

HALF-YEAR FINANCIAL REPORT

Six months ended June 30, 2007

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1 HALF-YEAR BUSINESS REPORT

1.1 Business review

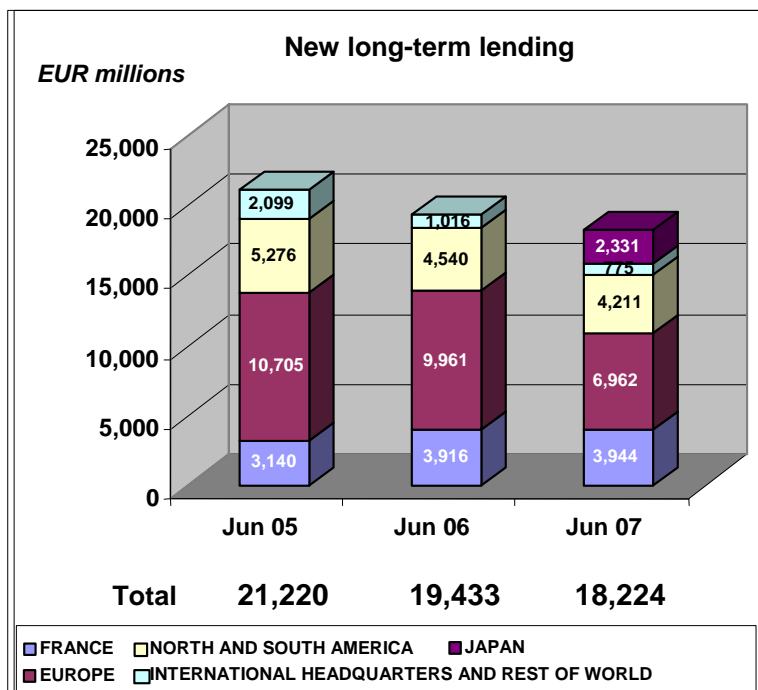
1.1.1 Overview

1. Dexia Credit Local had total outstanding loans (including Germany) of EUR 237 billion at June 30, 2007, up 14% over June 30, 2006 (16% excluding the unfavorable currency effect). All of the Company's locations posted increases. FSA reported net insured capital of USD 576 billion, up 12% over June 30, 2006.
2. Total new lending amounted to EUR 23,111 million during the first half of 2007, down 9% compared with H1 2006 (8% excluding the unfavorable currency effect).
 - New lending to the public sector fell 6% year-on-year to EUR 18,224 million (5% excluding the unfavorable currency effect). This decrease is attributable to lower volumes in Italy, tied in part to Italian local elections and the additional funding constraints introduced by the 2007 Budget Act, and to the acquisition in 2006 of Polish and Hungarian sovereign issues.
 - The start-up of Japanese activities generated EUR 2,331 million in new lending.
 - In the structured finance sector, total originations amounted to EUR 4,888 million in H1 2007, down 18% versus the previous year (EUR 5,938 million) due primarily to the International Headquarters having made fewer investments in bonds in 2007.
 - FSA produced USD 415 million in interest margin and present value premiums in H1 2007, 2% less than during the first half of 2006.
 - Excluding FSA, total funding raised amounted to EUR 14.6 billion (versus EUR 12.9 billion at June 30, 2006).
 - By June 30, 2007, the Company had achieved 44% of its new lending budget for the full twelve months of 2007. As the budget is not linear, this constitutes a good performance and at the end of the first half new lending was 3% over budget.

1.1.2 Local public sector

1.1.2.1 Long-term lending

1.1.2.1.a New loans



Total new lending during the first half of 2007 came to EUR 18,224 million, including EUR 1,621 million in off-balance sheet commitments (primarily in North and South America).

New lending was down 6% versus the first six months of 2006, or 4.5% at constant exchange rate.

Business review by location

France (→): New lending of EUR 3,944 million during the first half of 2007 was in line with last year's results (+1%).

- **New lending to the local authorities sector** amounted to EUR 2,089 million, down 12% in comparison with H1 2006. Nearly all of the decrease came from major accounts.
- **The public health and social services sector** was very active during the first half: total new lending of EUR 874 million was 80% higher than the previous year. The Company won several invitations for bids for the reconstruction of hospitals, notably the University Hospital Centers in Amiens (EUR 150 million) and Lyon (EUR 100 million), and the Hospital Centers in Chalon sur Saône (EUR 80 million) and Lorient (EUR 50 million). Dexia Credit Local has a market share of between 50% and 80% on these types of projects.
- After getting off to a promising start in the first quarter, new lending slowed to the **institutional customers sector**, and at June 30, 2007 (EUR 981 million) was down 7% in comparison with the previous year. While the **local and social welfare sector** continues to post higher performances (EUR 336 million, i.e. a 43% increase over June 30, 2006), new lending to the **public housing sector** (EUR 645 million) was down 21% from the first half of 2006.

The debt restructuring activity remains very active, with EUR 7.3 billion in restructured loans outstanding, a 9% increase over June 30, 2006.

Germany (↗): New lending for the first half of 2007 amounted to EUR 3,038 million, i.e. a 23% increase over H1 2006.

During the first half of 2007, the Frankfurt office made EUR 2,048 million in new loans, 31% more than the EUR 1,569 million reported for the same period in 2006, including notably EUR 1,196 million in structured products.

This improvement was obtained notably through the expansion of Dexia Kommunalbank Deutschland's customer base to include satellites of local authorities, which represent a significant and growing share of the business, and especially with regard to the growth of public housing since early 2007. At the same time, the subsidiary continues to develop its financial engineering business.

The largest transactions during the half included EUR 10 million for the city of Kiel's Stadtwerke agency to finance new infrastructure and three long-term loans totaling EUR 42 million for Pro-Postdam GmbH.

North and South America (excluding Mexico) (↘): Total new lending during the first half of 2007 amounted to USD 5,624 million (EUR 4,211 million), down 7% versus H1 2006 (EUR 4,540 million). In local currency terms, new lending was stable.

New investments in tender option bonds amounted to USD 1,774 million at June 30, 2007, 171% more than in 2006 (the program was launched in 2006). It is worth mentioning the USD 455 million transaction with the State of California.

Moreover, student loans fell 19% to USD 830 million, in advance of several major issues planned by Sallie Mae (United States issuer).

Central and Eastern Europe (↘): New lending of EUR 455 million was 76% lower than during the first half of 2006, which had been greatly impacted by large purchases of Polish and Hungarian sovereign issues.

Noteworthy transactions during H1 2007 included: a EUR 50 million loan to the National Library of the city of Prague; a EUR 42 million loan to renovate and enlarge the regional airport in Sibiu, Romania, with the city of Sibiu and the county of Sibiu; a EUR 29 million loan to the city of Iasi, Romania; and a EUR 19 million loan to the city of Riga, Latvia. It is also worth noting the advances made with loans and structured swaps in the Czech Republic and in Slovakia, and, most notably a major restructuring of existing loans totaling EUR 35 million with ZSSK, the Slovakian passenger railroad company.

United Kingdom (↗): New lending amounted to EUR 713 million (GBP 481 million) during the first half of 2007, a 67% increase over the first half of 2006 (or 64% at constant exchange rate).

This sharp increase is attributable notably to the public housing sector, where new lending increased from GBP 27 million (EUR 40 million) in H1 2006 to GBP 297 million (EUR 439 million) in H1 2007.

The noteworthy transactions in this sector include a GBP 60 million (EUR 89 million) loan extended in January 2007 to L&Q Social Housing and a GBP 100 million (EUR 148 million) loan to PFP Housing Association in March 2007.

In the local authorities sector, total LOBO transactions amounted to GBP 184 million (EUR 272 million) during the first half of 2007. This was 31% less than the previous year (GBP 267 million, or EUR 395 million), due notably to an increase in interest rates which reduced borrowing by local authorities. The noteworthy transactions of H1 2007 include a GBP 25 million (EUR 37 million) loan to Northumberland County Council in June.

In 2006, the debt restructuring business generated GBP 202 million (EUR 299 million) in new lending, solely to local authorities. New lending during the first half of 2007 fell 36% to GBP 87 million (EUR 128 million). On the other hand, diversification into the public housing sector generated an additional GBP 50 million (EUR 74 million) in restructuring.

Israel (🇮🇱): New lending increased 45% to EUR 60 million (NIS 335 million) during the first half of 2007 (42% at constant exchange rate).

This increase is attributable primarily to Dexia's having won Israeli government invitations to bid.

The noteworthy transactions of the first half of 2007 include a EUR 7 million (NIS 39 million) loan to the town of Kafar Shaba (new customer) and a EUR 6 million (NIS 30 million) loan to the town of Lod.

Italy (🇮🇹): Total new lending for the first half of 2007 amounted to EUR 1,008 million, down 68% from the previous year.

The first six months of 2007 were marked by the lowest volumes of local authority financing in Italy seen in two years, due to the holding of Italian local elections and the additional funding constraints introduced by the 2007 Budget Act.

The most noteworthy transactions during the half were:

- the acquisition of a portfolio of loans totaling EUR 262 million with the region of Apulia,
- the awarding of two loans totaling EUR 204 million for the city of Rome,
- a EUR 150 million participation in a securitization transaction for the region of Campania (Posillipo Finance), and a EUR 107 million subscription in international issues by the region of Umbria.

Moreover, at June 30, 2007, new lending in relation to the debt restructuring and swaps activities totaled EUR 907 million.

Japan: In H1 2007, total new lending amounted to EUR 2,331 million (JPY 375 billion).

The Japanese market is highly seasonal, as local authorities fund themselves primarily in March, April and May. That being said, the slowdown in new lending at the end of the half also reflected an intensification of competition.

The two largest transactions were a EUR 125 million (JPY 20 billion) loan to Hyogo Prefecture and a EUR 125 million (JPY 20 billion) 40-year bond issue for the Development Bank of Japan.

Mexico (🇲🇽): New lending amounted to EUR 178 million (MXN 2,600 million) in H1 2007, down 38% from the EUR 285 million recorded in 2006.

The most noteworthy transactions during the half included a participation in the financing of the restructuring of the debts of the states of Michoacán, for a final share of EUR 67 million (MXN 972 million), and Durango, for EUR 41 million (MXN 603 million). Lastly, Dexia Credito Local Mexico subscribed to a total of EUR 48 million (MXN 700 million) in bonds issued by the state of Chiapas.

Iberian Peninsula (↘): Total new lending for the first half of 2007 fell 22% to EUR 889 million.

- This decline is explained in part by the impact of an extraordinary EUR 150 million transaction in 2006 to finance EGREP, a Portuguese state agency.
- Moreover, and in spite of the particularly difficult market conditions (including the holding of local, provincial and regional elections and a “drought” in the bond market), it is worth noting a EUR 85 million loan to Consorci Urbanístico de Cerdanyola del Valles, a EUR 85 million transaction with IVIMA (Empresa Municipal de la Vivienda de Madrid), and the EUR 175 million participation in the bond issue for Institut Català de Finances (an agency of the Catalonia region).

International Headquarters Dexia Credit Local (↘): New lending fell 22% during the first half of 2007 to EUR 536 million. This decrease comes from the fact that the Japan branch is now directly responsible for investments in Japanese bonds, whereas in 2006 the International Headquarters was.

It is worth noting three transactions totaling EUR 422 million with South Korea during the first half of 2007.

Sweden (↘): New lending during the first half fell 27% to EUR 398 million (SEK 3,677 million) in 2007.

This decrease is attributable to heavy competition in the Swedish and Finnish markets and to the excellent financial position enjoyed by Swedish and Finnish townships, which restricted their use of borrowings.

The noteworthy transactions during the first half included a EUR 43 million (SEK 400 million) bond issue and a EUR 36 million (SEK 330 million) line of credit with the city of Gothenburg, a EUR 30 million (SEK 278 million) loan to Reykjavik Energy in Iceland, and a EUR 22 million (SEK 200 million) loan to the municipality of Södertälje.

Switzerland (↗): Total new lending amounted to EUR 461 million during the first half of 2007, a 46% increase over H1 2006.

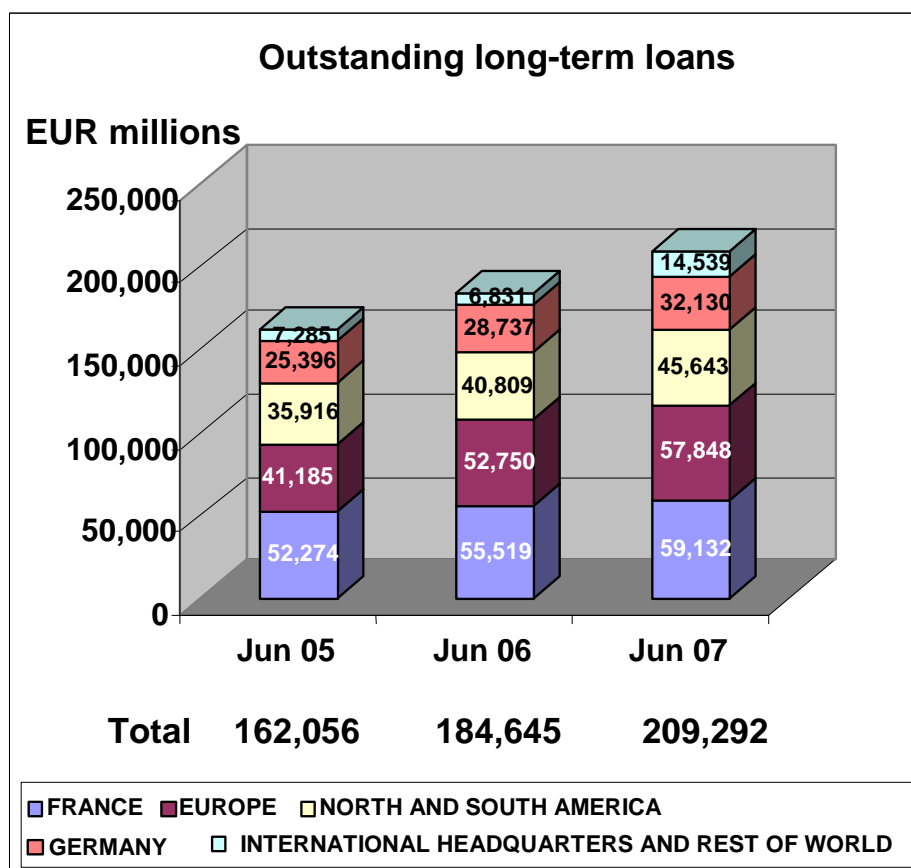
This increase is attributable to the recruitment of new customers and the penetration of the Romansch- and German-speaking markets, following the creation of Dexia Public Finance Switzerland at the end of 2006.

The noteworthy transactions during the first half included five loans totaling EUR 153 million to Banque Cantonale d'Argovie and two loans totaling EUR 138 million to the canton of Geneva.

Austria (49%-held subsidiary accounted for by the equity method) (↘): Total new lending for the first half fell 35% to EUR 4,130 million in 2007.

In Austria, Kommunalkredit Austria generated EUR 572 million in new loans, including EUR 22 million with the real estate company of the Austrian state of Steiermark that is guaranteed by that state. In Central and Eastern Europe, new lending amounted to EUR 527 million (versus EUR 1,403 million in 2006), consisting essentially of purchases of bonds and sales of credit default swap protection on sovereign issues for Latvia, Estonia, Lithuania, Romania, Bulgaria, Russia and Kazakhstan, and for banks such as Eximbank, a Hungarian bank with which a EUR 50 million transaction was carried out jointly with Dexia, Dexia Kommunalkredit Bank and Kommunalkredit Austria. Lastly, in the rest of the world, total new lending for the half came to EUR 2,952 million, compared with EUR 2,181 million during the first half of 2006. Of the total, almost EUR 500 million corresponded to Kommunalkredit Austria's constitution of a portfolio of collateralized debt obligations.

1.1.2.1.b Outstanding long-term loans



Outstanding long-term “public sector” loans amounted to EUR 209 billion at June 30, 2007, a 13% increase over the previous year (15% at constant exchange rate).

The increase in outstanding loans was particularly strong for the International Headquarters (56%) and in North and South America (18%, at constant exchange rate), Germany (12%), Switzerland (35%) and France (7%).

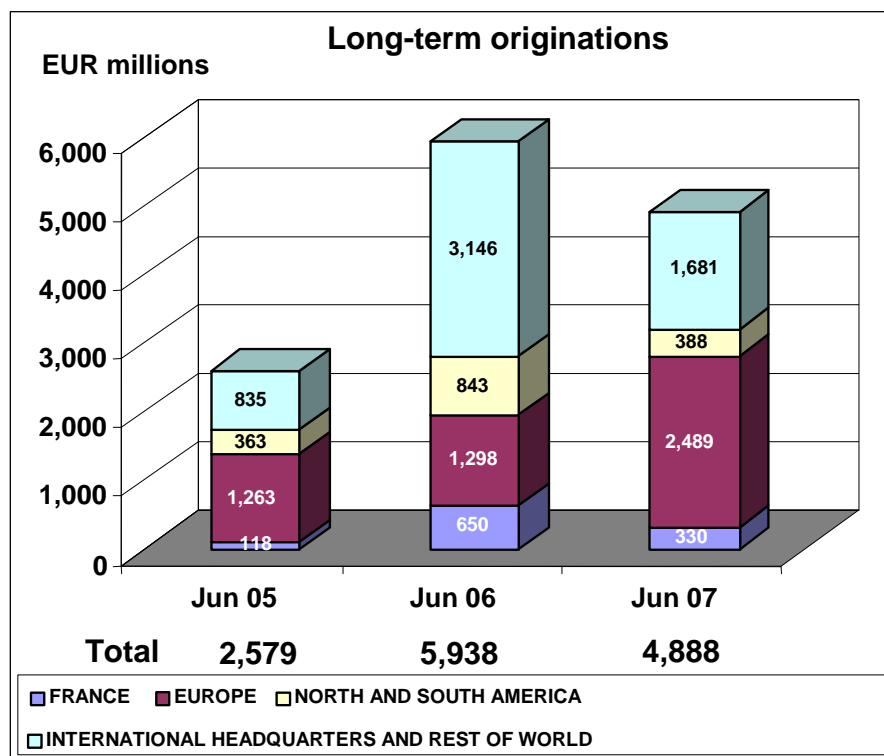
Total loans related to the debt restructuring activity amounted to EUR 9 billion at June 30, 2007, and were spread among France (82%), Italy (10%), Germany (6%) and the United Kingdom (2%).

1.1.2.2 Short-term lending

Outstanding short-term loans amounted to EUR 10.8 billion at June 30, 2007, up 13% over the previous year. Excluding France, most outstanding short-term loans are booked in Germany.

1.1.3 Structured finance

1.1.3.1 Originations



Total originations in the structured finance sector fell 18% to EUR 4,888 million in the first half of 2007.

This decrease is attributable primarily to the unusually high investments made in bonds in 2006.

Business review by location:

France (↘): Total originations amounted to EUR 330 million during the first half of 2007, 49% less than the EUR 650 million reported the previous year. H1 2006 had been marked by the signature of several large loans in relation to the privatization of French toll roads.

The public-private partnership (PPP) business remains strong, with Dexia acting as agent and sole arranger of the two following transactions:

- INSEP (EUR 53 million),
- Éclairage Public de Rouen (EUR 29 million).

In the **telecom** sector, Dexia Credit Local acted as underwriter for EUR 100 million of the financing of the acquisition of TDF.

In the **energy** sector, Dexia Credit Local continued to expand its financing of wind farms, notably acting as arranger and agent for Babcock and Brown for the financing of wind farms in the region of Fruges (underwriting of EUR 48 million, half of which is expected to be lodged in collateralized loan obligations). The company also participated in the financing of the Picardy Wind and Voie Sacrée wind parks, for a total of EUR 32 million.

Dexia Credit Local took a EUR 19 million share in the financing of Sèche Environnement's acquisition of Saur, and a EUR 18 million share in the financing of the acquisition of Kéolis.

The Company also acquired a total of EUR 50 million in Cofiroute bonds.

Germany: Dexia Kommunalkredit Deutschland started up its activity at the beginning of 2007. The first transactions signed represented a total of EUR 361 million at June 30, 2007.

The German market is marked by the many energy-related projects under discussion.

Dexia Kommunalkredit Deutschland participated in several loans to public service companies, including EUR 100 million for MVV Energie, a large company held by the city of Mannheim; EUR 57 million for EnBW, the fourth largest public service company in Germany; EUR 34 million for Stadtwerke Düsseldorf (one of the largest German municipal services companies, whose majority shareholder is EnBW); and EUR 18 million for NGS Schwerin, a local electricity and gas distributor that is 40%-held by E.ON.

It is also worth noting the EUR 28 million share taken in the financing of a coal-fired power plant in Duisburg, two participations totaling EUR 76 million in loans to the municipal companies in charge of managing public housing, and a EUR 27 million sale and leaseback for the city of Hamburg (Alstria Office AG).

North and South America (↘): Total originations during the first half of 2007 amounted to USD 518 million (EUR 388 million), down 54% compared with the USD 1,045 million (EUR 843 million) reported in 2006 (51% at constant exchange rate).

In the **infrastructure** sector, the Montreal branch most notably participated:

- as underwriter for USD 170 million of the financing arranged for the acquisition of the ports of New York and Vancouver by a pension fund (final share: USD 100 million),
- as arranger of USD 59 million of the PPP financing (enhanced by FGIC) of the Calgary Ring Road project.

The New York branch underwrote USD 130 million (final share: USD 56 million) of the financing of AIG Highstar's acquisition of P&O Ports North America.

There was a great deal of activity in the **wind power** sector. Dexia Credit Local New York Branch participated in four transactions (three of which as underwriter and arranger or co-arranger) for Noble Environmental Power, FPL Energy, Citigroup, and Invernergy Wind Finance North America, underwriting a total of USD 438 million (final share: USD 189 million).

Australia (↗): Total originations increased 42% year-on-year during the first half of 2007 to AUD 319 million (EUR 194 million), from AUD 227 million (EUR 137 million) in 2006.

In the infrastructure sector Dexia Credit Local Asia Pacific participated most notably in:

- the financing of the separation of the port and rail activities of Toll Holdings Ltd, the largest integrated logistics company in Australia (AUD 170 million),
- the refinancing of the construction of ConnectEast's EastLink toll road to Melbourne (AUD 50 million),
- the PPP financing of housing units for the Australian armed forces (AUD 59 million).

Dexia Credit Local Asia Pacific also took a USD 21 million share in the financing of the acquisition of Petrokazakhstan.

Central and Eastern Europe (↘): Total originations were down 33% to EUR 150 million at June 30, 2007, from EUR 223 million in 2006.

The noteworthy transactions for the half were the EUR 64 million share taken in the financing of the geothermal power plant in Belchatow, Poland (the International Headquarters also took a EUR 26 million share); the EUR 37 million share in the financing of the Maritza I power plant in Bulgaria under a co-financing with the EBRD; and the EUR 15 million share in the financing of the water company of the city of Varna, Bulgaria.

United Kingdom (↗): Total originations amounted to GBP 477 million (EUR 706 million) in H1 2007, compared with GBP 316 million (EUR 458 million) the previous year, an increase of 54% (51% at constant exchange rate).

In the private finance initiative (PFI) sector, the London branch acted as sole arranger:

- on the GBP 189 million refinancing of UPP Lancaster, a vehicle held by Alma Mater (a fund in which the London branch participates) that is responsible for housing construction and renovation for Lancaster University,
- on the GBP 68 million financing of public housing for the Manchester City Council.

The London branch also co-arranged:

- the GBP 85 million refinancing for the Edinburgh hospital,
- the GBP 29 million financing of UPP Loughborough, a vehicle that is 50% held by Barclays European Infrastructure Fund (a fund in which the branch participates) responsible for housing construction for Loughborough University.

The London branch also participated in several loans, including GBP 26 million for FCC's acquisition of WRG (alongside Dexia Credit Local and Dexia Sabadell Banco Local), GBP 33 million for the acquisition of Cory Environmental Holdings, and GBP 35 million for Macquarie's acquisition of National Car Parks.

Italy (↗): Total originations doubled during the first half to EUR 749 million, from EUR 375 million in 2006.

During the first half, Dexia Crediop underwrote EUR 650 million of the financing of ENEL's acquisition of Endesa. Dexia Crediop's final share will amount to EUR 250 million, while Dexia Credit Local and Dexia Banque Belgique will also take a final share totaling EUR 250 million.

In the **infrastructure** sector, Dexia Crediop was named lead arranger of the following transactions:

- PPP financing of the hospital in Legnano for a total of EUR 27 million (underwriting of EUR 84 million). This is the first time Dexia Crediop has participated in the financing of a hospital.
- financing of Strada dei Parchi, which has the toll road concession in the Abruzzi region (EUR 100 million).

In the **energy** sector, Dexia Crediop most notably acted as sole lead arranger of the financing of four solar power plants for Solar Ventures (total of EUR 16 million), and as mandated lead arranger of the financing of a wind farm (final share: EUR 18 million) in the Apulia region. Dexia Crediop also took a EUR 32.5 million share in the financing of the acquisition of SGI (operator of a gas pipeline on the east coast of Italy).

Dexia Crediop continued to develop its local utilities business, most notably with the EUR 150 million financing (EUR 100 million of which in bonds) for Hera, near Bologna. It is also worth noting that the company participated for a total of EUR 140 million in financings arranged for municipally-held companies.

Dexia Crediop also signed several **consultancy agreements**:

- with ENEL, for its participation in an invitation to bid for the construction of a 450 MW power plant (Sardinia),
- with Astaldi, in connection with the invitation to bid for a hospital in Sassari (Sardinia)
- with IBA, Mantovani and Astaldi, for a invitation to bid for a proton therapy center.

Japan: Total originations amounted to EUR 33 million during the first six months. In cooperation with the teams in Paris, Dexia's Japan branch signed its first transaction, taking a EUR 33 million share in the financing of the acquisition of Softbank (third largest mobile telephone operator in Japan).

Mexico (→): No transactions were signed during the first six months of either 2007 or 2006.

Iberian Peninsula (↗): Total originations rose 72% to EUR 414 million at June 30, 2007, from EUR 241 million the previous year.

During the first half, the market was impacted by a slowdown in PPP projects due to the municipal elections held in May. Dexia Sabadell Banco Local was, however, able to take a EUR 80 million share in the refinancing of Aguas del Huesna (water company in the province of Sevilla).

In the **renewable energies** sector, Dexia Sabadell Banco Local arranged two solar power transactions (Fotowatio and Andasol 2) for a total of EUR 52 million, and participated in two wind power transactions for a total of EUR 78 million.

In the **acquisition finance** sector, Dexia Sabadell Banco Local took EUR 25 million shares (as did the International Headquarters) in each of two major financings: ACS's acquisition of 10% of Iberdrola, and Acciona's acquisition of 20% of Endesa. It also took a EUR 38 million share in the financing of FCC's acquisition of WRG (a UK waste management company), alongside Dexia UK and DCL Paris.

In the **infrastructure** sector, which accounts for the largest projects in Spain, Dexia Sabadell Banco Local took a EUR 20 million share in the financing of the M45, and a EUR 15 million share in the financing of the Ibiza-San Antonio highway. In June, Dexia Sabadell Banco Local also received an important mandate to advise the Dragados group on an invitation to bid for the awarding of a highway renovation concession.

International Headquarters DCL (↘): Total originations fell 51% to EUR 1,487 million during the first half (EUR 3,010 million in 2006) due to a EUR 1,654 million decrease in purchases of bond issues.

In the **infrastructure** sector, Dexia Credit Local and Dexia Banque Belgique arranged the financing and underwrote 25% of the refinancing for the Brussels airport, representing a total underwriting of EUR 197 million for Dexia Credit Local (final share: EUR 82 million).

It is also worth noting purchases of bonds totaling EUR 186 million in the water sector (Anglian Water and Yorkshire Water), EUR 165 million in the UK PFI hospital sector, and EUR 152 million in the transportation sector.

In the **energy** sector, Dexia Credit Local participated in several **wind power** transactions:

- arranger of the refinancing of Babcock and Brown's worldwide wind power portfolio, with an underwriting of EUR 257 million (final share: EUR 110 million).
- co-arranger, with Dexia Banque Belgique, for the financing of C-Power's offshore wind farms in Belgium, with an underwriting of EUR 142 million.

The International Headquarters also participated in the financing of three electric power plants and desalination stations for a total of USD 185 million (Taweelah project in the United Arab Emirates, Shuqaiq and Marafiq in Saudi Arabia), and acquired EUR 148 million in bonds issued by National Grid Gas Holding.

In the **telecom** sector, Dexia Credit Local was particularly active in the Turkish market:

- lead arranger of the USD 63 million refinancing of AVEA (Turkish mobile phone operator);
- USD 215 million share in the financing of Ojer Telekomunikasyon's acquisition of Turk Telecom, of which USD 110 million is on the books of Denizbank;
- USD 25 million share in the financing of Turkcell's strategic investments.

Dexia Credit Local also took a EUR 30 million share in the financing of the acquisitions of the Ceske Radiokomunikace television broadcasting company and the T-Mobile Czech Republic mobile telephone operator (the transaction was funded through Dexia Kommunalkredit Bank) and a EUR 40 million share in the financing of Telekom Serbia's acquisition of Telekom Srpske (the second largest telephone operator in Bosnia Herzegovina).

Sweden (→): No transactions were signed during the first six months of either 2007 or 2006.

Switzerland: Total originations amounted to CHF 125 million (EUR 77 million) at June 30, 2007.

Dexia Credit Local acted as sole arranger of the financing of Geneva’s international airport (CHF 125 million).

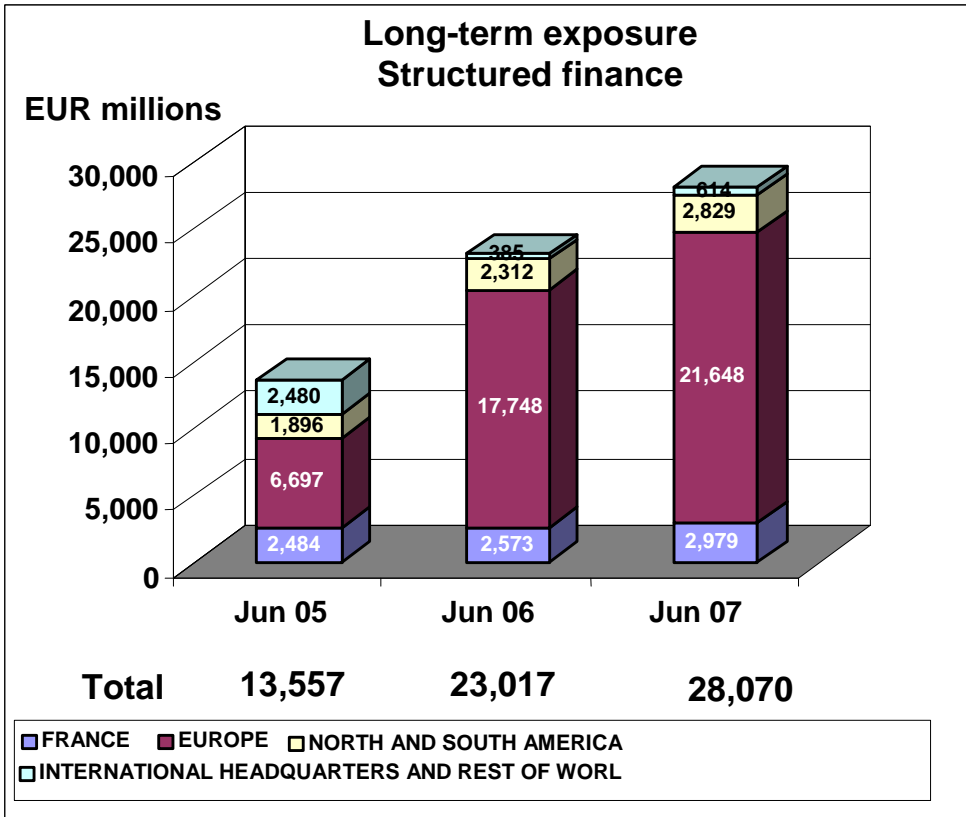
Austria: Kommunalkredit Austria generated total originations of EUR 618 million (Dexia Credit Local share: EUR 303 million) during the first half of 2007. No transactions were signed during the first six months of 2006.

The largest transactions were a EUR 180 million share in the financing of Nordautobahn, a PPP highway project in Austria (arranged by Deutsche Bank), and the EUR 50 million financing of the holding company of the Austrian state of Burgenland.

In Switzerland, the most noteworthy transaction was the financing of the Grande Dixence dam (EUR 78 million).

In the rest of the world, it is worth noting the EUR 73 million financing of Glasgow Healthcare Facilities, under a PFI syndicated by Dexia Credit Local London and the EUR 30 million share in a syndicated loan to Gazprom.

1.1.3.2 Long-term exposure



Long-term exposure on the structured finance sector amounted to EUR 28 billion at June 30, 2007, a 22% increase over the previous year.

1.1.4 Insurance (Dexia Sofaxis)

Dexia Sofaxis collected EUR 357 million in premium during the first half of 2007, fairly close to the EUR 361 million reported the previous year.

Total commissions fell 5.5% to EUR 23 million.

1.1.5 Deposits & asset management

Assets under management in connection with the first line of business (public and project finance) amounted to EUR 11.2 billion at June 30, 2007, up 33% over June 30, 2006.

- In France, assets under management grew 23% year-on-year to EUR 7.2 billion at June 30, 2007, including EUR 3.8 billion in mutual funds.
- In Italy, assets under management doubled to EUR 1.8 billion at June 30, 2007.
- In Central and Eastern Europe, total deposits amounted to EUR 1 billion at June 30, 2007, up 42% over June 30, 2006.
- In Israel, total deposits amounted to EUR 0.5 billion, comparable to their level at June 30, 2006.

1.1.6 Funding¹ and Financial Markets

1.1.6.1 Funding

<i>Senior debt</i>	New issues in H1 2006 (in EUR million)	New issues in H1 2007 (in EUR million)
France		
Dexia Municipal Agency	5,693	8,942
Dexia Credit Local	1,619	2,133
Italy		
Dexia Crediop	881	1,866
Germany		
Dexia Kommunalbank Deutschland	4,748	1,662
Subtotal - Europe	12,941	14,603
USA		
FSA -Financial products (GICs)	1,737	2,061
Total	14,678	16,664

⁽¹⁾ Funding figures include public and private placements and the retail and subsidized (EIB and CEB) markets, and exclude intercompany loans.

During the first half of 2007, the Dexia Credit Local group borrowed EUR 16.7 billion on long-term markets, compared with EUR 14.7 billion in 2006.

Excluding FSA, the total resources collected amounted to EUR 14.6 billion (versus EUR 12.9 billion at June 30, 2006) with an average maturity of 7.7 years (8.7 years in 2006).

Dexia Municipal Agency (AAA) began its 2007 program with a high volume of public issues.

Dexia Kommunalbank Deutschland (AAA) issued fewer long-term instruments, as investors are switching into shorter maturities, interest rates are going up, and the yield curve is flattening. Dexia Kommunalbank Deutschland accordingly issued EUR 1.3 billion of short term debt (under two years) maturing in 1.6 year, providing the company with a comfortable amount of liquidity.

Dexia Credit Local (AA) and Dexia Crediop (AA) each began their respective issuance program.

1.1.6.1.a Public issues: EUR 7.4 billion (51% of total volume raised)

At June 30, 2007	
Public issues	EUR 7.4 billion
Average maturity	7.9 years

Dexia Municipal Agency was the entity most active in this segment, although Dexia Credit Local also launched a public issue in the Swiss market.

Dexia Municipal Agency continued to develop its euro yield curve and pursue its diversification into foreign currencies, carrying out EUR 7.3 billion, or 81% of its program on this segment in 2007 with an average maturity of 7.9 years, compared with EUR 3.6 billion and 6.7 years during H1 2006.

Eight benchmark transactions were launched in the various markets: two euro benchmarks (maturities of 10 and 12 years), three euro-US dollar benchmarks (maturities of 3, 5, and 10 years), two transactions in Canadian dollar (maturities of 10 and 22 years), and one transaction in yen (maturity of 10 years).

Dexia Municipal Agency also increased the liquidity of several existing stubs through subscriptions in euros, pounds sterling, Australian dollars and Swiss francs.

1.1.6.1.b Private placements: EUR 5.7 billion (39% of total volume raised)

At June 30, 2007	
Private placements	EUR 5.7 billion
Average maturity	8.2 years

AAA issuers:

Dexia Municipal Agency raised EUR 1.7 billion with an average maturity of 11.1 years, compared with EUR 2.1 billion with an average maturity of 11.3 years during H1 2006.

As mentioned previously, **Dexia Kommunalbank Deutschland** raised EUR 1.7 billion with an average maturity of 9 years, compared with EUR 4 billion and 10.7 years during H1 2006.

AA issuers:

Dexia Credit Local issued a total of EUR 1.7 billion with an average maturity of 5 years through two EUR 1 billion extendible note issues. The latter are variable rate issues whose initial 2-year maturity may, at the request of investors, be periodically extended up to a final maturity of 5 years.

Dexia Crediop issued EUR 638 million with an average maturity of 6.8 years, compared with EUR 60 million and 5 years during H1 2006.

1.1.6.1.c Retail issues: EUR 1.2 billion (8% of total volume raised)

At June 30, 2007	
Retail issues	EUR 1.2 billion
Average maturity	4.6 years

Dexia Crediop was the only entity active during the first half of 2007.

Twenty three transactions totaling EUR 1.2 billion, with an average maturity of 4.6 years, were placed through the Italian retail networks.

In H1 2006, Dexia Crediop had issued EUR 771 million, with an average maturity of 4.6 years.

1.1.6.1.d Subsidized funding: EUR 350 million (2% of total volume raised)

At June 30, 2007	
Subsidized funding	EUR 350 million
Average maturity	8.6 years

Dexia Credit Local obtained five new loans totaling EUR 350 million from the EIB, with an average maturity of 8.6 years.

FSA issued USD 2.8 billion (EUR 2.1 billion) under its guaranteed investment contracts (GIC) program, with an average maturity of 4.6 years, compared with USD 2.2 billion (EUR 1.7 billion) and 5.9 years the previous year.

1.1.6.2 Financial Markets

Dexia Credit Local's Treasury and Financial Markets (TFM) business line generated good results during the first half of 2007.

The main changes in the financial markets during the first two quarters of 2007 were:

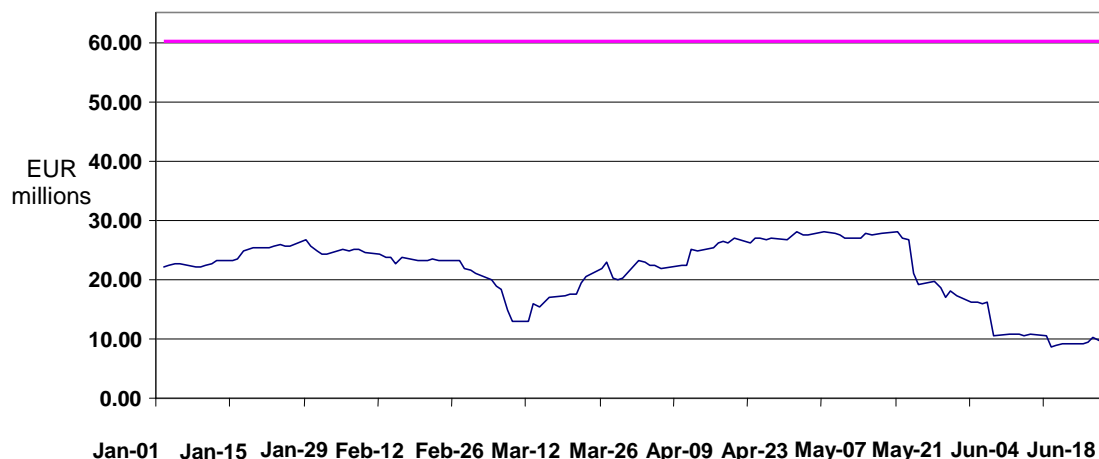
- European **interest rates** rose sharply during the second quarter. The yield curve steepened by 10 basis points, with 2-year rates up 45 basis points and 10-year rates up 55 basis points.
In the United States, 2-year rates rose 35 basis points during the second quarter, while 10-year rates were up 50 basis points.
- In the **equity** markets, during the first quarter, the high volatility observed in the Asian markets spread to Europe in early March. Prices subsequently resumed their upward trend, which they maintained throughout the entire second quarter, at their highest levels in five years.
- In March, the fundamental downward trend in **credit spreads** was replaced by sharp volatility and an inversion of the trend which became all the more pronounced starting in June. This change is attributable to fears of a systemic spread of the crisis in the US residential real estate market to other segments of the credit markets.

Under these conditions, the Treasury and Markets Financial business line's results for the first six months were in line with expectations:

- **Credit spread portfolio, public sector portfolio, credit structuring & trading:** During the second quarter, priority was given to investments in Spanish investment banks and regional banks. In trading, EUR 460 million were invested, primarily in Spanish (RMBS). As concerns the public sector portfolio of the Dublin branch, one investment totaling EUR 330 million was made, of which EUR 200 million in UK PFIs (project finance).
- **Long-term funding:** By June 30, 2007, the Dexia Credit Local group (excluding FSA) had issued a total of EUR 14.6 billion, compared with EUR 13 billion during H1 2006. The average maturity came to 7.7 years (8.7 years the previous year).
- **Public finance market engineering:** The Public Finance business line's structured and covered debt activities generated EUR 9.5 billion on 1,020 customer transactions (EUR 7.1 billion of which in France), 3% more than during the first half of 2006, and the proportion of restructuring of structured loans continues to rise sharply (approximately 75% during the first half, versus 57% in 2006 and 40% in 2005). The swap business with project finance customers is also growing (13 swaps handled in Paris and London during the first half). Macro-hedging of sales-related cash flows is also increasing, with 128 transactions and a total nominal value of EUR 770 million.
- **Short-term risk management and liquidity management:** Second quarter results were lower than expected due to the difficult conditions in the interest rate markets, which also led to a sharp reduction in positions in most currencies in order to protect creation of value.

The graph below presents Dexia Credit Local's consolidated Value at Risk (VaR) on interest rates during the first half. These risks remained well below the limits defined:

VaR on interest rates for Dexia Crédit Local



VaR is a statistical assessment of the potential loss over a 99% confidence interval for a 10-day benchmark period for the TFM businesses.

1.1.7 FSA

During the first six months of the year, FSA produced USD 415 million in interest margin and present value premium, down 2% in comparison with the same period in 2006.

1.1.7.1 Municipal finance

Municipal (↘): FSA recorded a total of USD 207 million in present value premiums during the first half, down 32% from the previous year.

The decline reflected primarily the low level of new lending abroad. FSA has, however, received mandates for a large number of transactions that are in the process of being finalized and are expected to generate over USD 100 million in present value premiums.

United States (↘): The municipal bond market grew 28% year-on-year to USD 230 billion for the first six months of 2007. The penetration rate for credit enhancement, however, fell from 50% to 48%, dragged down by the sharp decline in refunding volumes at the end of the second quarter of 2007 provoked by the rise in interest rates. FSA remained competitive in this market and maintained its 22% market share. FSA insured issues totaling USD 25 billion, much more than the USD 20 billion insured during H1 2006. However, due to the tighter margins, present value premiums generated during the half fell 9% year-on-year to USD 151 million.

In the healthcare sector, several transactions were insured for a total of USD 959 million, generating USD 18 million in present value premiums during the first half of 2007. In the refinancing sector, USD 238 million of the debt of the Commonwealth of Puerto Rico was restructured. This transaction generated USD 8 million in premium during H1 2007.

International (↘): Total present value premiums amounted to USD 56 million during the first half of 2007, 60% less than the previous year.

In the water sector, a USD 250 million transaction with Yorkshire Water in the United Kingdom generated USD 11 million in present value premiums during the first quarter of 2007. In the infrastructure sector, FSA enhanced two issues for JEHDRA (Japanese highway authority), generating USD 8 million in present value premiums in May 2007.

1.1.7.2 Asset-backed securities (ABS) and financial products

ABS (↗): During the first half of 2007, the ABS activity generated USD 159 million in present value premiums, up 138% over the previous year.

United States (↗): In H1 2007, the ABS activity amounted to USD 129 million, up 145% over the previous year.

In the CDO sector, FSA insured a total of USD 11.5 billion, generating USD 68 million in present value premiums during H1 2007.

International (↗): FSA generated a total of USD 30 million in present value premiums during the first half of 2007, up 119% over the previous year.

In the reinsurance sector, FSA enhanced the securitization of airplanes for a nominal sum of USD 175 million, representing the company's first opportunity to penetrate the aviation sector. The transaction generated USD 2 million in premium during the first quarter. In Japan, FSA ensured a USD 284 million securitization of credit card receivables for "Life Shinpan," generating USD 1 million in present value premiums.

Financial products (↘): Total deposits during the first six months of the year amounted to USD 2.8 billion (USD 2.2 billion in 2006).

1.2 Risk review

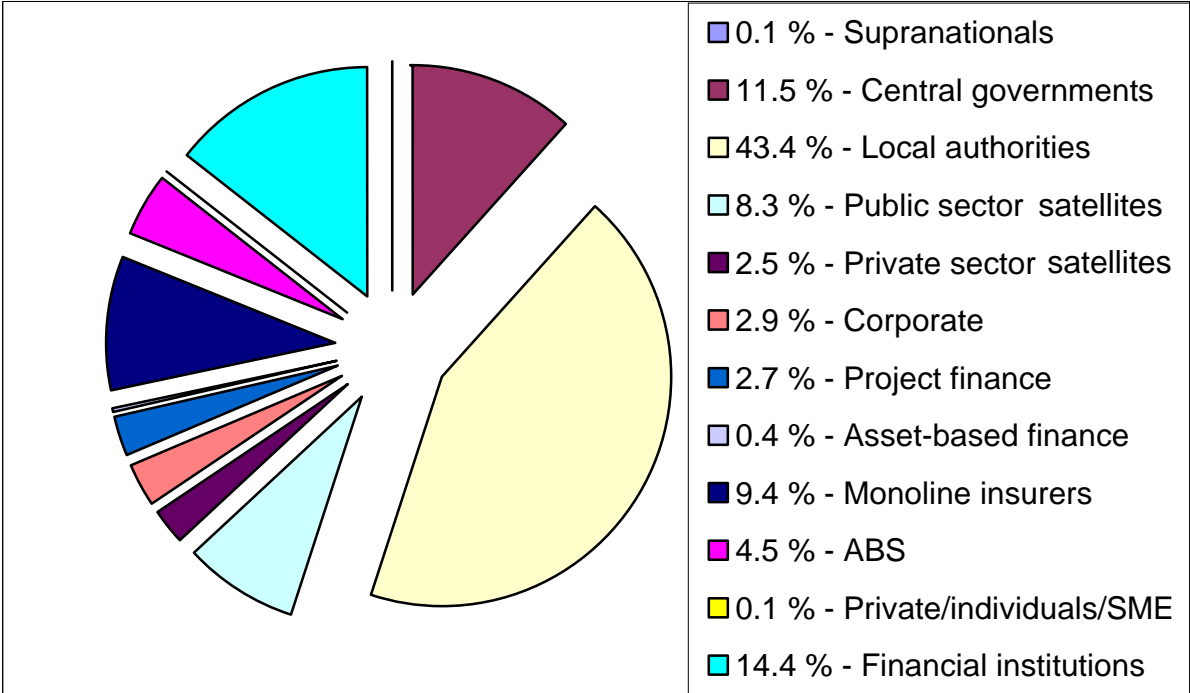
The risk review prepared at June 30, 2007 did not include the latest information concerning changes observed in the financial markets following the subprime lending crisis in the US. Dexia's commitments to the US mortgage market are monitored regularly, notably by FSA, whose exposure is well protected and which is not expected to generate any losses. Information regarding FSA's commitments in the subprime sector is discussed in section 1.2.3.

1.2.1 Credit risks

During the first half of 2007, total exposures increased 4.7% (EUR 14.6 billion) to EUR 326.8 billion.

Local authorities and their satellites contributed 58% (EUR 8.5 billion) of that increase, followed by the exposures guaranteed by monoline insurers (EUR 2.3 billion), corporate clients (many of which are in fact relatively close to the authorities and public service companies, EUR 2 billion), project finance (EUR 0.8 billion), ABS (EUR 0.8 billion) and interbank transactions (EUR 2.3 EUR). Sovereign exposure fell by EUR 2.1 billion.

By type of counterparty



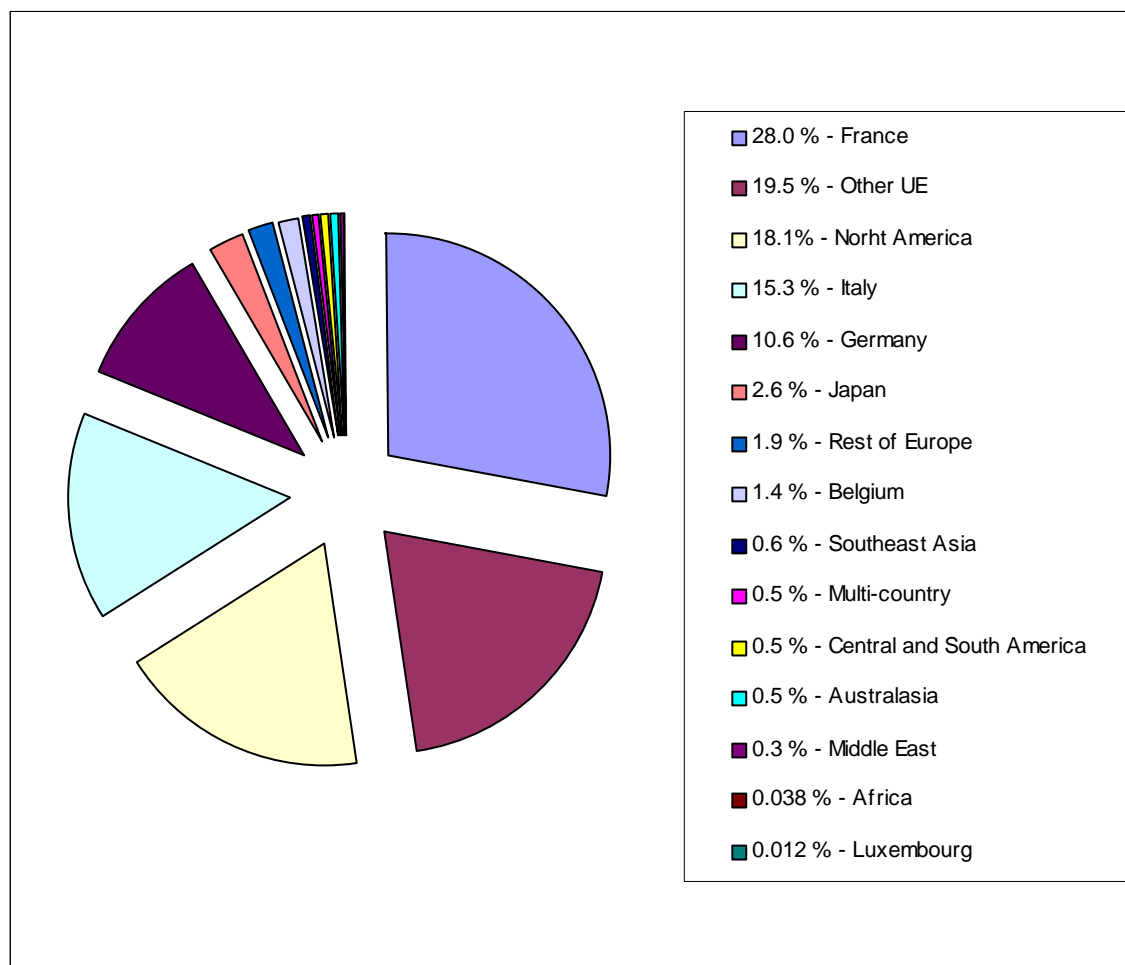
From a geographic standpoint (and including the impact of guarantees), the EUR 14.6 billion increase can be analyzed in the following manner:

- Europe: EUR 7.9 billion,
- North and South America: EUR 3.7 billion,
- Rest of world: EUR 3 billion.

At June 30, 2007, Dexia’s exposure by major geographic region may be analyzed in the following manner:

- **76.9%** of Dexia Credit Local’s exposures are in Europe (77.9% at December 31, 2006 and 77.4% at December 31, 2005)
- **18.6%** in North and South America, of which 18.1% in the US and Canada (18.2% at December 31, 2006 and 19.5% at December 31, 2005)
- **4.5%** in the rest of the world (3.9% at December 31, 2006 and 3.1% at December 31, 2005)

By geographic region



During the first half of 2007, 95.7% of the Group's exposures were to countries rated AA- or higher, corresponding thereby to Dexia's AAA+ masterscale rating (96.1% at December 31, 2006 and 96.6% at December 31, 2005).

At June 30, 2007, all risk indicators remain low:

- non-performing loans under collection are low at 0.07%
- the rate of provisioning on CDLs amounted to 26%

1.2.2 Dexia Credit Local's long-term investments in equity

During the first half of 2007, the value of the long-term investment portfolio was practically unchanged, declining by only EUR 7 million (- 0.7%) to EUR 1,099 million at June 30, 2007, from EUR 1,106 million at December 31, 2006.

The proportion of unlisted holdings in the portfolio rose 11% during the first half of 2007, while the listed holdings fell by 6%. Still, the latter remain preponderant and represented 67% of the portfolio (versus 72% at December 31, 2006).

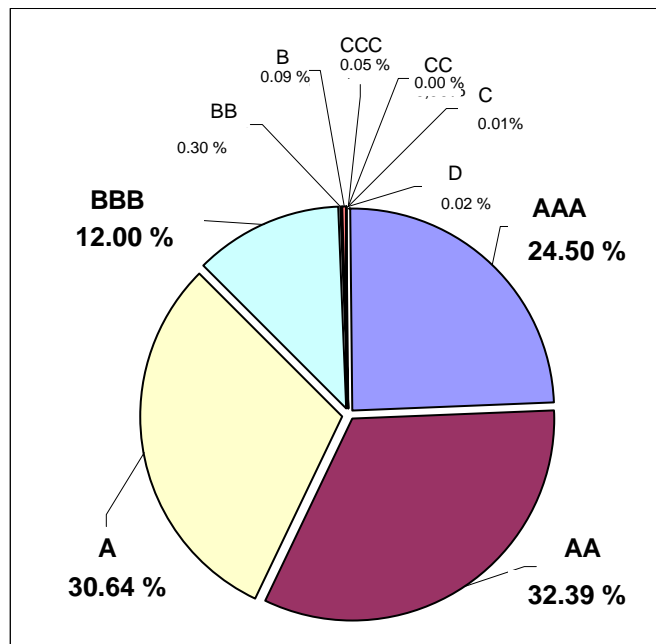
During the first half of 2007, the amount of "specific impairment" charged to the portfolio holdings fell EUR 7 million (9%) to EUR 79 million.

1.2.3 FSA risk monitoring

During the first half of 2007, FSA's total net commitments rose USD 22.925 billion (6%) to USD 399.38 billion, of which 62.1% to the public (municipal) sector and 37.9% on asset-backed securities and structured finance.

At June 30, 2007:

- 87.5% of the portfolio was rated A- or higher (87.3% at December 31, 2006).
- non investment-grade ratings (BB+ or lower) represented 0.5% of net commitments (0.3% at December 31, 2006).
- B to C ratings on net insured capital of USD 591 million (USD 651 million at December 31, 2006) corresponded essentially to ABS.
- D ratings on net insured capital of USD 80 million (USD 68 million at December 31, 2006) included USD 63 million on ABS.



The total exposure of FSA's insured capital portfolio to the subprime sector amounted to USD 4.2 billion, of which 87.8% is rated AAA, USD 54 million is rated AA, USD 52 million is rated A, USD 342 million is rated BBB, and USD 65 million is non investment grade. The latter consist of existing transactions entered into prior to 2001 and which are not expected to be impacted by the current crisis. They have, moreover, been covered by specific provisions for the past several years.

Moreover, in its financial products portfolio, FSA has USD 6.9 billion of subprime exposure, including USD 6.3 billion rated AAA, USD 0.5 billion in the AA range, and USD 66 million in the A range. Not to mention an additional exposure of USD 0.4 billion on NIMs, 87% of which are in the AA range.

Lastly, FSA has USD 372 million of ABS CDOs in its portfolio that pose little risk due to their AAA / AA rating and the low proportion of subprime RMBS among their collateral.

FSA's insured portfolio remains of a very high quality, with 99.5% of the portfolio rated investment grade (over BB+).

At June 30, 2007, the investment portfolio had a nominal value of USD 4.660 billion (USD 4.636 billion at December 31, 2006), including USD 3.718 billion (80%) in US public sector paper.

The financial products activity had a total exposure of USD 16,866 million at June 30, 2007, compared with USD 15,817 million at December 31, 2006.

1.2.4 Financial risk

Insofar as market and ALM risk is concerned, no limits were exceeded during the first half of 2007.

Short-, medium- and long-term liquidity ratio requirements were all complied with.

1.2.5 Operational risk

In the entire Dexia Credit Local group, 178 incidents were reported during the second quarter of 2007. Of these, 51 incidents had a financial impact. The number of incidents almost doubled in comparison with the previous quarter, from 100 to 178. This increase is attributable to the high commitment of the teams to the quality and operational risk action plans.

Incidentally, the potential net loss for the entire half remained very low.

1.3 Operating results

1.3.1 Changes in the scope of consolidation

No significant changes have occurred in the scope of consolidation in comparison with the first half of 2006. Nearly all movements result from the Group's international development, the details of which are provided in the notes to the financial statements.

1.3.2 Presentation of the consolidated financial statements

The consolidated financial statements of Dexia Credit Local are prepared in accordance with all International Financial Reporting Standards (IFRS) and interpretations as adopted by the European Commission at the balance sheet date, as discussed in Note 2.5.1 – General guidelines for the presentation and valuation of the condensed consolidated financial statements.

1.3.3 Condensed half-year consolidated financial statements

1.3.3.1 Highlights of the first six months of 2007

The consolidated earnings at June 30, 2007 include significant gains on disposals: several investments in the strategic equity portfolio were sold, generating the following pre-tax capital gains:

- Véolia (partial disposal): EUR 19.1 million
- Société Générale (partial disposal): EUR 14.2 million
- Banco Sabadell: EUR 11 million.

It should be noted that several large sales were made during the first half of 2006, generating the following pre-tax capital gains:

- Véolia (partial disposal): EUR 7.5 million
- Highway operators: EUR 37.4 million,

in addition to EUR 15 million in pre-tax capital gains on other holdings.

1.3.3.2 Earnings review

Consolidated **net banking income** was up 3.9% to EUR 1,106 million during the first half of 2007 (EUR 1,064 million in H1 2006). The dollar's fall against the euro had a negative impact on NBI:

	H1 2006	H1 2007	Change	%
NBI	+ 1,064	+ 1,106	+ 42	+ 3.9
of which change in dollar/euro exchange rate		- 31	- 31	
of which gain on dollar/euro currency hedges	+ 7	+ 13	+ 6	
NBI (constant exchange rate)	+ 1,057	+ 1,124	+ 67	+ 6.3

Several non-recurring factors contributed to the low increase in net banking income of the half, notably the change in the fair value of FSA's credit derivative portfolio and lower gains on disposals of shares in the equity portfolio. The gains recognized in 2007 concerned primarily Véolia (EUR 19 million), Société Générale (EUR 14 million) and Banco Sabadell (EUR 11 million). Excluding the impact of these items, Dexia Credit Local's net banking income would have increased by a more robust 15.2%.

	H1 2006	H1 2007	Change	%
NBI (constant exchange rate)	+ 1,057	+ 1,124	+ 67	+ 6.3
of which disposal of participating interests and strategic shares held	+ 60	+ 44	- 16	
of which changes in fair value of FSA's credit derivatives	+ 22	- 43	- 65	
Adjusted NBI	+ 975	+ 1,123	+148	+15.2

On a consolidated basis, **operating expenses** (including SG&A and depreciation and amortization) rose 10.3% to EUR 331 million, compared with EUR 300 million during the first half of 2006. At a constant exchange rate (+EUR 7 million), same scope (-EUR 7 million) and excluding the impact of the move to La Défense (-EUR 6 million), operating expenses would have increased by EUR 25 million (8.3%).

Adjusted gross operating income was up 18.2% to EUR 798 million during the first half of 2007 (EUR 675 million in 2006).

The operating ratio rose from 28.2% to 29.9% (30.4% for the full 12 months of 2006).

The **cost of risk** concerned the following portfolios:

	H1 2006	H1 2007	Change
Credit (loans and securities held to maturity)	-6	-5	1
Credit enhancement	-9	-7	2
Securities available for sale (excluding actions)	-1	10	11
Total:	-16	-2	14

Under favorable conditions, credit risk remains very low, both in France and abroad, and is also very low for FSA. The gain reported on the line Securities available for sale corresponds to the recovery of an impairment provision following the disposal of a fixed income security that had been written down fully in previous years.

Corporate income tax fell to EUR 183 million for the first six months of 2007, from EUR 204 million in 2006, reflecting the increase in income contributed by operations in countries with lower tax rates.

Consolidated **net income** (group share) rose 10.5% to EUR 589 million for the six months ended June 30, 2007 (EUR 533 million in 2006).

2 CONDENSED FINANCIAL STATEMENTS

2.1 Consolidated balance sheet

Dexia Credit Local - Consolidated balance sheet at June 30, 2007				
	Assets (EUR Millions)	At June 30, 2006	At december 31, 2006	At June 30, 2007
I.	Cash, central banks and postal checking accounts	916	1 069	1 643
II.	Financial assets at fair value through profit or loss	18 560	17 970	19 697
III.	Hedging derivatives	7 636	7 449	10 556
IV.	Financial assets available for sale	103 091	114 360	121 842
V.	Interbank loans and advances	19 102	20 212	26 086
VI.	Customer loans and advances	116 506	129 131	129 539
VII.	Fair value revaluation of portfolio hedge	(158)	123	(543)
VIII.	Financial assets held to maturity	1 515	1 364	1 285
IX.	Current tax assets	159	141	146
X.	Deferred tax assets	54	67	38
XI.	Accruals and other assets	6 676	9 625	6 173
XIII.	Investments in associates	423	417	427
XIV.	Investment property	2	2	2
XV.	Tangible fixed assets	470	494	509
XVI.	Intangible assets	57	60	64
XVII.	Goodwill	1 385	1 385	1 385
	TOTAL ASSETS	276 394	303 869	318 849

Dexia Credit Local - Consolidated balance sheet at June 30, 2007				
	Liabilities (EUR Millions)	At June 30, 2006	At december 31, 2006	At June 30, 2007
I.	Central banks and postal checking accounts	2 657	3 388	6 865
II.	Financial liabilities at fair value through profit or loss	16 732	18 256	18 667
III.	Hedging derivatives	10 820	13 277	12 263
IV.	Interbank loans and deposits	65 719	80 796	90 481
V.	Customer deposits	12 173	13 460	12 675
VI.	Debt securities	150 753	157 445	158 203
VII.	Fair value revaluation of portfolio hedge	148	(31)	(649)
VIII.	Current tax liabilities	75	61	67
IX.	Deferred tax liabilities	757	699	702
X.	Accruals and other liabilities	4 315	3 953	6 693
XII.	Technical provisions of insurance companies	140	145	148
XIII.	Provisions	122	127	127
XIV.	Subordinated debt	4 420	4 309	4 336
XV.	Shareholders' equity	7 563	7 984	8 271
XVI.	Shareholders' equity, group share	6 791	7 172	7 447
XVII.	Capital stock and additional paid-in capital	3 114	3 114	3 114
XVIII.	Reserves and retained earnings	2 234	2 123	2 905
XIX.	Unrealized or deferred gains and losses	910	853	839
XX.	Net income	533	1 082	589
XXI.	Minority interests	772	812	824
	TOTAL LIABILITIES	276 394	303 869	318 849

2.2 Consolidated income statement

Dexia Credit Local - Consolidated income statement at June 30, 2007				
	(EUR Millions)	Half-Year 2006	Year 2006	Half-Year 2007
I.	Interest income	17 357	38 438	23 443
II.	Interest expense	(16 711)	(37 113)	(22 783)
III.	Commission income	68	128	76
IV.	Commission expense	(17)	(34)	(22)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	75	95	103
VI.	Net gains (losses) on financial assets available for sale	140	322	132
VII.	Other income (1)	251	504	245
VIII.	Other expense (1)	(99)	(199)	(88)
IX.	NET BANKING INCOME	1 064	2 141	1 106
X.	Operating expense	(279)	(572)	(308)
XI.	Depreciation, amortization and impairment of tangible fixed assets and intangible assets	(21)	(43)	(23)
XII.	GROSS OPERATING INCOME	764	1 526	775
XIII.	Cost of risk	(16)	(44)	(2)
XIV.	OPERATING INCOME	748	1 482	773
XV.	Income (losses) from associates	30	57	36
XVI.	Net gains (losses) on other assets	0	0	0
XVII.	Impairment of goodwill	0	0	0
XVIII.	INCOME BEFORE INCOME TAX	778	1 539	809
XIX.	Corporate income tax	(204)	(380)	(183)
XXI.	NET INCOME	574	1 159	626
XXII.	Minority interests	(41)	(77)	(37)
XXIII.	NET INCOME, GROUP SHARE	533	1 082	589
	Earning per share, Group share			
	- Basic (in EUR)	6,13	12,43	6,76
	- Diluted (in EUR)	6,13	12,43	6,76

(1) including technical margin of insurance companies

157

310

155

2.3 Consolidated cash flow statement

(EUR Millions)	At June 30, 2006	At december 31, 2006	At June 30, 2007
Cash flow from operating activities			
Net income	574	1 159	626
<i>Adjustments for:</i>			
- Depreciation, amortization and other impairment	24	50	28
- Impairment on bonds, equities, loans and other assets	(16)	(55)	(49)
- Net gains on investments	(68)	(136)	(55)
- Changes in provisions	22	61	44
- Unrealized gains and losses	20	(39)	85
- Income from associates	(30)	(57)	(36)
- Dividends from associates	17	17	21
- Deferred taxes	63	58	3
- Other adjustments	0	0	0
Changes in operating assets and liabilities	(41)	7 386	(1 742)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	565	8 444	(1 075)
Cash flow from investing activities			
Purchases of fixed assets	(35)	(89)	(51)
Sales of fixed assets	5	5	2
Acquisitions of unconsolidated equity shares	(93)	(128)	(55)
Sales of unconsolidated equity shares	167	288	115
Acquisitions of subsidiaries	(46)	(45)	(2)
Sales of subsidiaries	4	4	1
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	2	35	10
Cash flow from financing activities			
Issuance of new shares	10	18	0
Reimbursement of capital	0	0	0
Issuance of subordinated debt	36	36	320
Reimbursement of subordinated debt	(34)	(67)	(228)
Purchases of treasury stock	0	0	0
Sales of treasury stock	0	0	0
Dividends paid	(268)	(382)	(318)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(256)	(395)	(226)
NET CASH PROVIDED	311	8 084	(1 291)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD			
	11 263	11 263	18 900
Cash flow provided (used) by operating activities	565	8 444	(1 075)
Cash flow provided (used) by investing activities	2	35	10
Cash flow provided (used) by financing activities	(256)	(395)	(226)
Effect of exchange rate changes and changes in scope of consolidation on cash and cash equivalents	(275)	(447)	(274)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	11 299	18 900	17 335
Additional information			
Income tax paid	(160)	(308)	(177)
Dividends received	39	45	41
Interest received	17 777	37 501	23 656
Interest paid	(17 447)	(36 655)	(23 156)

2.4 Changes in shareholders' equity

	Core shareholders' equity			Unrealised or deferred gains and losses				Shareholders' equity, Group share	Minority interests			Shareholders' equity
	Capital stock, Additional paid-in capital	Reserves, retained earnings and net income for the period	Total	Change in fair value of financial assets available for sale, net of taxes	Change in fair value of cash flow hedges, net of taxes	Cumulative translation differences	Total		Core shareholders' equity	Unrealised or deferred gains and losses	Total	
(EUR millions)												
At December 31, 2005	3 114	2 489	5 603	1 117	(70)	59	1 106	6 709	700	70	770	7 479
<i>Movements during the period</i>												
- Changes in capital	0	0	0				0	0	0		0	0
- Changes in additional paid-in capital	0	0	0				0	0	0		0	0
- Dividends		(251)	(251)				0	(251)	(17)		(17)	(268)
- Translation adjustments			0	(10)	(3)	(112)	(125)	(125)	(19)		(19)	(144)
- Changes in fair value of financial assets available for sale through shareholders' equity			0	(229)			(229)	(229)	(8)		(8)	(237)
- Changes in fair value of derivatives through shareholders' equity			0		190		190	190	4		4	194
- Changes in fair value of financial assets available for sale through profit or loss			0	(34)			(34)	(34)	0		0	(34)
- Changes in fair value of derivatives through profit or loss			0		0		0	0	0		0	0
- Net income for the period		533	533				0	533	41		41	574
- Other movements	0	(4)	(4)	1	0	1	2	(2)	1	0	1	(1)
At June 30, 2006	3 114	2 767	5 881	845	117	(52)	910	6 791	725	47	772	7 563
<i>Movements during the period</i>												
- Changes in capital	0	0	0				0	0	13		13	13
- Changes in additional paid-in capital	0	0	0				0	0	0		0	0
- Dividends		(110)	(110)				0	(110)	(4)		(4)	(114)
- Translation adjustments			0	(15)	4	(38)	(49)	(49)	(4)		(4)	(53)
- Changes in fair value of financial assets available for sale through shareholders' equity			0	287			287	287	4		4	291
- Changes in fair value of derivatives through shareholders' equity			0		(147)		(147)	(147)	(2)		(2)	(149)
- Changes in fair value of financial assets available for sale through profit or loss			0	(147)			(147)	(147)	0		0	(147)
- Changes in fair value of derivatives through profit or loss			0		0		0	0	0		0	0
- Net income for the period		549	549				0	549	36		36	585
- Other movements	0	0	0	(1)	0	(1)	-2	(2)	(3)	0	(3)	(5)
At December 31, 2006	3 114	3 206	6 320	969	(26)	(91)	852	7 172	767	45	812	7 984
<i>Movements during the period</i>												
- Changes in capital	0	0	0				0	0	0		0	0
- Changes in additional paid-in capital	0	0	0				0	0	0		0	0
- Dividends		(300)	(300)				0	(300)	(18)		(18)	(318)
- Translation adjustments			0	(5)	(1)	(44)	(50)	(50)	(7)		(7)	(57)
- Changes in fair value of financial assets available for sale through shareholders' equity			0	(293)			(293)	(293)	1		1	(292)
- Changes in fair value of derivatives through shareholders' equity			0		387		387	387	0		0	387
- Changes in fair value of financial assets available for sale through profit or loss			0	(44)			(44)	(44)	0		0	(44)
- Changes in fair value of derivatives through profit or loss			0		(11)		(11)	(11)	0		0	(11)
- Net income for the period		589	589				0	589	37		37	626
- Other movements	0	(1)	(1)	(2)	0	0	(2)	(3)	0	(1)	(1)	(4)
At June 30, 2007	3 114	3 494	6 608	625	349	(135)	839	7 447	786	38	824	8 271

Dexia Crédit Local has a capital of EUR 1 327 004 846 divided into 87 045 757 shares.

2.5 NOTES TO THE HALF-YEAR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2.5.1 General basis for the preparation of the condensed consolidated financial statements

Dexia Crédit Local's consolidated financial statements have been prepared in accordance with all IFRS regulations and interpretations published and endorsed by the EC up to the accounting closing.

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

The consolidated financial statements are stated in millions of euro (EUR) unless otherwise stated. They are compliant with CNC 2004 R 03's recommendation published on 27 October 2004.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect amounts reported. While management believes they have considered all available information in developing these estimates, actual results could differ from such estimates and the differences could be material to the consolidated financial statements.

All the accounting policies and methods used for presentation and valuation are set out in Note 2.5.6 – Accounting policies and valuation methods.

2.5.2 Changes in the consolidation scope

Changes in the consolidation scope of the Dexia Crédit Local Group since the first half of 2006 are summarised below. None of these changes had a material impact.

- Creation of Dexia Public Finance Switzerland SA and Dexia CAD Funding LLC,
- Creation of Dexia Credit Local branch in Tokyo and Dexia Municipal Agency branch in Dublin,
- Integration of Domiserve, a joint venture created with AXA, accounted for by proportionate method,
- Dexia Finance was deconsolidated on October 1, 2006,
- Dexia Holdings Inc. increases its participating interest in FSA from 99.02% to 99.05% executing the put agreement detailed in the 2006 Annual Report's 3.10.c note,
- FSA deconsolidates XL Financial Assurance Ltd (previously accounted for by the equity method) on January 1, 2006, and deconsolidates the fully-consolidated companies Financial Security Assurance Ltd, Canadian Global Funding and FSA International Credit Protection Ltd on December 31, 2006. FSA integrates FSA Mexico Holding Inc on December 31, 2006,
- First-time consolidation of Dexia Kommunalkredit Hungary and Dexia Kommunalkredit Bank owned at 100%,
- First-time consolidation of KOFIS FINANCE s.r.o Slovakia, Orosis Investments Ltd, and Cymanco Investments Ltd, owned at 100% by Kommunalkredit Austria.

The list of companies included in the consolidation scope at 31 December 2006 is provided in the 2006 Annual report (paragraph 1.2, pages 88 to 92).

2.5.3 First-half highlights

The following major transactions had an impact on the consolidated financial statements :

- Several lines of the strategic portfolio have been sold, bringing out the following net pre-tax gains :
 - Veolia (partly ceded) : EUR 16.3 million (plus EUR 2.8 million in gain on sales of subscription rights)
 - Société Générale (partly ceded) : EUR 14.2 million
 - Sabadell : EUR 11 million.
- Through the first semester of 2007, Dexia Crédit Local moved to La Défense in the new tower purchased at the end of 2005 : the former premises were kept till June 30 and generates, with the other costs induced by this operation, an additional EUR 6 million expense within the operating expense.

2.5.4 Notes to the income statement

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

	Half-Year 2006	Half-Year 2007
(EUR millions)		
Net Gains (losses) on trading transactions	74	34
Net Gains (losses) on hedging transactions	(20)	40
Net Gains (losses) on foreign exchange transactions	21	29
Total	75	103

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

	Half-Year 2006	Half-Year 2007
(EUR millions)		
Dividends on securities available for sale	22	20
Net gains (losses) on disposals of loans and securities available for sale	114	108
Impairment of variable-income securities available for sale	(1)	0
Net gains (losses) on disposals of securities held to maturity	0	0
Net gains (losses) on disposals of debt securities	5	4
Total	140	132

Operating expense (item X. of income statement)

	Half-Year 2006	Half-Year 2007
(EUR millions)		
Payroll costs	(153)	(170)
General and administrative expense	(101)	(113)
Deferred acquisition costs	(25)	(25)
Total	(279)	(308)

Cost of risk (item XIII. of income statement)

(EUR millions)	Half-Year 2006			Half-Year 2007		
	Collective Impairment	Specific impairment and losses	TOTAL	Collective Impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and securities held to maturity)	(9)	3	(6)	(35)	30	(5)
Credit enhancement	(13)	4	(9)	(8)	1	(7)
Fixed-income securities available for sale		(1)	(1)		10	10
Total	(22)	6	(16)	(43)	41	(2)

Net Gains (losses) on other assets (item XVI. of income statement)

None.

2.5.5 Analysis by geographic region and by line of business

Analysis by geographic region

	Half-Year 2006	Half-Year 2007
(EUR millions)		
Net banking income	1 064	1 106
Euro zone (countries employing the euro)	622	686
Rest of Europe	37	53
United States	393	350
Rest of world	12	17
Income (losses) from associates	30	36
Euro zone (countries employing the euro)	28	36
Rest of Europe	0	0
United States	2	0
Rest of world	0	0
Income before income tax	778	809
Euro zone (countries employing the euro)	437	497
Rest of Europe	32	43
United States	303	264
Rest of world	6	5

Analysis by line of business

	Half-Year 2006	Half-Year 2007
(en millions d'EUR)		
Net banking income	1 064	1 106
Public finance, project finance and credit enhancement	906	930
Personal financial services	20	16
Treasury and financial markets	106	91
Other	32	69
Income (losses) from associates	30	36
Public finance, project finance and credit enhancement	11	13
Personal financial services	13	17
Treasury and financial markets	0	0
Other	6	6
Income before income tax	778	809
Public finance, project finance and credit enhancement	651	665
Personal financial services	24	22
Treasury and financial markets	85	73
Other	18	49

2.5.6 Accounting policies and valuation methods

The accounting policies adopted by Dexia Crédit local for these interim consolidated statements are consistent with those described in Annual Report 2006 (paragraph 1.3, pages from 93 to 103), except for the amendment to IAS 1 and IFRS 7 financial instruments – disclosure, which Dexia Crédit Local has applied since January 1st, 2007. The application of this amendment and this standard have no material impact on Dexia Crédit Local consolidated financial statements.

Change in accounting policies and texts since the previous annual publication that may impact Dexia Credit Local group.

- New IFRS standards, IFRIC interpretations and amendments
 - Amendment

First semester 2007, IASB issued the following amendment :

- IAS 23 Borrowing costs, which will be applicable as from January 1st, 2009. The impact of this standard is under analysis.
- Interpretations

IFRIC issued, on the first semester 2007 this interpretation :

- IFRIC 13 Customer loyalty Programmes, which will be applicable from July 1st, 2008. This standard has no impact on Dexia Crédit Local.

- IASB and IFRIC texts endorsed by the European Commission

The European Commission endorsed two IFRIC during the first semester 2007 :

- IFRIC 10 Interim Financial Reporting and Impairment, which has been applicable since November 1st, 2006. This interpretation has been already applied by Dexia Crédit Local.
- IFRIC 11 – IFRS 2 Group and Treasury Share Transactions, which has been applicable since March 1st, 2007. This interpretation is under analysis.

3 PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

I, the undersigned, Gérard Bayol, Chief Executive Officer of Dexia Credit Local,

hereby attest to the fact that, to the best of my knowledge, these financial statements have been prepared in accordance with all applicable accounting standards and provide an accurate and fair view of the assets, financial position and earnings of all of the companies included in the scope of consolidation, and that the half-year financial report presents an accurate account of all significant events that have taken place during the first six months of the year and their impact on the half-year financial statements, and of all the primary risks and uncertainties concerning the remaining six months of the fiscal year.

La Défense – August 28, 2007

Gérard Bayol
Chief Executive Officer

Statutory Auditors' Report
on the 2007 consolidated half-year financial information

This is a free translation into English of the statutory auditor's report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders,

In our capacity as statutory auditors and pursuant to the Article L.232-7 of the French Commercial Code, we have carried out :

- a limited review of the accompanying consolidated half-year condensed financial statements of **Dexia Crédit Local** for the period from January 1st, 2007 to June 30th, 2007 ;
- the verification of information given in the half-year report.

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

We conducted our review in accordance with the 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 the 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 limited review of the accompanying consolidated half year condensed financial statements, nothing has come to our attention giving cause they are not in conformity, in all material respects, with the IFRS accounting and assessment rules as adopted by the European Union .

In addition, and in accordance with the professional standards applicable in France, we have examined the fairness of the information contained in the consolidated half-year activity report accompanying the consolidated half-year condensed financial statements submitted to our review.

Based on our review, we have nothing to report on the fairness of this information and its consistency with the consolidated half-year condensed financial statements.

Paris, August 29 2007

The statutory auditors

Caderas Martin

Mazars & Guérard

Daniel BUTELOT

Olivier AVRIL

Guillaume POTEL

Anne VEAUTE