DEXIA
MUNICIPAL
AGENCY

FINANCIAL REPORT

as of September 30, 2012

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1 MANAGEMENT REPORT

For the period January 1 to September 30, 2012

(1. HIGHLIGHTS OF THE FIRST NINE MONTHS OF 2012

1.1 SITUATION OF THE COVERED BOND MARKET

The multiple downgrades in the rating of sovereign countries and banks, as well as the impact of new regulations, have progressively transformed the covered bond market. Triple A-rated covered bonds today represent no more than a good half of the market, and certain covered bonds are now rated triple B. The new restrictions imposed by Basel III and Solvency 2, together with the current rules governing eligibility with the European Central Bank, contribute to market segmentation by favoring the most highly rated bonds. In addition to ratings, a covered bond label will be awarded, beginning in 2013, to issuers who meet a certain number of requirements and are recognized for their transparent communication. Dexia MA has asked to benefit from this label.

Issues of benchmark covered bonds in the primary market in the third quarter of 2012 totaled EUR 20 billion (nearly half of the issues in September 2012), compared with EUR 52 billion in the first quarter and EUR 17 billion in the second quarter, for a total of EUR 89 billion in the first nine months of 2012 compared with more than EUR 150 billion at the end of September 2011.
Market conditions improved considerably beginning in September subsequent to ECB announcements concerning the modalities of Outright Monetary Transactions (OMT), which will be conducted on sovereign debt secondary markets in the euro zone. These transactions are accompanied by added flexibility in the minimum credit rating threshold required for eligibility of assets accepted in guarantee for credit transactions in the Eurosystem.
The ECB’s CBPP2 covered bond buyback program came to an end on October 1, 2012. It represented a volume of EUR 16.4 billion, i.e. 40% of the maximum volume expected of EUR 40 billion. The good market conditions obviated the need for ECB support.

French issuers remained the most active, ahead of the Germans and the Scandinavians. New issue premiums (in relation to secondary market spreads), which were high at the beginning of the year, continued to tighten. In the secondary market, whatever the country, average spreads for covered bonds, which had widened in the second quarter, narrowed significantly during the summer.
The spread of Dexia MA bonds in the secondary market, which had widened, like the market, in the second quarter, has narrowed significantly since the end of June by approximately 15 bp. This trend has continued into the fourth quarter.

Dexia Municipal Agency issued no bonds in the first nine months of 2012, because of the absence of new assets to finance and of the project under way to change its shareholding structure and its assets acquisition scheme.

1.2 DEXIA MUNICIPAL AGENCY'S RATINGS

The issuance programme of Dexia MA is rated by the three main rating agencies: Standard & Poor's, Fitch and Moody's.

As of December 31, 2011, Dexia MA was rated:

- AAA by Fitch,
- AAA / CreditWatch negative by S&P and
- Aa1 / on review for downgrade by Moody's.

Since the beginning of the year 2012, the situation has evolved in the following manner:

- in January, Standard & Poor's confirmed that Dexia MA's rating was maintained in CreditWatch for further review, following the downgrade of its parent company Dexia Credit Local's rating to A2;
- in April, Moody's announced the downgrade of Dexia MA's rating to Aa2, following the downgrade of its parent company's rating from Baa1 to Baa2 / on review for downgrade;
- in June, Fitch confirmed Dexia MA's triple A rating in its annual review;
- in July, Standard & Poor's announced that it was lowering Dexia MA's rating to AA+ when it introduced its new methodological criterion for counterparty risk; given the rating of Dexia Credit Local, the application of this new criterion does not allow Dexia MA's *obligations foncières* to be rated triple A; Standard & Poor's in-depth analysis of the impact of the application of the new criterion is in process;
- in September, Fitch introduced its new rating methodology for covered bonds; the agency assigned a D-Cap indicator to Dexia MA of 3 (moderate high), in line with its triple-A rating and the current level of over-collateralization; but Fitch also considered DMA's present situation as a non-active programme (change of shareholder, servicer and supplier of assets in process – cf. 1.4), and in keeping with its new criteria, was not able to take into account the effective over-collateralization, but only DMA's public commitment to maintain minimal over-collateralization of 5% on a regulatory basis, equivalent to nominal over-collateralization of 11.6%. For this reason, Fitch put DMA's rating under watch negative.

As of September 30, 2012, Dexia MA's ratings were under review or watch by two of its rating agencies, given the current situation in which it finds itself (cf. 1.4), and/or the application of new rating criteria by these agencies:

- AAA Watch negative by Fitch,
- AA+ / CreditWatch negative by Standard &Poor's and
- Aa2 by Moody's.

1.3 FINANCIAL SITUATION OF THE DEXIA GROUP

Active discussions between the French and Belgian States and the European Commission continued in the third quarter of 2012 with a view to finalizing a plan for the

orderly resolution of the Dexia Group.
A certain number of hypotheses underlying the plan have been revised, leading, in accounting terms, to a negative asset position of Dexia SA. In order to remedy this situation and to allow the pursuit of the orderly resolution of the Group, the Belgian and French States have publicly stated their commitment to subscribe to a capital increase of Dexia SA in the amount of EUR 5.5 billion via the issuance of preference shares reserved for the States involved.

At the end of November, the States submitted a revised plan to the European Commission, containing the following major changes, subject to the Commission's approval.

- The funding plan underlying the initial business plan has been adapted to reflect a lesser dependency on central bank funding. As the resolution plan proceeds, the Group anticipates that it will rely to a greater extent on short- and medium-term market funding, for example through issues guaranteed by the Belgian, French and Luxembourg States, and covered (repo) or other market funding.
- The ceiling of the definitive liquidity guarantee granted to Dexia SA and Dexia Credit Local by the Belgian, French and Luxembourg States has been reduced to EUR 85 billion, compared with the EUR 90 billion originally proposed, to take into account the recapitalization commitments of the Belgian and French States. The breakdown among the States was amended as follows: 51.41% for Belgium, 45.59% for France, and 3% for Luxembourg. Under the definitive guarantee agreement, Dexia will pay a monthly guarantee fee based on the outstanding guaranteed debt issued under the 2011 agreement, calculated on an annual rate of 5 bp, versus 90 bp under the temporary guarantee.
- The plan for the sale of Dexia Municipal Agency (DMA) as part of the new organization of local public sector finance in France has been amended (cf. 1.4 Creation of a new local government bank).

Throughout the third quarter of 2012, Dexia actively continued to implement its plan to dispose of its main operating entities, with the following results: the sale of the 50% holding of Banque Internationale à Luxembourg in RBC Dexia Investor Services (RBC-D) to the Royal Bank of Canada, the finalization of the sale of Denizbank to Sberbank, and the sale of Banque Internationale à Luxembourg to Precision Capital and the Grand Duchy of Luxembourg.

The interim non-audited financial statements of the Dexia Group as of September 30, 2012, were significantly affected by the implementation of the orderly resolution plan. The net loss, Group share, totaled EUR -2,391 million, of which EUR -1,034 million related to discontinued activities.
The net result was thus mainly affected by the high cost of funding, given the reliance on the temporary liquidity guarantee granted by the Belgian, French and Luxembourg States, and emergency liquidity assistance (ELA). The sum of guarantee costs paid to the States and of ELA expenses amounted to EUR 725 million pre-tax.

As of September 30, 2012, the Tier 1 ratio stood at 9.0% (compared with 7.6% at the end of December 2011) and the Core Tier 1 ratio at 8.5% (compared with 6.4% as of December 31, 2011).

At Dexia Credit Local, the parent company of Dexia MA, the liquidity situation remained a subject of preoccupation, requiring the use of the emergency measures taken by central banks, in addition to the resources obtained through the guarantee of the States.

Nonetheless, this situation had no impact on Dexia MA's capacity to reimburse its issues of *obligations foncières* at maturity or to maintain its level of over-collateralization. In fact, Dexia MA has a cash surplus in its cover pool and the cash flows forecast for 2012-2013 do not require it to seek new funding from Dexia Credit Local.

1.4 CREATION OF A NEW BANK SPECIALIZED IN LENDING TO FRENCH LOCAL GOVERNMENT

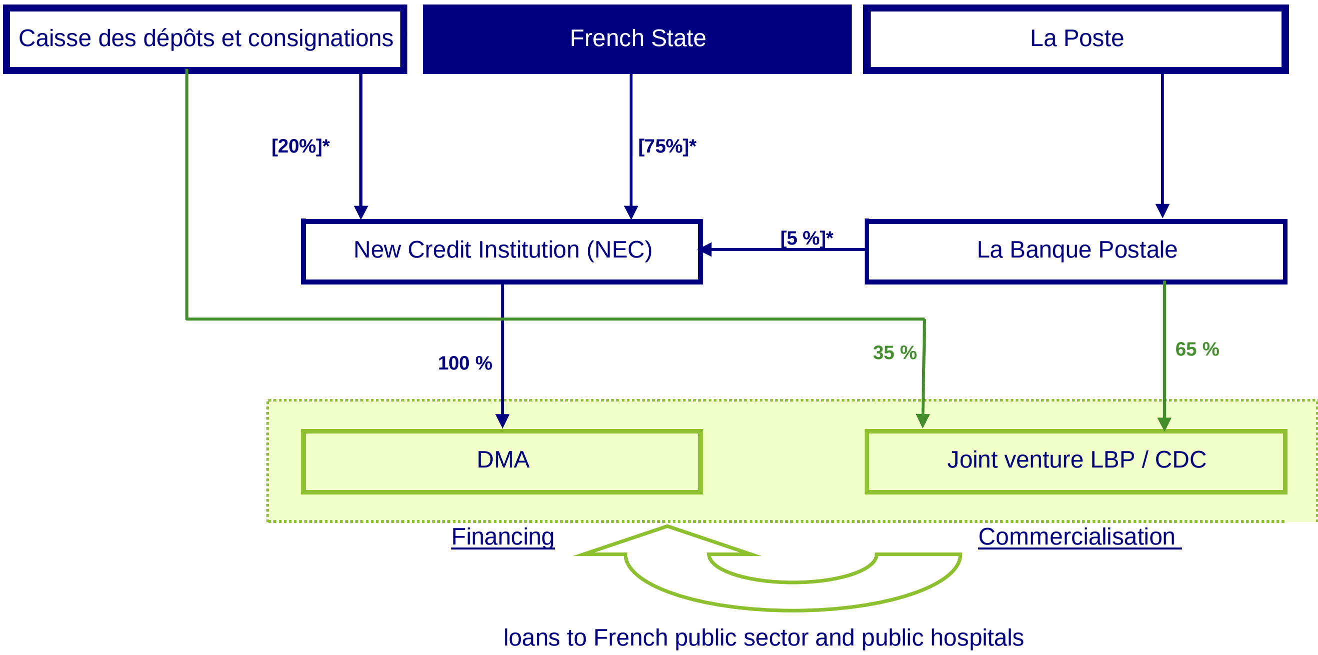
Following the March 15, 2012, signing of a preliminary agreement on the future financing of the French local public sector, the French State, Caisse des Dépôts and La Banque Postale pursued their discussions with Dexia and the European Commission.

Subject to the definitive agreement of the European Commission, which is expected by the end of the year, a new bank specialized in lending to French local government will be created. This credit institution :

- will be mainly hold by the French State and will buy 100% of the shares of Dexia Municipal Agency ;
- and will work closely with a consortium made up of La Banque Postale and Caisse des Dépôts et Consignations, which will offer loans to French local governments and to French public hospitals.

Dexia MA will refinance by *obligations foncières* its exisiting exposures in the balance sheet, and the new eligible loans marketed by the consortium Banque Postale / Caisse des Dépôts, for a loan volume of approximately EUR 5 billion per year.

A 100% public shareholding and the French state as main shareholder and sponsor



**Project of ownership of NEC's equity, as foreseen at the date of publication of this report.*

The sale price of Dexia MA and of the resources and tools required for the operation of the new bank was set at 1 euro as compared with the EUR 380 million, initially planned, in order to take into account the fact that the Dexia Group would not provide Dexia MA with the guarantees initially listed (guarantees limiting the cost of risk and a guarantee on a portfolio of structured loans).

1.5 STRUCTURED LOANS

To define the notion of structured loans, Dexia MA uses the charter of good conduct signed by banks and local governments (referred to as the Gissler charter), which can be consulted on the Internet site of Dexia Credit Local. This document, drawn up at the request of an *inspecteur général des finances* named Eric Gissler, was signed on December 7, 2009, by several organizations that represent local governments (Association des maires de France, Fédération des maires des villes moyennes, Association des petites villes de France, Association des maires de grandes villes de France and Assemblée des communautés de France), as well as by four banks, including the Dexia Group. The charter is a document that creates obligations for Dexia Credit Local.
In its 2011 annual report, Dexia Credit Local defined structured loans as:
• all loans with structures in categories B to E in the Gissler charter;
• all loans that the charter does not allow to be marketed, whatever their structure (i.e. leverage > 5, etc.), underlying index(es) (i.e. foreign exchange, commodities, etc.), or currency of exposure (loans denominated in CHF, JPY, etc.);
• to the exclusion of all loans the structured phase of which is terminated and of which the rate is a fixed rate or a definitive simple variable rate.

According to this definition, outstanding structured loans marketed by Dexia Credit Local and booked on Dexia MA's balance sheet to Dexia MA represented EUR 16.1 billion as of September 30, 2012.

For some of these structured loans, borrowers have sued Dexia Credit Local.
The number of these assignments was 57 as of 30 September 2012, of which 52 correspond to loans booked on Dexia MA's balance sheet. As of December 31, 2011, there were 14 for Dexia Credit Local, including 12 for Dexia MA.

At the end of November 2012, the French State announced several measures to resolve the situation of certain local governments with financial difficulties resulting from the trend in interest rates on the structured loans they had subscribed with banks, including Dexia. Resolution measures will be taken for local governments that wish to undo their structured loans through the creation of a national assistance unit specialized in risk assessment and management, and the organization of mediation and a specific solidarity procedure to assist local governments willing to participate in the financial effort to come back to a simple and lower interest rate.

(2. CHANGES IN MAIN BALANCE SHEET ITEMS

EUR billions		9/30/2011	12/31/2011	9/30/2012	Change Sept. 2012 / Dec. 2011
Cover pool		**79.0**	**77.0**	**72.1**	**(6.4)%**
Central bank		-	2.2	3.4	54.5%
Loans		56.3	55.9	53.5	(4.3)%
Securities		22.7	18.9	15.2	(19.6)%
Assets assigned in guarantee to Banque de France		**-**	**3.2**	**-**	**(100.0)%**
Privileged debt	*Swapped value***	**65.9**	**65.6**	**61.5**	**(6.2)%**
Obligations foncières and RCB*	*Balance sheet value*	64.3	64.4	59.1	(8.2)%
Cash collateral received		2.5	2.5	3.4	36.0%
Non-privileged debt		**11.0**	**12.2**	**8.0**	**(34.5)%**
Dexia Credit Local		11.0	9.5	8.0	(15.9)%
Banque de France		-	2.7	-	(100.0)%
Equity IFRS (excluding unrealized gains and losses)		**1.3**	**1.3**	**1.5**	**15.4%**

** Registered covered bonds*

*** including cash collateral received*

The slowdown in Dexia MA's activity since mid-2011 (no new issues, few new assets), and the disposals and early reimbursement of assets and liabilities as a result of its programmed separation from the Dexia Group (cf. 1.4) led to a reduction in the same proportions of the cover pool and privileged debt in 2012. The level of over-collateralization was maintained.

As of September 30, 2012, Dexia Municipal Agency's cover pool, composed of loans and debt securities, totaled EUR 72.1 billion, excluding accrued interest not yet due. As of December 31, 2011, the total was EUR 77.0 billion, representing a decrease of EUR 4.9 billion (-6.4%).

As of September 30, 2012, no asset has been assigned in guarantee to the Banque de France.

Outstanding debt benefiting from the legal privilege, translated if required at the currency swap rate (swapped value), was EUR 61.5 billion, including cash collateral received, down 6.2% from December 2011.

Debt vis-à-vis Dexia Credit Local, which does not benefit from the legal privilege, totaled EUR 8.0 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 1.5 billion at the end of September 2012.

(3. CHANGES IN ASSETS IN THE FIRST NINE MONTHS OF 2012

3.1 ASSET PRODUCTION

The net change in assets since the beginning of the year was a decrease of EUR 4.9 billion. The change can be analyzed as follows.

	2011			9/30/2012		
EUR billions	Loans	Debt securites	Total	Loans	Debt securites	Total
France	6.4	2.4	8.8	0.6	-	0.6
Outside of France	2.4	2.6	5.0	0.1	-	0.1
Total new assets	**8.8**	**5.0**	**13.8**	**0.7**	**-**	**0.7**
Amortization	(6.0)	(6.1)	(12.1)	(1.7)	(3.4)	(5.1)
Early reimbursements	(0.6)	(0.4)	(1.0)	(0.4)	(1.3)	(1.7)
Divestments	-	-	-	-	(2.0)	(2.0)
including assets assigned in guarantee to Banque de France				0.2	3.0	3.2
Changes in provisions	(0.0)	(0.1)	(0.1)	(0.0)	0.0	(0.0)
Net change (excl. FX adjustments)	**2.0**	**(4.6)**	**(2.6)**	**(1.2)**	**(3.7)**	**(4.9)**
Foreign exchange adjustments*	0.0	0.0	0.0	0.0	0.0	0.0
Net change*	**2.0**	**(4.6)**	**(2.6)**	**(1.2)**	**(3.7)**	**(4.9)**

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

Gross asset production and acquisitions in the period totaled EUR 0.7 billion.

EUR billions	2011		9/30/2012	
Loans		**8.8**		**0.7**
Canada	0.2		0.1	
Spain - *cedulas territoriales* *	0.3			
France				
- commercial loans	2.6		0.6	
- loans granted by Dexia Credit Local guaranteed by public sector bonds *	1.6		-	
- Banque de France deposit	2.2		-	
United Kingdom (loan granted by Dexia Crédit Local guaranteed by commitments on UK public entities)	1.9		-	
Bonds		**5.0**		**-**
Germany	0.3		-	
Belgium - other bonds	0.0		-	
Spain - *cedulas territoriales* *	2.0		-	
France - *certificats de dépôt* Dexia Credit Local *	2.4		-	
Italy	0.2		-	
Luxembourg - *lettres de gage publiques* *	-			
United Kingdom			-	
TOTAL		**13.8**		**0.7**

* Replacement assets

These assets corresponded to new long-term loans originated by Dexia Credit Local within the framework of its long-term commercial activity, including EUR 0.6 billion in French public sector loans and EUR 0.1 billion in loans to the Canadian public sector.

The decrease in assets mainly corresponded to the natural amortization of the portfolio of loans and securities, in particular EUR 2.5 billion in *cedulas territoriales* in the first nine months of 2012.

In the first nine months of 2012, EUR 3.2 billion in securities were subject to early reimbursement or divestment, in particular as follows:
- EUR 0.6 billion in Greek and Icelandic securities sold to Dexia;
- EUR 1.4 billion in DSFB1 Belgian securitization units acquired by Belfius;
- EUR 1.2 billion in *lettres de gage* bought back by their issuer, Dexia LdG Banque.

3.2 OUTSTANDING ASSETS AS OF SEPTEMBER 30, 2012

a. Geographic breakdown of the cover pool (including replacement assets)

The breakdown of assets by country was relatively stable in comparison with December 31, 2011. The slight increase in most countries was due to the disappearance of Greek and Icelandic commitments from the pool, and also to the disappearance of *lettres de gage* (Luxembourg) and a Belgian ABS. French assets remained predominant, with significant geographic diversification.

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

%	12/31/2011	9/30/2012
France	66.0%	69.2%
Belgium	9.4%	7.4%
Italy	9.8%	10.2%
Switzerland	5.4%	5.5%
Spain	0.7%	1.4%
United Kingdom	3.3%	3.4%
Luxembourg	1.7%	0.0%
Subtotal	**96.3%**	**97.1%**
Other countries	3.7%	2.9%
TOTAL	**100.0%**	**100.0%**

As of September 30, 2012, exposures on “Other countries” could be broken down as follows.

Other countries (%)	12/31/2011	9/30/2012
Germany	1.3%	1.2%
Greece	0.5%	0.0%
Austria	0.4%	0.4%
Sweden/Finland	0.4%	0.3%
United States	0.3%	0.3%
Canada	0.3%	0.5%
Portugal	0.2%	0.1%
Iceland	0.2%	0.0%
Japan	0.1%	0.1%
TOTAL	**3.7%**	**2.9%**

b. Replacement assets

As of September 30, 2012, replacement assets represented a total of EUR 0.5 billion, down 83.3% from December 31, 2011. This decrease was due to the early reimbursement of *lettres de gage* for EUR 1.175 billion and also to the arrival at maturity of *cedulas territoriales* for EUR 2.5 billion since the beginning of the year.

Replacement assets are solely composed of *cedulas territoriales,* the rating of which was downgraded by Moody’s on June 27, 2012, to Ba1. Because of their rating, these assets do not contribute to the calculation of Dexia MA’s regulatory over-collateralization.

Replacement assets, excluding the balance of current bank accounts, accounted for 0.8% of outstanding *obligations foncières* and registered covered bonds, totaling EUR 58.1 billion in swapped value. Current legislation limits their amount to 15%.

Replacement assets	Country	Issuer	EUR millions 12/31/2011	9/30/2012
Step 1 credit rating				
Lettres de gage publiques	Luxembourg	Dexia LdG Banque	1,350	-
Step 2 credit rating				
Bank account balances			22	17
Other assets				
Cedulas territoriales	Spain	Dexia Sabadell	-	500
TOTAL			**1,372**	**517**

c. Assets removed from the cover pool

As of September 30, 2012, no asset has been assigned by Dexia MA in guarantee to the Banque de France.

d. Concentration by borrower

As of September 30, 2012, the 20 largest exposures (excluding replacement assets) represented 19.5% of the cover pool.
The concentration observed is mainly due to the presence among the 20 largest exposures of the balance of the Banque de France current account, which represented 4.7% of the cover pool. Besides this exposure, the largest exposure accounted for only 1.8% of the cover pool and the twentieth exposure less than 0.5%.

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 quality of this portfolio, except for certain sovereign exposures.

a. Exposures on sovereign countries

Dexia MA has limited exposure on sovereign countries. Most of these exposures are concentrated on countries benefiting from very good ratings as of September 30, 2012.

EUR millions	Ratings as of 9/30/2012 ***	12/31/2011	9/30/2012
France*	AAA/Aaa/AA+	211	222
United Kingdom	AAA/Aaa/AAA	672	623
Germany	AAA/Aaa/AAA	12	12
Italy	A-/Baa2/BBB+	552	549
Greece**	CCC/C/CCC	414	-
Iceland**	BBB-/Baa3/BBB-	145	-
TOTAL		**2,006**	**1,406**

**Excluding the Banque de France sight account*
*** Exposures sold in January 2012*
**** Fitch, Moody's, S&P*

Exposures to Greece and Iceland were completely transferred to Dexia Credit Local at the beginning of 2012 in accordance with the transfer agreement signed in December 2011 by Dexia MA and its parent.

In Dexia MA's IRFS financial statements as of September 30, 2012, a capital loss was reported on the sale of the portfolio of Greek and Icelandic securities in the amount of EUR 7 million, offset by a reversal of provisions for EUR -7 million. The capital loss and the reversal of provisions were recorded in cost of risk (not included in net banking income). The overall impact of the operation on net income was therefore nil in 2012.

b. 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 impairment is calculated on the different portfolios of loans and advances. It covers the risk of loss in value in the absence of specific depreciation, but when there is an objective indication of the probability of loss in certain segments of the portfolio or in other commitments involving outstanding loans at the end of the reporting period. These losses are estimated on the basis of each segment's past performance and trends, each borrower's rating, and the borrower's economic environment. To this end, Dexia Credit Local has designed a credit risk model using an approach that combines probabilities of default (PD) and loss given default (LGD). This model, which is also used for Dexia MA's transactions, is regularly tested *a posteriori*.
It is based on Basel II data and risk models in line with the model of incurred losses.

The small amount of non-performing loans observed indicates the low risk profile and the portfolio's overall high quality.

Non-performing loans & litigious loans EUR millions	12/31/2011		9/30/2012	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
FRANCE				
Municipalities	15.4	-	25.2	7.1
Departments	-	-	-	6.9
Group of municipalities	1.2	-	45.2	4.9
Public sector entities	11.7	-	3.1	0.5
Total	**28.3**	**-**	**73.5**	**19.4**

Non-performing and litigious loans as of September 30, 2012, amounted to EUR 92.9 million, i.e. less than 0.13% of the total cover pool (EUR 72.1 billion).

They can be broken down into EUR 73.5 million of non-performing loans, which for the most part can be divided between municipalities and groups of municipalities for small unit amounts, and EUR 19.4 million of litigious loans related to structured loans subject to litigation.

Non-performing loans & litigious loans (number of files)	12/31/2011		9/30/2012	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	17	-	25	-
New	17	-	9	16
Outgoing	9	-	6	-
End of the year	**25**	**-**	**28**	**16**

Non-performing loans involve a limited number of counterparties and have a regular turnover. Since the beginning of 2012, six files were resolved, and nine new cases were identified.

No file was resolved in 2012 given the long delays in procedures.

Additional specific and collective impairment were recorded in the third quarter of 2012 to cover the risk of the overall portfolio. The amounts of non-performing and litigious loans, as provisions are relatively small, indicating the portfolio's good quality and the low risk profile.

EUR millions	12/31/2011	9/30/2012
Specific impairment	3.2	8.1
Collective impairment	17.7	34.3
Total	**20.9**	**42.5**

AFS securities

Because of their liquidity, in particular, certain securities remain classified for accounting purposes as available for sale according to IFRS and are valued for accounting purposes on the basis of their fair value.
To determine the fair value of these securities, the reference is the market price when

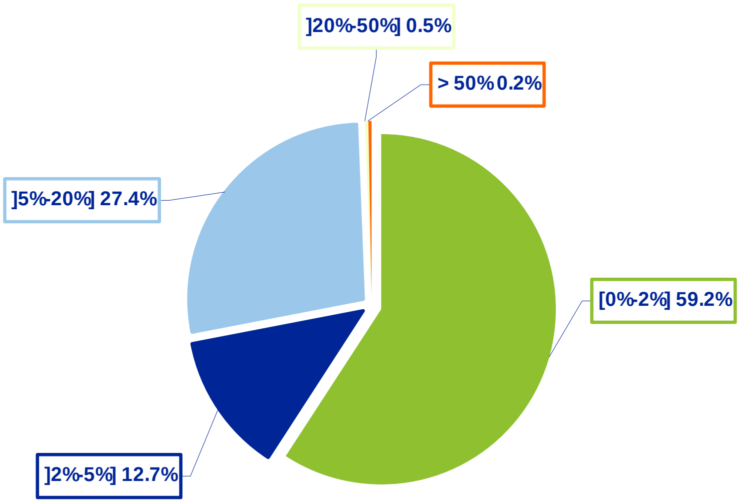
such data is available. When no price is listed in a market, the fair value is obtained by estimating the value using price valuation models or the discounted cash flow method, including observable and non-observable market data.
When there is no price listed for these instruments, the valuation model attempts to apprehend as best as possible the market conditions at the date of the valuation, as well as any changes in the quality of the credit risk of these financial instruments and market liquidity. The methods that have served to determine the fair value of AFS securities are indicated in the notes to the financial statements according to IFRS. The difference with the accounting value gives rise to a positive or negative AFS reserve. 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.

As of September 30, 2012, the overall AFS reserve, before taxes, was EUR -334 million, versus EUR -398 million as of December 31, 2011. For the most part, this change mainly corresponded, for EUR +47 million, to the improvement in value of Italian sovereign issues. The amount of the AFS reserve for Italian sovereign securities was EUR -213 million.

c. Breakdown of exposures 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 September 30, 2012



These weightings are primarily calculated on the basis of the probability of default (PD) and loss given default (LGD) of the counterparty. This analysis confirms the excellent quality of the assets in Dexia MA's portfolio, since about 71% of the portfolio assets have a weighting that is less than or equal to 5%, and more than 99% of the portfolio assets have a weighting that is less than or equal to 20%.
Dexia MA had a solvency ratio of more than **30%** as of September 30, 2012, by reason of the size of its equity and the credit quality of its assets.

d. 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	9/30/2012 EUR millions	Monoline Insurer
Communauté urbaine de Lille	France	US203403AB67	8.9	AMBAC
Ville de Tours	France	FR0000495517	1.0	MBIA
Ville de Tours	France	FR0000495632	8.5	MBIA
Feria internacional de Valencia	Spain	ES0236395036	50.0	FSA
TOTAL			**68.4**	

They represent less than 0.1% of the assets of Dexia MA. 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 September 2012, Dexia MA had a limited number of exposures in the form of amortizable securitization units, totaling EUR 8.4 billion, down 19.1% from December 31, 2011. This decrease was mainly the result of the acquisition of the DSFB1 securitization vehicle by Belfius Bank and Insurances for EUR 1.4 billion.

These exposures are listed below.

EUR millions	ISIN code	12/31/2010	9/30/2012
Dexia Secured Funding Belgium SIC (DSFB 1)	BE0933050073	1,412.1	-
Dexia Secured Funding Belgium SIC (DSFB 2)	BE0934330268	1,376.0	1,310.8
Dexia Secured Funding Belgium SIC (DSFB 4)	BE6000495752	3,924.6	3,601.4
Dexia Crediop per la Cartolarizzazione SRL (DCC 1)	IT0003674691	743.8	690.7
Dexia Crediop per la Cartolarizzazione SRL (DCC 2)	IT0003941124	677.7	614.5
Dexia Crediop per la Cartolarizzazione SRL (DCC 3)	IT0004349665	2,110.0	2,063.0
Subtotal		**10,244.2**	**8,280.4**
Blue Danube Loan Funding GmbH	XS0140097873	77.7	75.9
Colombo SRL	IT0003156939	5.6	3.2
Societa veicolo Astrea SRL	IT0003331292	0.5	0.0
Subtotal		**83.9**	**79.2**
TOTAL		**10,328.1**	**8,359.6**

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 entity that originated the assets – Dexia Crediop and Belfius Bank and Insurances (formerly Dexia Bank Belgium).
DCC securities benefit from the guarantee of Dexia Crediop, and were rated BBB+ / watch negative by Fitch, B+ by S&P, and Ba2 / on review for downgrade by Moody's as of September 30, 2012.

The securities issued by DSFB 2 benefit from the guarantee of Belfius Bank and Insurances (formerly Dexia Bank Belgium), and are therefore rated A- / outlook stable by Fitch, A– by S&P and Baa1 / on review for downgrade by Moody's. The securities issued by DSFB 4 are not guaranteed by Belfius Bank and Insurances (formerly Dexia Bank Belgium), but are rated AA- / outlook negative by Fitch.
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 and is rated AA+ by S&P; its debt is unconditionally and irrevocably guaranteed by the Land of Lower Austria;
- Colombo SRL (rated A / watch negative by S&P) and Societa veicolo Astrea SRL (rated A- / outlook negative by Fitch and Baa2 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 three types of exposure to banks:
- a *cedula territoriale,* issued by Dexia Sabadell;
- bank account balances in euros and other currencies;
- 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. 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 September 30, 2012, Dexia MA was exposed (positive fair value of the swaps) to twelve banking counterparties. Eleven of these paid collateral for EUR 3.4 billion, offsetting total exposure, and one paid none because of its very good short-term ratings. This counterparty represented an exposure of EUR 10 million. All long-term derivative exposures as of September 30, 2012, are listed below.

EUR millions	Notional amounts	%	Mark to Market -	Mark to Market +	Collateral received	Number of counterparties
Dexia Credit Local	18.2	16.7%	(3,114)	-	-	1
Dexia Crediop	1.4	1.2%	(665)	-	-	1
Other counterparties	89.5	82.1%	(3,891)	3,399	3,402	28
including Belfius	5.7	5.2%	(826)	-	-	1
Total	**109.0**	**100.0%**	**(7,671)**	**3,399**	**3,402**	**30**

Derivatives signed with external counterparties represented a total of 82.1% of outstanding long-term swaps and those signed with the Dexia Group 17.9%.
Derivatives signed with the five largest external counterparties together represented 35.4% of the notional amounts. Short-term swaps (Eonia) are exclusively negotiated with Dexia Credit Local.

(4. CHANGES IN DEBT BENEFITING FROM THE LEGAL PRIVILEGE AS OF SEPTEMBER 30, 2012

Dexia Municipal Agency issued no bonds in the first nine months of 2012.

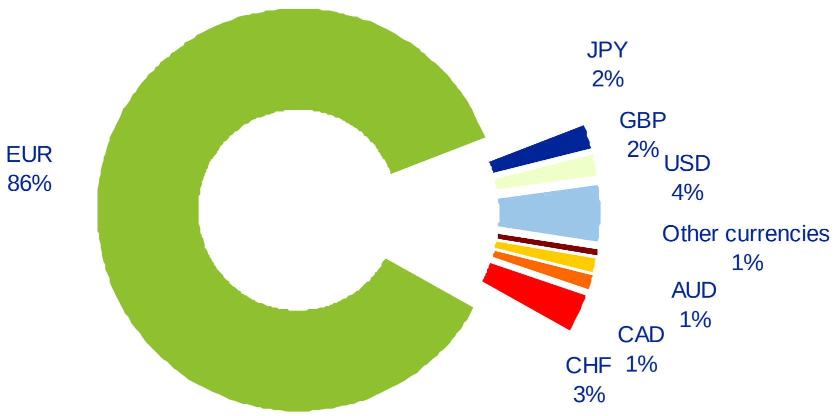
After the amortization of issues in the amount of EUR 3.9 billion and buy back of EUR 1.2 billion, outstanding *obligations foncières* and registered covered bonds totaled EUR 58.1 billion in swapped value at the end of September 2012.

EUR millions	12/31/2011	9/30/2012
Beginning of the year	63,565	63,152
Issues	6,101	-
Amortizations	(6,514)	(3,911)
Buy back		(1,188)
TOTAL	**63,152**	**58,053**

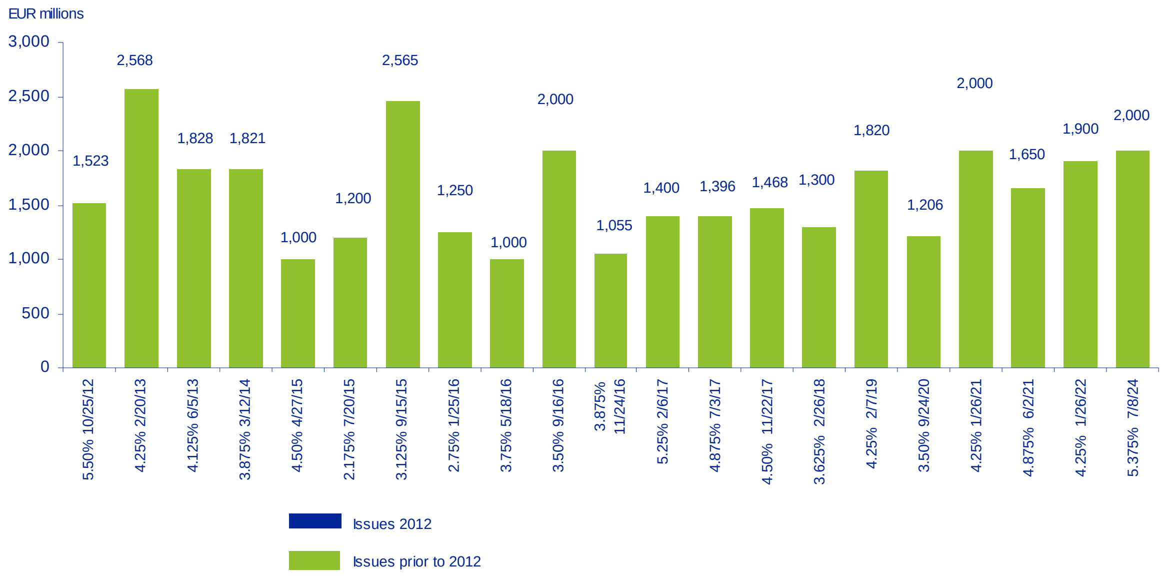
(swapped value)

The breakdown of outstanding debt by currency as of September 30, 2012, can be analyzed as follows.

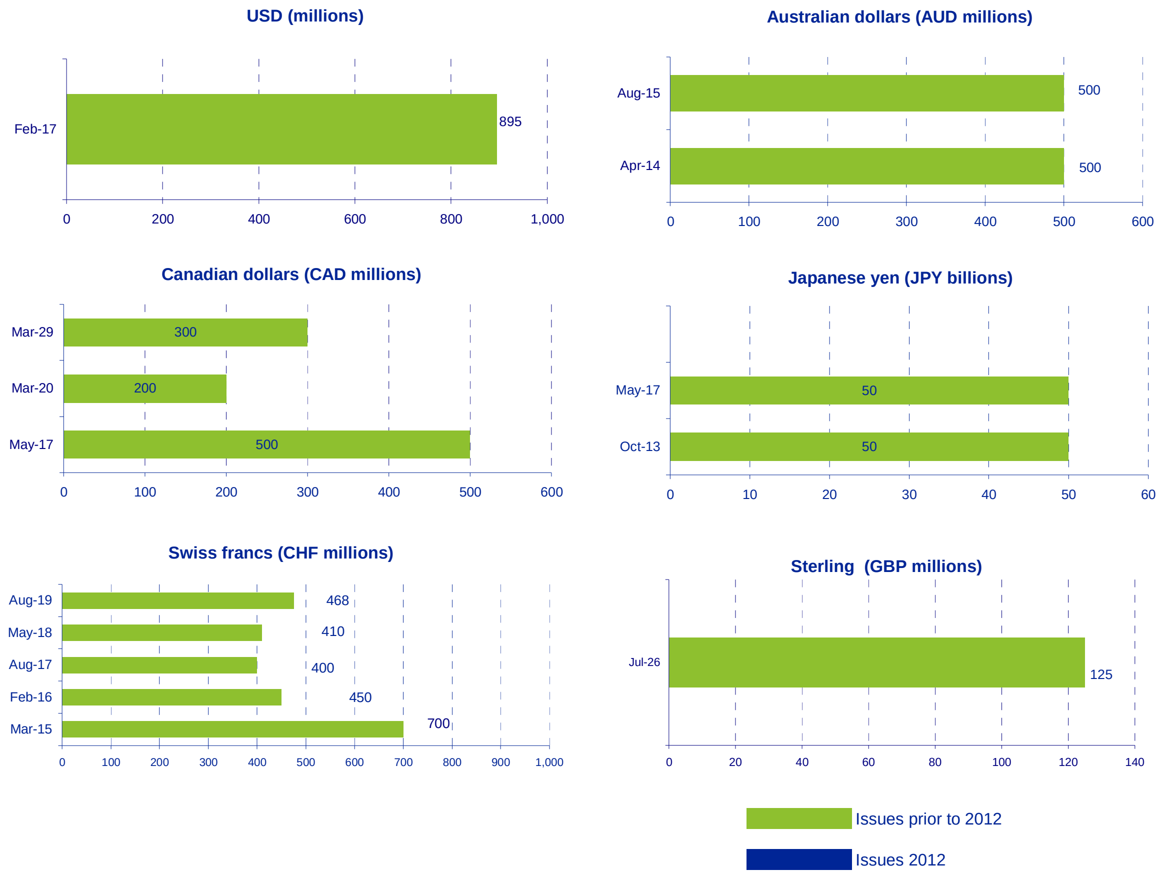
Outstanding debt by currency



Analysis of benchmarks in EUR



Main curves in non-euro currencies



(5. CHANGES IN THE OVER-COLLATERALIZATION RATIO AS OF SEPTEMBER 30, 2012

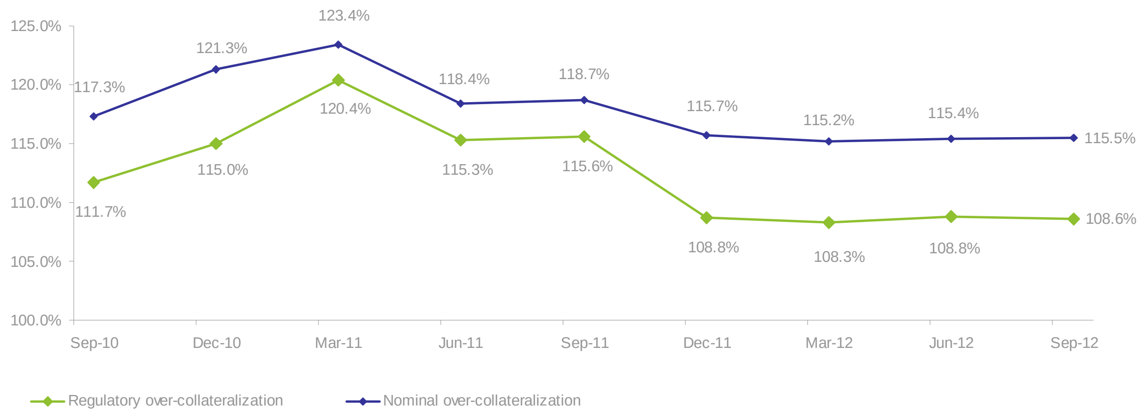
The over-collateralization ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier*, is the ratio between the assets and the resources benefiting from the legal privilege.

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 method 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.

Any assets that Dexia may have assigned in guarantee to borrow funds from the Banque de France are excluded from the calculation of over-collateralization.

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

Quarterly over-collateralization



Regulatory over-collateralization is less than nominal over-collateralization because it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel (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 securitization units, made up of assets originated by the Dexia Group and issued by Dexia subsidiaries, benefiting from a rating at the same level as that of the company which guarantees them, either Dexia Crediop for DCC or Belfius Bank and Insurances (formerly Dexia Bank Belgium) for DSFB 1 and DSFB 2.

As long as the securitization units benefit from a Step 2 rating granted by the rating agencies, they are weighted at 80% in the calculation of the ratio of regulatory over-collateralization.

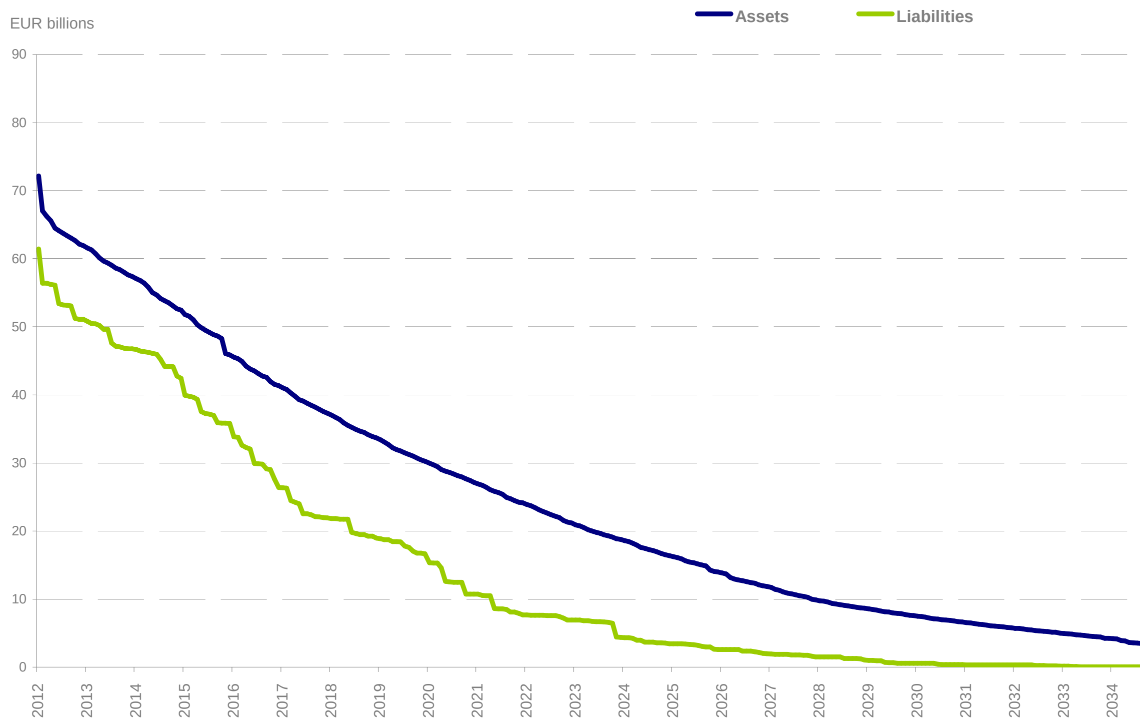
Since December 2011, the DCC securitization units no longer benefit from a Step 2 rating (cf. 3.3.d Exposure to subprimes, monolines, ABS and banks). They are therefore now weighted at 0% in the calculation of the ratio of regulatory over-collateralization versus 80% in the past. The impact of this change in weighting on Dexia MA's over-collateralization ratio since December 2011 was a decline of 3.5%.

These particular weightings are the primary reason for the gap that exists between regulatory over-collateralization and nominal over-collateralization.

Finally, the reduction of the cover pool discussed above (parts 2 and 3.1) explains the change in nominal over-collateralization.

The following graph on over-collateralization presents amortization curves of the assets and the issues benefiting from the legal privilege as of September 30, 2012.

Amortization of assets and liabilities as of September 30, 2012



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

The asset surplus (assets exceeding *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. There are two types of financing:
• the funding of structural over-collateralization of 5% via a long-term loan;
• the funding of temporary over-collateralization in the short term, using the current account itself.

In addition, Dexia MA holds at any time 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 September 30, 2012, the commitments received from Dexia Credit Local totaled EUR 7.0 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 assigned for this purpose in Dexia MA's account at the central bank. Dexia Municipal Agency used Banque de France financing:
• from September 2008 to July 2009 in order to fund commercial production when the covered bond primary market was closed;
• from October 2011 to August 2012 to finance replacement assets (*cedulas territoriales* then *lettres de gage*).

As of September 30, 2012, Dexia MA had no debt vis-à-vis the Banque de France, and its debt vis-à-vis Dexia Credit Local stood at EUR 8.0 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 3.1 billion*;
• to finance surplus over-collateralization, using the current account: EUR 4.9 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 assigned 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).*

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

EUR billions	12/31/2010	12/31/2011	9/30/2012
Dexia Credit Local	12.5	9.5	**8.0**
Banque de France	-	2.7	**-**
Total	**12.5**	**12.2**	**8.0**

7. MANAGEMENT OF BALANCE SHEET RISKS

The strategies implemented to hedge interest rate and foreign exchange risks are reflected in the outstanding swaps notional analyzed in the table below between external and Dexia Group counterparties as of September 30, 2012.

Breakdown of outstanding swaps	**Notional *** (EUR billions)	**Dexia Group (%)**	**Other counterparties (%)**
Euribor against Eonia			
Macro-hedges	**86.9**	**100.0%**	**0.0%**
Total short-term swaps	**86.9**	**100.0%**	**0.0%**
Fixed rate swaps against Euribor			
Micro-hedges on *obligations foncières*	50.5	3.3%	96.7%
Micro-hedges on loans and debt securities	25.9	10.8%	89.2%
Macro-hedges on loans	19.9	44.5%	55.5%
Subtotal	**96.3**	**13.8%**	**86.2%**
Currency swaps			
Micro-hedges on *obligations foncières*	7.9	43.3%	56.7%
Micro-hedges on loans	3.5	57.2%	42.8%
Micro-hedges on debt securities	1.3	60.3%	39.7%
Subtotal	**12.7**	**48.8%**	**51.2%**
Total long-term swaps	**109.0**	**17.9%**	**82.1%**

** Absolute value*

Belfius Bank and Insurances (formerly Dexia Bank Belgium) was classified among external counterparties and accounted for EUR 5.7 billion of the notional amount, i.e. 5.3% of outstanding long-term swaps.

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. Any 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 is unchanged at EUR 40.0 million, 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	**4Q 2011**	19.2	24.5	14.9	**31.0**
	1Q 2012	15.0	16.2	12.9	**31.0**
	2Q 2012	15.0	17.9	12.5	**31.0**
	3Q 2012	15.2	16.6	13.2	**31.0**
Monetary	**4Q 2011**	0.9	4.1	0.4	**9.0**
	1Q 2012	0.3	0.7	0.2	**9.0**
	2Q 2012	(0.0)	1.0	(1.1)	**9.0**
	3Q 2012	0.9	1.2	0.6	**9.0**
Total	**4Q 2011**	20.8	25.5	16.3	**40.0**
	1Q 2012	15.4	16.4	13.4	**40.0**
	2Q 2012	14.9	18.4	12.9	**40.0**
	3Q 2012	16.1	17.2	14.1	**40.0**

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)".

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

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 in the cover pool 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	9/30/11	12/31/2011	3/31/2012	6/30/2012	9/30/2012
Cover pool	7.25	7.47	7.39	7.62	7.21
Privileged liabilities	5.48	5.29	5.21	5.19	4.99
Gap in asset-liability duratior	**1.77**	**1.25**	**2.18**	**2.43**	**2.22**
Duration gap limit	*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.

Since the second half of 2011, the increase in cash collateral received reduced the duration of the privileged liabilities, and the reimbursement of short maturity intra-group replacement assets resulted in a rise in the duration of the assets. In the third quarter, the reimbursement of long assets and the increase in the balance of the Banque de France account made it possible to reduce the duration of the cover pool.

The gap in weighted average life changed less than duration over the same period because the rise in the duration gap was partly the result of movements on the interest rate curve.

The weighted average life of the cover pool and of the liabilities benefiting from the legal privilege is presented below.

Weighted Average life (in years)	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012
Cover pool	8.66	8.82	8.69	8.78	**8.33**
Privileged liabilities	5.98	5.76	5.65	5.58	**5.34**
Gap in asset-liability weighted average	**2.68**	**3.06**	**3.04**	**3.20**	**2.99**

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 MA 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 program 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.