



# **FINANCIAL REPORT**

Half year 2011

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## **MANAGEMENT REPORT**

For the period January 1 to June 30, 2011

## **( 1. FIRST HALF HIGHLIGHTS**

### **1.1 SITUATION OF THE COVERED BOND MARKET**

The first half of 2011 was characterized by a record volume of euro-denominated benchmark issues in the primary covered bond market with more than EUR 126 billion, a total that was significantly greater than in the previous year, which nevertheless benefited from the European Central Bank's purchase programme. The end of the first half was influenced by a significant slowdown in the primary market because of concerns related to the refinancing of the debt in Greece and the situation in Italy and Spain.

The geographic origin of issuers was marked by increased diversification, owing to the introduction of new legal frameworks for covered bonds in Europe and North America, but the bulk of issues remained concentrated in the hands of the French and the Germans, followed by the Spanish, the Italians and the Scandinavians (Denmark, Finland, Norway and Sweden).

Dexia MA's business in the first half reflected these trends, with two benchmark issues of EUR 1 billion and taps totaling EUR 2.4 billion. These different transactions concerned issues maturing between 2018 and 2022.

### **1.2 FINANCIAL SITUATION OF THE DEXIA GROUP**

In the first half of 2011, Dexia pursued the implementation of its transformation plan at a sustained pace, with regard to both its divestment programme and the reduction of its liquidity needs.

Dexia's results in the second quarter of 2011 were largely impacted by the Group's decision to accelerate its deleveraging, as it announced in May, and by its participation in the IIF (Institute of International Finance) programme to assist Greece. The Dexia Group thus posted a net loss, Group share, of EUR - 3,963 million for the first half of 2011.

Excluding these non-recurring items, the commercial business lines reported a strong performance and the long-term funding target for 2011 has already been reached. In light of the highly volatile market conditions, Dexia decided to carry out its long-term financing programme prudently and rapidly. As of July 29, 2011, EUR 17.7 billion of long-term funding were issued, equal to the total amount for the year. In the remaining months of 2011, Dexia will seize any long-term financing opportunities, to anticipate its 2012 programme.

The Group's Tier One solvency ratio remained at a high level (11.4%) after accounting for the non-recurring items reported in the second quarter.

## ( 2. CHANGES IN MAIN BALANCE SHEET ITEMS

EUR billions	6/30/2010	12/31/2010	6/30/2011	Change Jun 11 / Dec 10
<b>Cover pool</b>	<b>79.6</b>	<b>79.6</b>	<b>77.5</b>	<b>(2.7)%</b>
Loans	56.1	56.1	54.3	(3.3)%
Securities	23.5	23.5	23.2	(1.3)%
Assets assigned in guarantee to Banque de France	-	-	-	N.A
<b>Privileged debt</b>	<b>64.9</b>	<b>64.9</b>	<b>64.8</b>	<b>(0.2)%</b>
Swapped value **				
Obligations foncières*	64.3	64.3	63.6	(1.1)%
Cash collateral received	1.3	1.3	1.4	3.8%
<b>Non-privileged debt</b>	<b>12.5</b>	<b>12.5</b>	<b>10.5</b>	<b>(16.0)%</b>
Dexia Credit Local	12.5	12.5	10.5	(16.0)%
French Central Bank	-	-	-	N.A
<b>Equity IFRS (excluding unrealized gains and losses)</b>	<b>1.3</b>	<b>1.3</b>	<b>1.3</b>	<b>0.1%</b>

\* including registered covered bonds (RCB)

\*\* including cash collateral received

As of June 30, 2011, Dexia Municipal Agency's cover pool, composed of loans and debt securities, totaled EUR 77.5 billion, excluding accrued interest not yet due. As of December 31, 2010, the total was EUR 79.6 billion; the decrease was therefore EUR 2.1 billion (-2.7%).

The cover pool corresponded to all the assets on the balance sheet.

Outstanding debt benefiting from the legal privilege, translated if required at the currency swap rate (swapped value), was EUR 64.8 billion, including cash collateral received, down 0.2% from December 2010.

The decrease in privileged debt (EUR -0.1 billion) was smaller than the decline in the cover pool, resulting in a decrease in over-collateralization, which was 18.4% as of June 30, 2011 (see 5. Changes in the over-collateralization ratio).

Debt *vis-à-vis* Dexia Credit Local, which does not benefit from the legal privilege, totaled EUR 10.5 billion. This amount corresponds to the financing of over-collateralization both structurally (commitment of Dexia MA and requirements of the rating agencies) and on a temporary basis (assets waiting to be refinanced by *obligations foncières*).

Equity, according to IFRS, but excluding reserves for unrealized gains and losses, totaled EUR 1.3 billion at the end of June 2011.

### ( 3. CHANGE IN ASSETS IN THE FIRST HALF OF 2011

#### 3.1 ASSET PRODUCTION

The net change in assets in the first half of 2011 was a decrease of EUR 2.1 billion. The change can be analyzed as follows.

	12/31/2010			6/30/2011		
	Loans	Debt securites	Total	Loans	Debt securites	Total
<b>Eur billions</b>						
France	5.8	0.6	6.4	1.6	1.2	2.8
Outside of France	-	7.1	7.1	-	1.7	1.7
<b>Total new assets</b>	<b>5.8</b>	<b>7.7</b>	<b>13.5</b>	<b>1.6</b>	<b>2.9</b>	<b>4.5</b>
Amortization	(6.1)	(6.5)	(12.6)	(3.1)	(3.2)	(6.3)
Early reimbursements	(0.3)	-	(0.3)	(0.4)	-	(0.4)
Divestments	(0.0)	-	(0.0)	(0.0)	-	(0.0)
Changes in provisions	(0.0)	0.1	0.1	(0.0)	(0.0)	(0.0)
<b>Net change (excl. FX adjustments)</b>	<b>(0.6)</b>	<b>1.3</b>	<b>0.7</b>	<b>(1.9)</b>	<b>(0.3)</b>	<b>(2.2)</b>
Foreign exchange adjustments*	0.9	0.1	1.0	0.1	(0.0)	0.1
<b>Net change</b>	<b>0.3</b>	<b>1.4</b>	<b>1.7</b>	<b>(1.8)</b>	<b>(0.3)</b>	<b>(2.1)</b>

\* All the assets included in the cover pool are perfectly hedged against foreign exchange adjustments; the changes mentioned above are fully compensated by equivalent changes in the value of the hedging derivative.

Gross asset production and acquisitions in the period totaled EUR 4.5 billion.

<b>Eur billions</b>	<b>12/31/2010</b>		<b>6/30/2011</b>	
<b>Loans</b>	-	<b>5.8</b>	-	<b>1.6</b>
France				
- commercial loans	3.9	-	0.9	-
- loans guaranteed by public sector bonds	0.3	-	0.7	-
- Banque de France deposits	1.6	-	-	-
<b>Bonds</b>	-	<b>7.7</b>	-	<b>2.9</b>
Germany	-	-	0.2	-
Belgium - DSFB 4 securitization	4.2	-	-	-
Belgium - other bonds	0.9	-	0.1	-
Spain - <i>cedulas territoriales</i>	1.7	-	1.3	-
France - CD DCL	0.6	-	1.2	-
Italy	0.1	-		
Luxembourg - <i>lettres de gage publiques</i>	0.2	-		
United Kingdom	-	-	0.1	-
<b>TOTAL</b>		<b>13.5</b>		<b>4.5</b>

These assets included the following items:

- new long-term assets:
  - EUR 0.9 billion in public sector loans originated by Dexia Credit Local within the framework of its commercial activity in France;
  - EUR 0.4 billion in bonds issued by the German, English and Belgian public sectors;

- renewal of shorter-term assets that reached maturity (replacement assets):
  - EUR 1.3 billion in *cedulas territoriales* issued by Dexia Sabadell, with a maturity of 18 months, considered as replacement assets in the cover pool.
  - EUR 0.6 billion in certificates of deposit (CD) issued by Dexia Credit Local, renewed quarterly, considered as replacement assets in the cover pool;
  - EUR 0.3 billion in loans to Dexia Credit Local guaranteed by public sector securities (repurchase agreements), renewed quarterly, considered as replacement assets in the cover pool.

In addition to the arrival at maturity of the above-mentioned replacement assets, which were renewed, the decrease in assets mainly corresponded to the natural amortization of the portfolio of loans and bonds.

### 3.2 OUTSTANDING ASSETS AS OF JUNE 30, 2011

#### a. Geographic breakdown of assets (including replacement assets)

The breakdown of assets by country was stable in comparison with December 31, 2010. French assets remained predominant, with significant geographic diversification.

The trend in the relative proportion of assets by country can be analyzed as follows.

%	12/31/2010	6/30/2011
France	64.3	64.4
Belgium	9.9	9.5
Italy	9.6	9.7
Switzerland	5.8	5.4
Spain	4.1	4.1
Luxembourg	2.5	2.4
<b>Sub-total</b>	<b>96.2</b>	<b>95.5</b>
Other countries	3.8	4.5
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>

As of June 30, 2011, exposures on “Other countries” could be broken down as follows.

<b>Other countries (%)</b>	<b>6/30/2011</b>
Germany	1.3
United Kingdom	0.9
Sweden/Finland	0.6
Greece	0.5
Austria	0.4
USA	0.3
Portugal	0.2
Iceland	0.2
Japan	0.0
Canada	0.0
<b>TOTAL</b>	<b>4.5</b>

## b. Replacement assets

As of June 30, 2011, replacement assets represented a total of EUR 5.8 billion, mainly comprised of covered bonds issued by Dexia Group entities (analyzed in the table below) as well as of exposures on Dexia Credit Local with a maturity of less than 100 days. The latter take the form of certificates of deposit or loans guaranteed by public sector securities. Replacement assets represented 9.1% of outstanding *obligations foncières* and registered covered bonds, which totaled EUR 63.4 billion in swapped value. The law limits their amount to 15%.

Replacement assets	Country	Issuer	EUR millions	
			12/31/10	6/30/2011
<i>Cedulas territoriales</i>	Spain	Dexia Sabadell	3,000	3,000
<i>Lettres de gage</i>	Luxemburg	Dexia LdG Banque	1,850	1,850
<i>Certificats de dépôt</i>	France	Dexia Credit Local	600	600
Secured loans	France	Dexia Credit Local	350	376
<b>TOTAL</b>			<b>5,800</b>	<b>5,826</b>

## c. Concentration by borrower

As of June 30, 2011, the 20 largest exposures (except replacement assets) amounted to 16.0% of the cover pool. The largest was 1.86% and the twentieth was 0.44%.

## 3.3 ASSET QUALITY

Dexia Municipal Agency's pool of assets is exclusively composed of exposures on public sector entities or issues guaranteed by the same. The current financial crisis had no significant impact on the Company's portfolio in 2011.

### a. Quality of the assets in the portfolio

Dexia MA's portfolio of assets is composed of loans and debt securities.

**Loans and advances.** Loans and most of the bonds held by Dexia MA are classified in the "Loans and advances" portfolio according to IFRS, corresponding to an intention to hold them until maturity. They are valued at their historical cost and, if necessary, are covered by provisions for impairment when there is a risk of non-payment.

In addition, collective provisions are calculated to cover the risk of loss in value on the different "Loans and advances" portfolios. They are estimated on the basis of each portfolio's past performance and trends, and on the borrower's economic environment. Their calculation combines probabilities of default (PD) and loss given default (LGD) on the different assets based on credit risk models designed by Dexia within the framework of Basel II (on this point, see note 5.6 to the IFRS financial statements).

These collective provisions are, however, much greater than the real risk, for the method applied does not take into account the guarantees received.



EUR millions	12/31/2010	6/30/2011
Specific impairment	0.7	2.6
Collective impairment	18.2	17.0
<b>Total</b>	<b>19.7</b>	<b>19.6</b>

Non-performing loans amounted to EUR 24.4 million at the end of June 2011, representing less than 0.03% of the total cover pool (EUR 77.5 billion). The minor amounts of impairment and non-performing loans that the Company reported testify to the very low level of risk and the overall high quality of the portfolio.

**AFS securities.** In particular because of their liquidity, certain securities remain classified as available for sale (AFS), and are valued for accounting purposes on the basis of their fair value. The difference between this valuation and their accounting value gives rise to an AFS reserve that can be positive or negative. These reserves would only represent gains or losses if Dexia MA were to sell these securities, but Dexia MA acquired these assets with the intention of holding them to maturity.

The negative AFS reserve related to Greek sovereign issues deteriorated by EUR 27 million in the first half of 2011 owing to the ongoing lack of confidence in the country, which has affected the market value of these debt securities. The reserve for these bonds now amounts to EUR -110 million.

Dexia participates in the IIF Greek assistance programme, which involves an exchange of Greek government bonds maturing before December 31, 2020. For private holders of these bonds, the exchange will result in a loss of 21% of the nominal. Dexia MA holds EUR 34 million in Greek government bonds that mature before December 31, 2020, and therefore booked an impairment of EUR 7 million pre-tax.

The AFS reserve for Italian sovereign issues likewise deteriorated by EUR -5 million.

The overall AFS reserve at the end of June 2011, before taxes, was EUR -347 million (see below note 4.4 to the IFRS financial statements).

In the French GAAP Financial Statements, Dexia MA books the majority of its bond portfolio in the category “Investment”, valued at the historical cost. Some bonds are booked as “Placement”, and are devalued if the market price is lower than the historical cost. This depreciation is approximately EUR 49 million, after swaps (EUR 52 million as of December 31, 2010), and is only a loss if Dexia MA sells these bonds, whereas Dexia MA generally holds its assets to maturity.

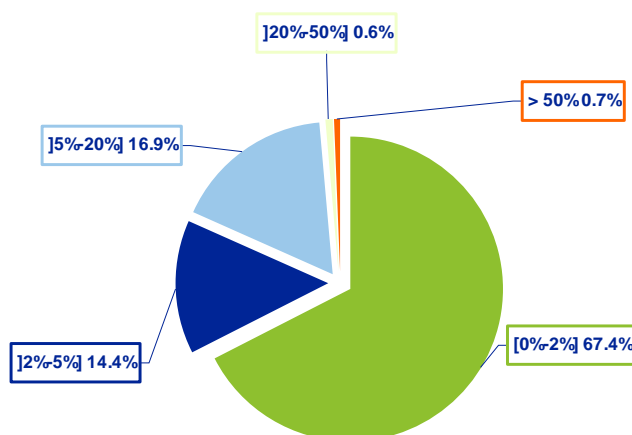
## **b. Breakdown of exposure according to Basel II risk weighting**

The quality of Dexia Municipal Agency’s portfolio can also be seen in the weighting of its assets within the framework of the calculation of the Group’s solvency ratio. The Dexia Group chose the advanced method within the framework of the reform of the solvency ratio and capital adequacy according to Basel II criteria. Banking supervisors (the ACP in France and the CBFA in Belgium) authorized the Group to

use advanced internal models for the calculation and reporting of equity requirements for credit risk as of January 1, 2008.

This enables Dexia Municipal Agency to present in the following table an analysis of its exposures, broken down by risk weighting, such as used for the calculation of equity requirements for credit risk.

### Risk weighting (Basel II) of Dexia MA's portfolio as of June 30, 2011



These weightings are primarily calculated on the basis of the probability of the counterparty's default (PD) and loss given default (LGD). This analysis confirms the excellent quality of the assets in DMA's portfolio, since more than 81% of the portfolio assets have a weighting that is equal to or less than 5%, and more than 98% of the portfolio assets have a weighting that is less than or equal to 20%.

### c. Exposure to subprimes, monolines, ABS and banks

#### Exposure to subprimes and other mortgage loans

Dexia MA has no exposure to mortgage loans, whether subprime or prime. The authorization granted to Dexia MA by the Banque de France (CECEI) only allows the Company to finance exposures on public sector entities (central governments, local governments, public organizations, etc.) or entities that are entirely and unconditionally guaranteed by public sector entities (excluding replacement assets).

#### Exposure to monoline insurers

In its public sector bond portfolio, Dexia MA holds four issues of large French and Spanish local governments with credit enhancement by a monoline insurer. The breakdown of these exposures is presented in the following table.

Issuer	Country	ISIN code	Monoline Insurer	Amount EUR millions
Communauté urbaine de Lille	France	US203403AB67	AMBAC	8.5
Ville de Tours	France	FR0000495517	MBIA	1.0
Ville de Tours	France	FR0000495632	MBIA	8.5
Feria internacional de Valencia	Spain	ES0236395036	FSA	50.0
<b>TOTAL</b>				<b>68.0</b>

They represent less than 0.1% of the assets of Dexia MA. The credit enhancement was not a factor in the decision to invest in these bonds, given the quality of the issuers.

### Exposure in the form of asset-backed securities (ABS)

At the end of June 2011, Dexia MA had a limited number of exposures in the form of ABS.

Issuer	ISIN code	Amount EUR millions
DSFB - Dexia Secured Funding Belgium SIC (DSFB 1)	BE0933050073	1,421.6
DSFB - Dexia Secured Funding Belgium SIC (DSFB 2)	BE0934330268	1,386.8
DSFB - Dexia Secured Funding Belgium SIC (DSFB 4)	BE6000495752	4,103.6
DCC - Dexia Crediop per la Cartolarizzazione SRL (DCC 1)	IT0003674691	763.9
DCC - Dexia Crediop per la Cartolarizzazione SRL (DCC 2)	IT0003941124	703.7
DCC - Dexia Crediop per la Cartolarizzazione SRL (DCC 3)	IT0004349665	2,138.4
<b>Sub-total</b>		<b>10,518.0</b>
Blue Danube Loan Funding GmbH	XS0140097873	79.4
Colombo SRL	IT0003156939	6.7
Societa veicolo Astrea SRL	IT0003331292	0.8
<b>Sub-total</b>		<b>86.9</b>
<b>TOTAL</b>		<b>10,604.9</b>

Most of these exposures are asset-backed securities especially designed by Dexia to transfer to Dexia MA exposures on Italian and Belgian local governments originated by Dexia's commercial network.

Dexia MA thus holds almost all of the debt issued by DCC and DSFB, with the remainder held by the Dexia Group entity that originated the assets (Dexia Crediop and Dexia Bank Belgium). The composition of the DCC and DSFB portfolios is presented at the end of this report.

The other ABS have the following characteristics:

- Blue Danube Loan Funding GmbH is governed by Austrian law, rated AA+ by Standard & Poor's, and its debt is unconditionally and irrevocably guaranteed by the Land of Lower Austria;
- Colombo SRL (rated A+ by S&P and Aa2 by Moody's) and Societa veicolo Astrea SRL (rated AA- by Fitch and Aa3 by Moody's) are both Italian companies with assets that are exclusively loans to the Italian public sector (regions, municipalities, etc.).

### Exposure to banks

Dexia MA holds two types of exposure to banks:

- its replacement assets, made up of covered bonds issued by Dexia Group entities (*cedulas territoriales* of Dexia Sabadell and *lettres de gage* issued by Dexia LdG Banque), certificates of deposit issued by Dexia Credit Local, and loans to Dexia Credit Local guaranteed by public sector securities (see above 3.2.b);
- the value of its derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Dexia MA's derivative operations are conducted within the framework of standard ISDA or AFB contracts with major international banks (more than 30 counterparties, excluding the Dexia Group). These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and

other issuers of covered bonds). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Dexia MA does not pay its derivative counterparties any collateral, whereas they have to pay Dexia MA unless they benefit from the agencies' highest short-term rating. As of June 30, 2011, Dexia MA was exposed (positive fair value of the swaps) on ten banking counterparties. Six of these paid collateral, which offset the exposure, and four paid none because of their very high ratings. These four counterparties represented an exposure of EUR 160 million.

Long-term derivatives signed with the five largest external counterparties represented a total of 36.1% of the notional amounts and those signed with the Dexia Group 22.9%.

#### ( 4. CHANGE IN DEBT BENEFITING FROM THE LEGAL PRIVILEGE IN THE FIRST HALF OF 2011

Dexia Municipal Agency issued the equivalent of EUR 6.1 billion in the first half of 2011, versus EUR 7.6 billion for the year 2010.

The pace of issues in recent quarters was as follows.

EUR millions	2010	2011
1Q	3,134	2,618
2Q	2,227	3,483
3Q	2,244	
4Q	43	
<b>TOTAL</b>	<b>7,648</b>	<b>6,101</b>

In the first half of 2011, a new issue was launched, with the following characteristics:

- EUR 1.0 billion, maturity May 2016 (5 years),
- EUR 1.0 billion, maturity January 2021 (10 years).

The year's other public issues mainly represented taps of existing Swiss-franc issues with maturity in February 2016 (CHF 250 million), bringing the total to CHF 450 million, and another Swiss-franc issue with maturity in August 2019 (CHF 125 million), bringing the total to CHF 475 million, and taps of euro benchmarks with maturity in

- February 2018 (EUR 300 million), bringing the total to EUR 1.3 billion,
- February 2019 (EUR 200 million), bringing the total to EUR 1.82 billion,
- September 2020 (EUR 500 million), bringing the total to EUR 1.25 billion.
- January 2021 (EUR 1000 million), bringing the total to EUR 2.0 billion,
- January 2022 (EUR 400 million), bringing the total to EUR 1.9 billion.

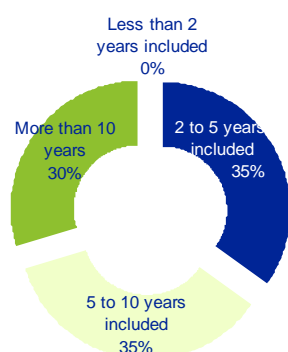
Private placements in the first half partially took the form of registered covered bonds, a private placement format designed for German investors. These issues make it possible to meet the specific needs of certain investors rapidly and flexibly.

The breakdown of new production between public issues and private placements can be analyzed as follows.

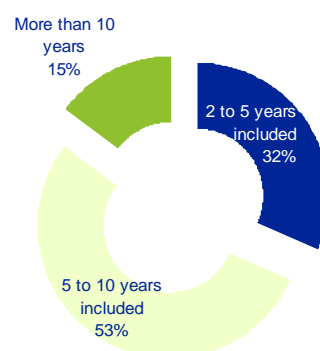
EUR millions	2010	1st half 2011
Public issues	6,209	4,687
Private placements	1,439	1,414
including: RCB	487	221
Less than 2 years	-	-
<b>TOTAL</b>	<b>7,648</b>	<b>6,101</b>

As in 2010, the average maturity of new issues was calculated to maintain at a low level the average gap in maturity between commercial assets, which are traditionally long in the public sector, and issues of *obligations foncières*. The average maturity of new issues was thus 8.4 years in the first half of 2011 and 9.1 years in 2010.

Breakdown of amount issued in 2010  
by maturity



Breakdown of amount issued in the first  
half of 2011 by maturity

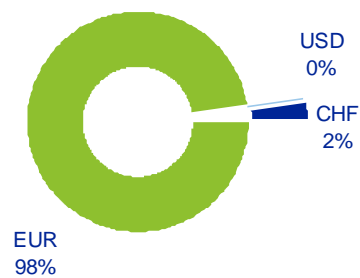


Dexia MA's issues in 2011 were primarily in euros.

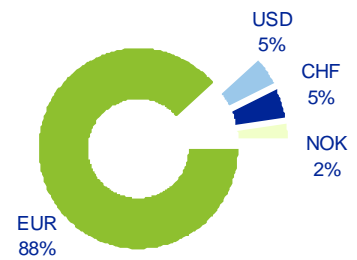
EUR millions	2010	1st half 2011
EUR	7,447	5,409
CHF	179	288
NOK	-	128
USD	22	276
<b>TOTAL</b>	<b>7,648</b>	<b>6,101</b>

Dexia MA's issuance policy involves a strong presence in the main euro markets and, to a lesser degree, the eurodollar market, building a consistent curve and monitoring the good performance of its benchmarks in the secondary market, as well as active diversification in certain selected markets.

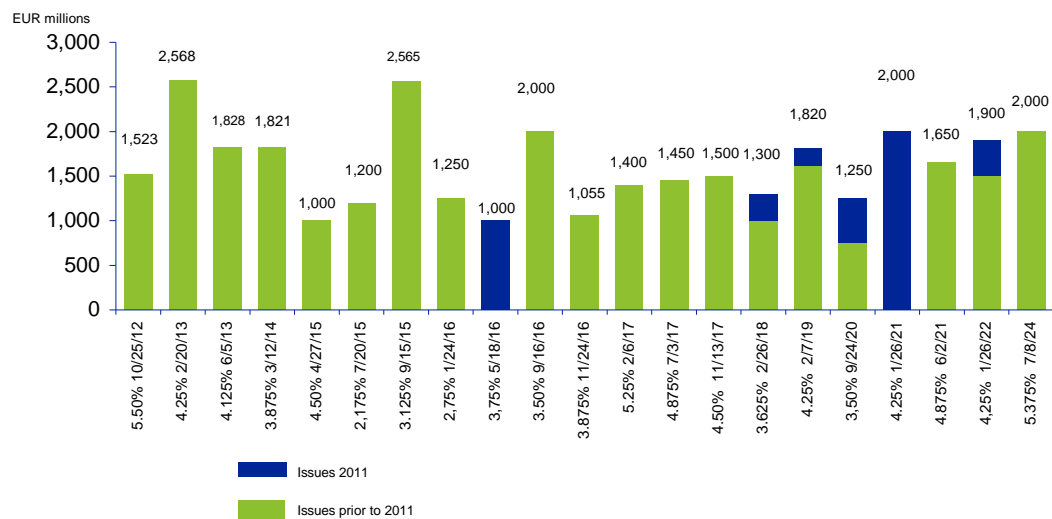
**Breakdown of amount issued in 2010  
by currency**



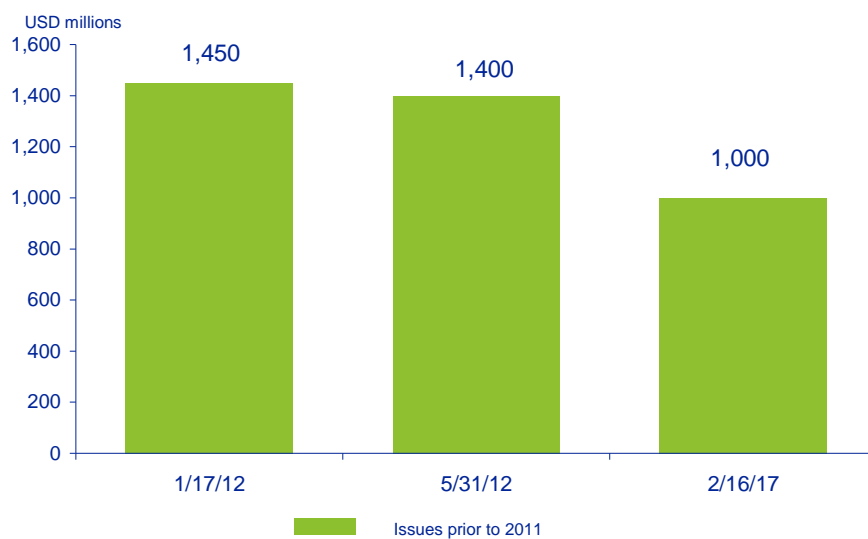
**Breakdown of amount issued in  
the first half of 2011 by currency**



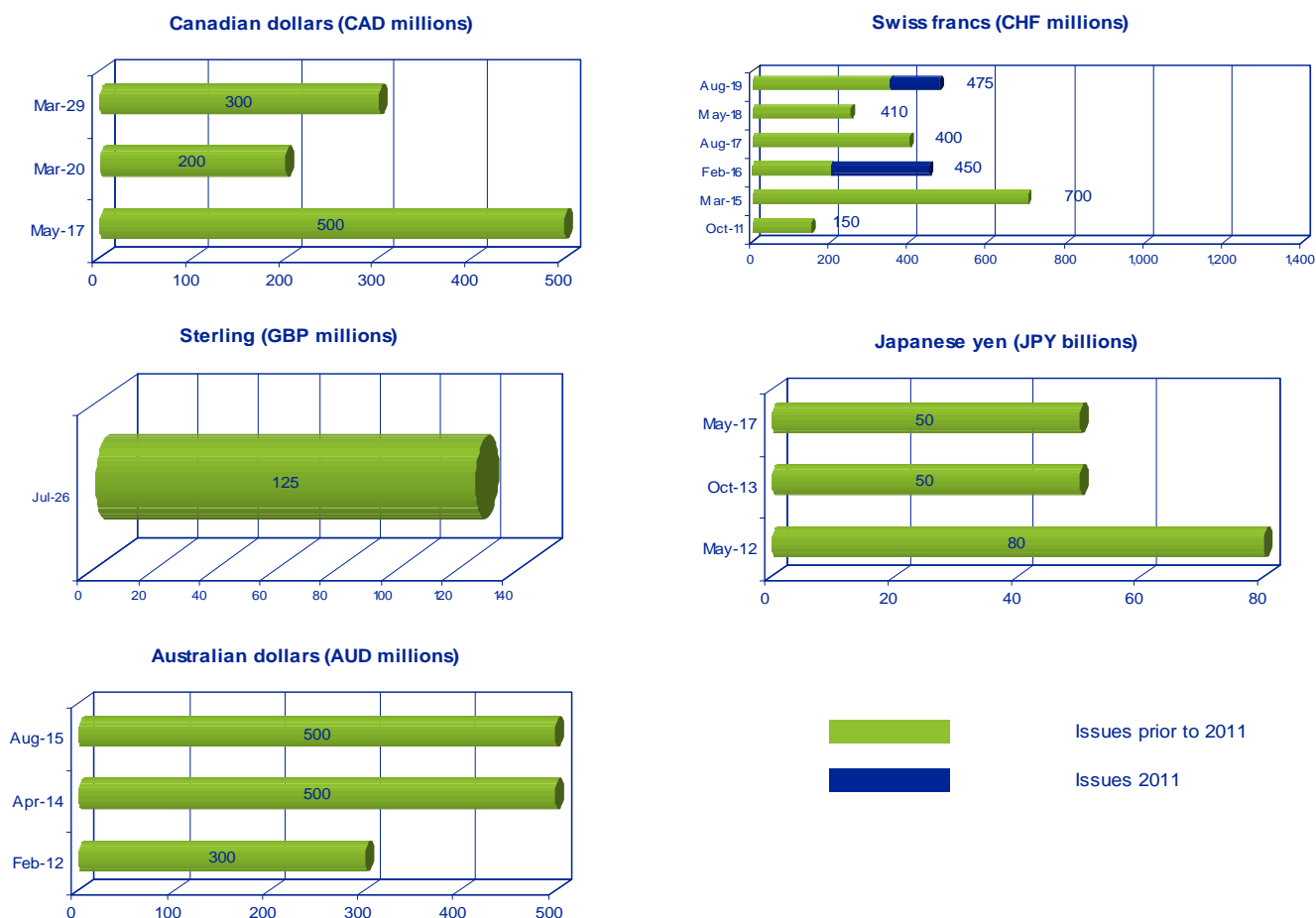
**Analysis of benchmarks in EUR**



**Analysis of benchmarks in USD**



### Main curves in non-euro currencies (excluding USD)

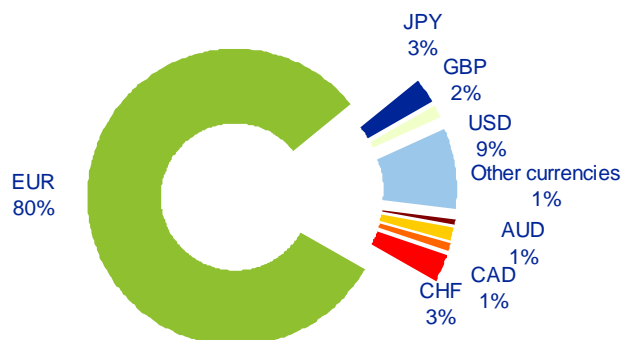


After reimbursement of EUR 6.01 billion, outstanding *obligations foncières* and registered covered bonds at the end of June 2011 totaled EUR 63.4 billion in swapped value.

EUR millions	2010	1st half 2011
Beginning of the year	64,785	63,565
Issues	7,648	6,101
Issue settled after 6/30		(250)
Reimbursements	(8,868)	(6,016)
<b>TOTAL</b>	<b>63,565</b>	<b>63,400</b>

(swapped value)

The breakdown of outstanding debt by currency as of June 30, 2011, can be analyzed as follows.

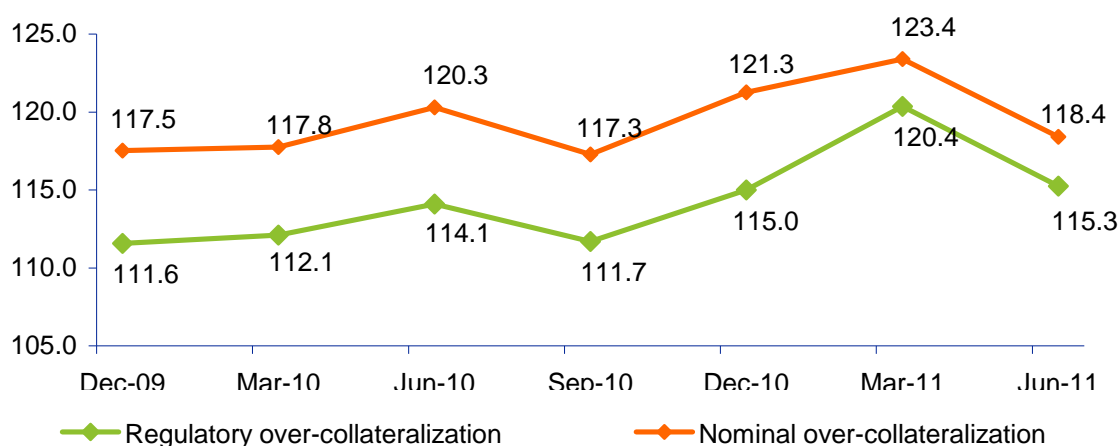


## ( 5. CHANGES IN THE OVER-COLLATERALIZATION RATIO

The over-collateralization ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier* in France, is the ratio between the assets and the resources benefiting from the legal privilege.

Dexia Municipal Agency decided to maintain a minimum regulatory over-collateralization ratio of 105%, which is considered a safe margin. In practice, given the rate of asset turnover from the Group's commercial activity and asset transfers, the over-collateralization ratio is regularly higher than 105%, as can be seen at the end of each month, when over-collateralization makes it possible to launch issues in the following month. The rating agencies may require a level of over-collateralization of more than 5%. This requirement depends on the methodology applied and on the new assets and liabilities on Dexia MA's balance sheet, and it may vary over time. Dexia MA takes these particular requirements into account in the management of its activity in order to make sure they are constantly met.

The following graph analyzes the trend in over-collateralization at the end of each quarter.





Regulatory over-collateralization is less than nominal over-collateralization because it is calculated on the basis of the rules determined by the prudential control authority (ACP). In particular, these rules require different weighting levels according to the assets. The assets in Dexia MA's cover pool are generally weighted at 100%, except for certain bonds issued by securitization vehicles, subsidiaries of Dexia, made up of assets originated by the Dexia Group and benefiting from a rating at the same level as that of the company which guaranteed them, either Dexia Crediop for DDC securities or Dexia Bank Belgium for DSFB 1 and DSFB 2 securities.

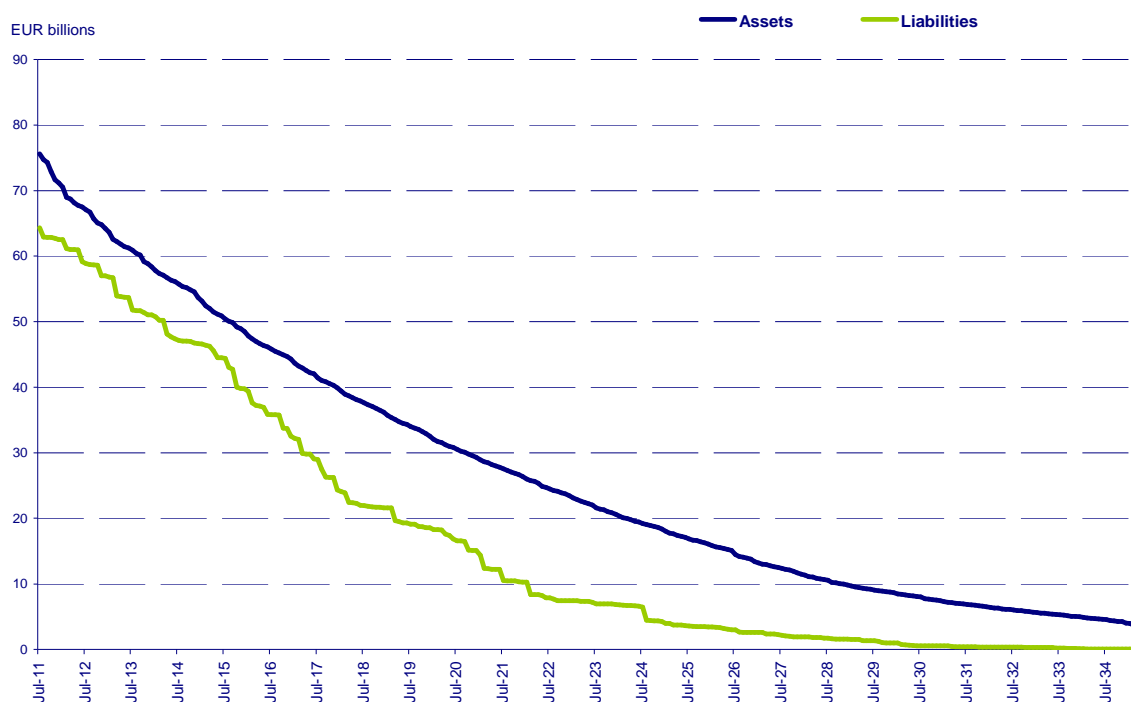
The weightings specified for these securities by the law governing *sociétés de crédit foncier* were modified in the first half of 2011. The internal DCC and DSFB securitization vehicles, benefiting from the second best credit quality rating granted by the rating agencies, are now weighted at 80% in the calculation of the ratio of regulatory over-collateralization instead of 50%, as was previously the case. The impact of this change in weighting on Dexia MA's over-collateralization ratio since the end of March 2011 was an improvement of 3%.

This particular weighting is the primary reason for the gap that exists between regulatory over-collateralization and nominal over-collateralization.

If any, the assets Dexia MA may have given in guarantee to obtain financing from the Banque de France are excluded from the calculation of over-collateralization.

The following graph on over-collateralization presents amortization curves of the assets and the issues benefiting from the legal privilege as of June 30, 2011.

#### Amortization of assets and liabilities as of June 30, 2011:



## ( 6. CHANGES IN DEBT THAT DOES NOT BENEFIT FROM THE LEGAL PRIVILEGE

The asset surplus (in reference to *obligations foncières* and registered covered bonds) and miscellaneous needs are financed by equity and debt that does not benefit from the privilege of the law on *sociétés de crédit foncier*.

This financing is borrowed from Dexia Credit Local within the framework of a current account agreement. The agreement distinguishes several sub-accounts that make it possible to analyze this financing by category:

- to finance structural over-collateralization of 5% in the long term;
- to finance temporary over-collateralization in the short term, using the current account itself.

In addition, Dexia MA always holds irrevocable and on first demand financing commitments from Dexia Credit Local covering the reimbursements of *obligations foncières* in the next 12 months. If put to use, such financing would be operative for a period of two years. As of June 30, 2011, the commitments received from Dexia Credit Local totaled EUR 4.1 billion.

Temporary financing may also be obtained from the Banque de France. These funds do not benefit from the privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and securities deposited for this purpose in Dexia MA's account at the Central Bank. Dexia MA participated in the tenders launched by the Banque de France in the final quarter of 2008 and the first six months of 2009, in order to finance its new commercial production when the primary market was almost closed.

As of June 30, 2011, Dexia MA had no debt *vis-à-vis* the Banque de France, and its debt *vis-à-vis* Dexia Credit Local stood at EUR 10.5 billion, excluding accrued interest not yet due.

The latter debt could be analyzed according to the above-mentioned categories as follows:

- to finance structural over-collateralization of 5%: EUR 3.5 billion\*;
- to finance surplus over-collateralization, using the current account: EUR 7 billion.

*\* The amortization profile of this long-term loan was designed to finance, at any time, an amount equal to 5% of outstanding obligations foncières as well as the haircut that the Banque de France would administer to assets temporarily deposited in guarantee to meet future funding needs (in a stress scenario in which these needs could not be met by the covered bond market or by advances granted by Dexia Credit Local).*

Changes in financing that does not benefit from the legal privilege, excluding accrued interest not yet due, can be presented as follows.

EUR billions	Dexia Credit Local	Banque de France	TOTAL
6/30/2010	12.3	-	12.3
12/31/2010	12.5	-	12.5
6/30/2011	10.5	-	10.5

## ( 7. MANAGEMENT OF BALANCE SHEET RISKS

The strategies implemented to hedge interest rate and foreign exchange risks are reflected in the notional outstanding swaps analyzed in the table below between external and Dexia Group counterparties as of June 30, 2011.

Breakdown of outstanding swaps	Notional * (EUR billions)	Dexia Group (%)	Other counterparties (%)
<b>Macro-hedges</b>			
Euribor against Eonia	118.0	100.0%	0.0%
<b>Total short-term swaps</b>	<b>118.0</b>	<b>100.0%</b>	<b>0.0%</b>
<b>Fixed rate swaps against Euribor</b>			
Micro-hedges on <i>obligations foncières</i>	51.4	3.2%	96.8%
Micro-hedges on loans and debt securities	27.8	24.3%	75.7%
Macro-hedges on loans	20.8	55.3%	44.7%
<b>Sub-total</b>	<b>100.0</b>	<b>19.9%</b>	<b>80.1%</b>
<b>Currency swaps</b>			
Micro-hedges on <i>obligations foncières</i>	11.7	33.1%	66.9%
Micro-hedges on loans	3.6	59.3%	40.7%
Micro-hedges on debt securities	1.3	64.2%	35.8%
<b>Sub-total</b>	<b>16.6</b>	<b>41.2%</b>	<b>58.8%</b>
<b>Total long-term swaps</b>	<b>116.6</b>	<b>22.9%</b>	<b>77.1%</b>

\* absolute value

### 7.1 MANAGEMENT OF THE INTEREST RATE RISK

The management of the interest rate risk involves two steps.

- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are swapped against Euribor until maturity as soon as they are recorded on the balance sheet. A residual fixed rate gap remains on certain fixed rate assets that are hedged by macro-swaps (in particular, small loans to clients). This gap is monitored within very strict limits.
- In the second step, Euribor lending and borrowing flows are swapped against Eonia over a sliding period of two years in order to eliminate the interest rate risk generated by differences in fixing dates. A residual gap remains after the first and second levels of hedging and is also monitored within strict limits.

In addition, any debt contracted with Dexia Credit Local to finance over-collateralization is directly borrowed with a monetary index and does not have to be swapped. If such is the case, debt *vis-à-vis* the Banque de France, which is short-term and at a fixed rate, is not hedged, but finances assets that also have a fixed rate.

The objective targeted by this interest rate risk management is to convert the assets and liabilities on the balance sheet into floating rates, so that they move together in a parallel manner following the trend in interest rates, while maintaining the margin unchanged.

The sensitivity limits for the fixed rate gap and the monetary gap mentioned above are defined as the change in the gaps' net present value (NPV) under the impact of a parallel 1% (100 basis points) shift in the yield curve. The aggregate of these two limits for the fixed rate gap and the monetary gap is set at 3% of equity, and this figure is reviewed every year at the end of the first quarter. This general sensitivity limit was adjusted to EUR 40.0 million as of the second quarter of 2011, including EUR 9.0 million for the monetary gap and EUR 31.0 million for the fixed rate gap. In practice, the real

sensitivity is maintained significantly below this limit, as can be seen in the following table.

### Sensitivity of the interest rate gap (EUR millions)

		Average	Maximum	Minimum	Limit
Fixed Rate	3Q 2010	19.4	29.9	12.2	26.0
	4Q 2010	17.9	22.2	13.9	26.0
	1Q 2011	13.1	20.8	5.2	26.0
	2Q 2011	12.9	13.4	12.2	31.0
Monetary	3Q 2010	1.0	2.8	0.1	9.0
	4Q 2010	(0.0)	3.0	(2.5)	9.0
	1Q 2011	1.6	2.6	0.4	9.0
	2Q 2011	0.3	2.8	(3.0)	9.0
Total	3Q 2010	20.3	31.7	12.6	35.0
	4Q 2010	18.1	22.8	14.0	35.0
	1Q 2011	14.6	22.7	5.7	35.0
	2Q 2011	13.1	15.6	12.2	40.0

The maximum fixed rate sensitivity limit was exceeded at the beginning of August 2010. This incident was linked to the purchase by Dexia MA of EUR 1 billion in French loans originated by Dexia Credit Local, which briefly disrupted the calculation of the sensitivity of Dexia MA. It should be noted that on this occasion, the general sensitivity limit was not exceeded. It reached a maximum of EUR 31.7 million in the period, i.e. under the general sensitivity limit of EUR 35 million.

## 7.2 MANAGEMENT OF THE FOREIGN EXCHANGE RISK

Dexia Municipal Agency takes no foreign exchange risks. Assets and liabilities originally in currencies other than the euro are swapped against euros when they are recognized on Dexia MA's balance sheet and until their complete extinguishment.

## 7.3 MANAGEMENT OF THE TRANSFORMATION RISK

With the interest rate risk under control, as presented above, Dexia Municipal Agency manages the congruence of maturities between the assets and the liabilities by maintaining the duration gap between the assets and the liabilities within a maximum limit of three years.

From the point of view of the method, since both the assets and the resources benefiting from the privilege have a floating rate after swaps, Dexia MA's balance sheet appears to indicate that there is a single loan *vis-à-vis* a single borrowing. Duration (D) is calculated as follows: "sum of the periods weighted by the cash flows and discounted at the interest rate of the zero coupon curve for period (t) / sum of the cash flows discounted at the interest rate of the zero coupon curve for period (t)".

$$D = \frac{\sum_{t=1}^T [(t \times CF_t) / (1 + st)^t]}{\sum_{t=1}^T [CF_t / (1 + st)^t]}$$

The difference in maturity between the assets and the liabilities may create a liquidity risk. Dexia MA's management rule involves a commitment not to allow a duration gap of more than three years between the assets and the resources benefiting from the legal privilege. The actual duration gap remains under this limit, as can be seen in the table below.

Duration in years	6/30/2010	9/30/2010	12/31/2010	3/31/2011	6/30/2011
Assets	6.95	7.25	6.85	6.85	6.93
Privileged liabilities	5.35	5.29	5.6	5.6	5.63
<b>Gap in asset-liability d</b>	<b>1.60</b>	<b>1.96</b>	<b>1.25</b>	<b>1.25</b>	<b>1.30</b>
<i>Duration gap limit</i>	3	3	3	3	3

The duration gap between the assets and the liabilities is closely monitored since it is sensitive to fluctuations in interest rates (net present value) and to significant changes in assets and liabilities. The average maturity of new issues is long in order to maintain the duration gap under two years on a regular basis.

## 7.4 MANAGEMENT OF THE LIQUIDITY RISK

The liquidity risk can be defined as the risk that Dexia MA may not be able to settle its privileged debt commitments at the due date owing to the fact that there is too great a gap between the reimbursement of the assets and the redemption of its privileged resources.

By limiting the duration gap between assets and resources to three years, Dexia maintains control over its future needs for liquidity.

To meet its liquidity needs, Dexia MA will issue new *obligations foncières* to replace those that arrive at maturity and the reimbursement of which creates the need for liquidity. If the situation in the covered bond market does not make it possible to launch new issues, Dexia MA may first make use of the backing of its parent company Dexia Credit Local, which has committed in its "declaration of support" (the full text is incorporated into the EMTN programme and Dexia MA's annual report) so that Dexia MA "has the financial resources it needs to meet its obligations."

This support takes the following forms:

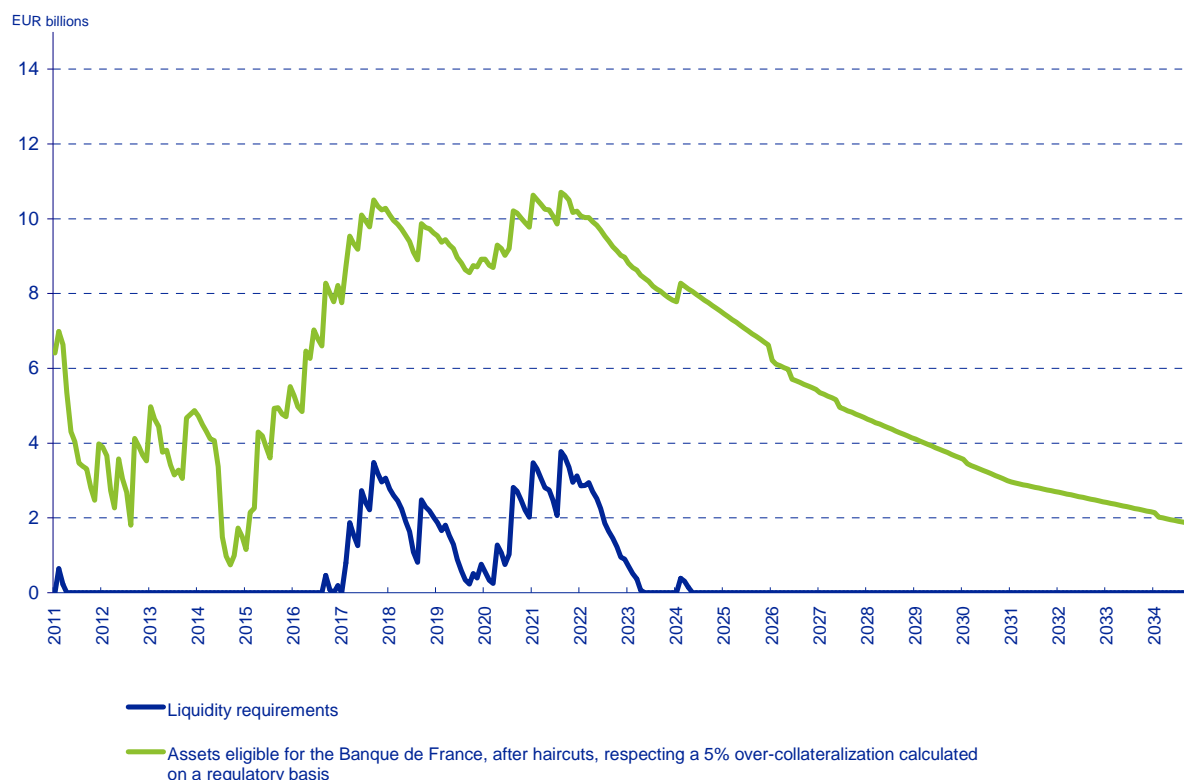
- an unlimited current account facility, with Dexia Credit Local;
- a firm and irrevocable commitment by Dexia Credit Local to make available to Dexia MA the funds it requires to reimburse *obligations foncières* that reach maturity in the coming 12 months on a sliding scale.

In addition, Dexia MA has its own solid resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Dexia MA (article L.515-21 of the Monetary and Financial Code). Because of the nature of the assets that make up its cover pool, Dexia MA has a large number of assets that are directly eligible for refinancing by the Central Bank, so that its need for cash can be easily covered.

Since it is a credit institution, Dexia MA can post these eligible assets:

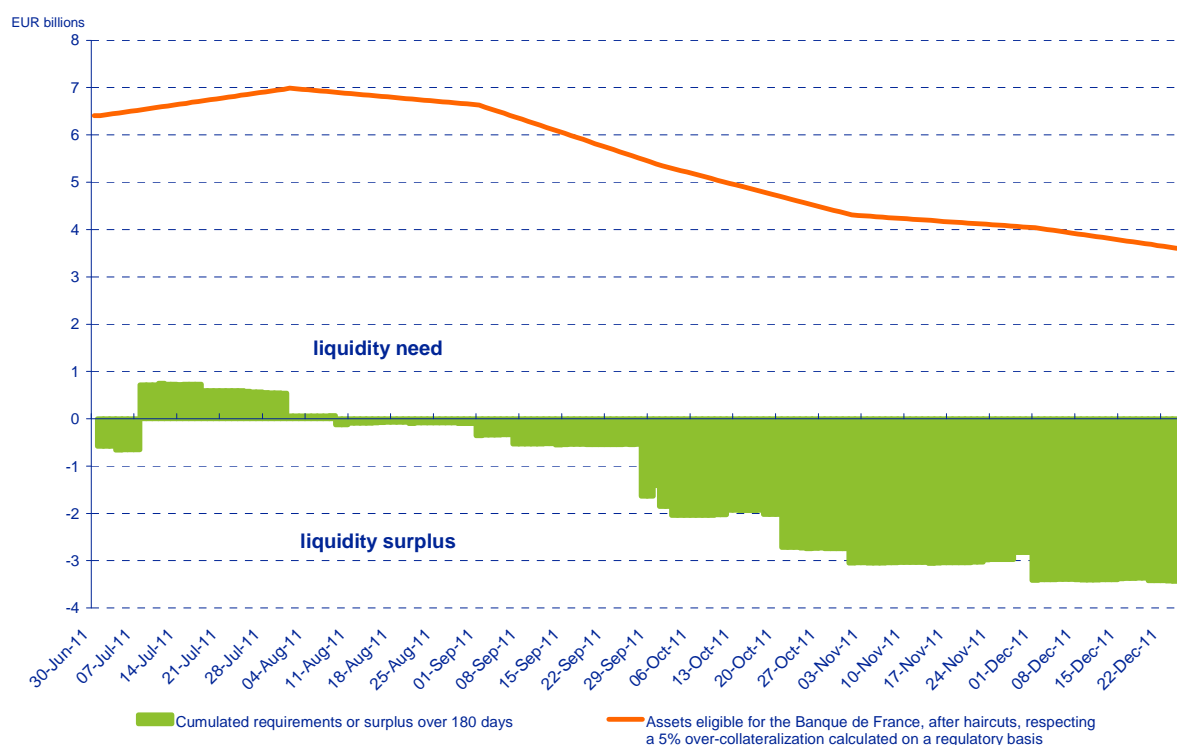
- either by using, in its own name, the refinancing possibilities offered by the European Central Bank *via* the Banque de France;
- or by using interbank financing in the form of repurchase agreements.

In practice, Dexia MA first uses new issues of *obligations foncières* or financing made available by Dexia Credit Local, but it has also demonstrated its real capacity to obtain financing from the Banque de France when the primary covered bond market remained closed from September 2008 to June 2009. During this period, the funds borrowed by Dexia MA from the Central Bank totaled a maximum of EUR 7.5 billion at the end of 2008. The maximum cumulated liquidity that Dexia MA might need in the future, in a run-off situation, is less than this amount. Future liquidity needs are presented below.



In addition, Dexia MA manages its liquidity risk by means of the following three indicators:

- the liquidity ratio for one month (regulatory reporting to the prudential control authority - ACP);
- the duration gap between the assets and the resources benefiting from the legal privilege (limited to three years), which is published quarterly;
- cash needs over the next 180 days: Dexia MA's management makes it possible to provide structural coverage for its liquidity needs up to the extinguishment of the privileged liabilities by assets eligible for refinancing by the Banque de France. Moreover, Dexia MA ensures that at any time, its cash needs over a period of 180 days are covered by replacement assets, assets eligible for credit operations with the Banque de France, or by refinancing agreements signed with credit institutions with the best short-term credit rating. At the end of June 2011, Dexia MA had no cumulated net need for cash over the next 180 days, except for the last three weeks of July, as shown in the following graph.



This graph has been designed on the assumption that the cash collateral received should be completely reimbursed at the next calculation date. This explains the need for cash in the first week of July (approximately EUR 1.4 billion).

## ( 8. INCOME FOR THE PERIOD IN IFRS

Dexia MA publishes its financial statements according to IFRS in order to ensure a better understanding and greater comparability of its accounts internationally. The rules applied by Dexia MA are the same as those applied by the Dexia Group and are in compliance with IFRS, as adopted by the European Commission.

The income statement is presented synthetically in the following table.

EUR millions - IFRS	1H 2010	2010 full year	1H 2011	Change 1H 2010/2011
Interest margin	135	256	100	
Net commissions	(3)	(5)	(4)	
Net result of hedge accounting	-	-	(1)	
Net result of financial assets available for sale	7	12	1	
Other income and expense	-	-	-	
<b>NET BANKING INCOME</b>	<b>139</b>	<b>263</b>	<b>96</b>	<b>(31)%</b>
General operating expenses	(46)	(88)	(45)	
Taxes	(3)	(8)	(4)	
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>90</b>	<b>167</b>	<b>47</b>	<b>(48)%</b>
Cost of risk	(2)	(4)	(6)	
<b>PRE-TAX INCOME</b>	<b>88</b>	<b>163</b>	<b>41</b>	<b>(53)%</b>
Income tax	(29)	(54)	(13)	
<b>NET INCOME</b>	<b>59</b>	<b>109</b>	<b>28</b>	<b>(53)%</b>



Net banking income decreased by 31%, i.e. EUR 43 million, in comparison with the first half of 2010, down from EUR 139 million to EUR 96 million.

The decline was principally due to a major drop in the interest margin, which decreased by more than 26% (EUR 35 million). The interest margin corresponds to the difference between income from the assets and the expense of the liabilities (hedged against interest rate and foreign exchange risks). It basically increases in function of changes in the volume and margin of new operations. The decrease was principally due to less favorable new long term funding conditions and also to the impact on the second quarter of changes in the cash/swap spread.

The item “Net result on financial assets available for sale” mainly involved the result of early reimbursements and divestments of assets ((EUR +0.8 million) and net gains reported on early reimbursement of debt (EUR +0.2 million).

Operating expenses are mainly comprised of commissions paid to Dexia Credit Local for the operational management of the Company within the framework of the contract described in article L.515-22 of the Monetary and Financial Code. They were stable in comparison with the previous year.

The cost of risk stood at EUR 6 million and reflected the impact of depreciation on Greek sovereign bonds within the framework of the Dexia Group’s participation in the IIF Greek assistance programme. It also included the reversal of collective impairment (EUR 1.6 million) calculated according to criteria based on the probability of default and of loss given default applied within the framework of Basel II. The remainder was made up of allowances for specific impairment (EUR 1 million).

The average income tax rate (including deferred taxes) varied little. It corresponded to a mix of French and Irish tax rates.

Net income for the period was down EUR 31 million from the first half of 2010.

## **( 9. INCOME FOR THE PERIOD IN FRENCH GAAP**

In addition to its quarterly financial statements published according to IFRS, Dexia MA must also publish semiannual and annual accounts according to French GAAP. The main differences with the financial statements according to French GAAP concern accounting for hedging transactions and the rules for provisions. The accounting principles used for the financial statements according to French GAAP and according to IFRS are presented in the notes to the financial statements.

The income statement is presented synthetically in the following table.



EUR millions - French GAAP	1H 2010	2010 full year	1H 2011	Change 1H 2010/2011
Interest margin	132	291	121	
Net commissions	(3)	(5)	(4)	
Provisions and income on securities	(5)	4	(3)	
Other income and expense	-	-	-	
<b>NET BANKING INCOME</b>	<b>124</b>	<b>290</b>	<b>114</b>	<b>(8)%</b>
General operating expenses	(45)	(88)	(45)	
Taxes	(4)	(8)	(4)	
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>75</b>	<b>194</b>	<b>65</b>	<b>(13)%</b>
Cost of risk	-	-	(1)	
<b>OPERATING INCOME</b>	<b>75</b>	<b>194</b>	<b>64</b>	<b>(15)%</b>
Income tax	(27)	(66)	(24)	
Regulated provision on long- and medium- term loans	(4)	(8)	(2)	
<b>NET INCOME</b>	<b>44</b>	<b>120</b>	<b>38</b>	<b>(14)%</b>

(1) The amount in 2010 (full year) reflects the impact of the correction of the excess of charges on customer loans in 2009 in the amount of EUR 23 million.

Net banking income decreased by 8% compared with the same period of previous year. This change can be attributed to a decline in the interest margin of EUR -11 million (-8.3%). The change in the interest margin is analyzed above in the presentation of the IFRS financial statements. This interest margin varies differently when it is presented in IFRS (economic presentation) or in French GAAP (tax presentation). The way debt management is accounted for is, in certain cases, asymmetrical in French GAAP (see below), a fact that can make it difficult to interpret the changes, especially the years in which local government debt management is very active.

*Readers are reminded that Dexia MA applies an accounting treatment to early loan reimbursement penalties and swap unwinding payments that is in compliance with the tax treatment specified by government authorities. This accounting method introduces accelerated recognition of income compared with systematic amortization. These penalties and payments are generated by early reimbursements, but also by renegotiations, which generally accompany active debt management by borrowers. The methods employed, which have not changed in the last three years, are described in the rules of presentation and evaluation of the financial statements in the notes to the financial statements in the sections entitled "Customer loans", "Microhedge transactions" and "Macro-hedge transactions".*

Provisions and income on the portfolio of placement securities include capital gains or losses on disposals in addition to provisions and reversals on the placement portfolio after swaps; they can be analyzed as follows:

Country of issuer (EUR millions)	2010	2011
United Kingdom	(5.0)	3.0
Greece	-	(7.0)
Others	-	1.0
<b>TOTAL</b>	<b>(5.0)</b>	<b>(3.0)</b>

Operating expenses were identical to this item in the financial statements in accordance with IFRS. The cost of risk was close to zero, reflecting the excellent quality of the assets (EUR 1 million).

Net income decreased by 14%, i.e. EUR 6 million, in comparison with the first half of 2010, down from EUR 44 million to EUR 38 million.

## ( 10. OUTLOOK FOR THE SECOND HALF OF 2011

The volume of issues by Dexia MA in the first half of 2011 was EUR 6.1 billion, in line with the year's annual budget. This total is close to the amount issued in 2010 and comparable to the volume of issues that will arrive at maturity in 2011. By the end of year, Dexia MA may issue an additional amount of EUR 1.0 billion, if the conditions on the market are propitious.

These issues are mainly comprised of public issues in euros, making it possible to complement Dexia MA's euro benchmark curve, and private placements.

In the future, Dexia MA may increase the diversification of its issues in different currencies. A programme has been drawn up for the acquisition of assets from the Dexia Group to carry out the planned volume of issues while meeting the over-collateralization requirements that apply to Dexia MA.

Belgian and French assets will continue to account for three-quarters of the cover pool.

**Bonds and loans to Public sector as of 6/30/2011**  
(EUR millions)

	6/30/2011			12/31/2010		
	Loans	Bonds	Total	Loans	Bonds	Total
<b>France</b>						
State	155.8	-	155.8	208.5	-	208.5
Regions	2,058.5	142.7	2,201.2	1,963.9	152.3	2,116.2
Departments	6,145.0	-	6,145.0	6,438.3	-	6,438.3
Municipalities	18,073.2	110.0	18,183.2	18,730.9	110.0	18,840.9
Groups of municipalities	10,088.7	122.7	10,211.4	10,524.9	123.3	10,648.2
Public sector entities	10,081.8	-	10,081.8	10,176.3	-	10,176.3
Loans guaranteed by the state or by the local governments	2,322.4	-	2,322.4	2,144.3	-	2,144.3
Credit institution (certificates of deposit)	-	599.2	599.2	-	599.8	599.8
<b>TOTAL</b>	<b>48,925.5</b>	<b>974.6</b>	<b>49,900.1</b>	<b>50,187.1</b>	<b>985.4</b>	<b>51,172.5</b>
<b>Austria</b>						
Loans						
<i>Länder</i>	205.1	-	205.1	206.2	-	206.2
ABS	-	79.4	79.4	-	81.0	81.0
<b>TOTAL</b>	<b>205.1</b>	<b>79.4</b>	<b>284.5</b>	<b>206.2</b>	<b>81.0</b>	<b>287.2</b>
<b>Portugal</b>						
Loans						
Municipalities	91.4	-	91.4	90.0	-	90.0
Public sector entities	10.3	-	10.3	10.7	-	10.7
Securities guaranteed by the State or by local governments	-	47.5	47.5	-	47.5	47.5
<b>TOTAL</b>	<b>101.7</b>	<b>47.5</b>	<b>149.2</b>	<b>100.7</b>	<b>47.5</b>	<b>148.2</b>
<b>Iceland</b>						
Loans						
Securities guaranteed by the State or by local governments	-	180.4	180.4	-	180.4	180.4
<b>TOTAL</b>	<b>-</b>	<b>180.4</b>	<b>180.4</b>	<b>-</b>	<b>180.4</b>	<b>180.4</b>
<b>Finland</b>						
Loans						
Municipalities	28.7	-	28.7	32.4	-	32.4
Public sector entities	50.7	-	50.7	53.1	-	53.1
<b>TOTAL</b>	<b>79.4</b>	<b>-</b>	<b>79.4</b>	<b>85.5</b>	<b>-</b>	<b>85.5</b>
<b>Greece</b>						
Loans						
State	-	314.2	314.2	-	321.2	321.2
Securities guaranteed by the State or by local governments	-	100.0	100.0	-	100.0	100.0
<b>TOTAL</b>	<b>-</b>	<b>414.2</b>	<b>414.2</b>	<b>-</b>	<b>421.2</b>	<b>421.2</b>
<b>Italy</b>						
Loans						
State	-	506.3	506.3	-	506.3	506.3
Regions	-	1,501.9	1,501.9	-	1,512.1	1,512.1
Provinces	-	241.9	241.9	-	246.2	246.2
Municipalities	13.8	1,541.0	1,554.8	14.7	1,567.3	1,582.0
ABS	-	7.5	7.5	-	9.1	9.1
Securities issued by DCC (see note 1 below)	-	3,606.0	3,606.0	-	3,681.1	3,681.1
Securities guaranteed by the State or by local governments	-	102.6	102.6	-	103.9	103.9
<b>TOTAL</b>	<b>13.8</b>	<b>7,507.2</b>	<b>7,521.0</b>	<b>14.7</b>	<b>7,626.0</b>	<b>7,640.7</b>
<b>Spain</b>						
Loans						
<i>Cedulas territoriales</i>	-	3,000.0	3,000.0	-	3,000.0	3,000.0
Region	-	228.7	228.7	-	178.8	178.8
Securities guaranteed by the State or by local governments	-	-	-	-	50.0	50.0
<b>TOTAL</b>	<b>-</b>	<b>3,228.7</b>	<b>3,228.7</b>	<b>-</b>	<b>3,228.8</b>	<b>3,228.8</b>
<b>Switzerland</b>						
Loans						
Cantons	1,691.4	-	1,691.4	1,656.3	-	1,656.3
Municipalities	1,329.0	-	1,329.0	1,321.9	-	1,321.9
Public sector entities	122.6	-	122.6	120.1	-	120.1
Loans guaranteed by local governments	1,073.4	-	1,073.4	1,507.8	-	1,507.8
<b>TOTAL</b>	<b>4,216.5</b>	<b>-</b>	<b>4,216.5</b>	<b>4,606.1</b>	<b>-</b>	<b>4,606.1</b>
<b>Belgium</b>						
Loans						
Regions	280.1	-	280.1	316.0	65.8	381.8
Communities	-	50.0	50.0	74.4	-	74.4
Public sector entities	83.4	-	83.4	86.9	-	86.9
Securities issued by DSFB (see note 2 below)	-	6,912.0	6,912.0	-	7,235.5	7,235.5
Loans guaranteed by the State or by local governments	90.2	-	90.2	94.9	-	94.9
<b>TOTAL</b>	<b>453.6</b>	<b>6,962.0</b>	<b>7,415.6</b>	<b>572.2</b>	<b>7,301.3</b>	<b>7,873.5</b>

	6/30/2011			12/31/2010		
	Loans	Bonds	Total	Loans	Bonds	Total
<b>Germany</b>						
<i>Länder</i>	-	504.3	504.3	-	503.7	503.7
Securities guaranteed by the State or by local governments	-	452.1	452.1	-	211.9	211.9
<b>TOTAL</b>	-	<b>956.4</b>	<b>956.4</b>	-	<b>715.6</b>	<b>715.6</b>
<b>United States</b>						
Federated states	-	252.9	252.9	-	252.9	252.9
<b>TOTAL</b>	-	<b>252.9</b>	<b>252.9</b>	-	<b>252.9</b>	<b>252.9</b>
<b>Sweden</b>						
Municipalities	97.8	-	97.8	128.3	-	128.3
Loans guaranteed by local governments	160.0	-	160.0	219.2	-	219.2
<b>TOTAL</b>	<b>257.8</b>	-	<b>257.8</b>	<b>347.5</b>	-	<b>347.5</b>
<b>Canada</b>						
Provinces	-	22.4	22.4	-	22.4	22.4
<b>TOTAL</b>	-	<b>22.4</b>	<b>22.4</b>	-	<b>22.4</b>	<b>22.4</b>
<b>United Kingdom</b>						
Securities guaranteed by the State or by local governments	-	701.3	701.3	-	664.6	664.6
<b>TOTAL</b>	-	<b>701.3</b>	<b>701.3</b>	-	<b>664.6</b>	<b>664.6</b>
<b>Luxembourg</b>						
Lettres de gage	-	1,850.0	1,850.0	-	1,850.0	1,850.0
Securities guaranteed by the State or by local governments	-	-	-	-	64.9	64.9
<b>TOTAL</b>	-	<b>1,850.0</b>	<b>1,850.0</b>	-	<b>1,914.9</b>	<b>1,914.9</b>
<b>Japan</b>						
Municipalities	-	25.0	25.0	-	25.0	25.0
<b>TOTAL</b>	-	<b>25.0</b>	<b>25.0</b>	-	<b>25.0</b>	<b>25.0</b>
<b>Ireland</b>						
Securities guaranteed by the State	-	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-	-
<b>Supranational *</b>						
International organization	51.2	-	51.2	-	-	-
<b>TOTAL</b>	<b>51.2</b>	-	<b>51.2</b>	-	-	-
<b>GENERAL TOTAL **</b>	<b>54,304.6</b>	<b>23,202.0</b>	<b>77,506.6</b>	<b>56,120.0</b>	<b>23,467.0</b>	<b>79,587.0</b>

\* The Council of Europe was considered as a French direct exposure as of 12/31/2010

\* Excluding premiums and discounts, recorded in accruals.

Premiums and discounts on securities	(34.4)	(22.0)
Translation adjustments on securities	(187.4)	(122.8)
<b>Value of securities on the balance sheet (French accounting standards)</b>	<b>22,980.2</b>	<b>23,322.2</b>

#### NOTE 1:

The DCC securities, in the amount of EUR 3,658.2 million as of June 30, 2011, were subscribed by Dexia MA for EUR 3,606.0 million. The purpose of this securitization vehicle created by Dexia Crediop is to allow refinancing by Dexia MA of Italian public sector assets transferred by Dexia Crediop to DCC. The securities held by Dexia MA benefit from the guarantee of Dexia Crediop and are consequently rated A by Fitch, A- by Standard & Poor's and A2 by Moody's. As of June 30, 2011, the assets held by DCC (series 1-2-3) could be broken down as follows:

#### NOTE 2:

The DSFB securities, in the amount of EUR 7,210.1 million as of June 30, 2011, were subscribed by Dexia MA for EUR 6,912.0 million. The purpose of this securitization vehicle created by Dexia Bank Belgium is to allow refinancing by other Dexia Group entities of assets generated by Dexia Bank Belgium. The securities issued by DSFB - compartment I and II, held by Dexia MA benefit from the guarantee of Dexia Bank Belgium, and are consequently rated A+ by Fitch, A by Standard and Poor's and A1 by Moody's. The securities issued by DSFB - compartment IV are not guaranteed by Dexia Bank Belgium and are rated AA by Fitch. As of June 30, 2011, the assets held by DSFB (Compartment I, II and IV) were Belgian public-sector assets that could be broken down as follows:

#### Assets held as of June 30, 2011, by DCC - Dexia Crediop per la Cartolarizzazione

Italian assets	EUR millions
Regions	1,933.0
Provinces	640.7
Municipalities	1,021.6
DCC bank account with Dexia Bank Belgium	62.9
<b>TOTAL</b>	<b>3,658.2</b>

#### Assets held as of June 30, 2011, by DSFB - Dexia Secured Funding Belgium

Belgian assets	EUR millions
Regions	575.4
Communities	3,419.6
Public sector entities	2,386.0
Groups of public sector entities	76.4
Loans guaranteed by local governments	752.7
<b>Total</b>	<b>7,210.1</b>



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## FINANCIAL STATEMENTS

Half year 2011  
(IFRS)

# BALANCE SHEET

## Assets as of June 30, 2011

EUR millions	Note	6/30/2010	12/31/2010	6/30/2011
Central banks	2.1	3	2	-
Financial assets at fair value through profit or loss		-	-	-
Hedging derivatives	4.1	4,226	5,906	4,352
Financial assets available for sale	2.2	1,723	1,865	2,038
Loans and advances due from banks	2.3	10,101	7,171	6,711
Loans and advances to customers	2.4	76,443	78,025	75,594
Fair value revaluation of portfolio hedge		1,605	1,114	999
Financial assets held to maturity		-	-	-
Current tax assets	2.5	11	7	12
Deferred tax assets	2.5	120	131	131
Accruals and other assets	2.6	11	9	17
<b>TOTAL ASSETS</b>		<b>94,243</b>	<b>94,230</b>	<b>89,854</b>

## Liabilities as of June 30, 2011

EUR millions	Note	6/30/2010	12/31/2010	6/30/2011
Central banks	3.1	-	-	-
Financial liabilities at fair value through profit or loss		-	-	-
Hedging derivatives	4.1	7,565	10,887	10,053
Due to banks	3.2	12,295	12,541	10,492
Customer borrowings and deposits		-	-	-
Debt securities	3.3	69,229	66,819	65,651
Fair value revaluation of portfolio hedge		2,299	1,557	1,172
Current tax liabilities	3.4	1	9	3
Deferred tax liabilities	3.4	13	4	-
Accruals and other liabilities	3.5	1,810	1,344	1,403
Provisions		-	-	-
Subordinated debt		-	-	-
<b>Equity</b>	<b>3.6</b>	<b>1,031</b>	<b>1,069</b>	<b>1,080</b>
Share capital and additional paid-in capital		1,190	1,190	1,300
Reserves and retained earnings		24	24	23
Unrealised or deferred gains and losses		(242)	(254)	(271)
Net income		59	109	28
<b>TOTAL LIABILITIES</b>		<b>94,243</b>	<b>94,230</b>	<b>89,854</b>

## Income statement

EUR millions	Note	H1 2010	2010	H1 2011
Interest income	5.1	3,114	6,486	3,437
Interest expense	5.1	(2,979)	(6,230)	(3,337)
Fee and commission income	5.2	-	-	-
Fee and commission expense	5.2	(3)	(5)	(4)
Net gains (losses) on financial instruments at fair value through profit or loss	5.3	-	-	(1)
Net gains (losses) on financial assets available for sale	5.4	7	12	1
Net result of hedge accounting and fair value option		-	-	-
Other income		-	-	-
Other expense		-	-	-
<b>Net banking income</b>		<b>139</b>	<b>263</b>	<b>96</b>
Operating expense	5.5	(49)	(96)	(49)
Cost of risk	5.6	(2)	(4)	(6)
<b>Operating income</b>		<b>88</b>	<b>163</b>	<b>41</b>
Net gains (losses) on other assets		-	-	-
<b>Income before tax</b>		<b>88</b>	<b>163</b>	<b>41</b>
Income tax	5.7	(29)	(54)	(13)
<b>NET INCOME</b>		<b>59</b>	<b>109</b>	<b>28</b>
<i>Earnings per share (in EUR)</i>				
- Basic		5	9	2
- Diluted		5	9	2

## Net income and unrealised or deferred gains and losses through equity

EUR millions	H1 2010	H1 2011
<b>Net income</b>	<b>59</b>	<b>28</b>
Translation adjustments	-	-
Unrealised or deferred gains and losses of financial assets available for sale	(110)	(25)
Unrealised or deferred gains and losses of cash flow hedges	81	13
Taxes	3	(6)
<b>Total of unrealised or deferred gains and losses through equity</b>	<b>(26)</b>	<b>(18)</b>
<b>NET INCOME AND UNREALISED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY</b>	<b>33</b>	<b>10</b>

## Equity

EUR millions	Core equity			Unrealised or deferred gains and losses			Equity
	Share capital, Additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of available for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
<b>As of December 31, 2010, IFRS</b>	<b>1,190</b>	<b>133</b>	<b>1,323</b>	<b>(232)</b>	<b>(22)</b>	<b>(254)</b>	<b>1,069</b>
<b>Movements during the period</b>							
Share capital	110	-	110	-	-	-	<b>110</b>
Dividends	-	(110)	(110)	-	-	-	<b>(110)</b>
Changes in fair value of available for sale financial assets through equity	-	-	-	(24)	-	(24)	<b>(24)</b>
Changes in fair value of hedging derivatives through equity	-	-	-	-	7	7	<b>7</b>
Changes in fair value of available for sale financial assets through profit and loss	-	-	-	-	-	-	-
Changes in fair value of hedging derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	28	28	-	-	-	<b>28</b>
Other movements	-	-	-	-	-	-	-
<b>As of June 30, 2011, IFRS</b>	<b>1,300</b>	<b>51</b>	<b>1,351</b>	<b>(256)</b>	<b>(15)</b>	<b>(271)</b>	<b>1,080</b>

Dexia MA has share capital of EUR 1,300 million that is made up of 13,000,000 shares with a par value of EUR 100.



## Cash flow statement

EUR millions	H1 2010	2010	H1 2011
<b>NET INCOME BEFORE TAXES</b>	<b>88</b>	<b>109</b>	<b>41</b>
+/- Depreciation and write-downs	3	5	-
+/- Expense/income from operating activities	325	125	224
+/- Expense/income from financing activities	(305)	(84)	(195)
+/- Other non-cash items	(65)	(372)	(447)
<b>= Non-monetary items included in net income before tax and other adjustments</b>	<b>(42)</b>	<b>(326)</b>	<b>(417)</b>
+/- Cash from interbank operations (Dexia Credit Local and Banque de France)	-	-	-
+/- Cash from interbank operations (customer loans)	(1,486)	28	393
+/- Cash from customer operations (loans)	1,542	414	1,406
+/- Cash from financing assets	(2,802)	(1,344)	313
+/- Cash from hedging financial instruments	290	159	601
- Income tax paid	(29)	(44)	(34)
<b>= Decrease/(increase) in cash from operating activities</b>	<b>(2,485)</b>	<b>(787)</b>	<b>2,679</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>(2,439)</b>	<b>(1,004)</b>	<b>2,303</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>
+/- Cash from or for shareholders	(4)	(4)	-
+/- Other cash from financing activities	479	(1,205)	(252)
<b>CASH FLOW FROM FINANCING ACTIVITIES (C)</b>	<b>475</b>	<b>(1,209)</b>	<b>(252)</b>
<b>EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Increase/(decrease) in cash equivalents (A + B+ C + D)</b>	<b>(1,965)</b>	<b>(2,213)</b>	<b>2,051</b>
Cash flow from operating activities (A)	(2,439)	(1,004)	2,302
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	475	(1,209)	(252)
Effect of changes in exchange rates on cash (D)	-	-	-
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>(6,817)</b>	<b>(6,817)</b>	<b>(9,030)</b>
Central banks (assets & liabilities)	4	4	2
Interbank accounts (assets & liabilities) and loans/deposits at sight	(6,821)	(6,821)	(9,032)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>(8,779)</b>	<b>(9,030)</b>	<b>(6,979)</b>
Central banks (assets & liabilities)	3	2	-
Interbank accounts (assets & liabilities) and loans/deposits at sight	(8,782)	(9,032)	(6,979)
<b>NET CASH</b>	<b>(1,962)</b>	<b>(2,213)</b>	<b>2,051</b>

# Notes to the IFRS Financial Statements as of June 30, 2011

## ( 1 NOTES TO THE FINANCIAL STATEMENTS AS OF JUNE 30, 2011

### 1.1 CONTEXT OF PUBLICATION

Dexia Municipal Agency decided to publish a set of individual financial statements according to IFRS. This publication is voluntary and the reference for the preparation of the financial statements is consistently, in compliance with legislation applicable in France, French generally accepted accounting principles (French GAAP).

Dexia Municipal Agency presented its first annual financial statements prepared according to IFRS to report the fiscal year 2008. The financial statements as of June 30, 2011 were examined by the Executive Board on August 29, 2011.

### 1.2 APPLICABLE ACCOUNTING STANDARDS

#### a. Application of IFRS adopted by the European Commission (IFRS EU)

On July 19, 2002, the European Commission published regulation EC 1606/2002, which obliged listed groups to apply IFRS as from January 1, 2005. Dexia has thus applied these standards since that date. Dexia Municipal Agency decided to apply as from January 1, 2007, all the IAS, IFRS, SIC and IFRIC adopted by the European Commission.

Since its publication in 2002, regulation EC 1606/2002 has been updated several times. Dexia Municipal Agency's financial statements have therefore been prepared in accordance with IFRS regulations and interpretations published and endorsed by the European Commission up to the accounting closing on June 30, 2011, including the conditions for the application of an interest rate portfolio hedging and the possibility of hedging deposits.

The financial statements are prepared on a going concern basis. They are stated in millions of euros (EUR) unless otherwise noted. They are compliant with CNC recommendation 2009-R.04 published on July 2, 2009.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment. While management believes it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the consolidated financial statements.

Judgments were principally made in the following areas:

- classification of financial instruments;
- determination of whether or not the market is active;
- hedge accounting;
- existence of a present obligation with probable outflows in the event of litigation;
- identification of impairment triggers.

These judgments are set out in the corresponding sections of these applicable accounting standards.

Estimates were principally made in the following areas:

- determination of the recoverable amount of impaired financial assets;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets.

## **b. Changes in accounting policies since the previous annual report that may impact Dexia Municipal Agency**

The following review of changes in accounting standards is based on the situation at closing on June 30, 2011.

### **1. IASB and IFRIC texts endorsed by the European Commission and applied as from January 1, 2011**

The following standards, interpretations or amendments have been endorsed by the European Commission and are applied as from January 1, 2011:

- Annual improvements made in 2010 to IFRS and IAS, a series of amendments to IFRS applied as from January 1, 2011. The impact of these improvements to IFRS and IAS on the financial statements of Dexia Municipal Agency mainly relates to disclosures.
- IAS 24 Related Party Disclosures. This standard supersedes IAS 24 Related Party Disclosures (as revised in 2003) and has no impact on the financial statements of Dexia Municipal Agency.
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirements. This amendment has no impact on the financial statements of Dexia Municipal Agency.
- Amendment to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters. This amendment has no impact on the financial statements of Dexia Municipal Agency, which is no longer a first-time adopter.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. This interpretation has no impact on the financial statements of Dexia Municipal Agency.
- Amendment to IAS 32 Financial instruments: presentation: classification of rights issue. This amendment has no impact on the financial statements of Dexia Municipal Agency.

### **2. IASB and IFRIC texts endorsed by the European Commission during the current year but not yet applicable as from January 1, 2011**

None

### **3. New standards (IFRS), interpretations (IFRIC) and amendments issued during the current year but not yet endorsed by the European Commission**

- Amendment to IAS 19 Employee Benefits (issued by IASB on June 2011). This amendment is effective as from January 1, 2013 and will not impact the financial statements of Dexia Municipal Agency.
- Amendment to IAS 1 Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income (issued by IASB on June 2011). This amendment is effective as from January 1, 2013 and will impact Dexia Municipal Agency's presentation of Equities.
- IFRS 13 Fair Value Measurement (issued by IASB on May 2011). This standard is effective as from January 1, 2013 and the impact on the financial statements of Dexia Municipal Agency is currently being assessed..
- A 'package of five' new and revised standards (issued by IASB on May 2011) addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvements with other entities:
  - IFRS 10 Consolidated Financial Statements;
  - IFRS 11 Joint Arrangements;
  - IFRS 12 Disclosures of Involvement with Other Entities;
  - IAS 27 Separate Financial Statements, which supersedes IAS 27 Consolidated and Separate Financial Statements (as amended in 2008);
  - IAS 28 Investments in Associates and Joint Ventures, which supersedes IAS 28 Investments in Associates (as revised in 2003).

These new and revised standards are effective as from January 1, 2013 and the impact on the financial statements of Dexia Municipal Agency is currently being assessed..

## **1.3 ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS**

### **a. Offsetting financial assets and financial liabilities**

In certain circumstances, financial assets and financial liabilities are offset and the net amount reported in the balance sheet. This may happen when there is a legally enforceable right to set off the recognized amounts and it is the intention of both parties that expected future cash flows will be settled on a net basis or that the asset will be realized and the liability settled simultaneously.

### **b. Foreign currency transactions**

Foreign currency transactions are accounted for using the exchange rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies are recognized at closing rates. Non-monetary assets and liabilities recognized at fair value and denominated in foreign currencies existing at the closing date are recorded at closing rates, whereas non-monetary assets and liabilities recognized at amortized cost are recorded at their historical rates. The resulting exchange differences from monetary assets and liabilities are recognized in income, except for the foreign exchange impact of fair value adjustments to bonds available for sale which are recognized in equity. Foreign exchange differences from non-monetary assets and liabilities recognized at fair value are recorded as fair value adjustments.

### **c. Trade and settlement date accounting**

All purchases and sales of financial assets are recognized on the settlement date, which is the date that a financial asset is received or delivered by Dexia Municipal Agency.

Dexia Municipal Agency's hedging instruments are recognized at fair value on the transaction date.

### **d. Financial assets**

Management determines the appropriate classification of its investments at initial recognition. However, under certain conditions financial assets may be subsequently reclassified.

## **1. Loans and advances to banks and customers**

IFRS define loans as non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than:

- those that the entity intends to sell immediately or in the near term, which are classified as held for trading, and those that the entity, upon initial recognition, designates as being at fair value through profit or loss;
- those that the entity, upon initial recognition, designates as available for sale; and
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Dexia Municipal Agency recognizes loans and advances initially at fair value plus transaction costs and subsequently at amortized cost, less any allowance for impairment. Interest are measured based on the effective interest rate method and recognized in net interest income.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

## **2. Financial assets held to maturity and available for sale**

### **Financial assets held to maturity**

Quoted securities with fixed maturity are classified as “Financial assets held to maturity” (HTM) when management has both the intent and the ability to hold the assets to maturity.

Assets held to maturity are initially recognized at fair value (including transaction costs) and subsequently at amortized cost, less any allowance for impairment. Interest is recognized based on the effective interest rate method, using the rate determined at initial recognition and is recognized in net interest income.

### **Financial assets available for sale**

Assets intended to be held for an indefinite period of time and which may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices are classified as “Financial assets available for sale” (AFS). Assets recognized by Dexia Municipal Agency as “Financial assets available for sale” are, except for certain cases, intended to be held to maturity.

Assets available for sale are initially recognized at fair value (including transaction costs). Interest is recognized based on the effective interest rate method in net interest income. Unrealized gains and losses arising from changes in the fair value of financial assets available for sale are recognized in equity. When assets are disposed of, the related accumulated fair value adjustments are reversed in the income statement in “Net gains (losses) on financial assets available for sale”.

When financial assets available for sale are restated as loans and advances at a later date on the basis of the October 2008 amendment to IAS 39, the reserve representative of changes in the fair value of financial assets available for sale as presented in the financial statements as of June 30, 2011, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

## **3. Financial assets held for trading**

Dexia Municipal Agency holds no assets for trading.

## **4. Financial assets designated at fair value through profit or loss (FV Option)**

Dexia Municipal Agency does not make use of the option to designate its financial assets at fair value through profit or loss.

## **5. Realized gains and losses on sales of financial assets**

For financial assets not revalued through profit or loss, realized gains or losses on disposals are the differences between the proceeds received (net of transaction costs) and the costs or amortized costs of the assets. The cost is systematically determined based on the “first in, first out” approach (FIFO method) on a portfolio basis.

When a financial asset available for sale is sold, the total of gains or losses previously recognized in equity is reversed in the income statement.

## **6. Accounting for early reimbursement penalties**

Dexia Municipal Agency has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 concerning the restructuring of debt on financial assets.

Regarding the method of accounting for early reimbursement penalties, there are several possibilities depending on whether the early reimbursement is recognized as being an early reimbursement with refinancing or an extinguishment without refinancing.

## Early reimbursement with refinancing

The method of accounting for early reimbursement penalties differs depending on whether the restructuring conditions are substantially different from those set initially.

In line with the principles of AG 62, Dexia Municipal Agency considers that the conditions are substantially different when the net present value of the cash flows under the new conditions, including any fees paid net of any fees received, is more than 10% different from the discounted net present value of the cash flows remaining from the original loan.

Early reimbursement penalties are recognized immediately in income or else amortized over the life of the new loan depending on the results of the eligibility test. If the eligibility test is passed (i.e. the difference in net present value is less than 10%), any early reimbursement penalties are amortized over the term of the new loan. If not (i.e. the difference exceeds 10%), early reimbursement penalties are recognized immediately in income.

## Early reimbursement without refinancing

When a loan has been extinguished, Dexia Municipal Agency recognizes the early reimbursement penalty and any gains or losses of unamortized premium or discount, as income for the period, as required by IFRS.

## 7. Impairment of financial assets

Dexia Municipal Agency records allowances for impairment losses when there is objective evidence that a financial asset or group of financial assets is impaired, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated, in accordance with IAS 39 (§58-70). The impairment represents the management's best estimate of losses in the value of assets at each balance-sheet date.

### Financial assets at amortized cost

Dexia Municipal Agency first assesses whether objective evidence of impairment exists for a financial asset when taken individually. If no such evidence exists, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment

#### *- Determination of the impairment*

- **Specific loss allowance:** if there is objective evidence that loans or other receivables, or financial assets classified as Held-to-maturity are impaired, the amount of the provision is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, net of any guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below).  
When an asset is assessed as being impaired, it will be excluded from the portfolio on which a collective impairment is calculated.
- **Collective allowance:** collective impairment covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending commitments at the balance-sheet date. These losses are estimated on the basis of past performance and historical patterns of losses in each segment, the credit ratings allocated to the borrowers, and the current economic environment in which the borrowers operate. For this purpose, Dexia Municipal Agency uses the credit risk model developed by Dexia Credit Local, which is based on an approach that combines default probabilities and losses in the event of default. These models are subject to regular back-testing and are based on Basel II data and risk models, consistent with the incurred loss model.

*- Accounting treatment of the impairment*

Changes in the amount of impairment losses are recognized in the income statement in “Cost of risk”. Once an asset has been written down, if the amount of the impairment subsequently decreases due to an event occurring after recognition of the impairment, the write-back of the impairment is credited to the “Cost of risk”.

When an asset is determined by management as being irrecoverable, the outstanding specific impairment is reversed via the income statement, in “Cost of risk” and the net loss is recorded in the same heading. Subsequent recoveries are also accounted for in this heading.

**Reclassified financial assets**

Regarding impairment, reclassified financial assets follow the rules as financial assets initially valued at amortized cost for calculation of the impairment. If there is objective evidence that reclassified financial assets are impaired, the amount of the impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset, excluding the amount of revaluations at fair value due to former classification in AFS, and the net present value of the expected cash-flows discounted at the effective interest rate at the time of reclassification. Any existing unamortized AFS reserve will be taken to profit or loss account in “Cost of risk”.

In the event of a positive update to expected cash flows, the impairment amount is reversed through net interest income over the new schedule of expected cash flows, not by a reversal of impairment.

**Available for sale financial assets**

Impairment of available for sale assets is recognized on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since initial recognition of the asset. Financial assets available for sale (AFS) are subject only to specific impairment.

*- Determination of the impairment*

In the case of interest bearing debt instruments, impairment is triggered based on the same criteria as those applied to financial assets valued at amortized cost (see above).

*- Accounting treatment of the impairment*

When financial assets available for sale are impaired, the total AFS reserve is recycled into profit or loss and Dexia Municipal Agency reports these impairment losses in the income statement in “Cost of risk” (for financial asset available for sale with fixed income) or “Net gains (losses) on financial assets available for sale” (for financial assets available for sale with variable income). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement.

In the event of an increase in the fair value of an interest-bearing financial instrument that relates objectively to an event occurring after the last impairment was recognized, Dexia Municipal Agency recognizes a reversal of the impairment loss in the income statement in “Cost of risk” (for financial assets available for sale with fixed income).

**Off-balance sheet commitments**

Off-balance sheet commitments such as credit substitutes (e.g.: guarantees and standby letters of credit) and loan commitments are converted into on-balance sheet items when called. However, under certain circumstances such as uncertainty about the counterparty's creditworthiness, the off-balance sheet commitment should be classified as impaired if the credit worthiness has deteriorated to an extent that makes repayment of any loan and associated interest payments doubtful.

**8. Sale and repurchase agreements and lending of securities**

Securities sold subject to a linked repurchase agreement (repos) are not derecognized and remain on the balance-sheet in their original category. The corresponding liability is included in “customer borrowings and deposits” or “due to banks” as appropriate. The asset is reported as pledged in the notes.



Securities purchased under an agreement to resell (reverse repos) are recorded as off-balance sheet items and the corresponding loans are recorded in “loans and advances to customers” or “loans and advances due from banks” as appropriate.

The difference between the sale and repurchase price is treated as interest income or expense and is amortized over the life of the agreement using the effective interest rate method.

Securities lent to third parties are retained in the financial statements.

Securities borrowed are not recognized in the financial statements. If these borrowed securities are sold to third parties, the obligation to return them is recorded at fair value in “Financial liabilities at fair value through profit or loss”, and the gain or loss is included in “Net gains (losses) on financial instruments at fair value through profit or loss”.

## **e. Financial liabilities**

### **1. Liabilities designated at fair value through profit or loss**

Dexia Municipal Agency does not use this option.

### **2. Borrowings**

Borrowings are recognized initially at fair value, being their issue proceeds net of transaction costs incurred. They are subsequently stated at amortized cost and any difference between their initial carrying amount and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

This chapter includes *obligations foncières* and other resources benefiting from the privilege defined in article L.515-19 of the Monetary and Financial Code, as of June 30, 2011. It is sub-divided into two parts.

#### **Obligations foncières**

*Obligations foncières* are recorded at nominal value.

Reimbursement premiums and issue premiums are amortized according to the straight line method over the life of the securities concerned, as of the first year, *prorata temporis*. They are recorded on the balance sheet in items corresponding to the type of debt concerned. The amortization of these premiums is recorded in the income statement as interest income and charge on bonds and fixed income securities. In the case of bonds issued above par, the spread of issue premiums is deducted from related interest income and charge on bonds and fixed income securities.

Interest related to bonds is accounted for as banking operating charges for accrued amounts, due and not yet due, calculated *prorata temporis* on the basis of contractual rates.

Fees and commissions on bond issues are spread in equal fractions over the life of the loans to which they are attached.

Bonds denominated in other currencies are treated in the same way as foreign exchange transactions (see below).

#### **Registered covered bonds**

These private placements are recorded at nominal value. Issue premiums are dealt with in the same way as *obligations foncières* (see above).



Pursuant to article L.515-20 of the Monetary and Financial Code and article 6 of CRBF standard 99-10 of July 27, 1999, total assets must at all times be greater than total liabilities benefiting from the privilege mentioned in article L.515-19 of the above-mentioned Monetary and Financial Code.

## **f. Derivatives**

### **1. Derivatives not used in a hedging relationship**

Dexia Municipal Agency is not authorized to conduct derivative transactions that would not be documented as hedging relations.

### **2. Hedging derivatives**

Hedging derivatives can be categorized as either:

- a hedge of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or
- a hedge of a future cash flow attributable to a recognized asset or liability or a forecast transaction (cash flow hedge).

Hedge accounting may be used for derivatives designated in this way, provided certain criteria are met:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows attributable to the hedged risk on the hedged item throughout the reporting period;
- the hedge shall be effective at inception and on a going concern basis.

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and that respect the criteria set out above, are recorded in the income statement, along with the corresponding change in fair value of the hedged assets or liabilities that are attributable to that specific hedged risk.

If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.

The effective portion of the changes in the fair value of derivatives that are designated in a cash-flow hedging relationship, that respect the criteria set out above, and that prove to be effective in relation to the hedged risk, is recognized in equity as "Unrealized or deferred gains and losses of cash-flow hedges".

The non-effective portion of the changes in the fair value of the derivatives is recognized in the income statement. Amounts deferred in equity are transferred to the income statement and classified as income or expense in the periods during which the hedged firm commitment or forecast transaction affect the income statement.

### **3. Hedging of the interest rate risk of a portfolio**

Dexia Municipal Agency makes use of the provisions of IAS 39 as adopted by the European Union ("IAS 39 carve-out") because it better reflects the way Dexia Municipal Agency manages its financial instruments.

The objective of hedging relationships is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as the qualifying hedged items.

The entity performs a comprehensive analysis of its interest rate risk exposure. It consists in assessing fixed-rate exposure generated by all fixed-rates balance sheet items.

Dexia Municipal Agency selects financial assets and liabilities to be included in the hedge of the portfolio's interest rate risk exposure. The entity constantly applies the same methodology for selecting financial assets and liabilities to be included in the portfolio. The financial assets and liabilities are classified by time bands. Hence, when they are removed from the portfolio, they must be removed from all the time bands on which they have an impact.

The Company chose to put together homogeneous portfolios of loans and portfolios of bond issues.

Based on this gap analysis, which is realized on a net basis, Dexia Municipal Agency defines at inception the risk exposure to be hedged, the length of the time bands and the manner and the frequency of testing.

The hedging instruments are a portfolio of derivative, whose positions may be offsetting. The hedging items are recognized at their fair value (including accrued interest expense or income) with adjustments recorded in the income statement.

Revaluation related to the hedged risk is recognized in the balance sheet (in asset or liability depending on positive or negative revaluation) as "Fair value revaluation of portfolio hedge".

#### **g. Fair value of financial instruments**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Market prices are used to determine fair value where an active market (such as a recognized stock exchange) exists, as these are the best estimate of the fair value of a financial instrument. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by Dexia Municipal Agency.

If the financial instrument is not traded on an active market, valuation techniques are used. Valuation techniques include the use of data from recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and valuation models. A valuation model reflects what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations, i.e. the price that would be received by the holder of the financial asset in an orderly transaction that is not a liquidation or a forced transaction.

The valuation model should take into account all the factors that market participants would consider when pricing the asset. Within this framework, Dexia Municipal Agency uses its own valuation models and market assumptions, i.e present value of cash-flows or any other techniques based on market conditions existing at the closing date.

#### **1. Financial instrument measured at fair-value (available for sale, derivatives)**

Financial investments classified as available for sale and derivatives are measured at fair value by reference to quoted market prices when available. When quoted market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows, using observable or non-observable market data.

For financial assets classified as available for sale, when quoted prices are not available, the pricing models attempt to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity.

## **2. Financial instruments measured at amortized cost (valuations in IFRS notes on fair value)**

The following remarks are applicable to the fair value of loans and advances presented in the notes:

- the fair value of fixed-rate loans and mortgages is estimated by comparing market interest rates when the loans were granted with current market interest rates offered on similar loans;
- caps, floors and early repayment options are included in determining the fair value of loans and advances.

### **h. Interest income and expense**

For all interest-bearing instruments not valued at fair value, interest income and expense are recognized in the income statement using the effective interest rate method (including transaction costs).

Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset or liability and are used for the calculation of the effective interest rate.

Accrued interest is recognized on the balance sheet in the same item as the related financial asset or liability.

Once an interest bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognized based on the interest rate used to discount the future cash flows in order to measure the recoverable amount.

### **i. Commission income and expense**

Commissions are recognized in accordance with IAS 18. Pursuant to this standard, most of the commissions arising from Dexia Municipal Agency's activities are recognized on an accrual basis over the life of the underlying transaction.

Loan commitment commissions are recognized as part of the effective interest rate if the loan is granted. They are recorded as commission income on expiry date of the commitment if no loan is granted.

### **j. Deferred taxes**

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The tax rates enacted or substantively enacted at the balance-sheet date are used to determine deferred taxes. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized to account for temporary differences arising from investments in subsidiaries, jointly controlled companies and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes related to fair value re-measurement of assets available for sale and cash flow hedges, and other operations which are charged or credited directly to equity, are also credited or charged directly to equity.

### **k. Provision for risks and charges**

Provisions for risks and charges mainly include provisions for litigations, restructuring, and off-balance sheet loan commitments.

A provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money.

Provisions are recognized when:

- Dexia Municipal Agency has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are recognized using the same methodology as that applied for the impairment of financial assets measured at amortized cost.

#### **l. Dividends on ordinary shares**

Dividends on ordinary shares are recognized in liabilities in the period in which they are declared (they must be authorized). Dividends for the year that are declared after the balance sheet date are disclosed in the note on subsequent events.

#### **m. Earnings per share**

Basic earnings per share before dilution are calculated by dividing net income available to shareholders by the weighted average number of ordinary shares in issue during the year.

#### **n. Related party transactions**

Two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. The parent company of Dexia Municipal Agency is Dexia Credit Local, a *société anonyme* incorporated in France, itself a subsidiary of Dexia SA, incorporated in Belgium. Within this framework, related party transactions are those with companies accounted for by the equity method and with members of the Company's management bodies.

#### **o. Segment reporting**

Dexia Municipal Agency's sole activity is the financing or refinancing of commitments on public sector entities originated by Dexia's commercial network. These assets are primarily financed by the issue of *obligations foncières*. This sole business is part of the operational business line Public and Wholesale Banking (PWB) of the Dexia Group.

Dexia Municipal Agency conducts its business solely from Paris (or its branch in Dublin). The Company has no direct activity in other countries and is unable to present a relevant breakdown of its results by geographic region. Geographic breakdown of assets by country of residence of the counterparty is presented quarterly at the end of the Management Report.

#### **p. Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with central banks and interbank deposits at sight.

## 2 NOTES TO THE ASSETS

### 2-1 CENTRAL BANKS

EUR millions	6/30/2010	12/31/2010	6/30/2011
Mandatory reserve deposits with central banks	3	2	-
Other deposits	-	-	-
<b>TOTAL</b>	<b>3</b>	<b>2</b>	<b>-</b>

### 2-2 FINANCIAL ASSETS AVAILABLE FOR SALE

#### a. Analysis by nature

EUR millions	6/30/2010	12/31/2010	6/30/2011
Loans	-	-	-
Bonds	1,723	1,865	2,038
<b>TOTAL</b>	<b>1,723</b>	<b>1,865</b>	<b>2,038</b>

#### b. Analysis by counterparty

EUR millions	6/30/2010	12/31/2010	6/30/2011
Public sector	1,257	1,064	999
Credit institutions guaranteed by the public sector	466	201	439
<b>Total public sector</b>	<b>1,723</b>	<b>1,265</b>	<b>1,438</b>
Replacement assets	-	600	600
<b>TOTAL</b>	<b>1,723</b>	<b>1,865</b>	<b>2,038</b>
<i>of which eligible for Central Bank refinancing</i>	<i>1390</i>	<i>1355</i>	<i>1140</i>

#### c. Impairment

EUR millions	6/30/2010	12/31/2010	6/30/2011
Public sector	1,723	1,265	1,413
Replacement assets	-	600	600
<b>Total performing assets</b>	<b>1,723</b>	<b>1,865</b>	<b>2,013</b>
Public sector	-	-	32
Replacement assets	-	-	-
<b>Total impaired assets</b>	<b>-</b>	<b>-</b>	<b>32</b>
Specific impairment	-	-	(7)
<b>TOTAL ASSETS AFTER IMPAIRMENT</b>	<b>1,723</b>	<b>1,865</b>	<b>2,038</b>

#### d. Analysis by residual maturity

See note 7.2

#### e. Unrealised gains and losses breakdown by country

See note 4.4

### 2-3 LOANS AND ADVANCES DUE FROM BANKS

#### a. Analysis by nature

EUR millions	6/30/2010	12/31/2010	6/30/2011
Sight accounts	0	0	0
Other loans and advances due from banks	10,101	7,171	6,711
<b>Performing assets</b>	<b>10,101</b>	<b>7,171</b>	<b>6,711</b>
Impaired loans and advances	-	-	-
<b>Impaired assets</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total assets before impairment</b>	<b>10,101</b>	<b>7,171</b>	<b>6,711</b>
Specific impairment	-	-	-
Collective impairment	-	-	-
<b>TOTAL</b>	<b>10,101</b>	<b>7,171</b>	<b>6,711</b>

#### b. Breakdown by counterparty

EUR millions	6/30/2010	12/31/2010	6/30/2011
Central Bank	1,600	-	-
Swiss cantonal banks benefiting from their canton's legal guarantee	1,974	1,593	1,121
Banks guaranteed by a local government, <i>Crédits municipaux</i>	182	180	166
Credit institutions belonging to the Dexia Group: loans benefiting from the assignment in guarantee of refinanced public debt	183	181	176
Credit institutions guaranteed by the State	12	13	13
Replacement assets	6,150	5,204	5,235
<b>TOTAL</b>	<b>10,101</b>	<b>7,171</b>	<b>6,711</b>
<i>of which eligible for Central Bank refinancing</i>	<i>6,150</i>	<i>4,850</i>	<i>4,859</i>

### c. Replacement assets

EUR millions	Notation	6/30/2010	12/31/2010	6/30/2011
Dexia Sabadell - <i>Cedulas territoriales</i>	Aa2 Moody's	3,800	3,004	3,008
Dexia LdG Banque - <i>Lettres de gage</i>	AAA S&P	2,350	1,850	1,851
Dexia Credit Local - Loans secured by public sector assets	A+ Fitch, A S&P, A1 Moody's	-	350	376
<b>TOTAL</b>		<b>6,150</b>	<b>5,204</b>	<b>5,235</b>

### d. Analysis by residual maturity

See note 7.2

### e. Unrealised gains and losses breakdown by country

See note 4.4

## 2-4 LOANS AND ADVANCES TO CUSTOMERS

### a. Analysis by counterparty

EUR millions	6/30/2010	12/31/2010	6/30/2011
Public sector	61,031	62,578	60,687
Other- guaranteed by a State or local government	4,127	4,423	4,265
Other - ABS made up solely of public commitments	11,296	11,033	10,637
<b>Performing assets</b>	<b>76,454</b>	<b>78,034</b>	<b>75,589</b>
Impaired loans and advances	6	10	25
<b>Impaired assets</b>	<b>6</b>	<b>10</b>	<b>25</b>
<b>Total assets before impairment</b>	<b>76,460</b>	<b>78,044</b>	<b>75,614</b>
Specific impairment	(1)	(1)	(3)
Collective impairment	(16)	(18)	(17)
<b>TOTAL</b>	<b>76,443</b>	<b>78,025</b>	<b>75,594</b>
<i>of which eligible for Central Bank refinancing</i>	<i>47,722</i>	<i>41,518</i>	<i>40,508</i>

### b. Public sector ABS

EUR millions	Rating	6/30/2010	12/31/2010	6/30/2011
Colombo	Aa2 Moody's, A+ S&P	9	8	7
Astrea	AA- Fitch, Aa3 Moody's	2	1	1
Blue Danube	AA+ S&P	83	81	80
DCC - Dexia Crediop per la Cartolarizzazione	A Fitch, A2 Moody's, A- S&P	3,765	3,691	3,619
DSFB - Dexia Secured Funding Belgium 1 et 2	A+ Fitch, A1 Moody's, A S&P	2,929	2,908	2,812
DSFB - Dexia Secured Funding Belgium 4	AA Fitch	4,508	4,344	4,118
<b>Total</b>		<b>11,296</b>	<b>11,033</b>	<b>10,637</b>

### c. Analysis by residual maturity

See note 7.2

### d. Unrealised gains and losses breakdown by country

See note 4.4

## 2-5 TAX ASSETS

EUR millions	6/30/2010	12/31/2010	6/30/2011
Current income tax	11	7	12
Other taxes	-	-	0
<b>Current tax assets</b>	<b>11</b>	<b>7</b>	<b>12</b>
<b>Deferred tax assets (see note 4.2)</b>	<b>120</b>	<b>131</b>	<b>131</b>
<b>TOTAL TAX ASSETS</b>	<b>131</b>	<b>138</b>	<b>143</b>

## 2-6 ACCRUALS AND OTHER ASSETS

EUR millions	6/30/2010	12/31/2010	6/30/2011
Cash collateral paid	-	-	-
Other accounts receivable	-	-	-
Prepaid charges	-	-	-
Other assets	11	9	17
<b>TOTAL ACCRUALS AND OTHER ASSETS</b>	<b>11</b>	<b>9</b>	<b>17</b>

## 3 NOTES TO THE LIABILITIES

### 3-1 CENTRAL BANKS

This item includes refinancing obtained through Banque de France tenders. The use of such financing organized by tenders involved the pledging of eligible assets within the framework of a general guarantee management agreement (3G). This source of financing does not benefit from the privilege defined in article L.515-19 of the Monetary and Financial Code.

Dexia Municipal Agency has not used Banque de France financing since July 2009.

EUR millions	6/30/2010	12/31/2010	6/30/2011
Overnight borrowing	-	-	-
Time borrowing	-	-	-
Accrued interest	-	-	-
<b>TOTAL FUNDING FROM BANQUE DE FRANCE</b>	-	-	-

### 3-2 DUE TO BANKS

#### a. Analysis by nature

EUR millions	6/30/2010	12/31/2010	6/30/2011
Demand deposits	8,786	9,034	6,975
Time deposits	3,509	3,507	3,517
<b>TOTAL</b>	<b>12,295</b>	<b>12,541</b>	<b>10,492</b>

This item includes the balance of the account opened with Dexia Credit Local. This account is intended to finance the needs of Dexia Municipal Agency related to its activity, in particular, to finance structural over-collateralization and loans prior to the issue of *obligations foncières*.

The master-account totaled EUR 10,468 million (excluding accrued interest).

Sub-accounts make it possible to distinguish within the master-account among types of financing (over-collateralization, stock of assets prior to issue and other).

- the current account, indexed on Eonia, with no defined maturity, financing assets not yet included in the issue program and miscellaneous needs with a balance of EUR 6,968 million;

- the long-term borrowings earmarked to finance the structural over-collateralization of 5%. Dexia MA's policy is to maintain minimum structural over-collateralization of 5%, of outstanding *obligations foncières* and registered covered bonds. These borrowings totaled EUR 3,500 million as of June 30, 2011; they are indexed on the annual money market rate (TAM).

The current account agreement between Dexia Credit Local and Dexia MA will exist as long as Dexia MA is authorized to operate as a *société de crédit foncier* and acquires or grants loans to public sector entities.

EUR millions	6/30/2010	12/31/2010	6/30/2011
Sub-account - pre-financing of assets	8,782	9,029	6,968
Interest accrued not yet due	4	5	7
Sub-account - financing of over collateralization	3,500	3,500	3,500
Interest accrued not yet due	9	7	17
<b>TOTAL Dexia Credit Local</b>	<b>12,295</b>	<b>12,541</b>	<b>10,492</b>

#### b. Analysis by residual maturity

See note 7.2

### 3-3 DEBT SECURITIES

#### a. Analysis by nature

EUR millions	6/30/2010	12/31/2010	6/30/2011
<i>Obligations foncières</i>	64,725	62,431	61,094
Registered covered bonds	4,504	4,388	4,557
<b>TOTAL</b>	<b>69,229</b>	<b>66,819</b>	<b>65,651</b>

#### b. Analysis by residual maturity

See note 7.2

### 3-4 TAX LIABILITIES

EUR millions	6/30/2010	12/31/2010	6/30/2011
Current income tax	-	5	-
Other taxes	1	4	3
<b>Current tax liabilities</b>	<b>1</b>	<b>9</b>	<b>3</b>
<b>Deferred tax liabilities (see note 4.2)</b>	<b>13</b>	<b>4</b>	<b>0</b>
<b>TOTAL TAX LIABILITIES</b>	<b>14</b>	<b>13</b>	<b>3</b>

### 3-5 ACCRUALS AND OTHER LIABILITIES

EUR millions	6/30/2010	12/31/2010	6/30/2011
Cash collateral received	1,774	1,314	1,364
Other accrued charges	30	27	28
Deferred income	-	-	-
Other accounts payable and other liabilities	6	3	11
<b>TOTAL</b>	<b>1,810</b>	<b>1,344</b>	<b>1,403</b>

## 4 OTHER NOTES ON THE BALANCE SHEET

### 4-1 HEDGING DERIVATIVES

#### a. Analysis by nature

EUR millions	6/30/2010		12/31/2010		6/30/2011	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Derivatives at fair value through profit or loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Derivatives designated as fair value hedges	2,375	6,603	3,033	8,604	2,294	7,941
Derivatives designated as cash flow hedges	116	35	159	141	10	254
Derivatives designated as portfolio hedges	1,735	927	2,714	2,142	2,048	1,858
<b>Hedging derivatives</b>	<b>4,226</b>	<b>7,565</b>	<b>5,906</b>	<b>10,887</b>	<b>4,352</b>	<b>10,053</b>
<b>TOTAL DERIVATIVES</b>	<b>4,226</b>	<b>7,565</b>	<b>5,906</b>	<b>10,887</b>	<b>4,352</b>	<b>10,053</b>

#### b. Detail of derivatives designated as fair value hedges

EUR millions	6/30/2010			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	17,901	17,401	1,865	1,110
Interest rate derivatives	47,612	47,613	510	5,493
<b>TOTAL</b>	<b>65,513</b>	<b>65,014</b>	<b>2,375</b>	<b>6,603</b>

EUR millions	12/31/2010			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	17,285	17,222	1,698	1,394
Interest rate derivatives	48,060	48,060	1,335	7,210
<b>TOTAL</b>	<b>65,345</b>	<b>65,282</b>	<b>3,033</b>	<b>8,604</b>

EUR millions	6/30/2011			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	15,001	15,332	929	1,106
Interest rate derivatives	53,930	53,933	1,364	6,835
<b>TOTAL</b>	<b>68,931</b>	<b>69,265</b>	<b>2,293</b>	<b>7,941</b>

#### c. Detail of derivatives designated as cash flow hedges

EUR millions	6/30/2010			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	2,218	2,249	116	35
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>2,218</b>	<b>2,249</b>	<b>116</b>	<b>35</b>

EUR millions	12/31/2010			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,878	1,925	159	141
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>1,878</b>	<b>1,925</b>	<b>159</b>	<b>141</b>



EUR millions	6/30/2011			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	2,269	2,372	10	254
Interest rate derivatives	-	-	-	-
<b>TOTAL</b>	<b>2,269</b>	<b>2,372</b>	<b>10</b>	<b>254</b>

EUR millions	6/30/2010	12/31/2010	6/30/2011
Amount removed from equity and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly favorable transaction)	-	-	-

#### d. Detail of derivatives designated as portfolio hedges

EUR millions	6/30/2010			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	193,815	193,889	1,735	927
<b>Total</b>	<b>193,815</b>	<b>193,889</b>	<b>1,735</b>	<b>927</b>

EUR millions	12/31/2010			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	186,898	186,893	2,714	2,142
<b>Total</b>	<b>186,898</b>	<b>186,893</b>	<b>2,714</b>	<b>2,142</b>

EUR millions	6/30/2011			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	163,522	163,517	2,048	1,858
<b>Total</b>	<b>163,522</b>	<b>163,517</b>	<b>2,048</b>	<b>1,858</b>

## 4-2 DEFERRED TAXES

#### a. Analysis by nature

EUR millions	6/30/2010	12/31/2010	6/30/2011
Deferred tax assets before impairment	120	131	131
Impairment on deferred tax assets	-	-	-
<b>Deferred tax assets (1)</b>	<b>120</b>	<b>131</b>	<b>131</b>
<b>Deferred tax liabilities (1)</b>	<b>(13)</b>	<b>(4)</b>	<b>0</b>
<b>TOTAL</b>	<b>107</b>	<b>127</b>	<b>131</b>

(1) deferred tax assets and liabilities are netted out when they concern the same tax entity

#### b. Movements

EUR millions	6/30/2010	12/31/2010	6/30/2011
<b>As of January 1</b>	<b>123</b>	<b>117</b>	<b>127</b>
Charge/credit recognized in the income statement	(19)	(3)	10
Effect of change in tax rates - impact on the income statement	-	-	-
Movements directly recognized in equity	3	13	(6)
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	-	-
<b>As of June 30</b>	<b>107</b>	<b>127</b>	<b>131</b>

#### c. Deferred taxes coming from assets on the balance sheet

EUR millions	6/30/2010	12/31/2010	6/30/2011
Loans (and loan loss provisions)	27	35	44
Securities	96	82	84
Derivatives	(15)	9	3
Accruals and other assets	14	14	14
<b>TOTAL</b>	<b>122</b>	<b>140</b>	<b>145</b>

#### d. Deferred taxes coming from liabilities on the balance sheet

EUR millions	6/30/2010	12/31/2010	6/30/2011
Derivatives	-	-	-
Borrowings, deposits and issues of debt securities	7	10	10
Provisions	-	-	-
Regulatory provisions	(22)	(23)	(24)
Accruals and other liabilities	-	-	-
<b>TOTAL</b>	<b>(15)</b>	<b>(13)</b>	<b>(14)</b>

#### 4-3 RELATED-PARTY TRANSACTIONS

##### Analysis by nature

EUR millions	Parent company and entities consolidated by Dexia Credit Local			Other related parties (1)		
	6/30/2010	12/31/2010	6/30/2011	6/30/2010	12/31/2010	6/30/2011
<b>ASSETS</b>						
Loans and advances	7,613	5,096	7,177	9,789	9,087	8,783
Bonds	-	600	600	-	-	-
<b>LIABILITIES</b>						
Due to banks - sight accounts	8,785	9,034	6,975	-	-	-
Due to banks - term loans	3,509	3,507	3,517	-	-	-
<b>INCOME STATEMENT</b>						
Interest income on loans and advances	33	74	53	(38)	90	60
Interest income on bonds	-	2	3	-	-	-
Interest expense on borrowings	(34)	(124)	(73)	-	-	-
Fees and commissions	(2)	(3)	(3)	-	-	-
<b>OFF-BALANCE SHEET</b>						
Foreign exchange derivatives	5,571	5,221	6,949	559	559	361
Interest rate derivatives	156,165	151,740	131,628	6,226	6,077	5,457
Guarantees issued by the Group	12,910	10,318	8,013	2,929	2,908	2,812

(1) This item includes transactions with entities of Belgian and Luxemburg sub-groups consolidated by Dexia, the parent company of Dexia Credit Local.

#### 4.4 UNREALIZED GAINS AND LOSSES BREAKDOWN BY COUNTRY

(En EUR millions)	6/30/2010	12/31/2010	6/30/2011
<b>Unrealized gains and losses on available for sale securities</b>	<b>(213)</b>	<b>(168)</b>	<b>(199)</b>
Belgium	-	-	-
Canada	2	2	2
Germany	(5)	(2)	(2)
France	-	-	-
Greece	(102)	(82)	(109)
Ireland	-	-	-
Italy	(111)	(85)	(93)
United States	3	(1)	3
<b>Unrealized gains and losses on loans and receivable securities</b>	<b>(163)</b>	<b>(154)</b>	<b>(148)</b>
Austria	(6)	(6)	(6)
Belgium	1	1	1
Germany	(1)	(1)	(1)
Spain	(7)	(4)	(3)
France	6	7	7
United Kingdom	-	-	-
Greece	(1)	(1)	(1)
Iceland	(10)	(9)	(9)
Italy	(133)	(130)	(127)
Luxembourg	(1)	(1)	-
Portugal	(6)	(5)	(5)
United States	(5)	(5)	(4)
<b>Unrealized gains and losses on derivatives designated as cash-flow hedges</b>	<b>44</b>	<b>(32)</b>	<b>(18)</b>
<b>TOTAL</b>	<b>(332)</b>	<b>(354)</b>	<b>(365)</b>
Deferred taxes on gains and losses - available for sale securities	54	42	44
Deferred taxes on gains and losses - loans and receivable securities	51	49	47
Deferred taxes on Unrealized gains and losses - derivatives designated as cash-flow hedges	(15)	9	3
<b>TOTAL</b>	<b>(242)</b>	<b>(254)</b>	<b>(271)</b>

#### 4.5 BREAKDOWN OF GOVERNMENT BONDS ON A SELECTION OF EUROPEAN COUNTRIES AND DEPRECIATION OF GREEK SOVEREIGN BONDS

##### a. Breakdown of government bonds on a selection of European countries

The credit risk exposure reported represent the accounting net carrying amount of exposures, being the notional amounts after deduction of specific impairments and AFS reserves, and taking into account accrued interests.

	12/31/2010					
	Spain	Ireland	Italy	Portugal	Greece	Total
State securities	-	-	494	-	330	824
Securities guaranteed by State	-	-	112	-	100	212
<b>TOTAL</b>	-	-	606	-	430	1,036

	6/30/2011					
	Spain	Ireland	Italy	Portugal	Greece	Total
State securities	-	-	486	-	325	811
Securities guaranteed by State	-	-	115	-	102	217
<b>TOTAL</b>	-	-	601	-	427	1,028

	12/31/2010					
	Spain	Ireland	Italy	Portugal	Greece	Total
Available for sale financial assets	-	-	606	-	430	1,036
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans, advances and claims	-	-	-	-	-	-
<b>TOTAL</b>	-	-	606	-	430	1036
<b>AFS RESERVE</b>	-	-	(85)	-	(82)	(167)

	6/30/2011					
	Spain	Ireland	Italy	Portugal	Greece	Total
Available for sale financial assets	-	-	601	-	427	1,028
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans, advances and claims	-	-	-	-	-	-
<b>TOTAL</b>	-	-	601	-	427	1028
<b>AFS RESERVE</b>	-	-	(93)	-	(109)	(202)

##### b. Depreciation of Greek sovereign bonds

The exposure on sovereign debts may be analysed as followed as of June 30, 2011

EUR millions	Direct exposure	Indirect exposure	Impairment	Net amount of exposure
Total maturity in less than 10 years	33	102	(7)	128
Total maturity in more than 10 years	299	-	-	299
<b>TOTAL</b>	332	102	(7)	427

Dexia has decided to participate to the IIF plan and to exchange its bonds for new bonds. If the conditions of the plan are respected, Dexia judges that Greece will be able to meet its commitments for the future and therefore does not record any impairment on the bonds maturing in more than 10

The plan offers four instruments in exchange of the existing bonds. The exchange will result in a loss estimated to be 21% on the nominal based on the documentation provided by the IIF and other documents at date of approval of the financial statements by the Board of Directors. Depending on the instrument selected, the accounting consequences may differ for hedged bonds against the interest risk.

As Dexia participated in discussions at the IIF and was therefore aware, before June 30, 2011, that an exchange will be proposed and is committed to participate to the IIF plan, the valuation of the Greek sovereign bonds maturing within 10 years has been adjusted to reflect a discount of 21% on the nominal. The resulting AFS reserve on these bonds has been transferred to the P&L, as only the bonds maturing before 2021 are considered

### c. Fair value of Sovereign bonds included in European agreement

Notwithstanding the restructuring plan for Greece, Dexia considered the Greek sovereign bonds market illiquid and estimated their fair value by using a model (valuation technique) which incorporates market data still available. The negative AFS reserve, including the hedge accounting impact, of the Greek sovereign bonds maturing before 2021 based on this model was not materially different from the 21% discount of nominal

## 5 NOTES TO THE INCOME STATEMENT

### 5-1 INTEREST INCOME - INTEREST EXPENSE

EUR millions	H1 2010	H1 2011
<b>INTEREST INCOME</b>	<b>3,114</b>	<b>3,437</b>
Central banks	-	-
Loans and advances due from banks	55	63
Loans and advances to customers	1,071	1,096
Financial assets available for sale	31	29
Financial assets held to maturity	-	-
Derivatives used for hedging	1,957	2,249
Impaired assets	-	-
Other	-	-
<b>INTEREST EXPENSE</b>	<b>(2,979)</b>	<b>(3,337)</b>
Accounts with central banks	-	-
Due to banks	(36)	(79)
Customer borrowings and deposits	-	-
Debt securities	(1,292)	(1,239)
Subordinated debt	-	-
Derivatives used for hedging	(1,651)	(2,019)
Other	-	-
<b>INTEREST MARGIN</b>	<b>135</b>	<b>100</b>

### 5-2 FEES AND COMMISSIONS

EUR millions	H1 2010			H1 2011		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	-	0	0	-	0
Purchase and sale of securities	-	-	-	-	(0)	(0)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	-	(3)	(3)	-	(4)	(4)
Custodial services	-	-	-	-	-	-
Issuance and underwriters of securities	-	-	-	-	(0)	(0)
Other	-	-	-	-	-	-
<b>TOTAL</b>	<b>0</b>	<b>(3)</b>	<b>(3)</b>	<b>0</b>	<b>(4)</b>	<b>(4)</b>

### 5-3 NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR millions	H1 2010	H1 2011
Net result of hedge accounting	-	(1)
Net result of foreign exchange transactions	-	-
<b>TOTAL</b>	<b>-</b>	<b>(1)</b>

All interest received and paid on assets, liabilities and derivatives is recorded in net interest income, as required by IFRS.

Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions include only the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

## Analysis of net result of hedge accounting

EUR millions	H1 2010	H1 2011
<b>Fair value hedges</b>	<b>0</b>	<b>(1)</b>
Fair value changes in the hedged item attributable to the hedged risk	2,752	(395)
Fair value changes in the hedging derivatives	(2,752)	394
<b>Cash flow hedges</b>	<b>0</b>	<b>0</b>
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
<b>Portfolio hedge</b>	<b>0</b>	<b>0</b>
Fair value changes in the hedged item	(132)	270
Fair value changes in the hedging derivatives	132	(270)
<b>TOTAL</b>	<b>0</b>	<b>(1)</b>

## 5-4 NET GAINS (LOSSES) ON FINANCIAL ASSETS AVAILABLE FOR SALE

EUR millions	H1 2010	H1 2011
Net gain (loss) on disposals of loans and securities available for sale	-	-
Net gain (loss) on disposals of debt securities	5	(1)
Net gain (loss) on the sale or cancellation of loans and advances	2	2
<b>TOTAL</b>	<b>7</b>	<b>1</b>

## 5-5 OPERATING EXPENSE

EUR millions	H1 2010	H1 2011
Payroll costs	-	-
Other general and administrative expense	(45)	(45)
Taxes	(4)	(4)
<b>TOTAL</b>	<b>(49)</b>	<b>(49)</b>

Dexia Municipal Agency has no salaried employees in accordance with article L.515-22 of the Monetary and Financial Code. Within the framework of its management contract, Dexia Credit Local conducts all operations, transactions and functions of all types on behalf of Dexia MA.

In addition, specific management contracts grant different entities the management of loans and securities in their respective countries (Kommunalkredit Austria, Dexia Crediop and Dexia Bank Belgium).

## 5-6 COST OF RISK

EUR millions	H1 2010			H1 2011		
	Collective impairment	Specific impairment and losses	Total	Collective impairment	Specific impairment and losses	Total
Credit (loans, commitments and securities held to maturity)	(2)	-	(2)	2	(1)	1
Fixed income securities available for sale	-	-	-	-	(7)	(7)
<b>TOTAL</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>	<b>2</b>	<b>(8)</b>	<b>(6)</b>

### Detail of collective and specific impairments

Collective impairment EUR millions	H1 2010			H1 2011		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and securities held to maturity	(2)	0	(2)	-	2	2
Off-balance sheet commitments	-	-	-	-	-	-
<b>TOTAL</b>	<b>(2)</b>	<b>0</b>	<b>(2)</b>	<b>-</b>	<b>2</b>	<b>2</b>

The methodology used to calculate collective impairment, for the different portfolios that make up Dexia MA's cover pool, does not take into account the guarantees received. This very conservative method may result in significant changes in provisions, depending on whether the assets recorded on the balance sheet during the year are totally guaranteed by public sector entities or direct exposures on these entities.

Specific impairment EUR millions	H1 2010				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
<b>Total credit</b>	-	-	-	-	-
Fixed income securities	-	-	-	-	-
<b>TOTAL</b>	-	-	-	-	-

Specific impairment EUR millions	H1 2011				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(1)	-	-	-	(1)
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
<b>Total credit</b>	(1)	-	-	-	(1)
Fixed income securities	(7)	-	-	-	(7)
<b>TOTAL</b>	(8)	-	-	-	(8)

## 5-7 CORPORATE INCOME TAX

### a. Detail of tax expense

EUR millions	H1 2010	H1 2011
Current taxes	(16)	(23)
Deferred taxes	(13)	10
Tax on prior years' income	-	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	-
<b>TOTAL</b>	<b>(29)</b>	<b>(13)</b>

### b. Effective tax expense as of June 30, 2011

The standard corporate tax rate applicable in France is 34.43%. The tax rate applied on the contributions of foreign subsidiaries is the rate applied locally in accordance with each individual national tax system.

The effective tax rate observed afor the first half of 2011 amounted to 31.3%.

The difference between these two rates can be analysed as follows.

EUR millions	H1 2010	H1 2011
<b>INCOME BEFORE INCOME TAXES</b>	<b>88</b>	<b>41</b>
Net income from associates	-	-
<b>TAX BASE</b>	<b>88</b>	<b>41</b>
Applicable tax rate at end of the period	34.43%	34.43%
<b>THEORITICAL CORPORATE INCOME TAX AT THE STANDARD RATE</b>	<b>30</b>	<b>14</b>
Impact of differences between foreign tax rates and the standard French tax rate	(1)	(1)
Tax effect of non-deductible expenses	-	-
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	-	-
Liability method	-	-
Provisions for tax litigation	-	-
<b>CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT</b>	<b>29</b>	<b>13</b>
<b>EFFECTIVE TAX RATE</b>	<b>32.9%</b>	<b>31.3%</b>

### c. Tax consolidation

Dexia Municipal Agency applies the tax consolidation system.

Dexia Municipal Agency and its parent company Dexia Credit Local are lodged in a tax consolidation structure. As of January 1, 2002, the consolidating company is Dexia SA's permanent establishment in France.

This entity pays the total tax owed by the companies in the tax group and the minimum corporate income tax payment for the group. Dexia MA records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group.

Tax savings realized by the tax group are recorded in the accounts of Dexia's permanent establishment in France.

## 6 NOTE ON OFF-BALANCE SHEET ITEMS

### 6-1 REGULAR WAY TRADE

EUR millions	6/30/2010	12/31/2010	6/30/2011
Assets to be delivered	205	205	205
Liabilities to be received	152	146	138

*Currency swaps with a deferred start that perfectly hedge loans or bond issues.*

### 6-2 GUARANTEES

EUR millions	6/30/2010	12/31/2010	6/30/2011
Guarantees received from credit institutions (1)	6,687	6,599	6,451
Guarantees received from customers (2)	5,566	5,508	5,052

(1) The guarantees received from credit institutions corresponded principally to the guarantees provided by Dexia Crediop per la Cartolarizzazione for EUR 3 619 millions and the guarantee provided by Dexia Banque Belgium on DSFB1 and DSB2 securities in the amount of EUR 2 812 millions.

(2) Guarantees received from customers are generally granted by local governments.

### 6-3 FINANCING COMMITMENTS

EUR millions	6/30/2010	12/31/2010	6/30/2011
Loan commitments granted to credit institutions	6	1	4
Loan commitments granted to customers (1)	1,958	899	1,249
Loan commitments received from credit institutions (2)	8,970	6,626	4,374
Loan commitments received from customers	-	-	-

(1) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of June 30, 2011.

(2) This item concerned a firm and irrevocable commitment by Dexia Credit Local to make available to Dexia MA the funds required to reimburse the obligations foncières that will mature in the next 12 months.

### 6-4 OTHER COMMITMENTS

EUR millions	6/30/2010	12/31/2010	6/30/2011
Commitments granted (1)	-	-	-
Commitments received	416	786	794

(1) Accounting value of the financial assets pledged to the Banque de France.

## 7 NOTES ON RIK EXPOSURE

### 7-1 EXPOSURE TO CREDIT RISK

Exposure to credit risks, as presented to management, includes the following:

- for assets other than derivatives: the amount on the balance sheet (i.e. after deduction of specific provisions);
- for derivatives: the market value on the balance sheet plus an add-on representing a margin for future potential credit risks;
- for off-balance sheet commitments: the amount is stated in the notes to the financial statements; the amount is intact of financing commitment drawdowns.

Exposure to credit risk is broken down by region and by counterparty, taking into account the guarantees received. This signifies that when the credit risk is guaranteed by a third party whose weighted risk (in the sense of Basel regulations) is less than that of the direct borrower, exposure is included in the guarantor's region and business sector.

## Breakdown of exposure to credit risks

### Analysis of exposure by geographic region

EUR millions	6/30/2011
France	53,116
Belgium	7,571
Italy	7,482
Rest of Europe	4,492
Spain	3,243
Luxembourg	1,851
Other European Union countries	1,738
Germany	1,061
United States and Canada	289
Japan	26
Other	17
<b>TOTAL EXPOSURE</b>	<b>80,886</b>

### Analysis of exposure by category of counterparty

EUR millions	6/30/2011
States	2,583
Local public sector	70,861
ABS	81
Financial institutions	7,361
<b>TOTAL EXPOSURE</b>	<b>80,886</b>

The exposures on financial institutions are primarily comprised of counterparties in hedging derivatives and the covered bonds classified as replacement assets.

Exposures on ABS correspond to the three ABS that are 100% guaranteed by a public sector entity or have a pool of 100% public sector assets: Blue Danube Loan GmbH, Colombo SrL, Societa veicolo Astrea SrL.

### Analysis of exposure by category of instrument

EUR millions	6/30/2011
Debt securities	1,793
Loans and advances	77,532
Financing commitments on loans	1,253
Hedging derivatives	308
<b>TOTAL EXPOSURE</b>	<b>80,886</b>

### Evaluation of asset credit quality

The Dexia Group decided to use the advanced method recommended by the regulators in relation to the Basel II reforms on the capital adequacy ratio and capital adequacy requirements. This system is of paramount importance for Dexia and is under the exclusive responsibility of the Risk Management division, which has rating models covering the main client segments. Banking supervisors (the ACP in France and CBFA in Belgium) have internal models to calculate and report equity requirements for credit risk as of January 1, 2008.

This enables Dexia Municipal Agency to present below an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in Dexia MA's portfolio. Eighty-two percent of the portfolio has a weighting of less than 5% and 98% of the portfolio has a weighting that is less than or equal to 20%.

EUR millions	Risk weighting (Basel II)				Total
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Debt securities	923	600	-	269	1,792
Loans and advances	64,069	12,970	277	217	77,533
Financing commitments on loans	1,146	102	248	5	1,501
Hedging derivatives	-	14	-	46	60
<b>TOTAL EXPOSURE</b>	<b>66,138</b>	<b>13,686</b>	<b>525</b>	<b>537</b>	<b>80,886</b>
<b>SHARE</b>	<b>81.8%</b>	<b>16.9%</b>	<b>0.6%</b>	<b>0.7%</b>	<b>100.0%</b>

Certain exposures do not yet benefit from an internal evaluation system validated by banking supervisors; in this case, their weighting is that of the standard method, which is, for example, 20% for local governments.



## 7-2 LIQUIDITY RISK : ANALYSIS BY TERM TO MATURITY

### a. Analysis of assets

EUR millions	6/30/2011						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	0	-	-	-	-	-	0
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	600	0	482	909	-	1,991
Loans and advances due from banks	-	950	1,975	3,281	431	-	6,637
Loans and advances to customers	0	1,244	3,775	18,150	46,628	-	69,797
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	143	143
Accruals and other assets	-	17	-	-	-	-	17
<b>TOTAL</b>	<b>0</b>	<b>2,811</b>	<b>5,750</b>	<b>21,913</b>	<b>47,968</b>	<b>143</b>	<b>78,585</b>

EUR millions	6/30/2011				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total on the balance sheet
Central banks	0	-	-	-	0
Derivatives	-	905	3,447	-	4,352
Financial assets available for sale	1,991	17	37	(7)	2,038
Loans and advances due from banks	6,637	28	46	-	6,711
Loans and advances to customers	69,797	922	4,894	(19)	75,594
Fair value revaluation of portfolio hedge	-	-	999	-	999
Financial assets held to maturity	-	-	-	-	-
Tax assets	143	-	-	-	143
Accruals and other assets	17	-	-	-	17
<b>TOTAL</b>	<b>78,585</b>	<b>1,872</b>	<b>9,423</b>	<b>(26)</b>	<b>89,854</b>

### b. Analysis of liabilities, excluding equity

EUR millions	6/30/2011						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	-	-	-	-	-	-	-
Hedging derivatives	0	0	0	0	0	0	-
Due to banks	6968	0	0	1420	2080	-	10,468
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	243	3,762	22,902	36,361	-	63,268
Fair value revaluation of portfolio hedge	0	0	0	0	0	0	-
Tax liabilities	-	-	-	-	-	3	3
Accruals and other liabilities	-	1,403	-	-	-	-	1,403
Provisions	0	0	0	0	0	0	-
Subordinated debt	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>6,968</b>	<b>1,646</b>	<b>3,762</b>	<b>24,322</b>	<b>38,441</b>	<b>3</b>	<b>75,142</b>

EUR millions	6/30/2011			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	0
Hedging derivatives	-	852	9,201	10,053
Due to banks	10,468	24	-	10,492
Customer borrowings and deposits	-	-	-	-
Debt securities	63,268	1,101	1,282	65,651
Fair value revaluation of portfolio	-	-	1,172	1,172
Tax liabilities	3	-	-	3
Accruals and other liabilities	1,403	-	-	1,403
Provisions	-	-	-	-
Subordinated debt	-	-	-	-
<b>TOTAL</b>	<b>75,142</b>	<b>1,977</b>	<b>11,655</b>	<b>88,774</b>

### c. Net liquidity gap

EUR millions		6/30/2011						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken	Total
Amount	(6,968)	1,165	1,988	(2,409)	9,527	140	(2,363)	1,080

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. Dexia MA's liquidity is provided by its refinancing agreement with Dexia Credit Local. In addition, the Company may obtain funding from the Banque de France, by giving certain of these assets in guarantee (this process was tested in 2008, and the great majority of Dexia MA's assets are eligible for refinancing by the central bank). Dexia MA can thus obtain funding from the Banque de France enabling it to reimburse *obligations foncières* when they arrive at maturity; the assets given in guarantee are therefore excluded (as well as the matured bonds) from the calculation of the solvency ratio, which remains practically unchanged. The sight debt of EUR 6,968 million corresponds to the current account with Dexia Credit Local; this debt does not benefit from privilege of the law on *sociétés de crédit foncier*.

### 7-3 CURRENCY RISK

Classification by original currency		6/30/2010			
EUR millions		EUR	Other EU currencies	U.S. dollars	Total
Total assets		78,812	4,709	6,419	94,243
Total liabilities and equity		78,812	4,709	6,419	94,243
<b>NET BALANCE SHEET POSITION</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Classification by original currency		12/31/2010			
EUR millions		EUR	Other EU currencies	U.S. dollars	Total
Total assets		79,310	4,847	5,692	94,230
Total liabilities and equity		79,310	4,847	5,692	94,230
<b>NET BALANCE SHEET POSITION</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Classification by original currency		6/30/2011			
EUR millions		EUR	Other EU currencies	U.S. dollars	Total
Total assets		76,512	4,023	5,329	89,854
Total liabilities and equity		76,512	4,023	5,329	89,854
<b>NET BALANCE SHEET POSITION</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Dexia MA takes no foreign exchange risk. Assets and liabilities originally in non-euro currencies are swapped against Euribor as soon as they are recognized on the balance sheet.

### 7-4 SENSITIVITY TO INTEREST RATE RISK

Dexia Municipal Agency is subject to particular management with the goal of neutralizing exposure to interest rate risk to the extent possible. The method used follows simple principles and consists in converting the assets and liabilities on the balance sheet to floating rates so that they will move in a parallel manner under the impact of changes in the yield curve, while maintaining the margin unchanged.

All the derivative financial instruments used by Dexia Municipal Agency are part of a hedging system, whether micro or macro. The Company may not conduct trading operations, nor hold derivatives in an isolated open position.

Dexia Municipal Agency uses interest rate micro-hedges on a part of the assets and on the liabilities benefiting from the legal privilege, and interest rate macro-hedges on other assets and on off-balance sheet items to manage the overall interest rate risk. The micro-hedges cover the interest rate risk on the securities portfolio, on certain loans, on *obligations foncières* (and registered covered bonds). The macro-hedges are mainly used to manage the interest rate risk on fixed rate loans not hedged by micro-hedges (principally because the unit amount is too low) and to manage differences in Euribor fixing dates by Eonia hedges.

The residual interest rate risk from macro-hedges has been contained within a limit set since 2005, with the approval of the rating agencies, at 3% of equity. This limit is reviewed yearly and is currently set at EUR 40 million, of which EUR 9 million for the monetary gap and EUR 31 million for the fixed rate gap. Real sensitivity is maintained well under this limit.

The sensitivity thus measured corresponds to the change in the gap's net present value under the impact of a change in the yield curve of 100 basis points.

The results of this management in the last four quarters are presented in the following table.

Sensitivity of the gap		Average	Maximum	Minimum	Limit
Fixed rate	3Q2010	19.4	29.9	12.2	26.0 *
	4Q2010	17.9	22.2	13.9	26.0
	1Q2011	13.1	20.8	5.2	26.0
	2Q2011	12.9	13.4	12.2	31.0
Monetary	3Q2010	1.0	2.8	0.1	9.0
	4Q2010	0.0	3.0	2.5	9.0
	1Q2011	1.6	2.6	0.4	9.0
	2Q2011	0.3	2.8	(3.0)	9.0
Total	3Q2010	20.3	31.7	12.6	35.0
	4Q2010	18.1	22.8	14.0	35.0
	1Q2011	14.6	22.7	5.7	35.0
	2Q2011	13.1	15.6	12.2	40.0

\* The maximum fixed rate sensitivity limit was exceeded at the beginning of August 2010. This incident was linked to the August , 2010, recognition by Dexia MA of EUR 1 billion in French loans originated by Dexia Credit Local, which disrupted the calculation of the sensitivity of Dexia MA. It should be noted that this event did not cause the overall sensitivity limit to be exceeded, since it reached a maximum of EUR 31.7 million in this period, i.e. under the overall limit of EUR 35 million.



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## STATUTORY AUDITORS' REPORT (IFRS)

# **Statutory Auditors' Review Report on first Half-year financial information for 2011**

**Period from January 1, 2011 to June 30, 2011**

*This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report includes information relating to the specific verification of information presented in the interim management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

In our capacity of statutory auditors of Dexia Municipal Agency and following the request made to us, in the context of the objective of the entity to enhance the financial information provided to investors, we have reviewed the accompanying half-year financial statements for the six-month period ended June 30, 2011, in accordance with IFRSs as adopted by the EU.

These interim financial statements were prepared under the responsibility of the Executive Board in a context characterised by a public debt crisis in certain euro-zone countries and in particular in Greece, the effects of which are described in note 4.5 to the financial statements. Our role is to express a conclusion on these financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical procedures 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 intermediate financial statements do not present fairly, in all material respects, the results of operations for the six months period ended June 30, 2011 and the financial position of Dexia Municipal Agency and its assets at that date, in accordance with IFRSs as adopted by the EU.

This report is made for your exclusive attention in the context described above and should not be used or transmitted for other uses.

We disclaim any liability in the use of this report by any third party receiving it.

This report is governed by French law. French courts shall have exclusive jurisdiction for hearing any litigation, claim or dispute arising from our engagement letter, this report or any question relating thereto. Each party hereby irrevocably waives its right to contest any legal action that may be brought before French courts or allege that any legal action has been brought before a French court not having proper jurisdiction or that French courts do not have jurisdiction.

Courbevoie and Neuilly-sur-Seine, August 31, 2011

The statutory auditors

*French original signed by*

MAZARS

Hervé HELIAS

Virginie CHAUVIN

DELOITTE & ASSOCIÉS

José Luis GARCIA



## FINANCIAL STATEMENTS

Half year 2011  
(*French GAAP*)

## BALANCE SHEET

### Assets as of June 30, 2011

(Eur millions)	Notes	6/30/2010	12/31/2010	6/30/2011
Central banks	2.1	3	2	-
Government and public securities, eligible for central bank financing	2.2	4,403	4,222	3,527
Loans and advances due from banks	2.3	3,752	2,236	1,808
Loans and advances to customers	2.4	53,328	54,731	53,354
Bonds and other fixed income securities	2.5	20,574	19,264	19,595
Equities and other variable income securities		-	-	-
Investments in non-consolidated companies and other long-term investments		-	-	-
Investments in consolidated companies		-	-	-
Intangible assets		-	-	-
Property and equipment		-	-	-
Unpaid capital		-	-	-
Treasury stock		-	-	-
Other assets	2.6	11	7	13
Accruals and other assets	2.7	3,661	4,179	3,927
<b>TOTAL ASSETS</b>	<b>2.8</b>	<b>85,731</b>	<b>84,641</b>	<b>82,224</b>

### Liabilities as of June 30, 2011

(Eur millions)	Notes	6/30/2010	12/31/2010	6/30/2011
Central banks	3.1	-	-	-
Due to banks	3.2	12,301	12,544	10,503
Customer borrowings and deposits		0	0	0
Debt securities	3.3	67,407	65,669	64,687
Other liabilities	3.4	1,775	1,323	1,368
Accruals and other liabilities	3.5	2,865	3,643	4,163
Provisions for risks and charges	3.6	24	19	19
Deferred tax liabilities	3.6	15	18	19
Regulated provisions	3.6	63	68	70
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
<b>Equity</b>		<b>1,281</b>	<b>1,357</b>	<b>1,395</b>
Share capital	3.7	1,190	1,190	1,300
Additional paid-in capital	3.7	-	-	-
Reserves and retained earnings	3.7	47	47	57
Net income	3.7	44	120	38
<b>TOTAL LIABILITIES</b>	<b>3.8</b>	<b>85,731</b>	<b>84,641</b>	<b>82,224</b>

## Off-balance sheet items as of June 30, 2011

(Eur millions)	Notes	6/30/2010	12/31/2010	6/30/2011
<b>COMMITMENTS GRANTED</b>	4.1	<b>1,964</b>	<b>900</b>	<b>1,253</b>
Financing commitments		1,964	900	1,253
Guarantees granted		-	-	-
Other commitments granted		-	-	-
<b>COMMITMENTS RECEIVED</b>	4.2	<b>21,689</b>	<b>19,170</b>	<b>16,295</b>
Financing commitments		8,970	6,626	4,374
Guarantees received		12,719	12,544	11,921
Other commitments received		-	-	-
Foreign currency transactions	4.3	39,300	38,295	35,411
Interest rate derivatives	4.4	240,600	235,461	217,931
Commitments related to securities transactions	4.5	-	-	-

## Income statement 1<sup>st</sup> Half 2011

(Eur millions)	Notes	H1 2010	2010	H1 2011
Interest income	5.0	1,300	3,705	2,794
Interest expense	5.0	(1,168)	(3,414)	(2,673)
Income from variable income securities		-	-	-
Commission income	5.2	-	-	-
Commission expense	5.2	(3)	(5)	(4)
Net gains (losses) on held for trading portfolio	5.3	-	-	-
Net gains (losses) on placement portfolio transactions	5.3	(5)	4	(3)
Other banking income		-	-	-
Other banking expense		-	-	-
<b>NET BANKING INCOME</b>		<b>124</b>	<b>290</b>	<b>114</b>
General operating expense	5.1	(49)	(96)	(49)
Depreciation and amortization		-	-	-
<b>OPERATING INCOME BEFORE COST OF RISK</b>		<b>75</b>	<b>194</b>	<b>65</b>
Cost of risk		-	-	(1)
<b>INCOME FROM OPERATIONS</b>		<b>75</b>	<b>194</b>	<b>64</b>
Income (loss) on fixed assets		-	-	-
<b>INCOME BEFORE NON-RECURRING ITEMS AND TAXES</b>		<b>75</b>	<b>194</b>	<b>64</b>
Income tax	5.4	(27)	(66)	(24)
Net allocation to regulated provisions		(4)	(8)	(2)
<b>NET INCOME</b>		<b>44</b>	<b>120</b>	<b>38</b>
Basic earnings per share		3.72	10.09	2.90
Diluted earnings per share		3.72	10.09	2.90



## Cash flow statement

(EUR millions)	H1 2010	2010	H1 2011
<b>NET INCOME BEFORE TAXES</b>	<b>76</b>	<b>194</b>	<b>64</b>
+/- Depreciation and write-downs	-	1	1
+/- Expense/income from operating activities	315	92	211
+/- Expense/income from financing activities	(305)	(84)	(195)
+/- Other non cash items	(40)	(420)	(456)
<b>= Non monetary elements included in net income before tax and other adjustments</b>	<b>(30)</b>	<b>(411)</b>	<b>(439)</b>
- Cash from interbank operations (Dexia Crédit Local)	-	-	-
+ Cash from interbank operations (client loans)	(1,486)	28	393
+/- Cash from customer operations (loans)	1,542	414	1,406
+/- Cash from customer financing assets	(2,802)	(1,344)	313
+/- Cash from hedging financial instruments	290	159	601
- Income tax paid	(29)	(44)	(34)
<b>= Decrease/(increase) in cash from operating activities</b>	<b>(2,485)</b>	<b>(787)</b>	<b>2,679</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>(2,439)</b>	<b>(1,004)</b>	<b>2,303</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>
+/- Cash from or for shareholders	(4)	(4)	-
+/- Other cash from financing activities	479	(1,205)	(252)
<b>CASH FLOW FROM FINANCING ACTIVITIES (C )</b>	<b>475</b>	<b>(1,209)</b>	<b>(252)</b>
<b>EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Increase/(decrease) in cash equivalents (A + B+ C + D)</b>	<b>(1,964)</b>	<b>(2,213)</b>	<b>2,051</b>
Cash flow from operating activities (A)	(2,439)	(1,004)	2,303
Cash flow from investing activities (B)	-	-	-
Cash flow from financing activities (C)	475	(1,209)	(252)
Effect of exchange rates on cash (D)	-	-	-
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>(6,817)</b>	<b>(6,817)</b>	<b>(9,030)</b>
Central banks (assets ans liabilities)	4	4	2
Interbank accounts (assets & liabilities) and loans/deposits at sight	(6,821)	(6,821)	(9,032)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>(8,779)</b>	<b>(9,030)</b>	<b>(6,979)</b>
Central banks (assets ans liabilities)	3	2	-
Interbank accounts (assets & liabilities) and loans/deposits at sight	(8,782)	(9,032)	(6,979)
<b>NET CASH</b>	<b>(1,962)</b>	<b>(2,213)</b>	<b>2,051</b>

## Equity

(EUR millions)	Amount
<b>AS OF 12/31/2010</b>	
Share capital	1 190
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	47
Net income for the year	120
Interim dividends	-
<b>EQUITY AS OF 12/31/2010</b>	<b>1 357</b>
<b>MOVEMENTS FOR THE PERIOD</b>	
Changes in capital stock	110
Changes in APIC	-
Changes in commitments to increase capital stock and APIC	-
Changes in reserves and retained earnings*	-
Dividends paid (-)	( 110)
Net income for the period	38
Other movements	-
<b>AS OF 6/30/2011</b>	
Capital stock	1 300
Additional paid-in capital (APIC)	-
Commitments to increase capital stock and APIC	-
Reserves and retained earnings	57
Net income for the period	38
<b>EQUITY AS OF 6/30/2011</b>	<b>1 395</b>

\* Rounded off

# Notes to the French GAAP financial statements

## 1. SIGNIFICANT ACCOUNTING POLICIES

### 1.1 - APPLICABLE ACCOUNTING POLICIES: RULES ADOPTED BY THE FRENCH ACCOUNTING STANDARDS BOARD (AUTORITÉ DES NORMES COMPTABLES - ANC)

Dexia Municipal Agency prepares its annual and semiannual financial statements in compliance with CRC standards 99-04 and 00-03 as modified.

The financial statements as of June 30, 2011, were drawn up using the same accounting principles as those used in the financial statements as of December 31, 2010.

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principle of prudence, on the basis of the following assumptions:

- going concern principle,
- segregation of accounting periods,
- consistency of methods.

The accounts are in accordance with the indications of directive 86/635/EEC of the Council of European Communities and standard 91-02 of the Financial and Banking Regulation Committee (CRBF).

### 1.2 - ACCOUNTING PRINCIPLES

#### a. Customer loans

Customer loans are stated in the balance sheet net of depreciation for possible losses. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item.

Interest on loans is recorded as banking income *prorata temporis* for accrued amounts due, as is interest on unpaid installments. Interest on doubtful loans recorded in net banking result is neutralized with a depreciation of an equivalent amount.

Dexia Municipal Agency applies CRC standard 2002-03, modified by CRC standard 2005-03. This standard stipulates that a loan is considered as non-performing when it presents one of the following characteristics:

- a probable or certain risk that it will not be repaid (unpaid for more than nine months for local government borrowers, and for more than three months for the others);
- a factual bad risk (worsening of the financial situation, alert procedures);
- the existence of litigation.

In addition, this standard introduces a new category of bad debt – compromised non-performing loans. Loans unpaid for more than one year are recorded in this category. Interest on these loans no longer contributes to the interest margin once they have been transferred to the category of compromised non-performing loans. This standard also requires the identification of outstanding loans that have been restructured under non-market conditions. Dexia MA has no outstanding recorded in this category as of June 30, 2011.

Article 13 of this standard recommends recognizing in discounted value the provisions covering the losses expected on the non-performing and compromised non-performing loans.

The rate of depreciation applied to bad debt is proportional to the risk involved. The amount of interest is depreciated for 100% in compliance with current banking practice. Because of the low risk of loss in the local government sector, the depreciation allotted covers 3% of the capital.

Commissions received and transaction costs related to the granting or the acquisition of a loan, if they are significant, are spread over the life of the loan. Other commission income is recorded in the income statement on a cash basis.

Early loan reimbursement penalties recorded up to December 31, 2004, continue to be amortized, on a tax and accounting basis, over the residual life of the repaid loans, in function of the amount of interest that would have been paid on these loans. The remaining penalties to be spread over time are recorded in accruals and other liabilities.

Since January 1, 2005, early loan reimbursement penalties have been recorded in the income statement at the date they occur.

## b. Securities transactions

The securities held by Dexia Municipal Agency are recorded in the assets as:

- government and public entity securities eligible for Central Bank refinancing;
- bonds and other fixed income securities.

The item «Government and public entity securities eligible for Central Bank refinancing» includes debt securities issued by public sector entities that may be refinanced through the European system of central banks.

The item «Bonds and other fixed income securities» includes the following categories of securities:

- debt securities issued by public sector entities that are not eligible for refinancing by central banks;
- debt securities guaranteed by public sector entities;
- debt securities issued by securitization structures;
- debt securities issued by subsidiaries of the Dexia Credit Local Group and by other Dexia Group entities for Dexia Municipal Agency, in order to facilitate asset transfers and refinancing.

They are recognized for accounting purposes as:

- investment securities (held to maturity);
- securities available for sale.

### Investment securities (held to maturity)

Securities considered as investment securities are recorded on the date of purchase at acquisition clean price excluding fees.

Interest accrued at the date of acquisition is recorded in a separate account. The positive or negative difference between the redemption value and the market clean price (discount or premium) is amortized according to a quasi-actuarial method over the residual life of the security.

At the end of the accounting period, unrealized gains are not recorded and no depreciation is recorded except in the following cases:

- a doubt about the issuer's ability to meet his obligations;
- the probability that the company will not hold these securities until maturity owing to new circumstances.

It should be noted that the accounting classification as securities as available for sale previously implied the necessity to recognize any security so classified as a «replacement asset». The new formulation of articles L.515-15 and following of the Monetary and Financial Code (May 2007) enables the company to choose the accounting classification (investment or available for sale) it prefers for eligible debt securities.

The sole debt securities to be considered as «replacement assets» are now debt securities the debtors of which are credit institutions or investment firms benefiting from the highest level of credit quality determined by a rating agency recognized by prudential authorities (corresponding to a minimum rating of AA-/Aa3 /AA- by Fitch, Moody's and Standard and Poor's). The percentage of these replacement assets may not exceed 15% of the nominal amount of the *obligations foncières* and other resources benefiting from the privilege mentioned in §2 of part I of article L.515-13 of the Monetary and Financial Code.

### Placement securities

*Placement* securities are recorded on the date of purchase at acquisition clean cost excluding fees. Interest accrued at the date of acquisition is recorded in a separate account. The positive or negative difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual life of the security.

At closing, in application of the principle of prudence, *placement* securities are recorded on the balance sheet at their acquisition cost or selling price at closing, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

If the market for a financial instrument is not active, valuation techniques are used to calculate the selling price (or market value as defined in the notes to the financial statements). The valuation model should take into account all the factors that market players would consider to value the asset. Within this framework, Dexia Municipal Agency relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit risk quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded as asset impairment.

*Placement* securities transferred to investment securities are recorded at their acquisition cost and previously recog-

nized impairment is reversed over the residual life of the securities concerned (in conformity with article 8 of CRC standard 2005-01).

### c. Debt securities

This chapter includes *obligations foncières* and other resources benefiting from the privilege defined in article L.515-19 of the Monetary and Financial Code. It is subdivided into two categories.

#### Debt securities, for *obligations foncières*

These debt securities are recorded at face value.

From the first year, redemption and issue premiums are amortized on a straight-line basis over the life of the securities *prorata temporis*. They are recorded on the balance sheet under the same headings as the corresponding outstanding debt.

Amortization of these premiums is recorded in the income statement as «Interest expense on bonds and other fixed income securities». In the event bonds are issued above par, amortization of issue premiums is deducted from interest expense on bonds and other fixed income securities.

Interest on bonds is recorded as a banking expense for accrued amounts paid and not yet due calculated *prorata temporis* on the basis of contractual rates.

Bond issuance costs and commissions are amortized in equal parts on a straight-line basis over the life of the related loans.

Bonds denominated in foreign currencies are accounted for by the same method as foreign currency transactions (see below).

#### Other debt securities, for registered covered bonds

These private placements are recorded at their face value. Issue premiums are treated the same way as *obligations foncières* (see above).

Pursuant to article L.515-20 of the Monetary and Financial Code and article 6 of CRBF standard 99-10 of July 27, 1999, total assets must always exceed liabilities benefiting from the privilege referred to in article L.515-19 of the Monetary and Financial Code.

### d. Provisions for risks and charges

Provisions are recognized based on their discounted value when the three following conditions are met:

- Dexia Municipal Agency has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

### e. Derivative transactions

Dexia Municipal Agency engages in derivative transactions to hedge the interest rate and foreign exchange risks to which it is exposed in its activity.

Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios as defined by CRBF standards 90-15 and 92-04. Evaluation and accounting principles are determined according to the portfolio to which they are assigned.

Pursuant to article L.515-18 of the Monetary and Financial Code, these transactions benefit from the privilege defined in article L.515-19 of the Monetary and Financial Code provided that their purpose is to hedge the assets or debt benefiting from the privilege and the overall risk on the assets, liabilities and off-balance sheet items.

The law stipulates that derivative transactions do not benefit from the privilege when related to sources of financing that do not themselves benefit from the privilege. For Dexia Municipal Agency, the only resources that do not benefit from the privilege comprise the debt with Dexia Credit Local, which is not hedged.

The notional amount of these hedging transactions is recorded as an off-balance sheet item over the life of the contract, i.e. from the date the contract is signed (including forward contracts) up to maturity. The amount recorded is adjusted to reflect any changes in notional amounts so as to represent the maximum current or future commitment.

Equalization payments at the inception of hedging derivatives are spread over their maturity for the time remaining according to a quasi-actuarial method.

### Micro-hedge transactions

Transactions are booked as micro-hedges when they are designed to hedge against the interest rate risk related to an item or set of homogeneous items identified from the start. They involve swaps used to hedge issues of debt securities and certain customer assets.

Expense and income on these transactions are recorded in the income statement in the same way income and expense on the hedged item or set of homogeneous items are recorded.

In the event of early repayment, the sale of the hedged item, or early repayment within the framework of the renegotiation of the hedged item, the cancellation equalization payment received or paid because of the early interruption of the hedging instrument is recorded in the following manner, if the hedging instrument has been cancelled.

- prior to January 1, 2005, the equalization payment is extended over the length of time remaining of the cancelled transaction;
- since January 1, 2005, the equalization payment is recorded in the income statement over the period of cancellation; however, the equalization payment paid by Dexia Municipal Agency is charged against income only for the portion that exceeds gains not yet recorded in income in the symmetric position.

In both cases, equalization payments remaining to be extended are recorded as accruals in the assets and/or liabilities.

### Macro-hedge transactions

This category includes transactions designed to hedge and manage the Company's overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions. They were authorized by a specific decision of the Executive Board of Dexia Municipal Agency on December 1, 1999, pursuant to article 14 of CRBF standard 99-10.

Expense and income on these transactions are recorded in the income statement *prorata temporis* respectively as "Interest expense on macro-hedge transactions" and "Interest income from macro-hedge transactions". The contra entry is recorded in accruals until the date of payment of the funds.

If an early repayment transaction leads to the cancellation of macro-hedge swaps, the swap cancellation equalization payment is treated in the following way if the cancellation has taken place:

- prior to January 1, 2005, the equalization payment is extended over the length of time remaining of the cancelled transaction. Equalization payments remaining to be extended are recorded in accruals in the assets and/or liabilities;
- since January 1, 2005, the equalization payment is recorded in the income statement at cancellation.

Micro-hedges and macro-hedges correspond to the use of derivative instruments that benefit from the privilege defined in article L.515-19 of the Monetary and Financial Code, pursuant to article L.515-18 of the Monetary and Financial Code.

### Monitoring market risks

Market risks refer to the risk of loss linked to fluctuations in market prices and interest rates, their interactions and levels of volatility.

Market risks linked to trading portfolios are not compatible with the activity of Dexia Municipal Agency. The Company cannot have a derivative instrument in an isolated open position. All derivatives used by Dexia Municipal Agency are part of a hedging strategy, either micro- or macro-hedges.

The policy of Dexia Municipal Agency is to avoid any foreign exchange risk. Market risks related to foreign exchange transactions are eliminated from the start by currency swaps when an asset or liability that is not denominated in euros is recorded on the balance sheet.

General accounting verifies that at each closing there is no foreign exchange risk.

The market back office and market accounting units regularly control the symmetry of micro-hedge swaps.

### f. Foreign currency transactions

Pursuant to CRBF standard 89-01, amended by standard 90-01 of February 23, 1990, Dexia Municipal Agency records foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At the end of each accounting period, the differences between the amounts resulting from a market price valuation of the foreign exchange position accounts at the date of closing and the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

#### **g. Foreign exchange transactions**

In the course of systematic hedging of its foreign exchange risk, Dexia Municipal Agency enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is recognized. They are mainly used to hedge certain bond issues and, in the assets, certain debt securities and customer loans.

Results of foreign exchange hedging transactions are accounted for by recording the difference between the hedging rate and the spot rate – contango or backwardation – *prorata temporis* in the income statement.

#### **h. Non-recurring income and expense**

Non-recurring income and expense result from events or transactions that do not relate to ordinary business operations or routine management of the Company's assets and liabilities.

Furthermore, the income or expense involved does not depend on decisions taken within the framework of usual management of the Company's activities or assets, but results from external events of a completely exceptional nature. Only items of this nature that have a significant impact on the period's net income are recorded as non-recurring income and expense.

#### **i. Tax consolidation**

Dexia Municipal Agency applies the tax consolidation system.

Dexia Municipal Agency and its parent company Dexia Credit Local are lodged in a tax consolidation structure. Since January 1, 2002, the consolidating company has been Dexia SA's permanent establishment in France.

This entity pays the total tax owed by the companies in the tax group and the minimum corporate income tax payment for the group. Dexia Municipal Agency records in its accounts the amount of tax for which it would be liable if it were not a member of the tax group.

Tax savings realized by the tax group are recorded in the accounts of Dexia SA's permanent establishment in France.

#### **j. Offices and activities in uncooperative states and territories**

In application of article L.511-45 of the Monetary and Financial Code, it should be noted that Dexia Municipal Agency has no offices in States that have not signed with France an administrative assistance agreement (subsidiaries, branches, including *ad hoc* entities, and equity interest in other entities over which the Company has exclusive or joint (or *de facto*) control).

Identity of the parent company consolidating the accounts of Dexia Municipal Agency

Dexia Credit Local  
Tour Dexia La Défense 2  
1, passerelle des Reflets  
92913 La Défense Cedex  
France



## 2. NOTES TO THE ASSETS (EUR millions)

### 2.1 CENTRAL BANKS

	6/30/2010	12/31/2010	6/30/2011
Mandatory reserves	3	2	-
<b>TOTAL</b>	<b>3</b>	<b>2</b>	<b>-</b>

### 2.2 GOVERNMENT AND PUBLIC ENTITY SECURITIES ELIGIBLE FOR CENTRAL BANK REFINANCING

#### a. Accrued interest included in this item: 39

#### b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as of 6/30/2011
-	0	354	3,134	3,488

#### c. Analysis by listed securities and other securities excluding accrued interest

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011	Unrealised capital loss as of 6/30/2011
Listed securities (1)	3,744	3,568	3,488	(4)
Other securities	616	580	-	-
<b>TOTAL</b>	<b>4,360</b>	<b>4,148</b>	<b>3,488</b>	<b>(4)</b>

(1) Listed securities are registered for trading on a stock exchange.

#### d. Analysis by type of portfolio excluding accrued interest and changes during the year

PORTFOLIO	Gross amount as of 6/30/2010	Gross amount as of 12/31/2010	Increases	Decreases	Other changes	Impairment as of 6/30/2011	Net amount as of 06/30/2011
Trading	-	-	-	-	-	-	-
Placement	886	746	-	(14)	-	(4)	728
Investment	3,479	3,420	-	(675)	15	-	2,760
<b>TOTAL</b>	<b>4,365</b>	<b>4,166</b>	<b>-</b>	<b>(689)</b>	<b>15</b>	<b>(4)</b>	<b>3,488</b>

#### e. Impairment breakdown by country

See note 2.9

### 2.3 LOANS AND ADVANCES DUE FROM BANKS

#### a. Sight loans and advances due from banks

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Current account Dexia Credit Local	-	-	-
Accrued interest not yet due on the current account	-	-	-
Unallocated sums	5	3	12
<b>TOTAL</b>	<b>5</b>	<b>3</b>	<b>12</b>

#### b. Time loans and advances due from banks

This item is composed of loans to Swiss cantonal banks, which benefit from a legal guarantee of their cantons for an amount of 1,039 millions (excluding accrued interest). The balance concerns loans guaranteed (i) by local governments (loans to *crédits municipaux*) or (ii) by the assignment in guarantee of refinanced public debt.

#### a. Accrued interest included in this item: 19

#### b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as of 6/30/2011
450	100	793	434	1,777

#### c. Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2010	Net amount as of 12/31/2010	Gross amount as of 6/30/2011	Decrease in value as of 6/30/2011	Net amount as of 6/30/2011
Loans of less than 1 year (1)	1,600	350	376	-	376
Loans of more than 1 year	2,118	1,857	1,401	-	1,401
<b>TOTAL</b>	<b>3,718</b>	<b>2,207</b>	<b>1,777</b>	<b>-</b>	<b>1,777</b>

(1) It is mainly a question of a repurchase transaction for a period of three months.

#### d. Breakdown by counterparty

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Central Banks	1600	-	-
Swiss cantonal banks benefiting from their canton's legal guarantee	1724	1474	1,039
Banks guaranteed by a local government, <i>crédits municipaux</i>	211	203	186
Credit institutions in the Dexia Group: loans benefiting from the assignment in guarantee of refinanced public debt	183	180	176
Credit institutions in the Dexia Group: loans secured by public sector assets	0	350	376
<b>TOTAL</b>	<b>3,718</b>	<b>2,207</b>	<b>1,777</b>
- of which replacement assets	-	350	376



## 2.4 CUSTOMER LOANS AND ADVANCES

a. Accrued interest included in this item: 825

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as of 6/30/2011
864	3,134	14,492	34,039	52,529

c. Analysis of commitments by the counterparty's economic sector excluding accrued interest

ECONOMIC SECTOR	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Public sector	48,692	49,626	50,498
Other sectors (1)	3,853	4,287	2,031
<b>TOTAL</b>	<b>52,545</b>	<b>53,913</b>	<b>52,529</b>

(1) Social Housing : OPHLM et S.A. d'HLM and other loans guaranteed by local governments.

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2010	Net amount as of 12/31/2010	Gross amount as of 6/30/2011	Impairment as of 12/31/2010	Net amount as of 6/30/2011
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	52,545	53,913	52,532	(3)	52,529
<b>TOTAL</b>	<b>52,545</b>	<b>53,913</b>	<b>52,532</b>	<b>(3)</b>	<b>52,529</b>

e. Analysis of loans by category of outstanding commitments excluding accrued interest

	Net amount as of 6/30/2010	Net amount as of 12/31/2010	Gross amount as of 6/30/2011	Impairment as of 12/31/2010	Net amount as of 6/30/2011
Performing commitments	52,539	53,904	52,508	-	52,508
Restructured commitments	-	-	-	-	-
Non-performing loans	5	8	22	(2)	20
Compromised non-performing loans	1	1	2	(1)	1
<b>TOTAL</b>	<b>52,545</b>	<b>53,913</b>	<b>52,532</b>	<b>(3)</b>	<b>52,529</b>

f. Depreciation for non-performing loans - changes during the year :

	Amount as of 6/30/2010	Amount as of 12/31/2010	Allocations	Reversals	Transfers	Amount as of 06/30/2010
<b>For non-performing loans</b>						
On loans	0	-	(1)	(0)	-	(1)
On interest	(1)	(1)	-	-	-	(1)
<b>For compromised non-performing loans</b>						
On loans	-	-	0	-	-	0
On interest	-	(1)	-	-	-	(1)
<b>TOTAL</b>	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>	<b>(0)</b>	<b>-</b>	<b>(3)</b>

- Provisions on interest are recorded in Net banking income.

- Provisions on outstanding are recorded in Cost of risk.

g. Impairment breakdown by country

See note 2.9

## 2.5 BONDS AND OTHER FIXED INCOME SECURITIES

a. Accrued interest included in this item: 83

b. Analysis by residual maturity excluding accrued interest :

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as of 6/30/2011
1,106	1,908	3,050	13,448	19,512

c. Analysis by the issuer's economic sector excluding accrued interest

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Public sector	1,425	1,416	1,961
Other sectors (guaranteed by a State or by a local government)	1,652	1,321	1,497
Other sectors (ABS) (1)	93	90	87
DCC – Dexia Crediop per la Cartolarizzazione	3,758	3,681	3,606
DSFB – Dexia Secured Funding Belgium (2)	7,425	7,235	6,911
Cedulas territoriales issued by Dexia Sabadell	3,800	3,000	3,000
Lettres de Gage issued by Dexia LdG Banque	2,350	1,850	1,850
Dexia Crédit Local - certificates of deposit	0	600	600
<b>TOTAL</b>	<b>20,503</b>	<b>19,193</b>	<b>19,512</b>
- of which eligible for Central Bank refinancing	6,991	5,861	5,675
- of which replacement assets	6,150	5,450	5,450

(1) Asset-backed securities (ABS):

- Colombo : 6,68 (rated Aa2 Moody's, A+ S&P)

- ASTREA : 0,82 (rated AA- Fitch, Aa3 Moody's)

The ABS Colombo and Astrea are entirely composed of Italian public sector commitments.

- Blue Danube Loan Funding : 79,36 (rated AA+ S&P – guaranteed by the Land of Lower Austria)

d. Replacement assets

	Rating	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Dexia Sabadell	Aa2 Moody's	3,800	3,000	3,000
Dexia LdG Banque	AAA S&P	2,350	1,850	1,850
Dexia Cr�dit Local - Certificates of deposit	A+ Fitch	-	600	600
<b>TOTAL</b>		<b>6,150</b>	<b>5,450</b>	<b>5,450</b>

e. Analysis by listed securities and other securities excluding accrued interest

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011	Unrealized capital loss as of 6/30/2011
Listed securities	8,131	6,490	6,741	(25)
Other securities	12,372	12,703	12,771	(7)
<b>TOTAL</b>	<b>20,503</b>	<b>19,193</b>	<b>19,512</b>	<b>(32)</b>

f. Analysis by type of portfolio excluding accrued interest and changes during the year

PORTFOLIO	Net amount as of 6/30/2010	Net amount as of 12/31/2010	Net amount as of 6/30/2011
Trading	-	-	-
Placement	1,396	1,726	2,007
Investment	19,107	17,467	17,505
	<b>20,503</b>	<b>19,193</b>	<b>19,512</b>

PORTFOLIO	Gross amount as of 6/30/2011	Increases	Decreases or sales	Other changes	Impairment as of 6/30/2011	Net amount as of 6/30/2011
Trading	-	-	-	-	-	-
Placement	1,754	1,328	(1,031)	(19)	(25)	2,007
Investment	17,467	1,300	(1,234)	(21)	(7)	17,505
	<b>19,221</b>	<b>2,628</b>	<b>(2,265)</b>	<b>(40)</b>	<b>(32)</b>	<b>19,512</b>

g. Impairment breakdown by country

See note 2.9

2.6 OTHER ASSETS

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Other receivables	11	7	13
<b>TOTAL</b>	<b>11</b>	<b>7</b>	<b>13</b>

This item includes a EUR 13 million in tax credit that Irish tax administration owe the Dublin branch.

2.7 ACCRUALS AND OTHER ASSETS

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Deferred losses on hedging transactions	434	1,024	1,483
Deferred charges on bond issues	-	369	347
Deferred charges on hedging transactions	-	238	232
Premiums on acquisition of loans from Dexia Credit Local	9	155	144
Premiums on acquisition of loans other than from Dexia Credit Local	127	8	-
Other prepaid charges	-	-	-
Accrued interest not yet due on hedging transactions	1,406	1,719	1,504
Translation adjustments	-	653	176
Other deferred income	-	-	-
Other accruals	1,020	13	41
<b>TOTAL</b>	<b>2,996</b>	<b>4,179</b>	<b>3,927</b>

2.8 TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 6/30/2010	Amount in euros as of 6/30/2010	Amount in original currency as of 12/31/2010	Amount in euros as of 12/31/2010	Amount in original currency as of 6/30/2011	Amount in euros as of 6/30/2011
EUR	71,131	71,131	70,536	70,536	69,635	69,635
AUD	1,626	1,122	1,626	1,240	1,422	1,051
CAD	1,012	779	1,012	758	1,012	725
CHF	3,141	2,368	3,150	2,523	3,044	2,456
DKK	256	34	262	35	-	-
GBP	1,336	1,629	1,344	1,568	674	746
HKD	206	22	201	19	206	18
JPY	239,280	2,200	239,598	2,203	238,324	2,037
NOK	237	30	244	31	1,012	130
NZD	-	-	-	-	-	-
PLN	59	14	59	15	59	15
SEK	1,370	144	1,368	152	1,360	149
SKK	-	-	-	-	-	-
TRY	-	-	-	-	-	-
USD	7,642	6,230	7,411	5,531	7,625	5,262
ZAR	259	28	269	30	-	-
<b>TOTAL</b>		<b>85,731</b>		<b>84,641</b>		<b>82,224</b>

## 2.9 IMPAIRMENT BREAKDOWN BY COUNTRY

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
<b>Government and public entity securities eligible for Central Bank refinancing - placement securities</b>	<b>(5)</b>	<b>(5)</b>	<b>(4)</b>
Spain	-	-	-
Italy	(5)	(5)	(4)
<b>Bonds and other fixed income securities - placement securities</b>	<b>(33)</b>	<b>(28)</b>	<b>(25)</b>
Spain	(2)	(2)	(2)
France	-	-	-
Germany	(5)	(2)	(2)
Italy	-	-	(1)
United Kingdom	(26)	(24)	(20)
United States	-	-	-
<b>Bonds and other fixed income securities - investment securities</b>	<b>-</b>	<b>-</b>	<b>(7)</b>
Greece	-	-	(7)
<b>Loans and advances to customers</b>	<b>(1)</b>	<b>(1)</b>	<b>(3)</b>
France	(1)	(1)	(3)

## 2.10 BREAKDOWN OF GOVERNMENT BONDS ON A SELECTION OF EUROPEAN COUNTRIES AND DEPRECIATION OF GREEK SOVEREIGN BONDS

### a. Breakdown of government bonds on a selection of European countries

The credit risk exposure reported represent the accounting net carrying amount of exposures, being the notional amounts after deduction of specific impairments and taking into account accrued interests.

	12/31/2010					
	Spain	Ireland	Italy	Portugal	Greece	Total
State securities	-	-	494	-	330	824
Securities guaranteed by State	-	-	112	-	100	212
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>606</b>	<b>-</b>	<b>430</b>	<b>1,036</b>

	6/30/2011					
	Spain	Ireland	Italy	Portugal	Greece	Total
State securities	-	-	486	-	325	811
Securities guaranteed by State	-	-	114	-	102	216
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>600</b>	<b>-</b>	<b>427</b>	<b>1,027</b>

	12/31/2010					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	494	-	430	924
Placement securities	-	-	112	-	-	112
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>606</b>	<b>-</b>	<b>430</b>	<b>1036</b>
<b>IMPAIRMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	6/30/2011					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	486	-	427	913
Placement securities	-	-	114	-	-	114
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>600</b>	<b>-</b>	<b>427</b>	<b>1,027</b>
<b>IMPAIRMENT</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(7)</b>	<b>(8)</b>

### b. Depreciation of Greek sovereign bonds

The exposure on sovereign debts may be analysed as followed as of June 30, 2011.

	Direct exposure	Indirect exposure	Impairment	Net amount of exposure
Total maturity in less than 10 years	33	102	(7)	128
Total maturity in more than 10 years	299	-	-	299
<b>TOTAL</b>	<b>332</b>	<b>102</b>	<b>(7)</b>	<b>427</b>

Dexia has decided to participate to the IIF plan and to exchange its bonds for new bonds.

The plan offers four instruments in exchange of the existing bonds. The exchange will result in a loss estimated to be 21% of the nominal based on the documentation provided by the IIF and other documents available at the date of approval of the financial statements by the Supervisory Board. Depending on the instrument selected, the accounting consequences may differ for bonds hedged against interest risk.

As Dexia participated in discussions at the IIF and committed to participate to the IIF plan, it was therefore aware, before June 30, 2011, that an exchange will be proposed and knew the consequences of this exchange. The valuation of the Greek sovereign bonds maturing within 10 years has been adjusted to reflect a discount of 21% on the nominal. It concerns only the bonds maturing before 12/31/2020. If the conditions of the plan are respected, Dexia Municipal Agency judges that Greece will be able to meet its commitments for the future and therefore does not record any impairment on bonds maturing in more than 10 years.

### 3. NOTES TO THE LIABILITIES (EUR millions) :

#### 3.1 CENTRAL BANKS

This item includes refinancing obtained through Banque de France tenders. The use of such financing organized by tenders involved the pledging of eligible assets within the framework of a general guarantee management agreement (3G). This source of financing does not benefit from the privilege defined in article L.515-19 of the Monetary and Financial Code.

Dexia Municipal Agency has not used Banque de France financing since July 2009.

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Overnight borrowing	-	-	-
Time borrowing	-	-	-
Accrued interest	-	-	-
<b>TOTAL BANQUE DE FRANCE</b>	-	-	-

#### 3.2 DUE FROM BANKS

This item includes the balance of the account opened with Dexia Crédit Local. This account is intended to finance the needs of Dexia Municipal Agency related to its activity, in particular, to finance loans prior to the issue of *obligations foncières* as well as the structural over-collateralization of the assets.

Sub-accounts make it possible to distinguish between the financing of over-collateralization and the financing of assets prior to issue. The whole account totaled EUR 10,468 million (excluding accrued interest):

- a sub-account indexed on Eonia, with no defined maturity, financing assets not yet included in the issue programme and miscellaneous needs with a balance of EUR 6,968 millions;
- a sub-account comprised of a long term borrowing earmarked to finance the structural over-collateralization of 5%. Dexia MA's policy is to maintain minimum structural over-collateralization of 5% of outstanding *obligations foncières* and registered covered bonds. This borrowing totaled EUR 3,500 million as of June 30, 2011; it is indexed on the annual money market rate (TAMM).

The current account agreement between Dexia Crédit Local and Dexia Municipal Agency will exist as long as Dexia Municipal Agency is authorized to operate as a *société de crédit foncier* and acquires or grants loans to public sector entities.

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Sub-account - prefinancing of assets	8,782	9,029	6,968
- Interest accrued not yet due	4	5	7
Sub-account - financing of over-collateralization	3,500	3,500	3,500
- Interest accrued not yet due	9	7	17
Unallocated sums	6	3	11
<b>TOTAL</b>	<b>12,301</b>	<b>12,544</b>	<b>10,503</b>

##### Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as of 6/30/2011
Sight	6,979	-	-	-	6,979
Time	0	-	1,420	2,080	3,500
<b>Total</b>	<b>6,979</b>	<b>-</b>	<b>1,420</b>	<b>2,080</b>	<b>10,479</b>

#### 3.3 DEBT SECURITIES

##### a. Debt securities (*obligations foncières*) :

a. Accrued interest included in this item: 1066

b. Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as of 6/30/2011
<i>Obligations foncières</i>	234	3,763	22,914	32,423	59,334
of which issue premiums (1)	-	(0)	(65)	(72)	(137)

(1) The gross amount, before amortization, of issue premiums totaled EUR 137,1 million.

c. Changes during the year excluding accrued interest

Amount as of 12/31/2010	Increases	Decreases	Translation adjustments	Amount as of 6/30/2011
60,302	5,580	(5,886)	(662)	59,334

##### b. Other bonds (registered covered bonds)

a. Accrued interest included in this item: 95

b. Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total as of 6/30/2011
Registered covered bonds	-	-	-	4,252	4,252
of which issue premiums (1)	-	-	-	(6)	(6)

(1) The gross amount, before amortization, of issue premiums totaled EUR 5,8 million.

c. Analysis by residual maturity excluding accrued interest

Amount as of 12/31/2010	Increases	Decreases	Translation adjustments	Amount as of 6/30/2011
4,031	221	-	-	4,252

### 3.4 OTHER LIABILITIES

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Cash collateral received	1,774	1,314	1,364
Accrued interest not yet due on cash collateral received	-	-	-
Taxes	1	9	4
Balances to pay on unwound hedging contracts	-	0	-
<b>TOTAL</b>	<b>1,775</b>	<b>1,323</b>	<b>1,368</b>

### 3.5 ACCRUALS AND OTHER LIABILITIES

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	857	1,383	1,856
Deferred income on loans	28	197	229
Discounts on acquisition of loans from Dexia Crédit Local	89	-	-
Discounts on acquisition of loans from Other Group entities	74	-	-
Accrued interest not yet due on hedging transactions	1,258	1,396	1,424
Other accrued charges	30	27	28
Translation adjustments	529	637	613
Other accruals	-	3	13
<b>TOTAL</b>	<b>2,865</b>	<b>3,643</b>	<b>4,163</b>

### 3.6 PROVISIONS FOR RISKS AND CHARGES, DEFERRED TAX LIABILITIES AND REGULATED PROVISIONS

#### a. Provision for risks on financial instruments

Amount as of 6/30/2010	Amount as of 12/31/2010	Increases	Decreases	Translation adjustments	Amount as of 6/30/2011
24	19	-	-	-	19

#### b. Deferred tax liabilities

This item principally concerns the deferred tax on the Dublin Branch. On June 30, 2011, the amount of deferred tax is equal to EUR 19 millions.

#### c. Regulated provision for risks on medium- and long-term loans

Amount as of 6/30/2010	Amount as of 12/31/2010	Increases	Decreases	Translation adjustments	Amount as of 6/30/2011
63	68	2	-	-	70

### 3.7 EQUITY

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Share capital	1,190	1,190	1,300
Legal reserve	38	38	44
Retained earnings (+/-)	9	9	13
Net income (+/-)	44	120	38
<b>TOTAL</b>	<b>1,281</b>	<b>1,357</b>	<b>1,395</b>

On May 26, 2011, the Ordinary and Extraordinary Shareholders' Meeting decided:

- (i) to allocate the 2010 net income of EUR 120 million to retained earnings, constituting income for distribution of EUR EUR 123,2 million, after allocation to the legal reserve;
- (ii) to distribute a dividend of EUR 110 million;
- (iii) to increase the capital in cash by EUR 110 million. This capital increase was subscribed by Dexia Credit Local and enacted on June 7, 2011.

Dexia MA's share capital totaled EUR 1,300 million, comprising 13,000,000 shares with a face value of EUR 100.

### 3.8 TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 6/30/2010	Amount in euros as of 6/30/2010	Amount in original currency as of 12/31/2010	Amount in euros as of 12/31/2010	Amount in original currency as of 6/30/2011	Amount in euros as of 6/30/2011
EUR	65,330	71,131	70,536	70,536	69,635	69,635
AUD	1,626	1,122	1,626	1,240	1,422	1,051
CAD	1,012	779	1,012	758	1,012	725
CHF	3,141	2,368	3,150	2,523	3,044	2,456
DKK	256	34	262	35	-	-
GBP	1,336	1,629	1,344	1,568	674	746
HKD	206	22	201	19	206	18
JPY	239,280	2,200	239,598	2,203	238,324	2,037
NOK	237	30	244	31	1,012	130
NZD	-	-	-	-	-	-
PLN	59	14	59	15	59	15
SEK	1,370	144	1,368	152	1,360	149
SKK	-	-	-	-	-	-
TRY	-	-	-	-	-	-
USD	7,642	6,230	7,411	5,531	7,625	5,262
ZAR	259	28	269	30	-	-
<b>TOTAL</b>		<b>85,731</b>		<b>84,641</b>		<b>82,224</b>

### 3.9 TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company and entities consolidated by Dexia			Other related parties(1)		
	6/30/2010	12/31/2010	6/30/2011	6/30/2010	12/31/2010	6/30/2011
<b>Assets</b>						
Interbank commitments - sight	-	-	-	-	-	-
Interbank commitments - time	183	530	553	-	-	-
Bonds and other fixed income securities	7,570	7,297	7,227	9,788	9,102	8,782
<b>Liabilities</b>						
Interbank commitments - sight	8,786	9,034	6,975	-	-	-
Interbank commitments - time	3,509	3,506	3,517	-	-	-
<b>Income statement</b>						
Interest income on loans and advances	3	6	6	-	-	-
Interest income on debt securities	-	70	50	12	90	60
Interest expense on borrowings	(34)	(76)	(171)	-	-	-
Net commissions	(2)	(3)	(3)	-	-	-
<b>Off-balance sheet</b>						
Interest rate derivatives	155,251	151,740	132,385	6,228	6,078	5,457

(1) This item includes transactions with companies of the Belgian and Luxembourg sub-groups consolidated by Dexia SA, the parent company of Dexia Credit Local.

## 4. NOTES TO THE OFF-BALANCE SHEET ITEMS (EUR millions)

### 4.1 COMMITMENTS GRANTED

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Financing commitments granted to credit institutions	6	1	4
Financing commitments granted to customers (1)	1,958	899	1,249
Other commitments given, securities assigned in guarantee	-	-	-
<b>TOTAL</b>	<b>1,964</b>	<b>900</b>	<b>1,253</b>

(1) Financing commitments on loans and advances correspond to contracts signed for loans not yet paid out to customers as of June 30, 2011.

### 4.2 COMMITMENTS RECEIVED

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Financing commitments received from credit institutions (1)	8,970	6,626	4,374
Currencies borrowed	-	-	-
Guarantees received from credit institutions	6,721	6,599	6,451
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	5,998	5,944	5,470
<b>TOTAL</b>	<b>21,689</b>	<b>19,169</b>	<b>16,295</b>

(1) This concerns the refinancing agreement within the framework of the current account agreement between Dexia Credit Local and Dexia Municipal Agency.

### 4.3 FOREIGN CURRENCY TRANSACTIONS

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period. The items "Currencies to receive" and "Currencies to deliver" are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011	Fair value as of 6/30/2011
Currencies to receive	20,119	19,463	17,270	469
Currencies to deliver	19,650	19,147	17,704	(532)
<b>TOTAL</b>	<b>39,769</b>	<b>38,610</b>	<b>34,974</b>	<b>(63)</b>

### 4.4 COMMITMENTS ON INTEREST RATE DERIVATIVES

Commitments on interest rate derivatives are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

#### a. Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	Amount as of 12/31/2010	Less than 1 year (1)	1 year to 5 years (2)	More than 5 years (3)	Total as of 6/30/2011
Unconditional transactions	235,457	120,280	25,108	72,541	217,929
(1) of which deferred start	15,052				
(2) of which deferred start	168				
(3) of which deferred start	2,509				
Total	17,729				

These hedging transactions include micro-hedge and macro-hedge transactions.

#### b. Analysis of interest rate transactions by product type

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Interest rate swaps	240,600	235,457	217,929
Term contracts	-	-	-
Interest rate options	-	-	-
<b>TOTAL</b>	<b>240,600</b>	<b>235,457</b>	<b>217,929</b>

### c. Analysis of interest rate swap transactions

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011	Fair value as of 6/30/2011
Micro-hedge	79,952	77,485	79,175	(2,404)
Macro-hedge	160,642	157,972	138,754	(1,278)
<b>TOTAL</b>	<b>240,594</b>	<b>235,457</b>	<b>217,929</b>	<b>(3,682)</b>

### d. Analysis of interest rate transactions by counterparty

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Parent and other Dexia Group companies	161,479	157,818	151,740
Counterparties with equity interests	-	-	-
Other counterparties	79,121	77,639	66,189
<b>TOTAL</b>	<b>240,600</b>	<b>235,457</b>	<b>217,929</b>

## 4.5 COMMITMENTS RELATED TO SECURITIES TRANSACTIONS

	Amount as of 6/30/2010	Amount as of 12/31/2010	Amount as of 6/30/2011
Securities purchased:			
Spot	-	-	-
Forward	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 5. NOTES TO THE STATEMENT OF INCOME (EUR millions)

### 5.0.a INTEREST AND RELATED INCOME

In particular, this item comprise :

- EUR 28 million in interest due and interest accrued are not yet due on operations with credit institutions;
- EUR 1,764 million in interest due and interest accrued and not yet due on customer loans, payments for early reimbursement of loans and the result of micro-hedging operations;
- EUR 162 million in interest due and interest accrued and not yet due on bonds and other fixed-income securities, income and expense from the spreading of discounts and premiums on investment and *placement* securities, and the result of micro-hedging operations on these securities;
- EUR 840 million in income from macro-hedging operations.

### 5.0.b INTEREST AND RELATED EXPENSE

In particular, this item comprise :

- EUR 80 million in interest due and interest accrued and not yet due on refinancing operations;
- EUR 1,039 million in expense on customer loans;
- EUR 451 million in interest due, interest accrued and not yet due, income and expense from the spreading of debit and credit issue premiums for *obligations foncières* and registered covered bonds, and the result of micro-hedging operations.
- EUR 1,103 million in expense on macro-hedging operations.

### 5.1 GENERAL EXPENSES

Dexia Municipal Agency has no salaried employees in accordance with article L.515-22 of the Monetary and Financial Code. Within the framework of its management contract, Dexia Credit Local conducts all operations, transactions and functions of all types on behalf of Dexia MA.

In addition, specific management contracts grant different entities of the Dexia Group the management of loans and securities in their respective countries (Kommunalkredit Austria, Dexia Crediop and Dexia Bank Belgium).

General operating expense can be broken down as follows :

	1H 2010	1H 2011
Taxes	(4)	(4)
Other general operating expense*	(45)	(45)
<b>TOTAL</b>	<b>(49)</b>	<b>(49)</b>

\*This item mainly includes the management commissions billed by Dexia Credit Local and other Group companies to Dexia Municipal Agency under the management contracts they have signed, i.e. EUR 42 million.

### 5.2 ANALYSIS OF COMMISSIONS PAID

	1H 2010	1H 2011
Commission for business brokerage and securities portfolio management billed by Dexia Crediop	(2)	(3)
Commission paid on securities transactions	(1)	(1)
<b>TOTAL</b>	<b>(3)</b>	<b>(4)</b>

### 5.3 ANALYSIS OF INCOME FROM FINANCIAL TRANSACTIONS

	1H 2010	1H 2011
Transactions on <i>placement</i> securities (1)	(5)	3
Transactions on investment securities (2)	-	(6)
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	-	-
<b>TOTAL</b>	<b>(5)</b>	<b>(3)</b>

(1) This item regroups capital gains and losses on sales and provisions and reversals on this portfolio. Amount after swap.

(2) This item regroups capital gains and losses on sales and provisions and reversals on this portfolio. Amount after swap. The amount as of June 30, 2011 includes the provisions on one Greece security following the European agreement of July 2011.

#### 5.4 CORPORATE INCOME TAX

	1H 2010	1H 2011
Corporate income tax	(16)	(23)
Deferred tax	(11)	(1)
<b>TOTAL</b>	<b>(27)</b>	<b>(24)</b>

The tax rate used for 2011 is 34.43% for France.

The tax rate used for the Dublin branch is 12.50%





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## STATUTORY AUDITORS' REPORT

*(French GAAP)*

**Statutory auditors' review report  
on FIRST HALF-YEAR financial information for 2011**

Period from January 1, 2011 to June 30, 2011

*This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report includes information relating to the specific verification of information presented in the interim management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

In compliance with the assignment entrusted to us by the Shareholder's 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 half-year financial statements of Dexia Municipal Agency, for the period from January 1, 2011 to June 30, 2011,
- the verification of the information contained in the interim management report.

These half-year financial statements are the responsibility of the Board of Directors in a context characterised by a public debt crisis in certain euro-zone countries and in particular in Greece, the effects of which are described in note 2.10 to the financial statements. 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, we did not identify any material misstatements that would cause us to believe that the interim financial statements do not present fairly, in all material aspects, the results of operations for the six months ended June 30, 2011 and the financial position of Dexia Municipal Agency and its assets at that date, in accordance with accounting rules and principles applicable in France.

**2. Specific verification**

We have also verified the information presented in the interim management report commenting the half-year financial statements subject to our review.

We have no matters to report as to its fair presentation and consistency with the half-year financial statements.

Courbevoie and Neuilly-sur-Seine, August 31, 2011

The statutory auditors

*French original signed by*

MAZARS

DELOITTE & ASSOCIÉS

Hervé HELIAS

Virginie CHAUVIN

José Luis GARCIA



**6**

## **STATEMENT OF THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT**

## STATEMENT OF THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

I, the undersigned, Gilles GALLERNE, Member of the executive board – Chief executive officer of Dexia Municipal Agency,

hereby attest to the fact that, to the best of my knowledge, these half-year 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 the company, 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 31, 2011



Gilles GALLERNE

Member of the executive board – Chief executive officer