2016

Financial report
H1 2016

DEXIA
CRÉDIT
LOCAL
DCL

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MANAGEMENT REPORT (1)

FINANCIAL HIGHLIGHTS

CONSOLIDATED STATEMENT OF INCOME – ANC FORMAT		
in millions of EUR	H1 2015	H1 2016
Net banking income	**510**	**67**
Operating expenses and depreciation, amortisation and impairment of tangible fixed assets and intangible assets	-227	-222
Gross operating income	**283**	**-155**
Cost of risk	-162	-6
Net gains or losses on other assets	0	6
Pre-tax income	**121**	**-155**
Income tax	-21	-34
Net income	**100**	**-189**
Minority interests	11	-12
Net income Group share	**89**	**-177**

BALANCE SHEET KEY FIGURES – ANC FORMAT		
in millions of EUR	31/12/15	30/06/16
Total assets	**229,374**	**235,028**
of which		
Cash and central banks	4,835	3,296
Financial assets at fair value through profit or loss	20,175	22,202
Hedging derivatives	6,672	7,710
Financial assets available for sale	22,137	20,447
Customer loans and advances	127,484	127,823
Accruals and other assets	38,339	43,389
Total liabilities	**226,277**	**232,805**
of which		
Central banks	15,932	7,350
Financial liabilities at fair value through profit or loss	22,778	23,705
Hedging derivatives	29,978	39,764
Interbank borrowings and deposits	49,569	46,851
Debt securities	91,532	97,573
Total equity	**3,097**	**2,223**
of which		
Equity, Group share	2,724	1,874

(1) The management report data are unaudited.

INTRODUCTION

In H1 2016, the continuing economic recovery in the euro zone was pushed into the background by the result in favour of the United Kingdom leaving the European Union in the referendum held on 23 June. The announcement of that vote opened a period of uncertainty for the British economy and, to a lesser extent, that of the European Union, and generated severe volatility on the financial markets, marked by a weakening of the pound sterling, a flight to quality and distrust of assets subject to contagion.

This situation pushed central banks to continue with their accommodating monetary policies.

These various elements are reflected in the Dexia Crédit Local's results, in particular in the level of "accounting volatility elements". They also affected Dexia Crédit Local's funding requirement and its balance sheet total.

NOTES REGARDING DEXIA CRÉDIT LOCAL'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2016

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2016 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions in the business plan underlying the resolution of the Dexia Group, listed below.

- The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the entire plan.
  In particular, the updates made on the basis of data available as at 31 December 2015 and validated by the Board of Directors of Dexia SA on 16 August 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and the implementation of the IFRS 9 accounting standard from 2018, based on assumptions known to date.
  The revised business plan led to adjustments being made in relation to the original plan, but they do not raise any issues regarding the trajectory of the Group's resolution over the long term.
- The business plan assumes maintenance of the banking licences of various entities as well as the rating of Dexia Crédit Local.
- It relies on a robust funding capacity, which is dependent on investor appetite for the debt guaranteed by Belgium, France and Luxembourg and Dexia Crédit Local's ability to raise secured funding.
  In this respect, since the approval of the orderly resolution plan in December 2012, Dexia Crédit Local's funding structure has benefited from an increase in market, secured or guaranteed funding, at a lower cost than anticipated in the business plan, for larger volumes and longer maturities. This enabled the Group to reduce its recourse to central bank funding and to exit the exceptional funding mechanisms put in place in 2012. By way of prudent liquidity management, Dexia Crédit Local also established liquidity reserves with the aim in particular to deal with an increase in the amount of cash collateral[1] posted to its derivatives counterparties. Furthermore, Dexia Crédit Local also armed itself against part of the potential effects of the result of the referendum on the United Kingdom remaining in the European Union, by covering its pound sterling requirements over several months.

However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia and Dexia Crédit Local since their entry into resolution do not allow them to ensure compliance with certain regulatory ratios over the whole resolution period, given the evolution of the regulatory framework and of the macroeconomic environment since 2012.
  The business plan is indeed sensitive to the evolution of the macroeconomic environment. In this regard, the uncertainty generated by the result of the referendum on the United Kingdom remaining in the European Union has resulted in extremely severe volatility of market parameters, including exchange rates, interest rates and credit spreads, to which the Group is particularly sensitive. As at 30 June 2016, the extent of the movements observed remains within the proportions already seen in the past. An unfavourable evolution of these parameters over time could however weigh on Dexia and Dexia Crédit Local's liquidity and its solvency through an increase in the amount of cash collateral posted by Dexia and Dexia Crédit Local to derivatives counterparties (as the sensitivity of the liquidity requirement to this parameter is in the order of EUR 1.2 billion for a 10 basis point variation of long-term rates) or

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

an impact on the valuation of assets, financial liabilities and OTC derivatives, the variations of which are booked to the income statement, or are liable to result in a variation of the AFS reserve and the level of Dexia Crédit Local's regulatory capital.

- Finally, if market demand for government-guaranteed debt were to decline, Dexia Crédit Local would need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.
  The latest update to the business plan shows a surplus liquidity position over the entire projection horizon. The determination of this surplus liquidity relies on a projection of the amount of cash collateral and it is therefore sensitive to variations of the latter. In 2016, sustained activity in long-term guaranteed issues and secured funding, under volatile market conditions, enabled Dexia Crédit Local's liquidity reserves to be kept at a level of EUR 14 billion as at 30 June 2016, despite an increase in the net cash collateral posted of EUR 5 billion since 31 December 2015, to EUR 37 billion.

1. SIGNIFICANT EVENTS AND TRANSACTIONS

- A prudent management policy enabled the impacts of a volatile environment over the half year to be anticipated and limited
- Signature of a memorandum of understanding with the Republic of Austria on the Heta Asset Resolution case
- Sharp reduction of the risk associated with sensitive structured loans granted to local authorities and the hospital sector in France

Consequences of the referendum result in favour of the United Kingdom leaving the European Union

The referendum held on 23 June 2016 on whether the United Kingdom should remain in the European Union saw a majority vote in favour of an exit. This result is the source of uncertainty for the United Kingdom and, to a lesser extent, for the European Union, at both a political and an economic level, and aroused an immediate reaction on the financial markets with severe volatility.

Although the implications of the vote will materialise on a long period and will take time to be fully appreciated, two trends seem to be emerging. On the one hand, insofar as the exit of the United Kingdom from the European Union is perceived as harmful to its economic situation, a readjustment vis-à-vis the British economy was observed in the days following the vote, particularly on the exchange markets. On the other hand, the climate of uncertainty gave rise to a distrust of assets considered to be potentially at risk. It is probable that the negotiations on the exit of the United Kingdom from the European Union, which could last for several years, will be accompanied by continuing severe volatility on the financial markets.

To recall, as at 30 June 2016, Dexia Crédit Local's exposure to counterparties in the United Kingdom was EUR 27 billion. These assets, which Dexia Crédit Local is carefully monitoring, are of very good credit quality, and 99% rated "investment grade". This portfolio includes EUR 13 billion on the local public sector and EUR 9 billion on corporate counterparties, notably utilities, *a priori* less sensitive to the consequences of the United Kingdom leaving the European Union, and project finance, principally associated with the public sector. Sovereign exposure is negligible.

These volatile market conditions have consequences at several levels for Dexia Crédit Local:

- Firstly they have an impact on its funding requirement and its funding conditions. Although these fears appear today to be lifted, they are likely to disturb access to the refinancing market in pounds sterling. Adopting a cautious approach, Dexia Crédit Local armed itself against this scenario and took measures enabling it to cover its requirement in that currency over several months. Furthermore, the amount of cash collateral paid by Dexia Crédit Local to its derivatives counterparties is sensitive to the fall of interest rates, particularly in euros. The fall of long rates observed in the weeks following the referendum is reflected as a consequence by an increase in the amount of cash collateral posted by Dexia Crédit Local.
- Variations of market parameters, in particular exchange and interest rates, impact the valuation of assets and liabilities and the valuation of OTC derivatives. Observed value adjustments are booked in the income statement. More severe volatility on the financial markets is therefore reflected through Dexia Crédit Local's income statement. From the start of the half-year, however, Dexia Crédit Local took structural measures to limit its sensitivity to exchange variations on sterling and volatility on the income statement arising therefrom.

- Finally, Dexia Crédit Local's AFS reserve is sensitive to the evolution of credit spreads on assets in the AFS portfolio. As a consequence, a deterioration of market conditions affects the amount of Dexia Crédit Local's regulatory capital.

Despite severe volatility after the announcement of the referendum result, the extent of the variations of market parameters observed as at 30 June 2016 remains within the proportions already observed in the past. These movements nonetheless weigh on the funding requirement and on the level of Dexia Crédit Local's regulatory capital (cf. sections on results, liquidity and solvency).

Update on Dexia Crédit Local's credit environment

As at 30 June 2016, Dexia Crédit Local's credit portfolio remains of good quality overall, with 89% of exposures rated "investment grade". The cost of risk is limited, at 1.7 basis points over a sliding 12 month period.

The half-year was marked by the favourable evolution of cases concerning Heta Asset Resolution AG in Austria and structured loans in France.

On the other hand, Dexia Crédit Local continued to monitor its exposures very carefully, with particular attention paid to certain sectors and counterparties, particularly the Italian banking sector and the Commonwealth of Puerto Rico.

More detailed information is provided in the chapter "Risk management" of this report.

Other significant elements

A. Capital increase of Dexia Crédit Local

On 28 June 2016, Dexia Crédit Local implemented a capital increase of EUR 250 million (including premiums) by the issue of new shares. This was totally subscribed by Dexia SA, the holding company of Dexia Crédit Local.

This capital increase improves Dexia Crédit Local's solvency ratio by approximately 50 basis points.

B. Disposal of the Dexia Tower in La Défense

At the beginning of 2016 the Dexia Crédit Local Group decided to sell the CBX Tower in La Défense in a "sale and lease back" transaction, as the reduction of Dexia Crédit Local's activity had led to its only being partially occupied.

Following a tender process, the divestment process was concluded on 21 July 2016 with the finalisation and signature of a deed of sale of the CBX Tower to its initial promoter, the company Tishman Speyer. Dexia Crédit Local undertook to continue to occupy part of the Tower for a period of at least 9 years.

In application of the IFRS 5 accounting standard, the building was transferred at its accounting value to "Non-current assets held for sale" in the books on 30 June 2016.

The gain on this disposal, in a pre-tax amount in the order of EUR 50 million, will be booked as at 30 September 2016.

C. Evolution of Dexia Crédit Local's governance

Dexia Crédit Local's governance has evolved over H1 2016.

On 17 May 2016, Wouter Devriendt was appointed as a Director and Chief Executive Officer, replacing Karel De Boeck whose mandate expired. On 1 July 2016, Véronique Hugues replaced Pierre Vergnes, having resigned, as Director, Executive Vice-President and Chief Financial Officer.

The Management Board of Dexia Dexia Crédit Local is now composed of Wouter Devriendt, Chief Executive Officer, Véronique Hugues, Claude Piret, Executive Vice-Presidents, Johan Bohets and Benoît Debroise.

2. RESULTS H1 2016

A. Presentation of Dexia Crédit Local's condensed consolidated financial statements as at 30 June 2016

Going concern

The condensed consolidated financial statements of Dexia Crédit Local as at 30 June 2016 were established in accordance with the accounting rules applicable to a going concern (cf. section "Notes regarding the Dexia Crédit Local's condensed consolidated financial statements as at 30 June 2016").

B. Consolidated results for H1 2016

- Net income Group share of EUR -177 million, against an unfavourable market background
- EUR -84 million impact of levies and contributions for the most part booked in Q1, in application of the IFRIC 21 accounting standard
- Gains associated with active balance sheet management

During the first half-year 2016, Dexia Crédit Local booked net income Group share of EUR -177 million.

Over that period, net banking income was EUR 67 million. It included:

- An interest margin of EUR 178 million. Income from asset portfolios was in line with previous half-years. The H1 funding cost was up on previous periods. This evolution is due to a change of the funding mix, marked by an increase of State-guaranteed funding, under less favourable market conditions. Moreover, the non-eligibility of guaranteed debt issued by Dexia Crédit Local for the European Central Bank's asset purchase programmes tends to raise the cost of such funding;
- Net commissions were EUR 2 million;
- Net gains or losses on financial instruments at fair value by result and on financial assets available for sale, at EUR -173 million, were penalised by the unfavourable evolution of market parameters and the widening of credit spreads over the half-year. These trends were amplified by the uncertainty following the vote on 23 June 2016 in favour of the United Kingdom leaving the European Union, generating severe volatility of market parameters and a flight to quality accelerating the fall of rates and leading to a widening of credit spreads for countries in Southern Europe.
- Net gains and losses on financial assets available for sale, at EUR 50 million, were mainly associated with liabilities repurchases during Q2.
- Net income from other activities was EUR 10 million.

Costs amounted to EUR -222 million. This amount included EUR -84 million in levies and contributions, of which the contribution from Dexia Crédit Local and its subsidiaries to the Single Resolution Fund (EUR -63 million) and the annual levy for systemic risk (EUR -11 million). The major proportion of these levies and contributions was booked during Q1, in application of the IFRIC 21 accounting standard. Excluding these levies and contributions, operating costs were under control.

Considering these elements, gross operating income was EUR -155 million.

The cost of risk was limited to EUR -6 million over H1. During that period there was no significant movement with regard to impairments. Net gains and losses on other assets, in an amount of EUR 6 million over the half-year, corresponded to disposals of real estate assets held by the Dexia Crédit Local Group in the United States and in Italy.

Pre-tax income was EUR -155 million.

Over the half-year, tax was EUR -34 million.

Income attributable to minority interests was EUR -12 million leading to net income Group share of EUR -177 million over the half-year.

3. EVOLUTION OF THE BALANCE SHEET, SOLVENCY AND LIQUIDITY SITUATION

A. Balance sheet and solvency

- Balance sheet total of EUR 235.0 billion as at 30 June 2016, up EUR 5.6 billion on the end of 2015
- Fall of interest rates leading to an increase in the amount of cash collateral paid by the Group and the fair value of assets and derivatives, that more than offset disposals and natural portfolio amortisation
- Dexia Crédit Local's Common Equity Tier 1 ratio at 12.2%: 60% deduction of the non-sovereign AFS reserve from regulatory capital and a sharp fall of risk-weighted assets

a. Half-yearly balance sheet evolution

As at 30 June 2016, Dexia Crédit Local's consolidated balance sheet was at EUR 235.0 billion, up by EUR 5.6 billion on 31 December 2015.

The balance sheet total evolved differently in Q1 and Q2.

Q1 saw a sharp increase in the balance sheet total, principally from the effect of the fall of interest rates, despite a reduction of portfolios. In Q2, the sharp reduction of portfolios and reduced recourse to liquidity placed with central banks reversed the trend despite the persistence of low rates.

In fact, over the half-year, Dexia Crédit Local continued to follow its policy of opportunist asset disposals, in particular on its sovereign exposures (Japan, Poland, Hungary). As at 30 June 2016, at a constant exchange rate, the Dexia Crédit Local asset portfolio amounted to EUR 123 billion, down EUR 7.8 billion since the end of December 2015, of which EUR 5.8 billion associated with natural portfolio amortisation and EUR 2 billion linked to asset disposals and early redemptions.

During H1 2016, at a constant exchange rate, the increase of balance sheet assets is mainly linked to:

- an increase of the fair value of assets and derivatives of EUR 10.3 billion;
- an increase of EUR 6.3 billion in the amount of cash collateral paid by Dexia Crédit Local;
- a EUR -7.8 billion reduction of the asset portfolio;
- a fall of EUR -2.4 billion in recourse to liquidity placed with central banks.

On the liabilities side, at a constant exchange rate, the evolution of the balance sheet is reflected by:

- a EUR 12.1 billion increase of the fair value of liabilities and derivatives;
- a reduction of EUR -5.9 billion in the stock of market and European Central Bank funding.

The impact of exchange rate variations on the evolution of the balance sheet amounted to EUR -0.5 billion over the half-year.

b. Solvency ratios

As at 30 June 2016, DexiaCrédit Local's Common Equity Tier 1 capital was at EUR 6,049 million, against EUR 6,425 million as at 31 December 2015. This evolution is principally explained by the loss booked over the period, as well as the deduction from regulatory capital of an additional 20% of the AFS reserve associated with non-sovereigns, in line with the schedule defined by the CRD IV directive, or EUR -1,492 million at the end of June 2016.

Gains and losses recognised directly in equity stood at EUR -5.8 billion against EUR -4.9 billion at the end of December 2015. This evolution is mainly explained by the widening of credit spreads, particularly sensitive to Italian, Portuguese and Polish sovereigns, in an environment of severe volatility. As at 30 June 2016, risk-weighted assets were at EUR 49.6 billion, of which EUR 46.5 billion for credit risk, EUR 2.2 billion for market risk and EUR 1 billion for operational risk. At a credit risk level, the fall induced by the reduction of the asset portfolio, methodological adjustments and rating migrations, particularly on ABS, is partially offset by an increase in the fair value of exposures and an unfavourable exchange effect.

CAPITAL ADEQUACY		
in millions of EUR	31/12/15	30/06/16
Common Equity Tier 1	6,425	6,049
Risk-weighted assets	51,111	49,636
Common Equity Tier 1 ratio	12.6%	12.2%

RISK-WEIGHTED ASSETS		
in millions of EUR	31/12/15	30/06/16
Credit risk	47,863	46,478
Market risk	2,248	2,157
Operational risk	1,000	1,000
Total	**51,111**	**49,636**

These elements led to a Common Equity Tier 1 ratio of 12.2% for Dexia Crédit Local at the end of June 2016. It should be noted that this ratio is strengthened by the capital increase made by Dexia SA on 28 June 2016 (cf. Section entitled "Significant events and transactions").

As previously indicated, with the approval of its supervisor, Dexia Crédit Local applies the exemption allowing it not to take account of the AFS reserve on sovereign securities in calculating solvency ratios[2].

In accordance with the European Central Bank Regulation dated 14 March 2016[3], this national discretion will end on 1 October 2016. As from that date, the AFS reserve on sovereign securities will therefore be deducted from the regulatory capital of Dexia Crédit Local, in line with the schedule implemented by CRD IV. At the end of June 2016, the amount of Dexia Crédit Local's AFS reserve on sovereign securities was EUR -2.1 billion.

B. Evolution of the liquidity situation

- Sustained funding activity over the half-year with more than 90% of the long-term funding programme realised as at 30 June 2016
- Prudent liquidity management in anticipation of the vote on the United Kingdom remaining in the European Union: cover for requirements in pounds sterling over several months

The first half-year 2016 was marked by very severe volatility on the financial markets, particularly in the second quarter by the British vote for the United Kingdom to leave the European Union. Against that background, the net amount of collateral posted by Dexia Crédit Local as a guarantee on its derivatives reached EUR 37.4 billion as at 30 June 2016, against EUR 32.1 billion at the end of 2015.

With prudent management, Dexia Crédit Local armed itself against the potential effects of the referendum result, by covering its funding requirements in pounds sterling over several months. Furthermore, Dexia Crédit Local had realised more than 90% of its annual long-term funding programme before the referendum and maintained a liquidity reserve enabling it to cope with the increase in cash collateral to be paid.

Over the half-year, Dexia Crédit Local successfully launched various long-term public transactions in euros, US dollars and pounds sterling, enabling it to raise EUR 7.5 billion, and executed an additional EUR 3.3 billion in private placements. The average maturity of this funding is 4.3 years. Short-term funding activity in the guaranteed format was also sustained, both in euros and in US dollars. The short-term funding raised by Dexia Crédit Local has a relatively long average maturity, of 7.1 months.

As at 30 June 2016, secured market funding amounted to EUR 63.8 billion, down EUR 3.5 billion compared to the end of 2015. The stock of covered bonds (Pfandbriefe issued by Dexia Kommunalbank Deutschland) amortised by EUR 1 billion over the period. The repo activity remained sustained over the half year, particularly on short-term maturities. For

(2) Article 467 (3) of Regulation (EU) 575/2013 of the European Parliament and Council dated 26 June 2013 concerning the prudential requirements applicable to credit institutions and investment undertakings and amending Regulation (EU) 648/2012.
(3) Regulation (EU) 2016/445 of the European Central Bank dated 14 March 2016 relating to the exercise of options and discretionary powers provided by Union Law (ECB/2016/4).

long-term maturities, the outstanding was slightly down. This trend is explained by the renewal in July of transactions which matured in June and by the reduction of the stock of assets available for this activity.

Finally, Dexia Crédit Local continued to reduce its use of European Central Bank funding by EUR 8.6 billion over the half-year, taking total outstanding to EUR 7.4 billion as at 30 June 2016, of which EUR 6.1 billion in the form of LTRO and EUR 1.3 billion in the form of MRO.

As a consequence, globally outstanding guaranteed debt was up, at EUR 68.2 billion as at 30 June 2016 against EUR 60.9 billion at the end of December 2015, to compensate for the reduction of Central Bank funding and to fund the increase in cash collateral paid by Dexia Crédit Local to its derivative counterparties.

As at 30 June 2016, Dexia Crédit Local's Liquidity Coverage Ratio (LCR) was 68%.

On that same date, Dexia Crédit Local had a liquidity buffer of EUR 14 billion, of which EUR 12.3 billion in the form of assets eligible to European Central Bank refinancing.

CREDIT RISK

Credit risk is expressed as Exposure at Default (EAD), and is one of the parameters used to calculate capital requirements in application of Regulation (EU) No 575/2013.

Exposure at Default (EAD) corresponds to the best estimate of exposure to credit risk in the event of default. It corresponds to the book value of assets, gross of provisions, to the market value of derivatives and regulatory additions and to the nominal amount of off-balance-sheet items, valued using a credit conversion factor (CCF).

This definition differs from the approach retained to calculate capital requirements. The regulatory metric has been adapted in particular to enable the treatment of provisions for the purposes of this report to be standardised.

As at 30 June 2016, Dexia Crédit Local exposure to credit risk was EUR 178.4 billion, compared to EUR 180.9 billion at the end of December 2015. The fall linked to natural portfolio amortization, asset disposals and exchange rate variations (US dollar, yen, pound sterling) is offset by an increase in the fair value of assets, as a result of widening credit spreads.

BREAKDOWN BY GEOGRAPHIC REGION

in millions of EUR	31/12/15	30/06/16
Italy	27,242	27,394
United Kingdom	25,804	26,900
United States	28,635	26,843
France	26,544	25,008
Germany	22,308	22,672
Spain	16,833	15,770
Japan	7,551	8,778
Portugal	4,149	4,055
Canada	2,716	2,863
Central and Eastern Europe	2,895	2,429
Belgium	2,143	2,111
Austria	1,575	1,559
Scandinavian countries	1,471	1,280
Hungary	946	687
Switzerland	520	592
Turkey	496	443
Netherlands	342	286
Greece	149	143
Luxembourg	58	104
Ireland	160	101
Southeast Asia	828	892
South and Central America	552	509
Others	6,994	6,961
Total	**180,912**	**178,379**

Exposure was divided EUR 81 billion in loans and EUR 81 billion in bonds.

Exposures are for the most part concentrated in the European Union (71%) and the United States (15%).

As at 30 June 2016, exposures remained predominantly concentrated in the local public sector and sovereigns (69%), considering Dexia's historic activity. The evolution of exchange rates (US dollar, yen and pound sterling) and the widening of credit spreads explain the increase of exposures to the local public sector (+2%). The sovereign portfolio posted a fall of 9% in view of the fall of deposits with the Federal Reserve (FED) and the Banque de France. Furthermore, exposure to Financial Institutions was EUR 24 billion, principally composed of repos and covered bonds.

BREAKDOWN BY TYPE OF COUNTERPARTY

in millions of EUR	31/12/15	30/06/16
Local public sector	94,412	95,992
Central governments	29,513	26,961
Financial institutions	24,383	24,109
Project finance	14,562	14,305
Corporate	8,406	8,128
ABS/MBS	7,799	7,153
Monolines	1,837	1,733
Individuals, SME and self-employed	0	0
Total	**180,912**	**178,379**

The average quality of the Dexia Crédit Local credit portfolio remains high, with 89% of exposures rated "investment grade" as at 30 June 2016.

BREAKDOWN BY RATING (INTERNAL RATING SYSTEM)

	31/12/15	30/06/16
AAA	16.5%	16.9%
AA	22.1%	20.4%
A	21.7%	23.7%
BBB	27.8%	28.4%
Non investment grade	10.7%	9.3%
D	1.1%	1.1%
Not rated	0.2%	0.2%
Total	**100%**	**100%**

GROUP SECTOR EXPOSURE TO CERTAIN COUNTRIES							
in millions of EUR	Total	o/w local public sector	o/w corporate and project finance	o/w financial institutions	o/w ABS/MBS	o/w sovereign exposures	o/w monolines
Italy	27,394	11,125	958	744	117	14,451	0
United Kingdom	26,900	13,160	9,359	1,989	1,921	65	405
United States	26,843	13,025	1,029	4,556	4,347	2,557	1,328
France	25,008	16,496	4,104	3,365	0	1,043	0
Germany	22,672	18,647	311	3,486	4	224	0
Spain	15,770	7,578	2,232	4,896	471	593	0
Japan	8,778	6,472	0	1,345	0	960	0
Portugal	4,055	1,864	182	18	52	1,939	0
Poland	1,534	3	0	0	0	1,531	0
Hungary	687	24	24	0	0	638	0
Turkey	443	5	3	434	0	0	0
Greece	143	56	82	0	5	0	0
Ireland	101	0	8	34	59	0	0

Particular attention is paid to countries listed in the table above in view of the significant amounts of exposure or a situation representing a potential risk. The principal evolutions and significant facts for these sectors and countries in the first half-year 2016 are noted in the following paragraphs.

Dexia Crédit Local commitments to sovereigns

Dexia Crédit Local commitments to sovereigns are essentially concentrated on Italy and to a lesser degree the United States, Portugal, France, Poland and Japan.

The financial situation of European countries and the United States has improved, driven by a favourable economic situation in the first half-year 2016. This improvement was nonetheless weakened by a tense political context, particularly in Europe, where the start of the year was marked by the refugee crisis and the referendum on the United Kingdom remaining in the European Union (cf. chapter entitled "Significant events and transactions"). It is to be noted that the attempted coup in Turkey exposes the country to political instability and could have negative consequences on economic activity, particularly tourism.

In Japan, the fiscal and monetary measures put in place by Prime Minister Shinzo Abbe are not providing the expected results. Further overspending could occur this year, whilst inflation and economic growth remain extremely weak.

Dexia Crédit Local commitments to the local public sector

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

The financial situation of local authorities remains globally satisfactory, despite the economic and financial situation, which tends to increase social expenditure and limit fiscal returns. At the same time, in Europe, policies to reduce public expenditure, particularly via the fall in the level of transfers from central states, reduce the financial flexibility of local authorities. Confronted by such a situation, the latter have for some years been committed to structural reforms and simplification. Finally, in the most difficult instances, they can benefit from safeguarding mechanisms or support funds enabling them to honour their commitments, as illustrated by the support mechanisms in Spain and Italy.

Principal points for attention

- Catalonia

  The Region of Catalonia (exposure of EUR 2.2 billion) has been struggling with significant debts for several years, against a political background marked by the independence movement gaining ground. In that political context, the Spanish State has reaffirmed its support for Catalonia in the event of financial difficulty, particularly via the support funds put in place in Spain.

- **Puerto Rico**

  The situation of the Commonwealth of Puerto Rico, which is experiencing major financial difficulties, limiting its ability to meet its commitments, has also been a matter to which the Dexia Crédit Local has paid great attention. Several plans to restructure the Commonwealth's debt have been put to creditors, providing relief in the order of 15% to 50%, and are currently under discussion. On 1 July 2016, the Commonwealth had not been able to fulfil close to one half of its debt service obligations, an amount of EUR 911 million on a maturity of EUR 2 billion still unpaid. The Group's exposure to public enterprises associated with the Commonwealth of Puerto Rico amounted to EUR 441[1] million as at 30 June 2016, of which 96% is covered by good quality monolines. The residual amount, guaranteed by monolines of lower quality, was impaired. Moreover, the Group booked a provision to cover the risk of acceleration of payments on some enhanced outstandings, which would result in losses on associated derivatives.

  Total provisions on the public entreprises associated with the Commonwealth of Puerto Rico amounted to EUR 41 million (USD 45.5 million).

- **Chicago Board of Education (CBOE)**

  The CBOE has experienced financial difficulties due to the very high level of debt and the under-funding of pension funds, those difficulties being compounded by the continuing fall of student registrations. On the other hand, the CBOE retains access to the financial markets and in February 2016 realised an issue in an amount of USD 725 million. Independently, the debt service of the CBOE until March 2017 is already sequestered on accounts specifically dedicated to such use. Dexia is exposed to the CBOE in an amount of EUR 472 million at the end of June 2016.

- **Structured loans in France**

  The phase of subscription to aid granted by the support fund for local authorities and the hospital sector which had taken out sensitive structured loans ended in July 2016. All the borrowers which held loans "excluded from the Gissler Charter" on the balance sheet of Dexia Crédit Local have accepted the aid proposed and have signed a settlement agreement with the Group, sent to the State and closing any litigation which has arisen or is liable to arise. These agreements cover all the loans to public clients the payments of which had been degraded.

  At the same time, a large number of loans not covered by the support fund have been desensitised.

  As a consequence, the outstanding on sensitive structured loans on the Dexia Crédit Local balance sheet amounts to EUR 783 million as at 30 June 2016, down 20% on the end of 2015 and 60% on May 2012.

  The number of cases in which Dexia Crédit Local is involved has also fallen sharply, from 147 at the end of 2015 to 70 as at 30 June 2016.

Dexia Crédit Local commitments on project finance and corporates

The portfolio of project finance and corporate loans amounted to EUR 22.4 billion as at 30 June 2016, down 2% on the end of 2015, on the one hand as a result of the weakening of the pound sterling during the first half-year, more particularly after the British vote in favour of an exit from the European Union, which reduces the counter-value in euro of British exposures, representing approximately 42% of the project finance and corporate loans portfolio, and on the other hand in view of natural portfolio amortisation and early redemptions. This portfolio is composed 64% of project finance[2], the balance in corporate finance, such as acquisition funding, commercial transactions or corporate bonds.

As at 30 June 2016, the project finance portfolio amounted to EUR 14.3 billion. It is composed 54% in Public-Private Partnerships (PPP), principally in the United Kingdom and in France, 11% in projects in the energy sector, the majority in the field of renewable energies, and 19% in projects presenting a traffic risk. 71% of the portfolio is in Western Europe, 21% in the United States, Canada and Australia. The portfolio is 69% rated "investment grade".

The situation concerning certain projects is monitored carefully. In particular, the change to the Spanish regulatory framework on renewable energies adopted on 16 June 2014, providing the revision of electricity purchase tariffs, had an unfavourable impact on a part of the portfolio of renewable projects in Spain, principally photovoltaic projects, and in some cases necessitated debt restructuring on that date, while negotiations are still in progress on other projects. Taking this situation into account, the Group booked specific impairments on certain of them, resulting at the same time in a reduction of the sector provision established in 2014 to cover this risk.

(1) EAD amount corresponding to USD 430 million of gross accounting value.
(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 a pledge on assets and contracts or a limitation of dividends.

The corporate loan portfolio was approximately EUR 8.1 billion at the end of June 2016. It consists 66% of companies in the utilities sector (water, environment, distribution and transmission of energy or gas) and 25% of companies in the infrastructure sector (motorway operators, airports, ports and car parks). 87% of the portfolio is situated in Western Europe, 12% in the United States, Canada and Australia. 95% of the portfolio is rated "investment grade".

The Group exposure to the oil sector, under pressure from falling prices, amounted to EUR 276 million. It relates principally to project finance, the resilience of which when oil prices fall is deemed satisfactory, and to a lesser extent with leading corporates. Some individual files have been impaired.

Dexia Crédit Local commitments on ABS

As at 30 June 2016, Dexia Crédit Local ABS portfolio amounted to EUR 7 billion, down EUR 0.5 billion on the end of 2015, due to the redemption of several positions.

This portfolio consists of EUR 4 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), representing an amount of EUR 0.8 billion, of which 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 2016, almost all of the tranches in which Dexia invested being senior level.

Dexia Crédit Local commitments on monolines

Dexia Crédit Local has indirect exposure to monolines through unconditional and irrevocable financial guarantees that insure the timely payment of principal and interest on certain bonds and loans. Actual claims against monoline insurers only become due if actual defaults occur on the underlying assets.

As at 30 June 2016, the Dexia Crédit Local portfolio included EUR 19.6 billion of assets insured by monolines, of which 75% of assets were insured by monolines rated "investment grade" by one or more external rating agencies. All but two insurers (FGIC and Ambac's Segregated Account) continue to pay all claims on time and in-full.

Dexia Crédit Local commitments on financial institutions

Dexia Crédit Local commitments on financial institutions amounted to EUR 24.1 billion as at 30 June 2016, down slightly by EUR 0.3 billion since December 2015.

These commitments are 74% composed of bonds, covered bonds and repos. The balance includes exposures linked to loans to financial institutions and derivatives.

Dexia Crédit Local exposure is concentrated 19% in the United States and 70% in Europe, principally in Spain (20%), Germany (14%), France (14%) and the United Kingdom (8%).

The portfolio's credit quality remained stable overall in the first half-year 2016.

A memorandum of understanding was signed on 18 May 2016 between the Republic of Austria and the creditors of Heta Asset Resolution AG (Heta), the debt of which was partially cancelled within the framework of a bail-in imposed by the Austrian regulator on 10 April 2016. Dexia Kommunalbank Deutschland AG, the German subsidiary of Dexia Crédit Local with a nominal exposure to Heta of EUR 395 million, is a party to the agreement. The memorandum of understanding provides the principle of an exchange of securities issued by Heta and held by the creditors against zero-coupon bonds with a maturity of approximately 13.5 years, issued by the Land of Carinthia via a specific entity, and which will benefit from the explicit guarantee of the Republic of Austria. Finalisation of the offer and the effective implementation of the memorandum of agreement are expected in the second half-year 2016. That implementation is subject to various conditions being met and must also be the object of technical discussions and negotiations between the parties. Under the terms of the memorandum of agreement, Dexia Crédit Local could post a positive impact in its books in the order of EUR 130 to 140 million.

The vulnerability of some actors on the Italian banking sector, confirmed by the outcome of the stress test performed by the EBA, which was published on 29 July 2016, remains a matter for attention. Dexia Crédit Local's exposure to Italian banks amounted to EUR 270 million[3]. It is predominantly on banks of good credit quality. The exposure to banks rated "non-investment grade" was EUR 10 million, mostly

(3) The exposure on the Italian banking sector of EUR 744 million on page 12 includes the exposure on clearing houses, for an amount of EUR 358 million, as well as EUR 116 million on special purpose vehicles.

collateralised. Aside this exposure on the banking sector, Dexia Crédit Local remains largely exposed to the Italian sovereign and thus sensitive to any contagion scenario.

Furthermore, the outcome of the stress test shows a vulnerability of the Irish banking sector. Dexia Crédit Local exposure to Irish banks amounted to EUR 34 million, of which EUR 2.6 million on banks part of the sample.

Impairments on counterparty risk – Asset quality

The first half-year 2016 was marked by an increase of the stock of impaired assets by EUR 12 million, as well as an increase of specific impairments by EUR 16 million. This is explained in particular:

- by the disposal of subordinated securities during the second quarter;
- by the allocation to provisions of a receivable on the oil sector in Brazil;
- by the allocation to additional provisions of receivables associated with the motorway sector in Spain.

At the same time, Dexia Crédit Local continued its restructuring of impaired assets, particularly with regard to the financing of wind and solar farms in Spain and continued with the establishment of a support fund for local public authorities in Spain ("Fondo de Ordenacion") allowing the reversal of impairments booked on several Spanish municipalities.

As a consequence, the coverage ratio amounted to 34.9% as at 30 June 2016.

In addition to specific impairments, Dexia Crédit Local has collective (statistical and sector) provisions, which remained stable over the half-year, at EUR 419 million as at 30 June 2016.

The underlying evolution is due principally to the entry into the calculation base for collective provisions of two heavily contributing files in relation to a Turkish bank and a port operator in the United States, offset by exits from the base following defaults, a fall in the collective provision concerning ABS resulting from an update of the calculation base and the natural amortisation and disposal of assets during the half-year.

MARKET RISK

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

- A comprehensive system for market risk measurement, built on historical or 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 2016, total VaR consumption amounted to EUR 8.7 million, against EUR 13.7 million at the end of 2015, and remained 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 bond portfolios to interest rate fluctuations is extremely limited, as interest rate risk is hedged. Furthermore, a major proportion of the bond portfolio, initially classified as "Available for sale", was reclassified as "loans and receivables". As a consequence, the AFS reserve associated with these securities has been frozen and is insensitive to market evolutions.

For bond portfolios classified as AFS, the sensitivity of the fair value (and of the AFS reserve) to an increase of credit spread by one basis point was EUR -17 million as at 30 June 2016.

ASSET QUALITY		
in millions of EUR	31/12/15	30/06/16
Impaired assets	1,530	1,542
Specific impairments(4)	554	538
Coverage ratio(5)	36.2%	34.9%
Collective provisions	417	419

(4) Impairments on loans and advance to customers and on fixed income instruments classified as available for sale.
(5) Ratio between the specific impairments and the impaired assets.

TRANSFORMATION RISK

Dexia Crédit Local asset and liability management (ALM) policy aims to reduce liquidity risk as far as possible and limit exposure to interest rate and foreign exchange risk.

Management of interest rate and exchange rate risk

Interest rate risk is managed via sensitivity measurement. 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. The Dexia Crédit Local structural interest rate risk is mainly concentrated on European long-term interest rates, and arises from the imbalance between Dexia Crédit Local assets and liabilities after hedging for interest rate risk.

The sensitivity of long-term ALM was EUR +9.5 million as at 30 June 2016 for the entire Dexia Crédit Local Group, compared with EUR +2.2 million as at 31 December 2015. This is in line with the ALM strategy, which seeks to minimise income statement volatility.

in millions of EUR	30/06/16
Sensitivity	+9,5
Limit	±80

Management of liquidity risk

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

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

Furthermore, on a monthly basis, Dexia Crédit Local measures and sends to its various regulators, the European Central Bank and the French Autorité de Contrôle Prudentiel et de Résolution, the Liquidity Coverage Ratio (LCR) at a Group level and for its main banking subsidiaries. This ratio, defined by the Delegated Act of October 2014 completed by the technical standards of June 2015, aims to measure the cover of liquidity requirements at 30 days in a stressed environment by a volume of liquid assets. As at 30 June 2016, Dexia Crédit Local's LCR was 68%.

OPERATIONAL RISK AND IT SYSTEMS SECURITY

The business plan identifies operational risk management as one of the pillars of Dexia Crédit Local strategy, within the context of its orderly resolution.

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

Incidents resulting in a loss greater than EUR 1,000 were registered in the first half-year 2016. Among those incidents, one incident, listed in the category "Transaction execution", resulted in a loss of almost EUR 1 million.

In 2016 Dexia Crédit Local continued to adapt its structure and its operational processes to its orderly resolution mandate. This phase of resolution is by its nature propitious to the development of operational risks, particularly through elements such as the departure of key staff, a possible de-motivation of staff members or the modification of treatment processes when operational applications have to be replaced or duplicated.

Moreover, at Dexia Crédit Local psycho-social risks are monitored carefully, accompanied by preventive and assistance programmes.

STRESS TESTS

Dexia Crédit Local regularly performs stress tests aimed, in an adverse shock situation, at measuring the sensitivity of the Bank in terms of expected losses, risk-weighted assets, liquidity requirements or capital requirements.

Dexia is not on the list of banks retained for the performance of stress tests organised by the EBA in 2016.

LITIGATION

Like many financial institutions, Dexia Crédit Local is involved as defendant or claimant in certain investigations and disputes.

The most significant developments during the first half of 2016 related to pending litigation or investigations in which a Dexia Crédit Local Group entity is named as defendant are summarised below.

The following updated data should be read in conjunction with the corresponding summaries given in the Dexia Crédit Local Registration Document 2015 (available at www.dexia-creditlocal.fr).

On the basis of the information available to Dexia Crédit Local as at 30 June 2016, events or developments that occurred during the first half of 2016 in pending regulatory investigations and disputes which are mentioned in the Dexia Crédit Local Registration Document 2015, but for which no update is provided below, are not expected to have a material impact on the Dexia Crédit Local's financial situation as at that date, or do not allow Dexia Crédit Local to assess whether they may or may not have such a material impact on its financial situation.

Continued decrease of Dexia Crédit Local's litigation relating to structured loans subscribed by French municipalities

The combined effects of the support fund set up by French authorities to assist municipalities to pay their credit obligations in relation to structured loans and several legal decisions supporting the banks' views have contributed to a continued reduction of the number of disputes in which Dexia Crédit Local is involved. As at 30 June 2016, there were legal proceedings with 70 clients, compared to 147 cases as at 31 December 2015 and a peak of 229 on 31 October 2014.

Settlement in certain bid rigging cases

Dexia Crédit Local settled certain outstanding bid rigging matters with claimants, thereby ending litigation cases naming the company that were still ongoing before US federal courts.

RATINGS

RATINGS AS AT 16 AUGUST 2016

	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	-

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CONSOLIDATED BALANCE SHEET

ASSETS *in millions of EUR*		30/06/15	31/12/15	30/06/16
I.	Cash and central banks	8,269	4,835	3,296
II.	Financial assets at fair value through profit or loss	22,032	20,175	22,202
III.	Hedging derivatives	6,802	6,672	7,710
IV.	Financial assets available for sale	23,570	22,137	20,447
V.	Interbank loans and advances	8,132	7,433	7,360
VI.	Customer loans and advances	131,956	127,484	127,823
VII.	Fair value revaluation of portfolio hedges	1,634	1,696	2,175
VIII.	Financial assets held to maturity	225	199	242
IX.	Current tax assets	30	39	29
X.	Deferred tax assets	32	35	35
XI.	Accruals and other assets	36,952	38,339	43,389
XII.	Non current assets held for sale	14	12	276
XV.	Tangible fixed assets	326	292	15
XVI.	Intangible assets	23	26	29
Total assets		**239,997**	**229,374**	**235,028**

LIABILITIES *in millions of EUR*		30/06/15	31/12/15	30/06/16
I.	Central banks	26,312	15,932	7,350
II.	Financial liabilities at fair value through profit or loss	23,871	22,778	23,705
III.	Hedging derivatives	30,250	29,978	39,764
IV.	Interbank borrowings and deposits	48,293	49,569	46,851
V.	Customer borrowings and deposits	8,594	9,399	10,518
VI.	Debt securities	92,755	91,532	97,573
VII.	Fair value revaluation of portfolio hedges	192	170	152
VIII.	Current tax liabilities	4	2	13
IX.	Deferred tax liabilities	88	88	103
X.	Accruals and other liabilities	6,450	6,108	6,065
XIII.	Provisions	268	229	225
XIV.	Subordinated debt	501	492	486
Total liabilities		**237,578**	**226,277**	**232,805**
XV.	**Equity**	**2,419**	**3,097**	**2,223**
XVI.	Equity, Group share	2,038	2,724	1,874
XVII.	Capital stock and related reserves	2,215	2,215	2,465
XVIII.	Consolidated reserves	5,033	5,075	5,403
XIX.	Gains and losses directly recognised in equity	(5,299)	(4,893)	(5,817)
XX.	Net result of the period	89	327	(177)
XXI.	Minority interests	381	373	349
Total liabilities and equity		**239,997**	**229,374**	**235,028**

The notes on pages 25 to 36 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

in millions of EUR		30/06/15	30/06/16
I.	Interest income	5,542	5,081
II.	Interest expense	(5,347)	(4,903)
III.	Commission income	9	10
IV.	Commission expense	(9)	(8)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	318	(173)
VI.	Net gains (losses) on financial assets available for sale	21	50
VII.	Other income	15	24
VIII.	Other expenses	(39)	(14)
IX.	**Net banking income**	**510**	**67**
X.	Operating expenses	(217)	(214)
XI.	Depreciation, amortisation and impairment of tangible fixed assets and intangible assets	(10)	(8)
XII.	**Gross operating income**	**283**	**(155)**
XIII.	Cost of risk	(162)	(6)
XIV.	**Operating income**	**121**	**(161)**
XVI.	Net gains (losses) on other assets	0	6
XVIII.	**Net result before tax**	**121**	**(155)**
XIX.	Income tax	(21)	(34)
XXI.	**Net income**	**100**	**(189)**
XXII.	Minority interests	11	(12)
XXIII.	**Net income, group share**	**89**	**(177)**
	Earnings per share, Group share *(in EUR)*		
	Basic	0.40	(0.79)
	Diluted	0.40	(0.79)

The notes on pages 25 to 36 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	30/06/15			30/06/16		
in millions of EUR	Before-tax amount	Tax (expense) benefit	Net-of-tax amount	Before-tax amount	Tax (expense) benefit	Net-of-tax amount
Net income			**100**			**(189)**
Elements reclassified or likely to be subsequently reclassified in net income						
- Cumulative translation adjustments	83		83	(18)		(18)
- Revaluation of financial assets available for sale or reclassified as loans and advances	349	(8)	341	(614)		(614)
- Revaluation of hedging derivatives	206		206	(299)		(299)
Elements that will never be reclassified or likely to be subsequently reclassified in net income						
Actuarial gains and losses on defined benefit plans				(5)		(5)
Total unrealised or deferred gains and losses through equity	**638**	**(8)**	**630**	**(936)**		**(936)**
Net result and unrealised or deferred gains and losses through equity			**730**			**(1,125)**
of which, Group share			710			(1,101)
of which, Minority interests			20			(24)

The notes on pages 25 to 36 are an integral part of these condensed consolidated financial statements.

– CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2016 –

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in millions of EUR	Capital stock and related reserves: Capital stock	Capital stock and related reserves: Related reserves	Capital stock and related reserves: Treasury shares	Capital stock and related reserves: Total	Consolidated Reserves	Gains and losses directly recognised in equity: Change in fair value of financial assets available for sale or reclassified as loans and advances, net of taxes	Gains and losses directly recognised in equity: Change in fair value of cash flow hedges, net of taxes	Gains and losses directly recognised in equity: Actuarial gains and losses on defined benefit plans	Gains and losses directly recognised in equity: Translation adjustments	Gains and losses directly recognised in equity: Total	Net income, Group share	Equity, Group share	Minority interests: Capital and reserves	Minority interests: Gains and losses directly recognised in equity	Minority interests: Total	Equity
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(1)									75	75		75		8	8	83
- Changes in fair value of financial assets available for sale, through equity(1)						247				247		247		2	2	249
- Changes in fair value of derivatives through equity(1)							223			223		223				223
- Changes in fair value of financial assets available for sale or reclassified as loans and advances, through profit or loss(1)						91				91		91		(1)	(1)	90
- Changes in fair value of derivatives through profit or loss(1)							(15)			(15)		(15)				(15)
- Subtotal of changes in gains and losses directly recognized in equity						**338**	**208**		**75**	**621**		**621**		**9**	**9**	**630**
- Net income for the period											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
AS AT 31 DECEMBER 2015	224	1,991	0	2,215	5,075	(3,835)	(1,224)	(4)	170	(4,893)	327	2,724	390	(17)	373	3,097
Movements during the period																
- Changes in capital(2)	55	195		250								250				250
- Appropriation of net income 2015					327						(327)	0				0
- Subtotal of shareholders related movements	**55**	**195**		**250**	**327**						**(327)**	**250**				**250**
- Translation adjustments									(17)	(17)		(17)		(1)	(1)	(18)
- Changes in fair value of financial assets available for sale, through equity						(729)				(729)		(729)		(11)	(11)	(740)
- Changes in fair value of derivatives through equity							(188)			(188)		(188)		1	1	(187)
- Changes in fair value of financial assets available for sale or reclassified as loans and advances, through profit or loss						125				125		125				125
- Changes in fair value of derivatives through profit or loss							(112)			(112)		(112)				(112)
- Changes in actuarial gains and losses on defined benefit plans								(3)		(3)		(3)		(1)	(1)	(4)
- Subtotal of changes in gains and losses directly recognized in equity						**(604)**	**(300)**	**(3)**	**(17)**	**(924)**		**(924)**		**(12)**	**(12)**	**(936)**
Net income for the period											(177)	(177)	(12)		(12)	(189)
AS AT 30 JUNE 2016	279	2,186	0	2,465	5,403	(4,439)	(1,524)	(7)	153	(5,817)	(177)	1,874	378	(29)	349	2,223

(1) Figures as at 30 June 2015 were restated

(2) the Extraordinary Shareholders' Meeting of 28 June 2016 decided a capital increase in cash by the issuance of 55,555,556 new shares maintaining the preferential susbscription rights of the shareholders.

The notes on pages 25 to 36 are an integral part of these condensed consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

in millions of EUR	30/06/15	30/06/16
Cash flow from operating activities		
Net income after income taxes	100	(189)
Adjustment for:		
- Depreciation, amortization and other impairment	10	8
- Impairment losses (reversal impairment losses) on bonds, equities, loans and other assets	265	(14)
- Net (gains) or losses on investments	(1)	(2)
- Net increases (net decreases) in provisions	(107)	(5)
- Unrealised (gains) or losses	(431)	48
- Deferred taxes	24	16
Changes in operating assets and liabilities	4,171	(1,344)
Net cash provided (used) by operating activities	**4,031**	**(1,482)**
Cash flow from investing activities		
Purchase of fixed assets	(6)	(15)
Sale of fixed assets	0	7
Acquisitions of unconsolidated equity shares	(4)	0
Sales of unconsolidated equity shares	5	14
Net cash provided (used) by investing activities	**(5)**	**6**
Cash flow from financing activities		
Issuance of new shares	0	250
Net cash provided (used) by financing activities	**0**	**250**
Net cash provided	**4,026**	**(1,226)**
Cash and cash equivalents at the beginning of the period	**5,052**	**5,326**
Cash flow from operating activities	4,031	(1,482)
Cash flow from investing activities	(5)	6
Cash flow from financing activities	0	250
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents	219	(48)
Cash and cash equivalents at the end of the period	**9,297**	**4,052**
Additional information		
Income tax paid	0	3
Dividends received	1	2
Interest received	5,797	5,331
Interest paid	(6,002)	(5,209)

The notes on pages 25 to 36 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 2016 AND POST-BALANCE-SHEET EVENTS

ACCOUNTING PRINCIPLES AND RULES GOVERNING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

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

These condensed consolidated financial statements were authorised for issue by the Board of Directors on 16 August 2016.

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 2016 and applicable as from 1 January 2016.

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 2015 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 2015, the condensed consolidated financial statements of Dexia Crédit Local SA as at 30 June 2016 were prepared in accordance with the accounting rules applicable to a going concern. This requires a number of constituent assumptions in the business plan underlying the resolution of the Dexia Group, listed below.

- The business plan was constructed from market data observable at the end of September 2012; the underlying macroeconomic assumptions are reviewed as part of the semi-annual reviews of the entire plan.
  In particular, the updates made on the basis of data available as at 31 December 2015 and validated by the Board of Directors of Dexia SA on 16 August 2016 take into account an updated funding plan based on the most recent market conditions. They also incorporate regulatory developments to date, such as the final version of the CRD IV Directive and the implementation of the IFRS 9 accounting standard from 2018, based on assumptions known to date.
  The revised business plan led to adjustments being made in relation to the original plan, but they do not raise any issues regarding the trajectory of the Group's resolution over the long term.
- The business plan assumes maintenance of the banking licences of various entities as well as the rating of Dexia Crédit Local.
- It relies on a robust funding capacity, which is dependent on investor appetite for the debt guaranteed by Belgium, France and Luxembourg and Dexia Crédit Local's ability to raise secured funding.
  In this respect, since the approval of the Orderly Resolution Plan in December 2012, Dexia Crédit Local's funding structure has benefited from an increase in market, secured or guaranteed funding, at a lower cost than anticipated in the business plan, for larger volumes and longer maturities. This enabled Dexia Crédit Local to reduce its recourse to central bank funding and to exit the exceptional funding mechanisms put in place in 2012. By way of prudent liquidity management, Dexia Crédit Local also established liquidity reserves with the aim in particular to deal with an increase in the amount of cash collateral[1] posted to its derivatives counterparties. Furthermore, Dexia Crédit Local also armed itself against part of the potential effects of the result of the referendum on the United Kingdom remaining in the European Union, by covering its pound sterling requirements over several months.

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

However, over the duration of the Group's resolution, uncertainties remain regarding the implementation of the business plan.

- It is in particular exposed to the evolution of accounting and prudential rules.
- The financial characteristics of Dexia and Dexia Crédit Local since their entry into resolution do not allow them to ensure compliance with certain regulatory ratios over the whole resolution period, given the evolution of the regulatory framework and of the macroeconomic environment since 2012.
  The business plan is indeed sensitive to the evolution of the macroeconomic environment. In this regard, the uncertainty generated by the result of the referendum on the United Kingdom remaining in the European Union has resulted in extremely severe volatility of market parameters, including exchange rates, interest rates and credit spreads, to which the Group is particularly sensitive. As at 30 June 2016, the extent of the movements observed remains within the proportions already seen in the past. An unfavourable evolution of these parameters over time could however weigh on Dexia and Dexia Crédit local's liquidity and solvency through an increase in the amount of cash collateral posted by Dexia and Dexia Crédit Local to their derivatives counterparties (as the sensitivity of the liquidity requirement to this parameter is in the order of EUR 1.2 billion for a 10 basis point variation of long-term rates) or an impact on the valuation of assets, financial liabilities and OTC derivatives, the variations of which are booked to the income statement, or are liable to result in a variation of the AFS reserve and the level of Dexia and Dexia Crédit Local's regulatory capital.
- Finally, if market demand for government-guaranteed debt were to decline, Dexia Crédit Local would need to turn to more costly funding sources which would directly impact the profitability assumed in the original business plan.
  The latest update to the business plan shows a surplus liquidity position over the entire projection horizon. The determination of this surplus liquidity relies on a projection of the amount of cash collateral and it is therefore sensitive to variations of the latter. In 2016, sustained activity in long-term guaranteed issues and secured funding, under volatile market conditions, enabled Dexia Crédit Local's liquidity reserves to be kept at a level of EUR 14 billion as at 30 June 2016, despite an increase in the net cash collateral posted of EUR 5 billion since 31 December 2015, to EUR 37 billion.

In preparing the condensed consolidated financial statements, management is required to make estimates and assumptions that affect the amounts reported. To make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes that 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 characteristics 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 2016, in 2016, in order to be in line with market practices, Dexia Crédit Local adjusted its methodology of valuation of non-collateralised derivative instruments (discounting curve and the Induced effects on the Funding Valuation Adjustment (FVA)). This change in the method of calculation was recognised as an expense in Dexia Crédit Local's financial statements as at 30 June 2016 (see note 4. "Fair Value").

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 2016

- Amendment to IAS 19 “Defined Benefit Plans: Employee Contributions”. This amendment does not have a material impact on Dexia Crédit Local’s financial statements, due to limited impact of defined benefit plans at group’s level.
- Annual Improvements 2010-2012 and 2012-2014 cycles, which are a collection of amendments to existing IFRS. These amendments do not have a material impact on Dexia Crédit Local’s financial statements as those amendments are related to minor adjustments of some IFRS standards.
- Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”. These amendments have no impact on the financial statements of Dexia Crédit Local.
- Amendment to IFRS 11 “Accounting for Acquisitions of Interests in Joint Operations”. This amendment does not impact the financial statements of Dexia Crédit Local.
- Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”. These amendments have no impact on the financial statements of Dexia Crédit Local.
- Amendment to IAS 1 “Disclosure Initiative”. This amendment does not have a material impact on the notes to Dexia Crédit Local’s financial statements.
- Amendment to IAS 27 “Equity Method in Separate Financial Statements”. This amendment is related to separate financial statements and therefore does not impact the consolidated financial statements of 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 2016

None

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

- IFRS 16 “Leases” (issued by IASB in January 2016). This standard, in replacement of the current IAS 17 standard and related interpretations, sets out a comprehensive model for the identification and treatment of lease arrangements. It introduces significant changes to lessee accounting : it eliminates the distinction between operating and finance leases under IAS 17 and provides an accounting model, requiring lessees to recognise all leases on the balance sheet, subject to limited exceptions. In contrast, IFRS 16 does not include significant changes to lessor accounting. IFRS 16 is effective as from 1 January 2019 and the impact on Dexia Crédit Local’s financial statements is currently being assessed.
- Amendment to IAS 7 “Disclosure Initiative” (issued by IASB in January 2016). This amendment is effective as from 1 January 2017 and the impact on the notes to Dexia Crédit Local’s financial statements is currently being assessed.
- Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses” (issued by IASB in January 2016). This amendment is effective as from 1 January 2017 and will not have a material impact on Dexia Crédit Local’s financial statements.
- Clarification to IFRS 15 “Revenue from Contracts with Customers” (issued by IASB in April 2016). This amendment is effective as from 1 January 2018 together with the new standard IFRS 15 which establishes the principles for accounting for revenue arising from contracts with customers. The impact of this standard on Dexia Crédit Local’s financial statements is currently being assessed.
- Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions” (issued by IASB in June 2016). This amendment is effective as from 1 January 2018 and will have no impact on the financial statements of Dexia Crédit Local.

2.4. New standard IFRS 9 “Financial Instruments”

IFRS 9 “Financial Instruments” (issued by IASB in July 2014). This standard brings together three following phases to replace IAS 39 “Financial Instruments: Recognition and Measurement”: classification and measurement, impairment and hedge accounting. Macro hedge accounting is addressed as a separate project by the IASB. Changes introduced by IFRS 9 include:

- on the asset side, an approach for the classification and measurement of financial assets, which is driven by the business model in which an asset is held and its contractual cash flow characteristics; loans and debt securities which are not considered as “basic” as defined by the standard will be measured at fair value through profit or loss, whereas "basic" loans and debt securities will be measured at amortised cost or at fair value through other comprehensive income based on the business model for managing these assets.

- on the liability side, recognition in other comprehensive income of changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss;
- a single impairment model. IFRS 9 replaces the incurred credit loss model for the impairment with a forward-looking model based on expected credit losses.
- a substantially-reformed approach to hedge accounting.

While awaiting the future standard on macro hedging, IFRS 9 permits to keep applying the current hedge accounting requirements (IAS 39) for all hedge relationships or only for macro-hedge relationships.

Disclosed information is also enhanced.

IFRS 9 has not yet been adopted by the European Union as at 30 June 2016. It is mandatorily effective for periods beginning on or after 1 January 2018 and the impact on Dexia Crédit Local's financial statements is currently being assessed.

Being aware that IFRS 9 is a major issue for banking institutions, Dexia Crédit Local launched its IFRS 9 project in the first quarter of 2015. The initial diagnostic and impact assessment studies of the application of the standard have been performed :

- on the first phase of the standard, Dexia Crédit Local reviews the characteristics and the classification and measurement method of all its financial assets;
- on the second phase of the standard, Dexia Crédit Local has initiated work to develop a new impairment model;
- on the third phase, the pros and cons of application of the new approach related to hedge accounting are currently being assessed. At this stage, no decision has been taken on whether or not to maintain the requirements in IAS 39 for Dexia Crédit Local's hedge relationships.

Dexia Crédit Local also reviews new disclosure requirements.

As permitted by IFRS 9, Dexia Crédit Local intends to early apply the treatment related to changes in the fair value attributable to own credit risk on financial liabilities designated as at fair value through profit or loss as soon as the standard is adopted by the European Commission.

During the 1st semester of 2016, Dexia Crédit Local continued the analysis of the financial assets held by the Group regarding IFRS 9 classification criteria and the definition of the new methodology for credit risk allowances. Dexia Crédit Local also launched during the first semester of 2016 some studies for modifications of IT systems and process in order to be able to provide the new internal and external reporting requirements related to IFRS 9 starting from 1st January 2018.

CHANGES IN SCOPE OF CONSOLIDATION

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

SIGNIFICANT EVENTS OF H1 2016

The referendum held on 23 June 2016 on whether the United Kingdom should remain in the European Union saw a majority vote in favour of an exit. This result is the source of uncertainty for the United Kingdom, and aroused an immediate reaction on the financial markets with severe volatility.

The fall of long rates observed in the weeks following the referendum is reflected as a consequence by an increase in the amount of cash collateral posted by Dexia Crédit Local to its derivatives counterparties. Structural measures were taken to limit the sensitivity to exchange variations on sterling and volatility on the income statement arising therefrom.

Variations of market parameters, in particular exchange and interest rates, impact the valuation of derivatives. An amount of accounting volatility of EUR -179 million was recorded in the item *Net gains (losses) on financial instruments at fair value through profit or loss* for the valuation of counterparty risk on derivatives (Credit Value Adjustment and Debit Value Adjustment) and for the Funding Value Adjustment (FVA), which allows to take into account the financing cost associated with non-collateralised derivatives.

In order to be in line with the evolution of market practices, Dexia Crédit Local has modified its approach in the second quarter of 2016 and now uses for the discounting an overnight rate (OIS) curve for all derivatives, irrespective of whether they are collateralized or not. Dexia Crédit Local has also adjusted accordingly the level of funding costs used in determining the FVA in order to reflect the funding of the exposure related to uncollateralized derivatives at rates different from overnight rates. This change explains EUR -46 million of the amount of accounting volatility.

The group has made debt repayments for an amount of EUR 315 million with a gain of EUR 45 million, accounted for EUR 29 million in *Net gains (losses) on financial assets available for sale* and for EUR 15 million in *Net gains (losses) on financial instruments at fair value through profit or loss*.

As at 30 June 2016, the group recorded an amount of EUR - 63 million in *Operating expenses* as the 2016 contribution to the Single

Resolution Fund implemented by the European authorities as part of the Single Supervisory Mechanism and an amount of EUR - 11 million as tax for systemic risk. These charges were recognized under principles of accounting standard IFRIC 21 “Levies”.

POST BALANCE SHEET EVENTS

The Dexia Crédit Local Group decided early 2016 to proceed with the sale of CBX Tower at La Défense.

The divestment process was concluded on 21 July 2016 with the signing of the sale of the CBX tower to its intial promoter, the company Tishman Speyer, under the form of a “sale & lease back” agreement. Dexia Crédit Local undertook to continue to occupy part of the Tower for a period of at least 9 years.

In application of the IFRS 5 accounting standard, the building was transferred at its accounting value to “Non-current assets held for sale” in the books on 30 June 2016.

The gain on disposal of an amount before tax of around EUR 50 million will be booked in the Financial Statements as at 30 September 2016.

NOTE II. SEGMENT REPORTING

Having completed its commercial entity disposal program at the beginning of 2014 as required under the resolution plan, Dexia and Dexia Crédit Local are now focused on managing its 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	
		30/06/15	31/12/15	30/06/16	30/06/15	30/06/16
US dollar	USD	1.1183	1.0901	1.1103	1.1101	1.1132

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.

According to Dexia Crédit Local's policy, transfers between levels of the fair value hierarchy are performed at fair value at the end of the reporting period.

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

Dexia Crédit Local's approach to the valuation of its financial instruments is based as much as possible on observable market data. These valuations are based on independent external market data providers and standard quantitative approaches. The departments Financial Market Risk and Product Control regularly monitor the quality of valuations :

- the valuations of derivatives are compared with those provided by a number of counterparties and analysed quarterly during an ad hoc committee;
- transaction execution levels are used to ensure the quality of the valuation approaches;
- the valuation approaches are regularly reviewed and are subject to validation by the Department of Validation.

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.

The fair value governance involves several committees that deal with valuation issues. The highest one, the Management Board supervises major decisions taken by lower levels committees (Market Risk Committee and Validation Advisory Committee). This governance ensures a strong control framework for valuation issues as well as the independence between the Front Office, Market Risk and Validation teams, with the aim of producing reliable valuation estimates for the risk monitoring of the trading activity as well as for a fair presentation of the financial and solvency situation of the Group. Dexia Crédit Local general principles for the valuation ensure the use of quoted and observable prices when available or valuation models that take into account all factors that market participants would consider. Models are developed by the Front Office Funding and Markets or Financial Market Risk and are validated by the Department of Validation. Depending on their availabilities, data may come from different sources as tradable or indicative quotes. They are produced by Product Control. An inventory of the products is regularly produced, with their main features, their materiality and their model status.

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,…).

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 Valuation Adjustment (CVA) and has recognised the Debit Valuation 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 margin period of risk.
- 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 uncollateralized derivatives are not subject to margin calls, the bank 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.

Historically, when determining the value of its uncollateralized derivatives, Dexia Crédit Local has used a reference interest rate, generally interbank rates (BOR), for the discounting of the projected future cash flows. In order to be in line with the evolution of market practices, Dexia Crédit Local has modified its approach in the second quarter of 2016 and now uses for the discounting an overnight rate (OIS) curve for all derivatives, irrespective of whether they are collateralized or not. Dexia Crédit Local has also adjusted accordingly the level of funding costs used in determining the FVA in order to reflect the funding of the exposure related to uncollateralized derivatives at rates different from overnight rates.

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

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

For the valuation of loans classified in L&R since inception the standard market approach is used based on market data considered as observable (credit spreads estimated by sector and applied to borrower's internal rating).

For the borrowing liabilities not quoted on the market, estimated credit spreads are also applied.

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;

Credit risk part

Credit spreads changes since inception are reflected in the fair value.

FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUING OPERATIONS

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

	31/12/15			30/06/16		
in millions of EUR	Carrying amount	Fair value	Unrecognised fair value adjustment	Carrying amount	Fair value	Unrecognised fair value adjustment
Cash and central banks	4,835	4,835	0	3,296	3,296	0
Interbank loans and advances	7,433	7,588	156	7,360	7,690	330
Customer loans and advances	127,484	118,917	(8,566)	127,823	118,009	(9,814)
Financial assets held to maturity	199	191	(8)	242	253	11
Central banks	15,932	15,932	0	7,350	7,350	0
Interbank borrowings and deposits	49,569	49,591	22	46,851	46,865	14
Customer borrowings and deposits	9,399	9,458	59	10,518	10,568	50
Debt securities	91,532	92,001	469	97,573	98,077	504
Subordinated debt	492	484	(8)	486	481	(5)

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)

	31/12/15				30/06/16			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Loans and securities held for trading			1,375	1,375			1,339	1,339
Derivatives held for trading		15,102	3,698	18,800		15,657	5,207	20,863
Hedging derivatives		5,472	1,200	6,672		6,584	1,126	7,710
Financial assets available for sale – bonds	18,899	614	2,375	21,887	16,517	597	3,079	20,193
Financial assets available for sale – equities	105	7	138	249	105	6	143	255
Total	**19,004**	**21,195**	**8,785**	**48,984**	**16,622**	**22,845**	**10,893**	**50,360**

FAIR VALUE MEASUREMENT OF FINANCIAL LIABILITIES (RECURRENT MEASUREMENT)

	31/12/15				30/06/16			
in millions of EUR	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities designated at fair value		1,491	495	1,986		1,502	560	2,062
Derivatives held for trading		16,323	4,470	20,792		16,500	5,143	21,643
Hedging derivatives		15,602	14,376	29,978		22,447	17,316	39,764
Total		**33,416**	**19,340**	**52,756**		**40,449**	**23,020**	**63,469**

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

	31/12/15		30/06/16	
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		5,733	223	
Total financial assets	**0**	**5,733**	**223**	**0**

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

	30/06/15									
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		(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 exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR 255 million in result and to EUR 144 million recognised in *Unrealised of deferred gains and losses through equity*. On the liabilities side, they amount to EUR 502 million recognised in result and to EUR 69 million recognised in *Unrealised or deferred gains or losses through equity*.

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date.

in millions of EUR	30/06/16 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	1,375	89				(28)			(98)	1,339
Derivatives held for trading	3,698	568					1,073	(17)	(116)	5,207
Hedging derivatives	1,200	(47)	(1)				32	(48)	(9)	1,126
Financial assets available for sale – bonds	2,375	130	(53)	15	(1)	(108)	860	(153)	14	3,079
Financial assets available for sale – equities	138				(13)				18	143
Total financial assets	**8,786**	**740**	**(54)**	**15**	**(14)**	**(135)**	**1,964**	**(218)**	**(190)**	**10,893**
Financial liabilities designated at fair value	495	74							(8)	560
Derivatives held for trading	4,469	870					45	(32)	(208)	5,143
Hedging derivatives	14,376	3,609	551				37	(813)	(442)	17,316
Total financial liabilities	**19,341**	**4,552**	**551**				**82**	**(846)**	**(659)**	**23,020**

(1) Other movements include notably exchange differences for companies in euro and translation differences for companies in foreign currencies. On the assets side, they amount to EUR -178 million in result and to EUR -33 million recognised in *Unrealised of deferred gains and losses through equity.* On the liabilities side, they amount to EUR -651 million recognised in result and to EUR -9 million recognised in *Unrealised or deferred gains or losses through equity.*

The amounts of transfers to level 3 or out of level 3 are the amounts of fair value at the closing date.

Transfers to level 3 or out of level 3 depend on the liquidity and on the observability of market parameters.

SENSITIVITY OF LEVEL 3 VALUATIONS TO ALTERNATIVE ASSUMPTIONS

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 f rom 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 + 23.7 million and a negative impact of EUR -23.7 million for June 2016, while in June 2015, it was estimated between a positive impact of EUR + 29.4 million and a negative impact of EUR -29.4 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 since 2009, and taking into account the stock of remaining NBT transactions in June 2016, the positive impact (unwinds cost of 2014) is EUR + 5.1 million whereas the negative impact (unwinds cost of 2011) gives an impact of EUR -20.4 million. For June 2015, the positive impact (unwinds cost of 2009) was EUR + 6.1 million whereas the negative impact (unwinds cost of 2011) gave an impact of EUR -24.6 million.

The impact of the credit spreads alternative assumptions on Dexia credit derivatives is estimated at EUR 12.2 million (positive scenario) versus EUR -12.6 million (negative scenario) before tax, while in June 2015, it was estimated at EUR 23.6 million (positive scenario) versus EUR -25 million (negative scenario).

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

No amounts were recognised as deferred Day One Profit (DOP).

NOTE V. RELATED-PARTY TRANSACTIONS

ANALYSIS BY NATURE

	Parent company (Dexia)		Other related parties	
in millions of EUR	30/06/15	30/06/16	30/06/15	30/06/16
Borrowings	811	568	5	4
Interest expense on borrowings	(2)			
Net commissions				(1)

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

Group transactions with these shareholders are described in the note 4.4 C of Dexia Crédit Local's annual report 2015 (page 126).

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 2016.

As at 30 June 2016, there wasn't any loan granted to the key management. As at 30 June 2015, their amount was not significant and granted at market conditions.

NOTE VI. LITIGATION

We refer to the part "Risk management" of the Management Report, page 17.

CERTIFICATE FROM THE RESPONSIBLE PERSON

I the undersigned, Wouter Devriendt, 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. Based on their review, nothing has come to the statutory auditors' attention that causes them 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.

La Défense, 17 August 2016

Wouter Devriendt
Chief Executive Officer

DEXIA CRÉDIT LOCAL STATUTORY AUDITORS' REVIEW REPORT ON FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2016

PERIOD FROM JANUARY 1ST, 2016 TO JUNE 30TH, 2016

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, 2016 to June 30th, 2016,
- 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.

1. 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.

2. 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, 18th 2016

The Statutory Auditors
French original signed by

Mazars	Deloitte & Associés
Franck Boyer	Pascal Colin
Claire Gueydan-Brun	Jean-Vincent COUSTEL

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Dexia Crédit Local's Financial Report H1 2016 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.