755	93,287	532
Subordinated debt	498	494	(4)	501	500	(1)

ANALYSIS OF THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide an analysis of assets and liabilities than 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)

	31/12/14				30/06/15			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and securities held for trading			1,787	1,787			1,642	1,642
Financial assets designated at fair value – bonds and other fixed-income instruments			27	27			6	6
Derivatives held for trading		19,958	2,442	22,400		16,687	3,696	20,383
Hedging derivatives		7,138	1,236	8,374		5,537	1,265	6,802
Financial assets available for sale – bonds	14,016	9,647	2,604	26,267	20,320	587	2,375	23,283
Financial assets available for sale – equities	117		143	260	114	6	168	288
Total	**14,133**	**36,743**	**8,239**	**59,115**	**20,434**	**22,817**	**9,152**	**52,404**

FAIR VALUE MEASUREMENT OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/14				30/06/15			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities designated at fair value		1,417	805	2,222		1,513	515	2,028
Derivatives held for trading		21,652	1,857	23,509		17,862	3,982	21,843
Hedging derivatives		24,166	9,666	33,832		18,936	11,314	30,250
Total		**47,235**	**12,328**	**59,563**		**38,311**	**15,810**	**54,121**

TRANSFER BETWEEN LEVEL 1 AND LEVEL 2

The following tables disclose the amounts of transfers between Level 1 and Level 2 of the fair value hierarchy for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis.

FINANCIAL ASSETS				
	31/12/14		30/06/15	
in millions of EUR	From 1 to 2	From 2 to 1	From 1 to 2	From 2 to 1
Financial assets available for sale – bonds	504	7,107		7,344
Financial assets available for sale – equities		69		
Total financial assets	**504**	**7,176**		**7,344**

Since 30 September 2014, after performing an analysis of the European Central Bank's recommendations following the asset quality review, Dexia Crédit Local has decided to discontinue the use of external and internal data in its valuation methods and to maximise the use of external market data. As such, assets previously valued partially with internal data are now valued using only external market data. As a consequence, there were transfers between levels 1 and 2.

The transfers from level 2 to level 1 in 2015 are explained by the recovery of liquidity on the markets, in particular on Spanish covered bonds.

ANALYSIS OF THE EVOLUTION OF LEVEL 3

	30/06/14									
in millions of EUR	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3[1]	Transfer out of level 3	Other movements [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 our 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.

	30/06/15									
in millions of EUR	Opening balance	Total gains/ losses in P&L	Unrealised or deferred gains/losses	Purchase	Sale	Settlement	Transfer into level 3	Transfer out of level 3	Other movements [1]	Closing
Loans and securities held for trading	1,787				(267)	(21)			143	1,642
Financial assets designated at fair value – bonds and other fixed-income instruments	27	(1)				(20)				6
Derivatives held for trading	2,442	55					1,097	(8)	110	3,696
Hedging derivatives	1,236	(83)					162	(51)	1	1,265
Financial assets available for sale – bonds	2,604	(70)	(29)	28	(58)	(132)	317	(419)	134	2,375
Financial assets available for sale – equities	143	(3)	15	0	(1)				14	168
Total financial assets	**8,239**	**(101)**	**(14)**	**29**	**(327)**	**(173)**	**1,575**	**(478)**	**403**	**9,153**
Financial liabilities designated at fair value	805	(39)				(319)			69	515
Derivatives held for trading	1,857	175					1,884	(3)	69	3,981
Hedging derivatives	9,666	(887)					2,309	(207)	433	11,314
Total financial liabilities	**12,328**	**(751)**				**(319)**	**4,193**	**(210)**	**570**	**15,811**

(1) 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 2014.

Dexia Crédit Local fair value applied to bonds and CDS classified in level 3 is partly based on unobservable parameters. 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 indexes;
- the basis Cash – CDS that allows to deduct bonds spreads from CDS spreads;

Tests have been performed on all bonds and CDS classified in level 3. The main impacts are the following:

- For level 3 bonds in AFS, the sensitivity of the AFS reserve to alternative assumptions is estimated between a positive impact of EUR 29.4 million and a negative impact of EUR -29.4 million for June 2015, while in June 2014, it was estimated between a positive impact of EUR 152 million and a negative impact of EUR – 45 million.
- Negative Basis Trades are considered as one single product, and are therefore tested for the bond and its related CDS together. The main assumption having an impact on their fair value is the unwinding impact. Based on the important number of unwinds performed by Dexia Crédit Local since 2009, and taking into account the stock of remaining NBT transactions in June 2015, the positive impact (unwinds cost of 2014) is EUR 6.1 million whereas the negative impact (unwinds cost of 2011) gives an impact of EUR -24.6 million. For June 2014, the positive impact (unwinds cost of 2009) was EUR 5.8 million whereas the negative impact (unwinds cost of 2011) gave an impact of EUR -32.6 million.

The impact of the credit spreads alternative assumptions on Dexia Crédit Local credit derivatives is estimated at EUR 23.6 million (positive scenario) versus EUR -25 million (negative scenario) before tax, while in June 2014, it was estimated at EUR 2.5 million (positive scenario) versus EUR -2.4 million (negative scenario).

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

No amounts were recognised as deferred Day one Profit (DOP) as at 30 June 2015, nor as at 30 June 2014.

NOTE V. RELATED-PARTY TRANSACTIONS

ANALYSIS BY NATURE

	Parent company (Dexia)		Other related parties[1]	
en millions d'EUR	30/06/14	30/06/15	30/06/14	30/06/15
Borrowings	784	811		5
Interest expense on borrowings	(3)	(2)		
Net commissions			(1)	

(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 registration document 2014 (page 140).

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 2015.

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

NOTE VI. LITIGATIONS

We refer to the Management Report, page 16.

CERTIFICATE FROM 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 and changes in accounting policies following the first application of IFRIC 21 "Taxes" (see page 37).

La Défense, 12 August 2015

Karel De Boeck
Chief Executive Officer

DEXIA CRÉDIT LOCAL STATUTORY AUDITORS' REVIEW REPORT ON FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2015

PERIOD FROM JANUARY 1ST, 2015 TO JUNE 30TH, 2015

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, 2015 to June 30th, 2015,
- 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 IFRIC 21 "Taxes".

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, 10th 2015

The Statutory Auditors
French original signed by

Deloitte & Associes	**Mazars**
Charlotte VANDEPUTTE	Franck BOYER
Pascal COLIN	Claire GUEYDAN-BRUN

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VAT: FR 49 351 804 042

Dexia Crédit Local's Financial Report H1 2015 has been published by the Financial Communication department. This report is also available in French. In case of discrepancy between the English and the French versions, the text of the French version shall prevail.