



HALF-YEAR FINANCIAL REPORT

Six months ended June 30, 2008

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1 HALF-YEAR BUSINESS REPORT

1.1 Business review

1.1.1 Overview

1. Dexia Crédit Local had total outstanding loans of EUR 285 billion as of June 30, 2008¹, up 16% over June 30, 2007 (21% excluding the unfavorable currency effect). All of the Company's locations posted increases. FSA reported net insured capital of USD 660 billion, up 14% over June 30, 2007.
2. Total new lending amounted to EUR 37,207 million during the first half of 2008, up 61% compared with H1 2007 (71% excluding the unfavorable currency effect).
 - New lending to the public sector increased by 73% year-on-year to EUR 31,648 million (up 86% excluding the unfavorable currency effect). This acceleration in the rate of growth can be attributed to robust new lending in the United States (EUR 14.1 billion), which rose by 3.4x from June 30, 2007 (or 3.9x excluding the unfavorable currency effect), along with a number of extraordinary transactions in the European markets.

In the United States, originations of Standby Bond Purchase Agreements and letters of credit, which rose six-fold relative to 2007, were major growth drivers in a financial market environment suffering from a liquidity crisis. Dexia was indeed able to take advantage of two concurrent cyclical factors, namely fewer market participants able to offer such financial products combined with the urgent need of issuers to restructure their debt. New direct lending to local governments and student loans also posted strong gains.

Meanwhile, the bank's European entities had to contend with a market contraction that resulted from local factors such as the Spanish general elections, budgetary restrictions placed on local governments in Italy and higher tax revenues collected by local governments in Germany. Furthermore, local governments throughout Europe showed an aversion to structured loan products. Despite this extremely unfavorable environment, several of Dexia's European entities such as Dexia Sabadell in Spain and Dexia Crediop in Italy managed to post satisfactory growth. They achieved these favorable results through "exceptional" transactions that more than compensated for the adverse market conditions.

- In the structured finance sector, the global market for project financing continued to grow in 2008, rising by 18% compared with H1 2007. The overall market during these 2008 first six months is estimated at between USD 130 billion and USD 160 billion. In this growing market environment and in spite of Dexia Crédit Local's constraints on lending rates, Dexia maintained its market share as Mandated Lead Arranger (MLA) during the first half. In the league tables of *Infrastructure Journal*, Dexia ranked third among global banks for project financing (second for Western Europe, second for Public Private Partnerships (PPPs) and third for the renewable energy sectors). Dexia was ranked sixth by Thomson Reuters.

Total origination in the first half of 2008 amounted to EUR 5,559 million, a 14% increase relative to H1 2007. New financing activity was up sharply in France and Spain. Financing volume generated by the International Headquarters was cut in half, mainly as a result of a drop-off in bond investments to reflect the strategy of focusing on commercial transactions.

¹ The figures reported at June 30, 2008 include the "Credit Spread Portfolio" (CSP) activity; for comparison purposes, the CSP activity's new lending / outstanding loans ratio was taken into account for the figures at June 30, 2007.

- FSA produced USD 600 million in interest margin and present value premiums in H1 2008, 45% more than during the first half of 2007. The U.S. municipal business accounted for 85% of new volume, as business volume in the Asset Backed Securities (ABS) market was limited.

For the U.S. municipal business, new-issue volume was comparable to the level achieved in the first half of 2007 despite a slowdown in lending at the beginning of 2008 and the decline in penetration rate for credit enhancement products from 48% to 24%. FSA backed 62% of the USD 43 billion in municipal bonds guaranteed in 2008. These bonds were rated at least A.

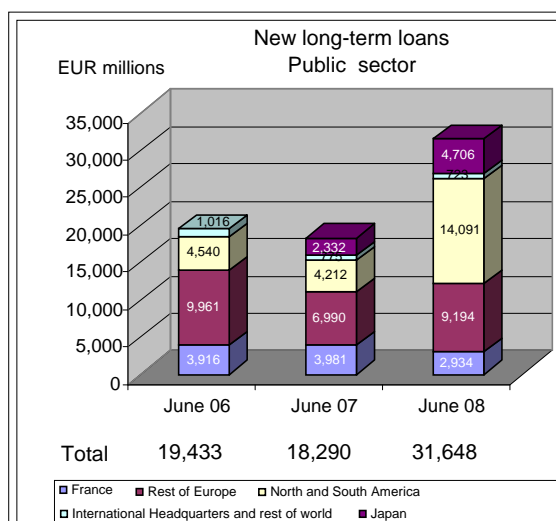
In the ABS business, contract terms improved but opportunities were limited given the paucity of new issues.

- Excluding FSA, total funds raised amounted to EUR 17.8 billion in the first six months (versus EUR 14.6 billion as of June 30, 2007), with an average maturity of 5.6 years, down from 7.7 years in 2007.

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 2008 came to EUR 31,648 million, including EUR 9,644 million in off-balance sheet commitments (primarily in North and South America, excluding Mexico).

New lending was up 73% versus the first six months of 2007, or 86% at constant exchange rate.

Business review by location

France: New lending during the first half of 2008 decreased by 26% to EUR 2,934 million. This decline was largely due to the lackluster market, as municipal and cantonal elections resulted in the deferral of many borrowing decisions until late April.

The bank's market share remained high (39% on the major accounts segment, and 45% in the health and social services segment).

- New lending to the **local authorities sector** amounted to EUR 1,712 million, down 18% relative to H1 2007. The decline resulted from the effects of municipal and cantonal elections on borrowing practices of many local authorities. However, new lending picked up sharply in May and June. The bank's market shares by segment remained high as of June 30, 2008 (major clients 39%, core clients 47%, local clients 39%). Several major transactions were concluded with the Provence Alpes Côte d'Azur region (EUR 80 million), the General Council of Ille et Vilaine (EUR 50 million), the Picardy region (EUR 20 million) and the General Council of the Dordogne region (EUR 15 million).
- **The public health and social services sector** saw its lending volume fall sharply by 46% to EUR 473 million. As the "Hôpital 2007" plan ended, no new major hospital renovation programs replaced it. The bank's market share remains very high at 45%. Major transactions in the second quarter included Nantes University Hospital (EUR 25 million), Douai Hospital (EUR 20 million) and Créteil Community Hospital (EUR 10 million).
- New lending to the **institutional customers sector** contracted by 24% to EUR 748 million in the first half of 2008. New lending to the **public housing sector** fell by 21% to EUR 509 million, negatively affected by the cost of financing on Livret A passbook savings accounts during the period (3.50% interest rate). The **local and social welfare sector** recorded a 29% decrease in new lending to EUR 239 million during the first six months, mainly as a result of the absence of major transactions in the non-profit healthcare sector.

The debt restructuring activity contracted by 41% to EUR 4,332 million as a result of several factors: the implementation of a soft landing policy by the banking network in order to diversify commercial lending revenues and lessen the debt restructuring activity's importance to the bottom line, as well as the electoral context, which led to a freeze on many transactions.

Germany: EUR 3,064 million (+0.1%)

During the first half of 2008, lending to the local authorities sector showed signs of slowing down. The market contracted as a result of the liquidity environment and loan repayments by local authorities following higher tax revenue collections. Moreover, the measures implemented by municipalities vis à vis German banks led to a decrease in demand for structured products. The local authorities' aversion to derivative products is strong.

Despite the clear slowdown in new lending witnessed during the first half of 2008, the overall level was stable compared to the first half of 2007. The structure of the new lending reflected Dexia's strategy in Germany, which is oriented toward the growth of structured products. As of June 30, 2008, originations of structured loans totaled EUR 922 million, or 75% of all new lending volume, compared with only 30% the previous year. The debt restructuring activity in Germany is very dynamic, in particular the EUR 230 million transaction with the federal state (*Land*) of Berlin. The Public Sector Portfolio (PSP) business was also sustained in 2008, with new lending volume of EUR 1,782 million in the first half.

Finally, lending to the federal States (*Länder*) offers a promising growth avenue. During the first six months of 2008, transactions with Rhineland Palatinate, North Rhine Westphalia, Hesse, Berlin and Lower Saxony totaled EUR 680 million and hold promise for the future.

North and South America (excluding Mexico): EUR 14,091 million, +235% (USD 21,775 million). Excluding the currency impact, the increase would have been 287%.

During the first half of 2008, Dexia's public finance business was able to take advantage of the market situation. Given the Dexia Group's overall strategy, however, extrapolating these results to the second half of 2008 is not possible.

Originations of off-balance-sheet commitments (Standby Bond Purchase Agreements and letters of credit) totaled USD 14,693 million, a six-fold increase relative to the first six months of 2007. This growth was the direct result of a dwindling number of market participants able to offer such financial products combined with the urgent needs of issuers to restructure their debt. A credit enhancement agreement was signed with the Long Island Power Authority for USD 594 million in order to convert auction-rate securities to variable-rate bonds. Dexia also provided the Sunshine State Governmental Financing Commission with a letter of credit in the amount of USD 634 million for its Commercial Paper issue.

The volume of direct lending to local authorities totaled USD 2,165 million. The turbulence in the market led issuers to seek out new financing methods, including direct lending. This trend helped to validate the business model of this activity. The two main private placements during the first half involved the Chicago Board of Education for USD 504 million and the California Housing Finance Agency for USD 300 million. The total number of securities acquired during the first half was USD 1,768 million. The bond offering business nevertheless declined, as the overall market contracted following a decline in new issues.

Finally, student loan originations rose sharply by a factor of 3.5x compared to the first half of 2007 to USD 2,896 million during the first six months of 2008. In Canada, new lending volume also received a boost from the signature of a long-term loan to the city of Montreal in the amount of USD 251 million.

Some credit enhancement restructuring transactions in North and South America are included in the new business volume figures. These transactions, which were immaterial in the past, totaled EUR 1.6 billion (USD 2.5 billion) in the first half of 2008.

Australia: EUR 96 million (AUD 159 million) (activity begun in the fourth quarter of 2007).

New lending in the Australian market remained sustained thanks to the demand to cover infrastructure investments, notably in the wastewater treatment area (AUD 101 million, or 64% of Dexia's new lending volume in Australia).

Dexia Credit Local Asia Pacific Pty Ltd. carried out five transactions in the first half of 2008.

The largest transaction was with the Clarence Valley Council in the amount of AUD 82 million. This loan will make it possible to finance water pipeline and wastewater treatment projects.

Central and Eastern Europe: EUR 943 million (+107%).

New lending in the Central and Eastern European markets clearly showed signs of slowing down in the first quarter of 2008, although overall growth was satisfactory relative to 2007.

New lending volume doubled relative to end-June 2007. The weakness recorded at the beginning of the year was offset by solid growth in June following a narrowing of spreads that began in May.

In H1 2008, several loans totaling EUR 104 million were concluded with local Romanian authorities. A EUR 20 million loan helped to finance the water distribution and treatment systems for Vaslui County, and a EUR 26 million loan enabled the city of Oradea to replace 10 streetcars. Dexia also concluded a EUR 100 million loan with the Czech government.

United Kingdom: EUR 643 million (GBP: 500 million) (-10%). Excluding currency effects, new lending volume increased by 4%.

The British market felt the full impact of the financial crisis. Banks could only compete for tender offers. In this less competitive environment, 70% of all new lending was generated during the second quarter of 2008.

Excluding currency effects, new lending volume in the first half of 2008 was comparable to the first half of the previous year. Moreover, the new lending was spread more evenly over the local authorities (EUR 305 million) and public housing (EUR 328 million) segments.

The debt restructuring business, which totaled GBP 316 million in the first half of 2008, largely surpassed its GBP 137 million level of the previous year. This favorable performance was due primarily to the acquisition of the public housing loan portfolio of Bradford & Bingley, which made it possible to generate structured loans on the new portfolio.

The EUR 111 million loan to Devon and Cornwall in February was among the major transactions concluded during the first half.

Israel: EUR 119 million (ILS 636 million) (+96%)

The short-term lending market proved to be relatively disappointing, as demand from other agencies failed to materialize, in contrast to the forecasts at the beginning of the year. New lending in the long-term market picked up recently after a relatively slow start to the year.

The strong growth can be attributed to the conclusion of new loans totaling EUR 68 million (ILS 364 million) to regional councils and municipalities in May and June and the ongoing market penetration into the water distribution segment, notably with the conclusion of two loans in February and June totaling EUR 40 million (ILS 216 million).

Major transactions in H1 2008 included a EUR 12 million (ILS 65 million) loan to the regional council of Mate Andra in May and a sizeable EUR 8 million (ILS 45 million) loan to the municipality of Jerusalem in June. Dexia also granted a EUR 25 million (ILS 136 million) loan to the water distribution company H2ID in June.

Italy: EUR 1,615 million (+59%)

In 2007, new lending to the Italian public sector contracted significantly, mainly as a result of a debt ceiling imposed by the central government on local authorities. In the first half of 2008, the market trend remained essentially unchanged. Another factor weighing on the market is the application, effective June 25, 2008, of a law passed by the central government prohibiting local authorities from using derivative products or contracting loans with a single, lump-sum repayment or having maturities greater than 30 years.

As a result, Dexia recruited new staff and broadened its target client base to include new segments such as multi-utilities, healthcare entities, public housing, the public real estate market, port authorities and universities. This diversification has already borne fruit, as transactions concluded in the first half of 2008 included a EUR 50 million loan granted to SMAT, the private water services concessionaire for the province of Milan. In the first half of 2008, Dexia participated in the multi-stage financing of the region of Campania for EUR 889 million, and was the lead manager and sole bookrunner for the 20-year bond issued by Casa del Trentino in the amount of EUR 75 million.

In the debt restructuring business, noteworthy transactions included the 40-year amortizing swap with the City of Rome in the amount of EUR 200 million. This swap is linked to the EUR 1,400 million bond restructuring transaction by the City of Rome organized by Dexia in December 2007. The transaction is the single largest bond issue ever made by a local authority in Italy.

Japan: EUR 4,706 million (JPY 758,289 million) (+102%)

The fluctuations in new financing volume are due to the seasonal nature of the Japanese market, which is very dynamic in the spring, contracts significantly just before the end of the first half, then picks up again in the fall.

Thus even though no new loans were made in June, Dexia's financing activities were especially robust in March, April and May, with total volume of JPY 535 billion (including JPY 469 billion in loans and JPY 66 billion in bonds) during this period. The significant increase in financing volume compared to the first half of 2007 was largely due to the launch of the refinancing program for a portion of the local authority debt held by the central government. This program enables the local authorities to pay down their high-rate loans (above 5%) with the Ministry of Finance at no cost and refinance them in the market. Dexia therefore benefited fully from this governmental program, which accounted for approximately 31% of the first-half lending volume, and which is expected to continue over the next two years with a total volume of JPY 5,000 billion. Meanwhile, Dexia more than doubled its client base in the first half (currently 56 clients with outstanding loans), with a growing number of medium-sized cities in particular.

The bond purchasing volume totaled JPY 220 billion, including JPY 41 billion for bonds issued by public agencies. The market's volatility made it possible to significantly enhance the bond portfolio's average return.

Mexico: EUR 335 million (MXN 5,468 million) (+88%). Excluding currency effects, new lending rose by 110%.

The Mexican public sector market remains very competitive, with many banks offering relatively aggressive rates. Among the noteworthy transactions in the first half of 2008 was the one signed by the federal state of Mexico with a subscribed amount of MXN 7,000 million and a remaining credit facility of MXN 5,000 million (the difference will be securitized or syndicated during the second half of 2008). This refinancing agreement nevertheless marks the end of the major debt restructuring transactions for Mexico's large federal states. Another noteworthy transaction was the debt securitization (along with Goldman Sachs) on behalf of the federal state of Mexico, a transaction that was successfully concluded at end-January 2008.

In this favorable environment, Dexia Credito Local Mexico nearly doubled its new lending volume relative to the first half of 2007.

Dexia is currently working on more complex structured finance transactions, such as financing the construction of police barracks for the state of Guerrero, a MXN 318 million mandate received in H1 2008. Dexia is currently entering the second phase of its development, with a new market penetration goal (aimed at medium-sized municipalities and states) and the strengthening of its commercial franchise (clients, banks, partners, etc.). Several transactions are expected to be completed soon with the state of Nuevo Leon.

Iberian Peninsula: EUR 2,151 million (+142%)

In relatively anemic markets, Dexia Sabadell turned in excellent commercial performances in the first half of 2008. This overall performance reflected several commercial successes in both the Spanish and Portuguese bond and long-term lending markets.

In the bond market, Dexia Sabadell structured four major issues, notably those offered by the region of Madeira, the region of Madrid and the Institut Catalan des Finances (the financial arm of the region of Catalonia). Dexia Sabadell also played a preponderant role in the private-sector issues of Energy of Portugal (EUR 100 million) and Porto Metro (EUR 100 million).

Dexia has also concluded significant loans, including one to the Generalitat de Valence for EUR 300 million, another to the Institut des Finances of the Generalitat de Valence for EUR 67 million and the transaction signed with Mancomunidad de Canales de Taibilla, a public-sector entity administered by the Spanish government, for EUR 70 million. Other major transactions were also signed with the Region of Rioja, the "Institut de la Vivienda de Madrid", the ports of Madeira, the Region of the Balearics and the city of Seville.

Lastly, Dexia Sabadell increased its client penetration rate, notably in the cities and provinces segment (11 new clients) and its overall market share.

In all, Dexia Sabadell recorded its strongest-ever first half results, thereby strengthening its leadership position in the Iberian market.

International Headquarters: EUR 173 million (-68%).

New lending activity contracted in the first half of 2008 compared to first half of 2007.

In response to the liquidity crisis and to optimize its refinancing, the Group disposed of assets to generate capital gains and booked others in the AAA-rated entities (in particular Dexia Lettres de Gage and Dexia Kommunalkredit Deutschland). Major transactions in the first half included a EUR 108 million loan to the State of Connecticut and a EUR 28 million loan to the city of Kiev.

Sweden: EUR 525 million (SEK 4,938 million) (+32%).

The dynamic growth in lending activity in January and February 2008 was due in part to the disappearance of a flagship product offered by competitors. Volume then slowed at the end of the first quarter. In the second quarter, the Swedish central bank's raising of its benchmark rates to 4.5% enabled a market adjustment, and new lending gradually picked up.

Total new lending in the first half of 2008 is close to its whole 2007 level. The favorable performance of the financial engineering activity is also noteworthy, since three of the eight transactions completed involve structured products.

The major first-half transactions included a EUR 100 million (SEK 932 million) loan to Reykjavik Energy and a EUR 32 million bond issue in Iceland.

Switzerland: EUR 253 million (CHF 405 million) (-45%).

In the first half of 2008, the Swiss public finance market’s apparent dynamism was largely due to the disposal by Swiss Life of its portfolio. Adjusted for this transaction, the market actually contracted sharply in the first half.

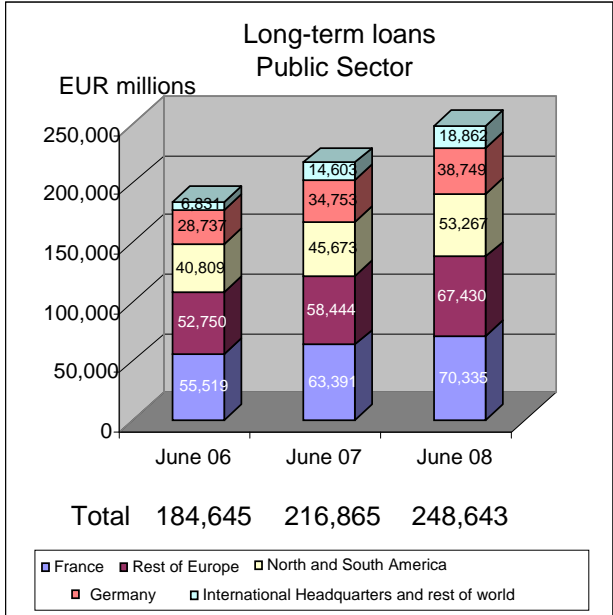
From a commercial perspective, the focus is on the development of structured products.

Major first-half transactions included Dexia’s acquisition of a portion of the Swiss Life portfolio (EUR 211 million). Also, five of the country’s 26 cantons became new Dexia clients in the first half.

Austria (49%-held subsidiary accounted for by the equity method): EUR 1,737 million (-14%)

In Austria, the drop in new lending during the first half of 2008 was due to the clear slowdown in bond purchases by the KIB subsidiary in Cyprus. Business volume in Central and Eastern Europe was maintained through the purchase of Polish and Romanian government bonds (EUR 80 million and EUR 60 million, respectively), a EUR 13 million loan to the Republic of Bashkortostan in the Russian Federation and several transactions in Ukraine involving the sovereigns and the import/export bank (Ukreximbank).

1.1.2.1.b Outstanding long-term loans



Outstanding long-term “public sector” loans amounted to EUR 249 billion at June 30, 2008, a 15% increase compared to June 2007 (20% at constant exchange rate).

The increase in outstanding loans was particularly strong for France (11%), North and South America (36% at constant exchange rate), Germany (12%), Japan (152%) and Great Britain (56%).

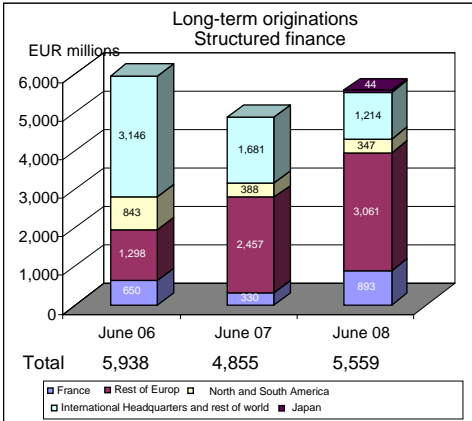
The debt restructuring activity amounted to EUR 5.4 billion at June 30, 2008, and was spread among France (81%), Germany (10%), the United Kingdom (8%) and the Iberian Peninsula (1%).

1.1.2.2 Short-term lending

Outstanding short-term loans amounted to EUR 8.8 billion at June 30, 2008, down 19% over the previous year. After France, which accounts for 92% of the total, most outstanding short-term loans are booked in Germany (4% of the total).

1.1.3 Structured finance

1.1.3.1 Originations



Total originations in the structured finance sector rose by 14% to EUR 5,559 million in the first half of 2008. The growth was particularly strong in France and Spain. Volume at the International Headquarters, which was reduced by a half, was negatively affected by the sharp drop-off in bond purchases consistent with the strategy of focusing on “commercial” transactions.

Business review by location:

France: EUR 893 million (+170%). In H1 2008, Dexia generated record business volume in the **PPP financing** market by acting as the Mandated Lead Arranger (MLA) on six transactions with a combined value of EUR 495 million, including three new prisons for the Ministry of Justice (Dexia’s share EUR 142 million) and two hospitals at Saint Nazaire and Annemasse (underwriting of EUR 375 million and total final share objective of EUR 274 million).

In the **renewable energy sector**, Dexia acted as MLA to finance a wind farm in the Laval region (EUR 24 million). The bank also acquired the 20 MW wind farm at Fierville in order to offset the carbon emissions resulting from energy consumption at the office buildings of Dexia Crédit Local and its subsidiaries (total financing of EUR 36 million).

In the **infrastructure sector**, Dexia financed, as the MLA, the A88 highway (final share objective of EUR 68 million) as well as the Toulouse airport (EUR 115 million).

Dexia also acted as the exclusive arranger for the optimized lease of the new regional express train order for the Languedoc Roussillon region in the amount of EUR 137 million.

Germany: EUR 225 million (-38%). Seven transactions were signed in H1 2008 with municipal companies in the energy/environment sector, with a total volume of EUR 177 million. Dexia was also the exclusive arranger in a PPP to finance the construction of a new Ministry of Finance building for the Land of Brandenburg. The bank also received a mandate to act as the financial advisor to a municipal companies’ subsidiary for the financing of a 400 MW offshore wind farm.

North and South America (excluding Mexico): EUR 347 million (-10%). (USD 536 million; +4% at constant exchange rate). In the **thermal energy sector**, three financing transactions, including one as MLA (for Kleen Energy Systems, which owns a gas-fired plant in Connecticut), were concluded with a total volume of USD 217 million. In the **renewable energy sector**, four transactions were concluded with a total value of USD 172 million. They included two financing participations in wind farms (USD 74 million) and two financing transactions as MLA for hydroelectric projects, one in Chile and the other in Mexico (total of USD 98 million). In the **energy sector**, Dexia also provided USD 32 million in financing for a drilling vessel to be delivered to Petrobras, and USD 30 million to finance an LNG regasification terminal in Mississippi.

In the **environmental sector**, Dexia acted as MLA for a USD 50 million loan by the Inter-American Development Bank to SABESP (Sao Paulo water company).

Australia: EUR 340 million (+75%) (AUD 564 million), essentially in the energy sector. Dexia acted as MLA for the refinancing of Babcock & Brown Power, with an underwriting of AUD 281 million and with a final share objective of AUD 250 million. Dexia also took part in the financing of Origin Energy for AUD 70 million and financed AUD 100 million of the construction of two coal-fired plants in Western Australia.

Dexia also provided corporate financing to Babcock & Brown in the amount of AUD 50 million.

Central and Eastern Europe: EUR 403 million (+169%). Dexia signed a bilateral financing agreement with Hrvatske Autoceste (HAC), Croatia's main highway operator, underwriting EUR 150 million with a final participation target of EUR 75 million. Dexia also provided EUR 38 million in financing to PKE (a Polish regional company in the energy sector) and financed the Bina Istra highway in Croatia for EUR 45 million.

United Kingdom: EUR 529 million (-25%) (GBP 412 million). As MLA, Dexia financed the acquisition of Angel Trains by a consortium led by Babcock & Brown, underwriting GBP 215 million with a final share objective of EUR 200 million. The transaction will be booked jointly by Dexia Crédit Local London Branch and Dexia Crédit Local in Paris.

Dexia participated in five Private Finance Initiative (PFI) financings (U.K. equivalent to PPPs), including three as MLA. As the exclusive MLA, Dexia arranged school financing in Scotland in the amount of GBP 114 million (GBP 75 million final share objective) and the refinancing of five university residences for a total of GBP 119 million. Finally, Dexia underwrote 50% of the PFI financing for schools for the Knowsley Metropolitan Borough Council, with a final share of GBP 75 million.

Meanwhile, Dexia provided GBP 34 million in acquisition financing for Biffa (waste collection and processing).

Italy: EUR 640 million (-15%). In the **infrastructure sector**, Dexia participated in three transactions as the MLA: financing for Babcock & Brown's acquisition of Terminal Rinfuse (port business), underwriting EUR 120 million with a final share objective of EUR 47 million; EUR 150 million to the highway concessionaire Strade dei Parchi (Atlantia Group); and EUR 33 million in financing (partially guaranteed by SACE) to build the Istanbul subway.

In the **energy sector**, Dexia acting as the MLA provided EUR 85 million in financing on behalf of TERNA (national power transmission network) and acquired EUR 25 million of the company's bonds. Dexia also acted as MLA and provided EUR 27 million in financing for a wind farm in Sardinia.

In the **environmental sector**, Dexia took a final share of EUR 50 million in the financing of Irisacqua (water distribution company for the province of Gorizia) and a EUR 75 million share in the financing of ACEA spa, the utility for the City of Rome.

Japan: EUR 44 million (+36%) (JPY 7,128 million). Dexia participated in its first PFI transaction in the amount of JPY 4,000 million to finance the international terminal of the Haneda airport, and financed a highway concession in Panama, guaranteed by Nexi, in the amount of USD 30 million.

Mexico: EUR 110 million (MXN 1,794 million) (no transactions as of June 30, 2007). Dexia signed its first two mandates as MLA, the first involving PPP financing for the Victoria hospital in the amount of MXN 889 million (project developed by Marnhos, a Mexican construction company, and Dalkia) and the second involving a MXN 2,020 million underwriting of PPP financing for a highway (final share goal of MXN 905 million).

Iberian Peninsula: EUR 1,148 million (+177%). Dexia signed two major transactions as MLA in the **infrastructure sector**. Dexia Sabadell financed a highway in Catalonia with a final share of EUR 82 million, split with the International Headquarters. Dexia also hedged the interest rate risk for this transaction. It also refinanced the number 1 line of the Tenerife subway and financed the construction of the number 2 line for a final share of EUR 120 million. Meanwhile, Dexia Sabadell and Dexia Crédit Local Dublin Branch, in conjunction with FSA, participated in the refinancing of the Toledo-Consuegra highway in the amount of EUR 168 million.

In the **energy sector**, Dexia purchased EUR 100 million of bonds issued by Portugal's EdP utility. In the **renewable energy sector**, Dexia financed eight solar power facilities, with a final share of EUR 289 million. Dexia participated in five transactions as MLA, including the largest-ever refinancing of a solar power plant in Portugal.

In the **environmental sector**, Dexia acting as the MLA financed EUR 205 million of the investment program of EMASESA (the Seville regional water utility) and was the MLA and sole lender in the EUR 59 million financing of Sacyr Vallehermoso for its acquisition of the Santa Cruz de Tenerife municipal water company.

International Headquarters: EUR 764 million (-49%). This decrease was due to the clear drop in bond purchases in accordance with the self-imposed limits placed on this activity. Bond purchases totaled EUR 150 million in the first half of 2008, compared with EUR 711 million the same period of the previous year.

In the **infrastructure segment**, Dexia acted as the MLA, agent and interest rate swap provider on the refinancing of the Istanbul airport, with a final share of EUR 80 million (split with Denizbank). Dexia also took a EUR 30 million share in the refinancing of the Bina Istra highway in Croatia.

The following transactions were implemented in the **energy/environmental sector**: purchase of EUR 125 million in bonds issued by Israel Electric Corp, USD 150 million share in prefinancing of oil exports by Rosneft (Russian national company), USD 45 million to finance Lenenergo (Russian power producer and distributor) and USD 60 million to finance an LNG plant in Yemen. In the **renewable energy sector**, Dexia arranged the financing of a solar power plant in Spain, with a final share objective of EUR 73 million.

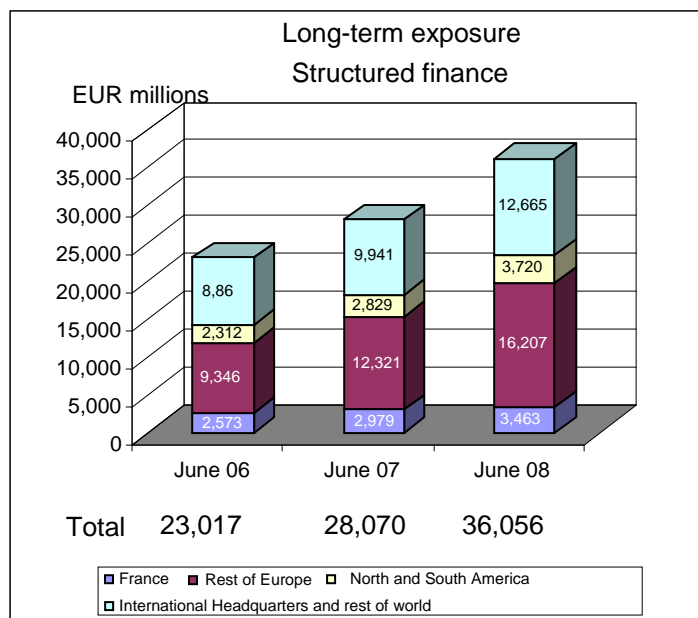
In the **asset financing sector**, Dexia acting as MLA provided EUR 38 million in financing for a bus fleet for Transports Publics Genevois in Switzerland (Dexia Crédit Local also provided the interest rate hedge for the transaction) and provided EUR 30 million in financing for the European rolling stock of Babcock & Brown.

In the **telecom sector**, Dexia provided USD 50 million in financing for Vimpelcom, Russia's second-largest mobile telecom operator, and USD 50 million to refinance Orascom Telecom Holding in Egypt.

Sweden: EUR 117 million (SEK 1,097 million) (no transactions as of June 30, 2007). Dexia made bond purchases of EUR 53 from Vattenfall (Swedish national power company) and of EUR 63 million from Stadtkraft, the Norwegian hydroelectric company.

Austria: EUR 455 million (+50%). Dexia provided EUR 21 million in financing for a PPP to build a highway in Vienna and a EUR 53 million loan to the city of Vienna's entity responsible for environmental protection. In Switzerland, the main transaction involved a EUR 122 million loan to Services Industriels de Genève.

1.1.3.2 Long-term exposure



Long-term exposure on the structured finance sector amounted to EUR 36 billion at June 30, 2008, a 28% increase over the previous year.

1.1.4 Insurance (Dexia Sofaxis)

Dexia Sofaxis collected EUR 363 million in premium income during the first half of 2008, up only 1.7% from the previous year's level, thanks to SOFCAP. The tightening in the hospital sector observed as of March 31 has been confirmed.

Total commission income through June 30, 2008 remained unchanged from the previous year at EUR 23 million, with the same differences between SOFCAH and SOFCAP, consistent with the insurance premium collections.

1.1.5 Deposits & asset management

Assets under management in connection with public and project finance amounted to EUR 11.3 billion as of June 30, 2008, essentially unchanged (+1%) relative to the previous year.

- In France, assets under management grew by a modest 3% year-on-year to EUR 7.3 billion as of June 30, 2008, including EUR 3.1 billion in mutual funds.
- In Italy, assets under management contracted by 5% to EUR 1.7 billion as of June 30, 2008.
- In Central and Eastern Europe, total deposits fell by 4% to EUR 1 billion as of June 30, 2008.
- In Israel, total deposits amounted to EUR 0.9 billion as of June 30, 2008, a 92% increase relative to the previous year.
- In the United Kingdom, the total deposits stood at EUR 0.2 billion as of June 30, 2008, down 16% year-on-year.

1.1.6 Funding¹ and Financial Markets

1.1.6.1 Funding

<i>Senior debt</i>	New issues in H1 2007 (in EUR million)	New issues in H1 2008 (in EUR million)
France		
Dexia Municipal Agency	8,942	8,458
Dexia Crédit Local	2,133	2,040
Italy		
Dexia Crediop	1,866	2,138
Germany		
Dexia Kommunalbank Deutschland	1,662	5,109
Subtotal - Europe	14,603	17,745
USA		
FSA -Financial products (GICs)	2,061	512
Total	16,664	18,257

⁽¹⁾ Funding figures include public and private placements and the retail and subsidized (EIB) markets, and exclude intracompany loans and financing transactions classified as short-term (<2 years).

During the first half of 2008, the Dexia Crédit Local Group borrowed EUR 18.3 billion in the long-term markets, compared with EUR 16.7 billion in 2007.

Excluding FSA, the total funds collected in the first half amounted to EUR 17.7 billion, with an average maturity of 5.6 years (compared with 7.7 years the previous year).

The volume of short-term financing transactions remained sustained, much like during the second half of 2007, underscoring investor appetite for short-term maturities. Overall, EUR 2.4 billion was raised through June 30, 2008, including EUR 1,408 million for Dexia Crédit Local.

The financing program was implemented as follows:

1.1.6.1.a Public issues

As of June 30, 2008	Dexia Crédit Local consolidated
Public issues	EUR 9.9 billion (+33.8% vs. 2007)
Average maturity	4.9 years

The public issues segment was reserved almost exclusively for the Dexia Group's AAA-rated issuers: Dexia Municipal Agency and Dexia Kommunalbank Deutschland.

The Dexia Covered Bond AAA-rated public issues activity continued to focus on the euro market, with five transactions. While Dexia Municipal Agency remained the leading issuer with the addition of three new benchmark maturities — 3 years (EUR 1.25 billion), 5 years (EUR 2 billion) and 7 years (EUR 1 billion) — the favorable performance of the German *Pfandbrief* market provided an opportunity to reposition Dexia Kommunalbank Deutschland as a benchmark issuer. This entity also issued 2-year (EUR 1.5 billion) and 10-year (EUR 1.25 billion) bonds, which were eagerly snapped up by investors looking for high-quality credits, resulting in oversubscribed order books despite the extremely volatile market conditions.

Along with its benchmark activity, Dexia Municipal Agency and Dexia Kommunalbank Deutschland regularly reopened their bonds in order to provide greater market liquidity and satisfy the increased demand from investors. The overallotments enabled Dexia Municipal Agency to raise EUR 1.8 billion on maturities ranging from 2010 to 2019. Dexia Kommunalbank Deutschland raised EUR 815 million on maturities ranging from 2010 to 2018.

Given the absence of any real arbitrage possibilities and limited demand from non-euro zone investors, the diversification of long-term funding by currency was limited during the first half. Overall, the equivalent of EUR 700 million was raised in non-euro markets. A total of USD 350 million was raised through reopenings of USD-denominated bonds. In the Swiss market, Dexia Municipal Agency launched a new 3-year offering (CHF 250 million) and reopened its 2017 bond.

Dexia Crédit Local raised EUR 95 million (CHF 150 million) in the Swiss public market for 2-year maturities, thereby satisfying one-time demand from institutional investors.

1.1.6.1.b Private placements

As of June 30, 2008	Dexia Crédit Local consolidated
Private placements	EUR 5.3 billion (-7% compared with 2007)
Average maturity	6.7 years

Through June 30, 2008, funds raised through private placements totaled EUR 5.3 billion, or 30% of the total volume issued (excluding FSA), a 7% decrease relative to 2007. The majority of the funds (71%) were raised by the Group's AAA-rated issuers.

In a financial market environment characterized by strong volatility and considerable uncertainty over credit spread trends, investors favored "liquid" public offerings over structured transactions, which involve taking positions on future interest rate moves.

Dexia Kommunalbank Deutschland raised EUR 2 billion in H1 2008 (up 23% relative to 2007), with an average maturity of 7.1 years. The company's change in fund-raising strategy led to a rebalancing of funding sources in favor of public issues (61%) at the expense of private placements (39%).

In the first six months of 2008, Dexia Municipal Agency raised EUR 1.7 billion, with an average maturity of 8.6 years, representing 20% of total long-term resources collected by this issuer. The volume of funds raised was unchanged from the previous year. Private placement funding was concentrated mainly on "vanilla" offerings, confirming the trend toward fewer structured format issues that was observed in June 2007.

Dexia Crédit Local raised EUR 1.4 billion in H1 2008 (down 17% relative to the previous year), with an average maturity of 3.7 years, or 68% of the total volume collected by the issuer. This decrease was due to greater investor demand for shorter maturities, as reflected in the EUR 1.4 billion in additional issues in the short-term segment (compared with EUR 23 million as of June 30, 2007). Overall, the total short- and long-term resources collected by Dexia Crédit Local through private placements rose by 68% in the first half of 2008.

Dexia Crediop collected EUR 118 million in the Italian institutional private placement market, with an average maturity of 5.2 years, representing 5.5% of the total funds raised by the issuer.

1.1.6.1.c Retail issues

As of June 30, 2008	Dexia Crédit Local consolidated
Retail issues	EUR 2 billion (+64.5% compared with 2007)
Average maturity	4.9 years

Dexia Crediop was very active in the Italian retail segment, where a total of EUR 2 billion was raised with an average maturity of 4.9 years. This volume represented 94.5% of the funds raised by Dexia Crediop in the first half of 2008.

1.1.6.1.d Subsidized funding

As of June 30, 2008	Dexia Crédit Local consolidated
Subsidized funding	EUR 600 million (+71.4% compared with 2007)
Average maturity	9.4 years

Dexia Crédit Local signed two new refinancing agreements with the European Investment Bank (EIB). The largest involves a new tranche of the EIB partnership on the “ANRU” (National Agency for Urban Renewal) theme.

Overall, Dexia Crédit Local raised EUR 561 million, with an average maturity of 9.2 years, drawing from this EIB facility eight times.

Dexia Kommunalbank Deutschland carried out 13 transactions with “supranational” counterparties for EUR 39 million over 12 years. Twelve transactions were completed with KfW and one with Rentenbank.

As part of its Guaranteed Investment Contracts (GIC) program, FSA issued USD 807 million (or equivalent of EUR 512 million), with an average maturity of 2.4 years.

1.1.6.2 Financial Markets

The main changes in the financial markets during the first two quarters of 2008 were:

- In the second quarter, inflation fears and renewed optimism regarding a possible end to the financial crisis resulted in surging interest rates across the yield curve, with average increases of 70 bp on USD-denominated bonds and 85 bp on their euro-denominated counterparts. This trend picked up at the end of the quarter after the ECB announced a 25-bp increase in its benchmark rate in July in order to dampen inflation pressures caused by rapidly rising commodity prices.
- Western equity markets continued to fall by an average of 6%. After a brief rally at the beginning of the second quarter when JP Morgan acquired Bear Stearns, inflation fears weighed on analysts’ corporate earnings estimates and drove the markets.
- The short-term credit spread trend was dominated by widening. June was a difficult month, as the trend of widening spreads begun in mid-May persisted. Indeed, after reaching a high of 160 bp in late March, the spread on the ITRAXX Main narrowed to 65 bp in May before rising anew to its current level near 100 bp. The economic environment was unfavorable, marked by rising inflation and slower growth. Over the medium term, inflation is positively correlated to spreads, while economic growth is negatively correlated. Moreover, the economic and financial climate remains morose, as monoline insurance companies are once again being battered even as banks record losses and cut dividends in the period preceding second-quarter earnings reports. These factors could result in the spread on the ITRAXX Main widening toward the 120 bp level.

Key business results by business line were as follows:

- **Long term funding:**

In an environment marked by considerable financial market volatility and pronounced uncertainty with respect to credit spread trends, investors favored “liquid” public transactions over structured transactions, which involve taking a position on future interest rate trends.

In the first half of 2008, Dexia Crédit Local Group borrowed EUR 18.3 billion on the long-term market, compared with EUR 16.7 billion the previous year. Excluding FSA, total funds raised amounted to EUR 17.7 billion, with an average maturity of 5.6 years (compared with 7.7 years at end-June 2007) (see 1.1.6.1 for the breakdown of issues).

- **Credit spread portfolio, public sector portfolio, credit structuring & trading:**

The turmoil in the credit markets by and large carried over to the second quarter of 2008.

The context of a structurally depressed market has persisted for nearly one year, with substantial volatility in all segments: financial, emerging markets, municipal/infrastructure and corporates.

Although index spreads narrowed somewhat during the second quarter, they were still very high at the end.

The quarter was marked in particular by deterioration in the monoline insurance company sector. CDS spreads surged following the announcement of downgrades by various rating agencies to finish the quarter at the following levels: 2,790 bp for the MBIA 5-year CDS, 2,182 bp for the Ambac 5-year CDS and 677 bp for the FSA 5-year CDS.

While the market appears to have factored in the reduced risk of bank defaults, the financials sector remains very unsettled and investors are still very cautious.

Swap spreads are still at very high levels, having reached new highs during the quarter: 70 bp on the EUR 1-year, 110 bp on the GBP 1-year and 93 bp on the USD 2-year.

As for money market spreads, the TASS database, which is representative of A-rated financial institutions, finished the quarter at 138 bp, following a record high of 153 bp early in the second quarter and 142 bp as of March 31. The ITRAXX subordinated S9 for financial institutions totaled 150 bp at end-June, compared with 206 bp at end-March.

Meanwhile, credit spreads on the JP Morgan emerging market index hovered around 296 bp at end-June, essentially unchanged from the end of the first quarter.

The ABS sector remains hard hit, and a recovery in the primary market or a sustained turnaround in the secondary market is hard to imagine.

- **Public finance market engineering:**

The Public Finance business line's structured and covered debt activities (Dexia Crédit Local and its subsidiaries) generated EUR 6.8 billion on 744 customer transactions (including EUR 4.2 billion in France), a 29% decrease relative to the first half of 2007. France, with a 44% drop, accounted for the decline in nominal volume, as activity remained more or less stable or increased slightly in the other main markets (Germany, United Kingdom and Spain/Portugal). This decline was in large part due to French local elections in the first quarter and significant fixed income market volatility in the second. In a noteworthy development, the bank completed its first covered debt transaction indexed for inflation on behalf of an Israeli client (city of Jerusalem).

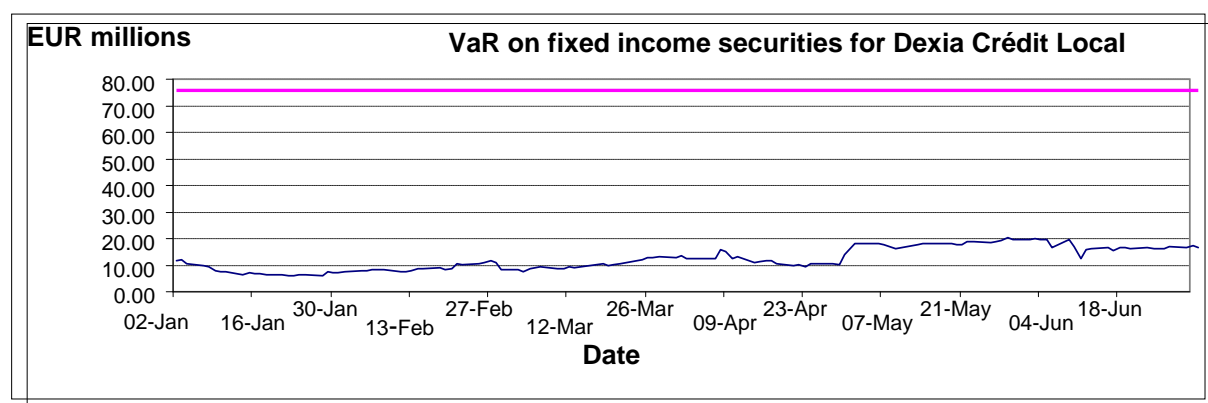
The swaps business with Project Finance clients by Dexia Crédit Local Paris (including the international headquarters) and Dexia Crédit Local London grew significantly in the first half of 2008, in line with the annual target, after a very robust performance in the first quarter.

Macro-hedging of sales-related payments and fixed-income trading performed well in the second quarter of 2008.

- **Short-term risk management and cash & liquidity management:**

The cash and liquidity management business remained sustained at the end of the first half.

- **The graph below presents Dexia Crédit Local's consolidated Value at Risk (VaR) from January 2 to June 30, 2008:**



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 600 million in interest margin and present value premium, up 45% in comparison with the same period in 2007. FSA remains the leading bond insurer for the U.S. public sector. In other markets, the policy terms and pricing have generally improved, even though opportunities have remained limited given the paucity of new issues.

1.1.7.1 Municipal finance: USD 511 million (+147%)

United States: USD 470 million. New issues in the first half of 2008 totaled USD 222 million, down nearly 4% from H1 2007. The penetration rate on credit enhancements was around 24% in the first half of 2008, compared with 48% the previous year. In the first half of this year, FSA had a nearly 62% market share. In terms of new contract volume in the first half, FSA wrote 1,714 new policies on U.S. primary and secondary market issues totaling USD 40 billion. Nearly 97% of the net exposures on this business activity are rated single A or higher. During the first half, FSA guaranteed USD 5 billion in municipal bonds, notably in the water distribution and wastewater treatment segments. Major transactions included credit insurance on USD 414 million in senior and subordinated bonds of the Pittsburgh Water and Sewer Authority and a USD 521 million transaction with the Sacramento Municipal Utility District.

International: USD 41 million. In an environment marked by limited market liquidity for infrastructure bonds, FSA carried out loan and intra-portfolio transactions. In June, FSA guaranteed Polish bonds valued at JPY 25 billion (USD 235 million).

1.1.7.2 Asset-backed securities (ABS) and financial products

ABS activity: USD 89 million (-44%)

United States: USD 68.5 million. During the first half of 2008, the level of new U.S. bond issuance was relatively low. In that context, FSA's strategy was to focus on the least risky transactions. It guaranteed two bond issues during this period, one for CPS and the other for AmeriCredit, with a total value of USD 994 million. In the Collateralized Debt Obligations (CDO) market, FSA insured a U.S. Collateralized Loan Obligation.

International: USD 20.8 million. In Europe, new issues fell off dramatically as a result of poor liquidity in the Asset-Backed Security / Residential Mortgage Backed Security (ABS/RMBS) market. Another possible factor for the decline may have been market jitters with respect to monoline insurance companies and competition between the British and EU approaches to repurchasing bonds in a way that would enable banks to substitute government bonds for RMBS.

Financial products: USD 0 million (-100%)

FSA's activity in this segment was limited and cannot improve without greater liquidity. FSA guaranteed nearly USD 635 million in Guaranteed Investment Contracts (GICs) in the second quarter of 2008, but only purchased USD 24 million in short-term financial assets. As a result, the present-value premiums were negative in the first quarter and nearly nil for the first half.

1.2 Risk review

As in 2007, the first half of 2008 was marked to a large extent by the financial crisis that erupted at the end of the first half of 2007 in the United States. The impact was even greater in the first half of 2008, given the widening of credit spreads. Overall, the main areas of concern remain similar, notably for FSA: the deterioration in default rates on the HELOCs and Alt-A's of the insured portfolio, deterioration in the marked-to-market credit default swaps (CDS), increase in the reserve for negative other comprehensive income (OCI) on financial products, substantially higher provisions for the insured portfolio (raised to USD 888 million from USD 98.1 million as of December 31, 2007) and USD 1,042 million in impairment charges before taxes on financial products resulting in an operating loss estimated at USD 316 million.

Several decisions have been announced: FSA was granted a USD 5 billion liquidity facility to enable it to withstand scenarios of deteriorating liquidity for financial products.

A review of FSA's activity and the risks borne by the asset-backed securities (ABS) and financial products led to the cessation of ABS activities, a USD 300 million capital increase and a resumption of the Financial Products business as part of the banking activities.

The strategic review of FSA's activities carried out during the first half led to greater risk monitoring. Regarding any future business activity, it will largely depend on events in the United States, the overall real estate market, the delinquency rate on subprime and prime mortgages, with concerns focused on certain market segments such as first-lien Alt-A and Option ARMs. The assumptions underlying the provision calculations for the Residential Mortgage Backed Securities portfolio are based on the following U.S. real estate market recovery scenarios:

- for HELOCs, a continued high default rate through mid-2009 and a return to normal beginning in mid-2010;
- for transactions in which the collateral is a second mortgage, a continued high default rate through mid-2009 and a gradual return to normal in mid-2010;
- for transactions where the collateral is a first mortgage, a continued high default rate through early 2010 and gradual return to normal in early 2011.

Any change in the above-referenced scenarios could result in the need to book additional provisions. However, the portfolio's relatively rapid expiration, approximately 3.5 years, should also be kept in mind.

As for Dexia Crédit Local (excluding FSA), the bulk of the changes during the first half also involved the AFS reserve and, to a lesser extent, the mark to market valuation of trading positions, with stabilization observed in the second quarter.

In terms of liquidity, the ratios monitored by Market Risk Management were satisfied despite the difficult environment. The improved cash management at the level of Dexia Group, thanks to the centralization of ECB refinancing at Dexia Banque Belgique, led to a sharp increase in intragroup exposures (repos, securities lending, etc.) and a marginal weighted risk given the effect of collateralization.

1.2.1 Credit risks

In terms of methodology, the practice is the same as that used for the 2007 annual report, since the data presented below are consistent with IFRS 7, which is based on the concept of maximum credit risk exposure (MCRE). The credit risk exposure is evaluated after taking into account mitigation techniques (guarantees, mortgages, asset disposals, etc.), in accordance with articles 92 and 93 of European Directive 2006/48/EC (transposition of Basel II agreement). The calculation of weighted exposure amounts is adjusted as soon as these mitigation techniques allow for a reduction in the weighted exposure. Credit risk exposure is also determined net of any special provisions that may be booked.

In terms of volume, the MCRE of Dexia Crédit Local (excluding FSA) increased by 16% (+EUR 63 billion) compared with December 31, 2007 to reach EUR 455 billion.

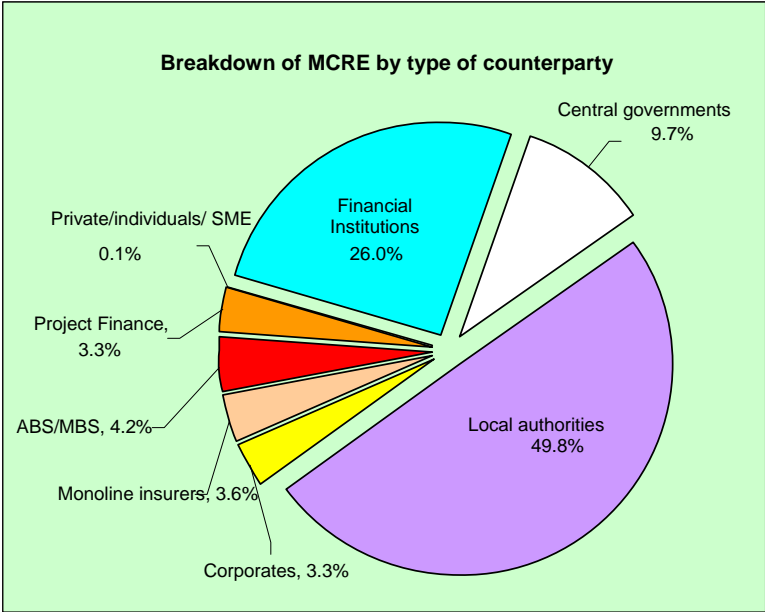
In terms of counterparties, the 76.5% increase in credit exposure to banks (which represented 26% of the total as of June 30, 2008, compared with 17.3% as of December 31, 2007) resulted mainly from Dexia Crédit Local's commitments to other Dexia Group banking entities (+314%) in order to optimize cash management.

Credit exposure to local authorities and their agencies rose by 7.7% in volume (+EUR 15.9 billion) to EUR 223.8 billion, providing further evidence of the Dexia Group's growth in this client segment, where it is the global leader. This exposure accounted for 49.8% of the total as of June 30, 2008, compared with 54.1% as of December 31, 2007. The relative share of credit exposure to States fell from 11.5% to 9.7%.

The credit exposure of Dexia Crédit Local (excluding FSA) on monoline insurers accounted for 3.6% of the total as of June 30, compared with 3.9% as of December 31, 2007. In fact, 77.5% of this exposure is on FSA (AAA). Exposure to Asset-Backed Securities / Mortgage Backed Securities (ABS/MBS) contracted by 15.6% and now accounts for only 4.2% of the total.

Among other client segments with less significant volume, the robust increase in credit exposure to project finance (+27.1% during the first six months and a near two-fold increase during the past 18 months) is noteworthy, as it now accounts for 3.3% of Dexia Crédit Local's overall exposure. Meanwhile, the exposure to corporates declined by 9% in volume and accounts for only 3.3% of the total.

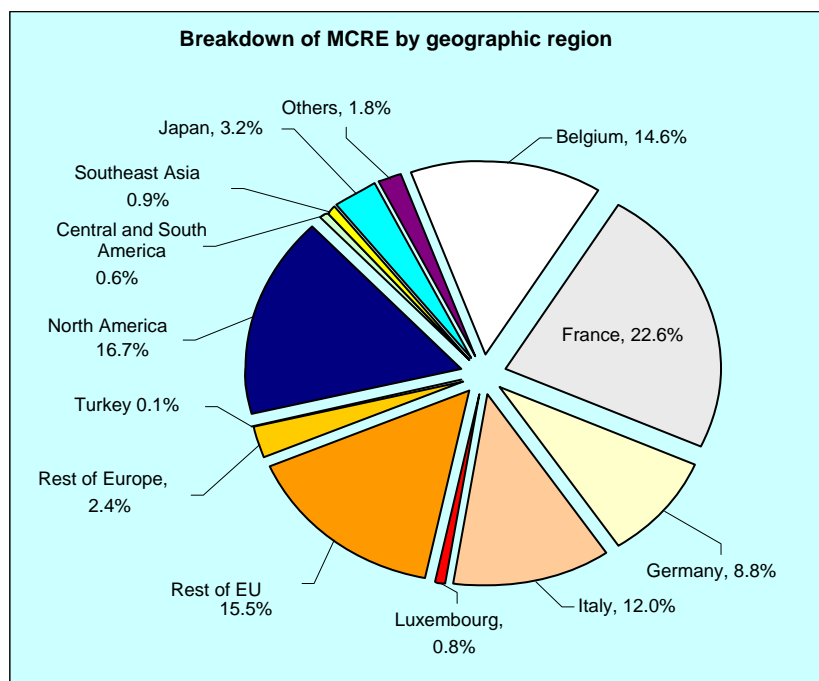
Dexia Crédit Local consolidated data (excluding FSA)



In geographic terms, the breakdown by major regions remains unchanged: 76.6% of the MCRE was in the European Union as of June 30, 2008, compared with 75.1% as of December 31, 2007. The largest increase was in Belgium (+ EUR 48.4 billion) as a result of intragroup transactions carried out to optimize cash management. After Belgium, where the exposure rose by 14.6%, France contributed the largest volume increase (3.6%, or EUR 3.6 billion) in Europe, even though France has long been a mature market for Dexia and the local public sector went through its electoral cycle (temporary suspension of any new decisions). Dexia's presence in one of its original markets therefore remains very solid.

North America's credit exposure of EUR 75.4 billion represented 16.7% of the total as of June 30, 2008, down from 17.3% as of December 31, 2007, despite a remarkable 13.4% increase of EUR 8.9 billion, given the euro's gains against the U.S. dollar.

Other noteworthy regional developments included Japan's 40.4% growth in credit exposure, with that country now accounting for 3.2% of the total for Dexia Crédit Local.



The breakdown of credit exposure (EUR 455.4 billion) by **type of counterparty and rating** is as follows:

1. 85% of credit exposure (EUR 385 billion) is comprised of three types of counterparties:
 - 49% by the local public sector, including local authorities and their agencies (EUR 223.8 billion), of which 38% rated AAA and 30% rated AA+/AA/A-;
 - 26% by financial institutions (EUR 117.6 billion), including 15% on Dexia Group entities (EUR 68.4 billion), of which 77% rated AA+/AA/AA- and 19% rated A+/A/A-;
 - 10% by central governments (EUR 43.6 billion), including 69% rated AAA;
2. The balance (15% of Dexia Crédit Local's total credit exposure) is comprised of:
 - 4% ABS (EUR 18.9 billion), of which 84.7% rated AAA;
 - 4% of monoline insurers (EUR 16.1 billion), including 80.5% rated AAA (EUR 13 billion);
 - 3% corporates (EUR 14.9 billion) and 3% project financing (EUR 14.8 billion). Investment grade ratings apply to 62.4% of all corporates and 76.6% of project financing;
 - 1% other (accrual accounts, capitalizations, etc.).

The volume of non-performing loans under collection remained very low at EUR 178 million (volume even declined by 2%). Related provisions (EUR 63 million) were up 11%, but they remain very modest and well below their level at the end of 2006.

(EUR millions)	12/31/07	6/30/08	nominal change	% change
Non-performing loans under collection	182	178	-4	-2%
Related provisions	57	63	6	11%

Meanwhile, the securities review did not result in the booking of any impairment charges.

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

During the first half of 2008, the value of the long-term investment portfolio fell by 0.8% (EUR 5.6 million) to EUR 701 million as of June 30, compared with EUR 706 million as of December 31, 2007.

The amount of “specific impairment” charged to the portfolio holdings in the first half of 2008 increased by 32.5% (+EUR 18.6 million) to reach EUR 76 million.

1.2.3 FSA risk monitoring

1.2.3.1 FSA insured portfolio (net after reinsurance)

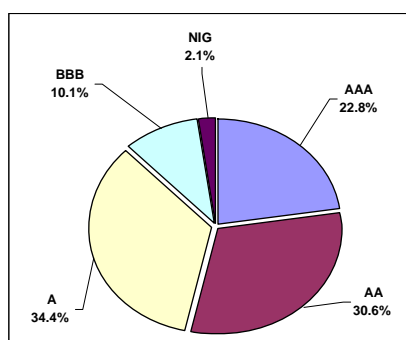
During the first half of 2008, FSA's total net commitments rose by 3.9%, or USD 16,815 million, to USD 443,327 million. Of that total, 64.7% corresponds to the public (municipal) sector and 35.3% to asset-backed securities and structured finance.

The portfolio contracted significantly in the first half of 2008, following a strategic review during the second quarter on the ABS activities that resulted in the termination of this activity at FSA in early August 2008 as well as the sluggish market conditions. Pooled Corporates was the only active segment in the first quarter of 2008, with structured transactions rated AAA and Super AAA. Similarly, auto loan transactions continued to be made until April 2008, which explains why these credit exposures declined less than in the other segments of this activity.

The two segments experiencing the strongest cutbacks in outstanding loans were Residential Mortgages (-17.7%) and Other ABS and Infrastructures, mainly as a result of the Financial Products activity (USD 1.1 billion decrease) and the reclassification of transactions insured by monoline insurers previously classified as Other Non Municipal and now classified in accordance with the nature of the underlying.

Unlike the ABS sector, the municipal sector recorded strong growth, since some monoline insurers experienced rating downgrades and FSA was able to take advantage of opportunities to insure transactions either as the primary carrier or in lieu of the above mentioned monoline insurers.

As of June 30, 2008, FSA's portfolio was as follows:



The quality of the insured portfolio deteriorated somewhat, with a decrease in the relative share of AAA rated credit exposures (decrease of USD 9.7 billion) in favor of A rated and non-investment grade transactions. This change resulted in part from the rating downgrade to RMBS transactions in two new sectors, the first lien Alt-A and Options ARMs on the one hand and the significant impact of rating downgrades on monoline insurers on the portfolio's breakdown by rating.

As of June 30, 2008, net provisions established by FSA totaled USD 888.2 million (compared with USD 98.1 million as of December 31, 2007).

This increase was due to the following factors:

- in the municipal sector, the main provisions involved 28% of the exposure to Jefferson County Sewer (USD 51 million) and a project financing transaction insured by XL (USD 18 million);

- in the Pooled Corporates sector, a USD 50 million provision was established for a synthetic transaction whose collateral consists of high-yield bonds that performed very poorly, in contrast to the rest of the portfolio of this type;
- to RMBS sector trends
 - the HELOCs portfolio, with an additional USD 465 million provision established after December 31, 2007 in light of the recurring decrease in draw-down rates and the forecasts of a rebound in real estate prices beginning only in 2009;
 - Other RMBS exposure, with a provision allocation of USD 207 million on eight new transactions in the second lien Alt-A and Option ARMs sector.

The bankruptcy of the BluePoint reinsurance company has no material impact on FSA. The credit exposure reinsured by BluePoint totaled USD 8.7 billion, including USD 227 million in Mortgage Backed Securities (MBS) sector exposure. These exposures will be acquired by FSA in exchange for USD 108 million, corresponding to premiums not yet received and provisions established by BluePoint on these outstanding loans, for which a collateral deposit was made entirely in favor of FSA. Based on currently available information, the amount of any additional provisions that FSA may need to establish on its outstanding exposures is immaterial.

Finally, as mentioned in the 2007 annual report, FSA and other financial institutions are being investigated by the U.S. authorities regarding their sales processes for Guaranteed Investment Contracts, which some counterparties have claimed represented a violation of applicable U.S. antitrust laws. Since these legal claims do not specify damages, accrued interest or other related costs, FSA cannot provide a reasonable estimate of the potential financial impact.

1.2.3.2 Financial Products portfolio

The credit exposure of the Financial Products activity totaled USD 16,863 million as of June 30, 2008, compared with USD 17,765 million as of December 31, 2007, including 4.8% rated non-investment grade (NIG).

This quality of this portfolio deteriorated significantly in the first half of 2008 (notably in the second quarter) to the extent that credit exposures rated AAA account for only 63.8% of the total at present, compared with 92% as of December 31, 2007.

This deterioration was especially evident in the RMBS sector, which represents 73% of the total portfolio, and in particular in the subprime and Alt-A segments.

As of June 30, 2008, impairment charges totaling USD 1,042 million (pretax) were recorded on the Financial Products portfolio for transactions where the full amount of the outstanding loan is not likely to be recovered at the end of the term.

This impairment charge amount corresponds to the entire marked to market valuation established as of June 30, 2008 on these loans (86 in all). However, FSA estimates after making projections on each of these transactions that the final pretax operating loss should be kept to only USD 316 million. The liquidity situation is also being closely monitored, with monthly reporting to the Group ALCO committee. In addition to the FSA's USD 1.8 billion in net cash, Dexia has provided the company with a USD 5 billion liquidity facility to withstand stress scenarios that could lead to unforeseen repayment requests.

1.2.4 Financial risk

1.2.4.1 Market and ALM risk

During the first half, only one market and ALM risk limit was breached; it was immaterial at the Dexia Crédit Local level and immediately corrected. The market and ALM risk exposures were held to within 27% and 40.6% of their respective limits.

1.2.4.2 Liquidity ratios

A new standard for measuring medium-term liquidity risk, based on a more dynamic approach and several stress scenarios of varying degrees entered into effect as of December 31, 2007.

The standard for measuring short-term liquidity risk remained unchanged.

Dexia Crédit Local did not exceed any limits. Moreover, in light of the current crisis, liquidity is being managed specifically at the level of Dexia Crédit Local and the Dexia Group.

1.2.4.3 Equity risks and the banking book spread

- The AFS Equities reserve amount was EUR 145.5 million as of June 30, 2008;
- the AFS reserve amount for the Credit Spread Portfolio (CSP) was negative EUR 1,005 million as of June 30, 2008, with a sensitivity of EUR 20.9 million for each basis point, essentially on banks, covered bonds and G-12 sovereign ;
- the AFS reserve for the Public Spread Portfolio (PSP) was negative EUR 1,267 million as of June 30, 2008, with a sensitivity of EUR 50.9 million for each basis point.

1.2.4.4 Trading portfolio

As of June 30, 2008, the Credit Structuring and Trading (CST) portfolio generated a loss of EUR 8.7 million, while the loss on the CSP Trading portfolio, which is set to expire, was EUR 54 million.

1.2.5 Operational risk

In the entire Dexia Crédit Local Group, 137 incidents were reported during the second quarter of 2008. Of these, 59 incidents had an immediate financial impact, including 29 with an impact of more than EUR 2,500.

The number of incidents increased by 90% in comparison with the previous quarter. Over a two-year period, however, the number of incidents with an impact of more than EUR 2,500 remained around the same: between 13 and 29 incidents per quarter and an average of 21 per quarter.

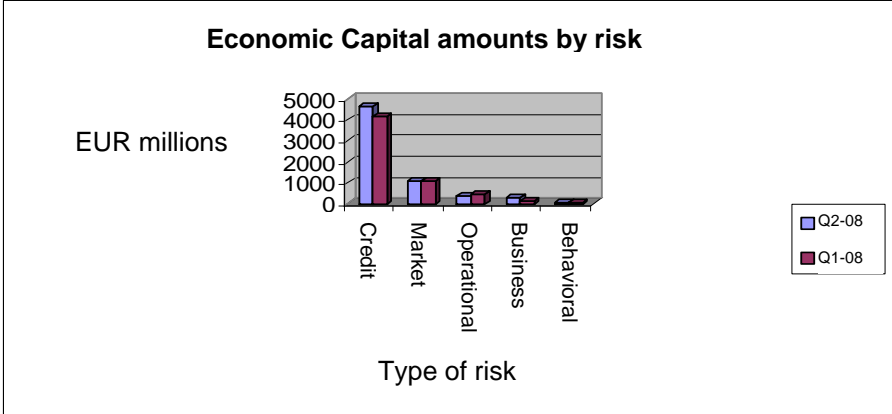
The potential loss remains marginal, but each incident gives rise to an appropriate action plan to avoid a recurrence.

1.2.6 The capital adequacy evaluation process

The scope of the calculation involves Dexia Crédit Local and its subsidiaries. The economic capital calculation was carried out at the level of Dexia to take into account the diversification and concentration effects. Economic capital was then allocated to Dexia Crédit Local's various business segments.

The economic capital allocated to Dexia Crédit Local consolidated rose from EUR 5,833 million to EUR 6,352 million between the first quarter (starting point = capital as of December 31, 2007) and the second quarter of 2008 (capital as of March 31, 2008).

The breakdown by type of risk is as follows:



1.2.7 Primary risks and uncertainties through year-end 2008

Dexia Crédit Local’s main risks and risk trends are presented above in section 1.2. They involve in particular the impact of the situation in the United States and the overall real estate market trend.

The subprime crisis, which became an international financial crisis that has affected the entire banking sector, as well as future economic trends could weigh on some of the bank’s activities in the months ahead.

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 2007. Nearly all changes result from the Group's international development, the details of which are provided in the notes to the condensed consolidated financial statements.

1.3.2 Change in accounting regulations

The consolidated financial statements of Dexia Crédit 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 basis for the preparation 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 2008

The major transactions having a material impact on the consolidated financial statements are presented below, and mainly involve the activities of the FSA subsidiary.

- Dexia Crédit Local carried out a company valuation of FSA using both the adjusted book value (ABV) and discounted cash flow (DCF) methods. These valuations showed that FSA's fair value is significantly below its carrying value in the consolidated financial statements, which reflect an overvaluation of EUR 1,181 million. Given the uncertainties surrounding the U.S. credit enhancement industry, Dexia Crédit Local decided to book a provision for the entire amount of this overvaluation. The company's carrying value in the consolidated financial statements of Dexia Crédit Local Group is now equivalent to the value of its shareholders' equity.
- Given the deterioration in the U.S. economic environment, FSA increased the amount of provisions significantly on its financial products and insurance portfolios, resulting in a substantial EUR 1.3 billion cost of risk increase during the first half of 2008. These provision allocations broke down as follows: EUR 628 million for the insurance segment and EUR 675 million for the financial products segment.

FSA also booked additional provisions totaling USD 2,103 million, or EUR 1,303 million, for the sector backed by home equity lines of credit (HELOCs) and Alt-A (near prime) and closed-end second-lien (CES) mortgages as well as on some special transactions.

- The cost of risk for the other Dexia Crédit Local activities remains extremely low, with an impact of EUR 18 million over the first six months of the year, demonstrating the good quality of the bank's portfolio.
- FSA's liabilities were revalued by EUR 494 million using the fair value option after the company's credit spreads widened sharply during the first half of 2008.
- Despite their conservative ratings and liquidity positions, the Credit Spread Portfolio (CSP) and Public Spread Portfolio (PSP) continued to be negatively affected by the overall credit spread widening trend in the first quarter of 2008 as a result of contagion from the crisis involving monoline insurers and U.S. investment banks. However, the unrealized or deferred capital gains and losses carried on the balance sheet stabilized during the second quarter.
- The EUR 2.4 billion deterioration in this line item after taxes during the first half of 2008 involved mainly assets held by FSA and the Dublin and New York branches. This change

resulted from the widening credit spreads in the Public Finance Utilities, banking sector and Mortgage Backed Securities segments.

- In the first half of 2008, Dexia Crédit Local Group recorded a tax gain resulting for the most part from tax changes in Italy, which enabled the Dexia Crediop subsidiary to book EUR 67 million in tax proceeds.

1.3.3.2 Earnings review

Consolidated **net banking income** was up 32.3% to EUR 1,463 million during the first half of 2008 (EUR 1,106 million in H1 2007).

Non-recurring items contributed to the apparent increase in net banking income during the first half. In 2007, net banking income (NBI) included a EUR 33 million capital gain on strategic equities and a - EUR 43 million valuation adjustment on FSA's Credit Default Swaps (CDS). In 2008, net banking income included significant impacts related to changes in the market value of debt carried at fair value through profit and loss, which increased by EUR 494 million during the first half in light of the deterioration in credit spreads. It also includes a symmetrical deterioration in the value of FSA's CDS in the amount of - EUR 129 million.

Adjusted for these items, Dexia Crédit Local's NBI was down 1.6%.

On a consolidated basis, **operating expenses** (including Sales, General and Administrative expenses and depreciation and amortization) contracted by 2.4% to - EUR 325 million, compared with - EUR 333 million during the first half of 2007. At a constant exchange rate (+EUR 9 million) and adjusting for the impact of the office move to La Défense in 2007 (-EUR 6 million), operating expenses would have increased by EUR 7 million (2.1%).

Adjusted gross operating income decreased by 3.2% to EUR 764 million during the first half of 2008 (EUR 789 million in 2007).

The adjusted operating ratio rose from 29.3% to 30.4%.

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

	H1 2007	H1 2008	Change
Credit (loans and securities held to maturity)	-5	-18	-13
Credit enhancement	-7	-628	-621
Securities available for sale (excluding equities)	+10	-675	-685
Total:	-2	-1,321	-1,319

Given the uncertainty surrounding the monoline insurance business in the United States, Dexia Crédit Local provisioned the full amount of its goodwill on FSA, a total of EUR 1,181 million.

Corporate income tax was a credit of EUR 251 million as a result of the losses recorded during the first six months. This item factors in tax changes in Italy that allowed the company's Italian subsidiary to generate tax proceeds of EUR 67 million.

The consolidated **net loss** (group share) was - EUR 982 million for the six months ended June 30, 2008, compared with net income of EUR 585 million in 2007.

2 CONDENSED FINANCIAL STATEMENTS

2.1. Consolidated balance sheet

Dexia Credit Local - Consolidated balance sheet				
	Assets (EUR Millions)	At June 30, 2007	At december 31, 2007	At June 30, 2008
I.	Cash, central banks and postal checking accounts	1 643	1 553	2 194
II.	Financial assets at fair value through profit or loss	19 697	24 098	23 034
III.	Hedging derivatives	10 556	10 367	10 281
IV.	Financial assets available for sale	121 842	130 761	131 160
V.	Interbank loans and advances	26 086	20 832	40 046
VI.	Customer loans and advances	129 539	146 568	156 193
VII.	Fair value revaluation of portfolio hedge	(543)	(364)	(199)
VIII.	Financial assets held to maturity	1 285	1 272	1 116
IX.	Current tax assets	146	161	247
X.	Deferred tax assets	38	436	1 347
XI.	Accruals and other assets	6 173	7 324	8 221
XIII.	Investments in associates	427	459	450
XIV.	Investment property	2	0	0
XV.	Tangible fixed assets	509	499	508
XVI.	Intangible assets	64	71	73
XVII.	Goodwill	1 385	1 387	206
	TOTAL ASSETS	318 849	345 424	374 877

Dexia Credit Local - Consolidated balance sheet				
	Liabilities (EUR Millions)	At June 30, 2007	At december 31, 2007	At June 30, 2008
I.	Central banks and postal checking accounts	6 865	7 630	16 017
II.	Financial liabilities at fair value through profit or loss (1)	10 965	12 290	12 431
III.	Hedging derivatives	12 263	13 755	16 127
IV.	Interbank loans and deposits	90 481	99 247	110 198
V.	Customer borrowings and deposits (1)	20 377	19 938	17 767
VI.	Debt securities	158 203	176 010	187 905
VII.	Fair value revaluation of portfolio hedge	(649)	(447)	(964)
VIII.	Current tax liabilities	67	77	156
IX.	Deferred tax liabilities	702	260	81
X.	Accruals and other liabilities	6 693	5 199	7 268
XII.	Technical provisions of insurance companies	148	134	542
XIII.	Provisions	127	102	152
XIV.	Subordinated debt	4 336	4 942	4 910
XV.	Shareholders' equity	8 271	6 287	2 287
XVI.	Shareholders' equity, group share	7 447	5 528	1 750
XVII.	Capital stock and additional paid-in capital	3 114	3 114	3 114
XVIII.	Reserves and retained earnings (2)	2 909	2 889	3 471
XIX.	Unrealized or deferred gains and losses	839	(1 454)	(3 853)
XX.	Net income (2)	585	979	(982)
XXI.	Minority interests	824	759	537
	TOTAL LIABILITIES	318 849	345 424	374 877

(1) As explained in note 1.3 "Accounting policies and valuation methods" of the 2007 annual report, EUR 7.7 billion was reclassified from line II. "Financial liabilities at fair value through profit or loss" into line V. "Customer borrowings and deposits" at December 31, 2007. This reclassification had no impact on earnings for the period.

(2) According to IFRIC 11 "Group and Treasury Share transactions", expense relative to stock option plans were reclassified under Reserves and retained earnings in 2007, for EUR 4 million at June 30 and EUR 12 million at december 31.

2.2. Consolidated Income Statement

Dexia Credit Local - Consolidated income statement				
	(EUR Millions)	Half-Year 2007	Year 2007	Half-Year 2008
I.	Interest income	23 443	50 407	27 387
II.	Interest expense	(22 783)	(49 108)	(26 623)
III.	Commission income	76	147	89
IV.	Commission expense	(22)	(49)	(34)
V.	Net gains (losses) on financial instruments at fair value through profit or loss	103	(295)	419
VI.	Net gains (losses) on financial assets available for sale	132	388	75
VII.	Other income (1)	245	506	242
VIII.	Other expense (1)	(88)	(196)	(92)
IX.	NET BANKING INCOME	1 106	1 800	1 463
X.	Operating expense (2)	(310)	(618)	(299)
XI.	Depreciation, amortization and impairment of tangible fixed assets and intangible assets	(23)	(52)	(26)
XII.	GROSS OPERATING INCOME	773	1 130	1 138
XIII.	Cost of risk	(2)	(46)	(1 321)
XIV.	OPERATING INCOME	771	1 084	(183)
XV.	Income (losses) from associates (2)	34	58	28
XVI.	Net gains (losses) on other assets	0	0	0
XVII.	Impairment of goodwill	0	0	(1 181)
XVIII.	INCOME BEFORE INCOME TAX	805	1 142	(1 336)
XIX.	Corporate income tax	(183)	(108)	251
XXI.	NET INCOME (2)	622	1 034	(1 085)
XXII.	Minority interests	37	55	(103)
XXIII.	NET INCOME, GROUP SHARE (2)	585	979	(982)
	Earning per share, Group share			
	- Basic (in EUR)	6,72	11,25	-11,28
	- Diluted (in EUR)	6,72	11,25	-11,28

(1) including technical margin of insurance companies

155

306

144

(2) According to IFRIC 11 "Group and Treasury Share transactions", expense relative to stock option plans were reclassified under Reserves and retained earnings in 2007 : this reclassification leads to increase on one hand the Operating expense (EUR 2 million at June 30 and EUR 9 million at December 31), and to decrease on the other hand the Income (losses) from associates (EUR 2 million at June 30 and EUR 3 million at December 31). As a consequence, the Net income is reduced by EUR 4 million at June 30, 2007 and EUR 12 million at December 31, 2007.

2.3. Consolidated statements of changes in 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, 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				(5)	(1)	(44)	(50)	(50)		(7)	(7)	(57)
- Changes in fair value of financial assets available for sale through shareholders' equity				(293)			(293)	(293)		1	1	(292)
- Changes in fair value of derivatives through shareholders' equity					387		387	387		0	0	387
- Changes in fair value of financial assets available for sale through profit or loss				(44)			(44)	(44)		0	0	(44)
- Changes in fair value of derivatives through profit or loss					(11)		(11)	(11)		0	0	(11)
- Net income for the period (1)		585	585				0	585	37		37	622
- Other movements (1)	0	3	3	(2)	0	0	(2)	1	0	(1)	(1)	0
At June 30, 2007	3 114	3 494	6 608	625	349	(135)	839	7 447	786	38	824	8 271
<i>Movements during the period</i>												
- Changes in capital	0	0	0				0	0	18		18	18
- Changes in additional paid-in capital	0	0	0				0	0	0		0	0
- Dividends		(20)	(20)				0	(20)	(1)		(1)	(21)
- Translation adjustments				46	13	(150)	(91)	(91)		(14)	(14)	(105)
- Changes in fair value of financial assets available for sale through shareholders' equity				(1 717)			(1 717)	(1 717)		(90)	(90)	(1 807)
- Changes in fair value of derivatives through shareholders' equity					(298)		(298)	(298)		1	1	(297)
- Changes in fair value of financial assets available for sale through profit or loss				(171)			(171)	(171)		2	2	(169)
- Changes in fair value of derivatives through profit or loss					(18)		(18)	(18)		0	0	(18)
- Net income for the period (1)		394	394				0	394	18		18	412
- Other movements (1)	0	0	0	2	0	0	2	2	0	1	1	3
At December 31, 2007	3 114	3 868	6 982	(1 215)	46	(285)	(1 454)	5 528	821	(62)	759	6 287
<i>Movements during the period</i>												
- Changes in capital	0	0	0				0	0	48		48	48
- Changes in additional paid-in capital	0	0	0				0	0	0		0	0
- Dividends		(396)	(396)				0	(396)	(19)		(19)	(415)
- Translation adjustments				78	7	(100)	(15)	(15)		0	0	(15)
- Changes in fair value of financial assets available for sale through shareholders' equity				(2 881)			(2 881)	(2 881)		(198)	(198)	(3 079)
- Changes in fair value of derivatives through shareholders' equity					64		64	64		(6)	(6)	58
- Changes in fair value of financial assets available for sale through profit or loss				412			412	412		52	52	464
- Changes in fair value of derivatives through profit or loss					0		0	0		0	0	0
- Net income for the period		(982)	(982)				0	(982)	(103)		(103)	(1 085)
- Other movements	0	(1)	(1)	21	0	0	21	20	0	4	4	24
At June 30, 2008	3 114	2 489	5 603	(3 585)	117	(385)	(3 853)	1 750	747	(210)	537	2 287

(1) According to IFRIC 11 "Group and Treasury Share transactions", expense relative to stock option plans were reclassified under Reserves and retained earnings in 2007, for EUR 4 million at June 30 and EUR 12 million at December 31. Dexia Crédit Local has a capital of EUR 1 327 004 846 divided into 87 045 757 shares.

2.4. Consolidated cash-flow statement

(EUR Millions)	At June 30, 2007	At december 31, 2007	At June 30, 2008
Cash flow from operating activities			
Net income (1)	622	1 034	(1 085)
<i>Adjustments for:</i>			
- Depreciation, amortization and other impairment	28	62	1 215
- Impairment on bonds, equities, loans and other assets	(49)	(58)	705
- Net gains on investments	(55)	(237)	(12)
- Changes in provisions	44	42	486
- Unrealized gains and losses	85	(82)	10
- Income from associates (1)	(34)	(58)	(28)
- Dividends from associates	21	21	22
- Deferred taxes	3	(161)	(391)
- Other adjustments	0	0	0
Changes in operating assets and liabilities (1)	(1 740)	(193)	17 950
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(1 075)	370	18 872
Cash flow from investing activities			
Purchases of fixed assets	(51)	(106)	(48)
Sales of fixed assets	2	9	4
Acquisitions of unconsolidated equity shares	(55)	(122)	(147)
Sales of unconsolidated equity shares	115	463	21
Acquisitions of subsidiaries	(2)	(24)	(10)
Sales of subsidiaries	1	3	1
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	10	223	(179)
Cash flow from financing activities			
Issuance of new shares	0	18	78
Reimbursement of capital	0	0	0
Issuance of subordinated debt	320	1 142	300
Reimbursement of subordinated debt	(228)	(282)	(172)
Purchases of treasury stock	0	0	0
Sales of treasury stock	0	0	0
Dividends paid	(318)	(339)	(415)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(226)	539	(209)
NET CASH PROVIDED	(1 291)	1 132	18 484
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD			
	18 900	18 900	19 708
Cash flow provided (used) by operating activities	(1 075)	370	18 872
Cash flow provided (used) by investing activities	10	223	(179)
Cash flow provided (used) by financing activities	(226)	539	(209)
Effect of exchange rate changes and changes in scope of consolidation on cash and cash equivalents	(274)	(324)	(351)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	17 335	19 708	37 841
Additional information			
Income tax paid	(177)	(309)	(146)
Dividends received	41	45	29
Interest received	23 656	48 945	28 089
Interest paid	(23 156)	(47 683)	(27 408)

(1) According to IFRIC 11 "Group and Treasury Share transactions", expense relative to stock option plans were reclassified under Reserves and retained earnings in 2007 : the Net income is reduced by EUR 4 million at June 30, 2007 and EUR 12 million at December 31, 2007, as well as the Income from associates (EUR 2 million at June, 30 and EUR 3 million at December, 31).

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

The condensed consolidated financial statements of Dexia Credit Local Group for the six-month period ending June 30, 2008 were prepared in accordance with IAS 34 “Interim financial reporting”. The notes to these statements therefore refer to key events during this period and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 as presented in the 2007 reference document.

The consolidated financial statements are prepared in EUR millions, unless otherwise indicated.

The accounting principles and methods used to prepare the condensed consolidated half-year financial statements are identical to those used by Dexia Credit Local to prepare the financial statements for the year ending December 31, 2007, established in accordance with IFRS as published and adopted by the European Commission as of that date.

All reporting and valuation rules and methods are presented in Note 1.3 of the consolidated financial statements for the year, with additional information provided in section 2.5.6. – Accounting policies and valuation methods for the consolidated financial statements.

Given the absence of any IFRS model, these financial statements were prepared in accordance with CNC recommendation No. 2004 – R.03 of October 27, 2004.

In preparing the consolidated financial statements, management must make certain assumptions and estimates that have an impact on the reported figures. Although management believes it has used all available information at the time these estimates were made, actual results may vary, and the differences could have a material impact on the consolidated financial statements.

2.5.2 Changes in the consolidation scope

Changes in the consolidation scope of the Dexia Crédit Local Group since the first half of 2007 are summarised below. None of these changes had a material impact:

- Creation of Dexia Crediop Ireland,
- CLF Patrimoniaire was deconsolidated on October 1, 2007,
- Dexia Holdings Inc. increased its participating interest in FSA from 99.05 % to 99.34 % executing the agreement to buy the shares detailed in 2007 Annual Report’s 3.10.c note,
- First time consolidation of FSA Seguros Mexico SA by FSA,
- First time consolidation of Dexia Kommunalkredit Bank Polska in the scope of consolidation of Dexia Kommunalkredit Bank, which also increased its stake in Dexia banka Slovensko from 78.98 % to 84.40 %,
- Kofis Finance and Kofis Leasing were deconsolidated from the Kommunalkredit Austria AG scope of consolidation.

The list of companies included in the consolidation scope at 31 December 2007 is provided in the 2007 Annual report (paragraph 1.2., pages 91 to 98).

2.5.3 First-half highlights

The following major transactions had an impact on the consolidated financial statements, and are mainly focused on the activity of the entity FSA :

- Dexia Crédit Local carried out a company valuation of FSA using both the adjusted book value (ABV) and discounted cash flow (DCF) methods. These valuations showed that FSA's fair value is significantly below its carrying value in the consolidated financial statements, which reflect an overvaluation of EUR 1,181 million. Given the uncertainties surrounding the U.S. credit enhancement industry, Dexia Crédit Local decided to book a provision for the entire amount of this overvaluation. The company's carrying value in the consolidated financial statements of Dexia Crédit Local Group is now equivalent to the value of its shareholders' equity.
- Given the deterioration in the U.S. economic environment, FSA increased the amount of provisions significantly on its financial products and insurance portfolios, resulting in a substantial EUR 1.3 billion cost of risk increase during the first half of 2008. These provision allocations broke down as follows: EUR 628 million for the insurance segment and EUR 675 million for the financial products segment.

FSA also booked additional provisions totaling USD 2,103 million, or EUR 1,303 million, for the sector backed by home equity lines of credit (HELOCs) and Alt-A (near prime) and closed-end second-lien (CES) mortgages as well as on some special transactions.

- The cost of risk for the other Dexia Crédit Local activities has an impact of EUR 18 million over the first six months of the year.
- For the whole Dexia Crédit Local Group, and despite their conservative ratings and liquidity positions, the Credit Spread Portfolio (CSP) and Public Spread Portfolio (PSP) continued to be negatively affected by the overall credit spread widening trend in the first quarter of 2008 as a result of contagion from the crisis involving monoline insurers and U.S. investment banks. However, the unrealized or deferred capital gains and losses carried on the balance sheet stabilized during the second quarter.

The EUR 2.4 billion deterioration in this line item after AFS reserve taxes during the first half of 2008 involved mainly assets held by FSA and the Dublin and New York branches. This change resulted from the widening credit spreads in the Public Finance Utilities, banking sector and Mortgage Backed Securities segments.

- FSA's liabilities were revalued by EUR 494 million using the fair value option after the company's credit spreads widened sharply during the first half of 2008.
- In the first half of 2008, Dexia Crédit Local Group recorded a tax gain resulting notably from tax changes in Italy, which enabled the Dexia Crediop subsidiary to book EUR 67 million in tax proceeds.

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)

(EUR millions)	Half-Year 2007	Half-Year 2008
Net trading income	16	(65)
Net result of hedge accounting	40	(9)
Net result of financial instruments designated at fair value through profit or loss (*)	18	3
Change in own credit risk	0	494
Net result of foreign exchange transactions	29	(4)
Total	103	419

(*) among which trading derivatives included in a fair value option strategy

-129

95

FSA's liabilities were revalued by EUR 494 million using the fair value option after the company's credit spreads widened sharply during the first half of 2008.

Analysis of Net result of hedge accounting

(EUR millions)	Half-Year 2007	Half-Year 2008
Fair value hedges	(4)	(9)
Fair value changes of the hedged item attributable to the hedged risk	496	1 399
Fair value changes of the hedging derivatives	(500)	(1 408)
Cash flow hedges	44	0
Fair value changes of the hedging derivatives – ineffective portion	0	0
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	44	0
Hedges of net investments in a foreign operation	0	0
Fair value changes of the hedging derivatives – ineffective portion	0	0
Portfolio hedge	0	0
Fair value changes of the hedged item	(164)	309
Fair value changes of the hedging derivatives	164	(309)
Total	40	(9)

Amount transferred into net interest income from the fair value reserve on cash-flow hedges (due to derivatives for which the hedging relationship was interrupted)	7	7
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Net Gains (losses) on financial assets available for sale (item VI. of income statement)

(EUR millions)	Half-Year 2007	Half-Year 2008
Dividends on securities available for sale	20	7
Net gains (losses) on disposals of loans and securities available for sale	108	79
Impairment of variable-income securities available for sale	0	(24)
Net gains (losses) on disposals of securities held to maturity	0	0
Net gains (losses) on disposals of debt securities	4	13
Total	132	75

Operating expense (item X. of income statement)

(EUR millions)	Half-Year 2007	Half-Year 2008
Payroll costs (1)	(172)	(160)
General and administrative expense	(113)	(120)
Deferred acquisition costs	(25)	(19)
Total	(310)	(299)

(1) According to IFRIC 11 "Group and Treasury Share transactions", expense relative to stock option plans were reclassified under Reserves and retained earnings in 2007, which increased the Operating expense by EUR 2 million at June 30.

Cost of risk (item XIII. of income statement)

(EUR millions)	Half-Year 2007			Half-Year 2008		
	Collective Impairment	Specific impairment and losses	TOTAL	Collective Impairment	Specific impairment and losses	TOTAL
Credit (loans, commitments and securities held to maturity)	(35)	30	(5)	(7)	(11)	(18)
Credit enhancement	(8)	1	(7)	43	(671)	(628)
Fixed-income securities available for sale		10	10		(675)	(675)
Total	(43)	41	(2)	36	(1 357)	(1 321)

The cost of risk during H1 2008 was marked by EUR 1,303 million in provision booked by FSA, including in particular EUR 491 million on "home equity lines of credit" (HELOC), EUR 491 million on Alt-A (near prime) mortgages and EUR 35 million on closed-end second-lien (CES) mortgages.

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

None.

None.

Impairment of goodwill (item XVII. of income statement)

None.

Dexia Crédit Local carried out a company valuation of FSA using both the adjusted book value (ABV) and discounted cash flow (DCF) methods. These valuations showed that FSA's fair value is significantly below its carrying value in the consolidated financial statements, which reflect an overvaluation of EUR 1,181 million. Given the uncertainties surrounding the U.S. credit enhancement industry, Dexia Crédit Local decided to book a provision for the entire amount of this overvaluation. The company's carrying value in the consolidated financial statements of Dexia Crédit Local Group is now equivalent to the value of its shareholders' equity.

2.5.5 Analysis by geographic region and by line of business

Analysis by geographic region

(EUR millions)	Half-Year 2007	Half-Year 2008
Net banking income	1 106	1 463
Euro zone (countries employing the euro)	686	581
Rest of Europe	53	51
United States	350	774
Rest of world	17	57
Income (losses) from associates	34	28
Euro zone (countries employing the euro) (1)	34	28
Rest of Europe	0	0
United States	0	0
Rest of world	0	0
Income before income tax	805	(1 336)
Euro zone (countries employing the euro) (1)	493	359
Rest of Europe	43	40
United States	264	(1 773)
Rest of world	5	38

(1) According to IFRIC 11 "Group and Treasury Share transactions", expense relative to stock option plans were reclassified under Reserves and retained earnings in 2007.

Analysis by line of business

(en millions d'EUR)	Half-Year 2007	Half-Year 2008
Net banking income	1 106	1 463
Public finance, project finance and credit enhancement	930	1 447
Personal financial services	16	20
Treasury and financial markets	91	57
Other	69	(61)
Income (losses) from associates	34	28
Public finance, project finance and credit enhancement	13	14
Personal financial services (1)	15	13
Treasury and financial markets	0	0
Other	6	1
Income before income tax	805	(1 336)
Public finance, project finance and credit enhancement (1)	663	(119)
Personal financial services (1)	20	18
Treasury and financial markets	73	23
Other	49	(1 258)

(1) According to IFRIC 11 "Group and Treasury Share transactions", expense relative to stock option plans were reclassified under Reserves and retained earnings in 2007.

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 2007 (paragraph 1.3, pages from 98 to 109).

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 issued**

- Amendments

First semester 2008, IASB issued the following amendments :

- Amendment to IFRS 2 “Share based Payment” Vesting conditions and cancellations, applicable as from January 1, 2009 and will have no significant impact on Dexia Credit Local.
- Amendment to IAS 32 “Financial Instruments : presentation” Puttable Financial Instruments and Obligations Arising on Liquidation that is applicable as from January 1, 2009 . The impact of this amendment on Dexia Credit Local is under analysis
- Amendment to IFRS 1 “First Time Adoption IFRS ” and to IAS 27 “Consolidated and Separate Financial Statements “ – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate that is applicable as from January 1, 2009. The impact of this amendment on Dexia Credit Local is under analysis.
- Revised IAS 14 “Segment Reporting”. The IASB issued a revised IAS 14 (IFRS8) Segment Reporting in January 2008 that has no significant impact for Dexia Crédit Local. IFRS 8 will supersede IAS 14 for annual reporting periods that begin on or after 1 January 2009.
- Revised IFRS 3 “Business combinations”, which replaces the standard as issued in 2004 and will be effective for annual reporting periods that begin on or after 1 July 2009. The revision of this standards impacts Dexia Credit Local for several reasons:
 - For new acquisitions, Dexia Credit Local can no longer capitalize acquisition-related costs as part of the cost of the business acquired.
 - In case of a step-acquisition, Dexia Credit Local will first remeasure the existing associate to fair value with recognition of the fair value adjustments to previously recognized assets and liabilities in profit or loss.
 - For each new investment in a non-controlling interest in an acquired entity, Dexia Credit Local has the possibility to make an option for the “full goodwill method”.
 - For new acquisitions, an analysis will be required to determine whether or not a contingent liability of the acquiree is a present obligation.
- Revised IAS 27 “Consolidated and separate financial statements” will be effective for annual reporting periods that begin on or after 1 July 2009 and is mainly related to the accounting for changes in the level of ownership interest in a subsidiary; The impact of this text on Dexia Credit Local is under analysis.

- Annual Improvements 2008 to IFRS.

The International Accounting Standards Board (IASB) issued on May 22, 2008 Improvements to IFRSs — a collection of minor amendments to the existing standards in its annual improvements project.

These amendments are effective for annual periods beginning on or after 1 January 2009, although entities are permitted to adopt them earlier (option didn't choose by Dexia Crédit Local)

The revision of these standards does not significantly impact Dexia Credit Local.

- **With the exception of the amendments presented above, the European Commission has not adopted any of the standards or interpretations of the IASB or IFRIC during the first half of 2008.**

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 consolidated 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 27, 2008

Gérard Bayol
Chief Executive Officer

4 STATUTORY AUDITORS' REVIEW REPORT ON FIRST HALF-YEAR FINANCIAL INFORMATION FOR 2008

(Period from January 1, 2008 to June 30, 2008)

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 should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

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

- the review of the accompanying condensed half-year consolidated financial statements of DEXIA CREDIT LOCAL, for the period from January 1, 2008 to June 30, 2008,
- 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.

2. Specific verification

We have also verified the information given in the interim management report commenting the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Courbevoie and Neuilly-sur-Seine, August 27, 2008

The Statutory Auditors

French original signed by

Mazars & Guérard

Deloitte & Associés

Hervé HELIAS

José Luis GARCIA François ARBEY