PROSPECTUS DATED 16 NOVEMBER 2005

DEXIA Crédit Local

€700,000,000
FIXED TO FLOATING RATE UNDATED DEEPLY SUBORDINATED NOTES

Issue Price: 100 per cent.

The €700,000,000 Fixed to Floating Rate Undated Deeply Subordinated Notes (the "**Notes**") of Dexia Crédit Local (the "**Issuer**") will be issued outside the Republic of France on 18 November 2005.

The Notes bear interest on their Current Principal Amount at a fixed rate of 4.300% per annum from, and including, 18 November 2005 (the "**Issue Date**") to, but excluding, the First Call Date payable annually in arrears on a non-cumulative basis on 18 November of each year (each a "**Fixed Rate Interest Payment Date**"), commencing on 18 November 2006 and thereafter at a floating rate equal to 3-month Euribor plus a margin equal to 1.730% per annum payable quarterly in arrears on a non-cumulative basis on 18 November, 18 February, 18 May and 18 August of each year (each a "**Floating Rate Interest Payment Date**" and together with each Fixed Rate Interest Payment Date, an "**Interest Payment Date**"), commencing on 18 February 2016 as set out in "Terms and Conditions of the Notes — Interest and Interest Suspension".

The Notes are deeply subordinated notes issued pursuant to the provisions of Article L.228-97 of the French *Code de commerce*. The obligations of the Issuer in respect of principal and interest on the Notes constitute direct, unconditional, unsecured, undated and deeply subordinated obligations (*titres subordonnés de dernier rang*) of the Issuer and rank and will rank *pari passu* among themselves and with all other present and future Parity Securities, but shall be subordinated to the present and future *prêts participatifs* granted to the Issuer, *titres participatifs* issued by the Issuer, Ordinarily Subordinated Obligations and Unsubordinated Obligations. In the event of liquidation, the Notes shall rank in priority to any payments to holders of Equity Securities, as further described in "Terms and Conditions of the Notes – Status of the Notes and Subordination".

Payment of interest on the Notes may or, in certain circumstances, shall be suspended, as set out in "Terms and Conditions of the Notes — Interest and Interest Suspension — Mandatory Interest and Optional Interest". Any interest not paid on such dates will be lost and will therefore no longer be due and payable by the Issuer. In addition, the principal amount of the Notes shall, in certain circumstances, be reduced to enable the Issuer to continue operating its business on a going concern basis in accordance with applicable regulations, as set out in "Terms and Conditions of the Notes - Loss Absorption and Reinstatement".

The Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**") is the competent authority in Luxembourg for the purpose of Directive n°2003/71/EC (the "**Prospectus Directive**") and the Luxembourg law on prospectuses for securities of 10 July 2005, for the purpose of approving this Prospectus to give information with regard to the Notes. Application has been made in order for the Notes to be admitted to trading and listing on the regulated market of the Luxembourg Stock Exchange, which is an EU regulated market within the meaning of Directive 2004/39/EC (the "**EU regulated market of the Luxembourg Stock Exchange**"). References in this Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the EU regulated market of the Luxembourg Stock Exchange and to the official list of the Luxembourg Stock Exchange.

The Notes have been accepted for clearance through Euroclear France, Clearstream Banking, Société Anonyme and Euroclear Bank SA/N.V. The Notes will, upon issue, be inscribed in the books of Euroclear France which shall credit the accounts of the Account Holders (as defined herein). The Notes will be issued in bearer form in the denomination of €50,000 each and will at all times, in compliance with Article L.211-4 of the French *Code monétaire et financier*, be represented in book-entry form (*dématérialisé*) in the books of the Account Holders, as set out in "Terms and Conditions of the Notes — Form, Denomination and Title".

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

The Notes are expected to be assigned a rating of "A+" by Standard & Poor's Ratings Services, "A1" by Moody's Investors Service, Inc. and "AA" by Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating agency. A revision, suspension, reduction or withdrawal of a rating may adversely affect the market price of the Notes

An investment in the Notes involves certain risks. Potential investors should read carefully the section entitled "*Risk Factors*" set out below before making a decision to invest in the Notes.

Joint Bookrunners

BNP Paribas (Sole Structuring Adviser) | **Goldman Sachs International** | **Nomura International**

Joint Lead Manager

Dexia Capital Markets

Certain information contained in this Prospectus and/or documents incorporated herein by reference has been extracted from sources specified in the sections where such information appears. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the above sources, no facts have been omitted which would render the reproduced inaccurate or misleading.

*References herein to the "**Issuer**" are to Dexia Crédit Local. References to the "**Group**" are to the Issuer, together with its consolidated subsidiaries.*

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "Documents Incorporated by Reference"). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.

The Managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the issue and sale of the Notes. No Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the issue and sale of the Notes.

In connection with the issue and sale of the Notes, no person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or the Managers.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issue and sale of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes.

Neither this Prospectus nor any other information supplied in connection with the issue and sale of the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Managers that any recipient of this Prospectus or any other information supplied in connection with the issue and sale of the Notes should purchase any Notes. Neither this Prospectus nor any other information supplied in connection with the issue and sale of the Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Managers to any person to subscribe for or to purchase any Notes.

In making an investment decision regarding the Notes, prospective investors should rely on their own independent investigation and appraisal of the Issuer, its business, its financial condition and affairs and the terms of the offering, including the merits and risks involved. The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult its own advisers as to legal, tax, financial, credit and related aspects of an investment in the Notes. Potential investors should read carefully the section entitled "Risk Factors" set out below before making a decision to invest in the Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for *facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Dealers which would permit a public offering of any Notes outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom and France, see "Subscription and Sale").*

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the Securities Act) and, subject to certain exceptions, may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (Regulation S)).

*This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "**Order**") (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.*

In this Prospectus, unless otherwise specified or the context requires, references to "euro", "EUR" and "€" are to the single currency of the participating member states of the European Economic and Monetary Union.

In connection with this issue BNP Paribas (the "Stabilisation Manager") or any person acting for it may over-allot (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate nominal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

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SUMMARY

This summary must be read as an introduction to this Prospectus and any decision to invest in any Notes should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference. Following the implementation of the relevant provisions of the Prospectus Directive in each Member State of the European Economic Area no civil liability will attach to the Issuer in any such Member State in respect of this Summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated. Capitalized terms used but not defined in this summary shall bear the respective meanings ascribed to them under "Terms and Conditions of the Notes". Prospective investors should also consider carefully, amongst other things, the factors set out under "Risk Factors".

Issuer:	Dexia Crédit Local (the "**Issuer**")
Description of the Issuer	Dexia Crédit Local is a limited company (*société à directoire et conseil de surveillance*) incorporated under French company law having its registered office in Paris, France. Dexia Crédit Local is registered as a company under the number 351804042 Paris (*Registre du Commerce et des Sociétés*). Dexia Crédit Local is administered by an Executive Board and a Supervisory Board (*directoire et conseil de surveillance*). Dexia Crédit Local is one of a number of banking institutions (*établissements de crédit*) established under the french banking law dated 24 January 1984 as amended and supplemented from time to time (and incorporated in the *Code monétaire et financier*) (the "**French Banking Law**"), being an entity authorised to carry out banking operations, subject to all of the provisions of the French Banking Law. One of its main activities is to provide funding for capital expenditure to government and public sector entities. Dexia Crédit Local is part of the Dexia Group. The Dexia Group operates four lines of business: (i) public and project finance and credit enhancement; (ii) retail financial services; (iii) investment management services; and (iv) treasury and financial markets. Dexia Crédit Local specialises in public and project finance and financial services for local governments. In addition to its operations in France, Dexia Crédit Local supervises the activities of its specialised subsidiaries, branches and representatives in Europe, Eastern Europe, North America, Australia, Japan and the Middle East. In 2004, the Dexia Crédit Local Group raised €31.3 billion on the long-term markets through public issues, private placements, retail issues and specific resources. At 31 December 2004, Dexia Crédit Local had consolidated assets of €206 billion (compared to €174 billion at 31 December 2003), consolidated customer deposits of €14.1 billion (compared to €10.2 billion at 31 December 2003) and shareholders' equity of €4.3 billion (compared to €4.2 billion at 31 December 2003). Net income, before taxes for the year ended 31 December 2004 was €1.2 billion (compared to €1.1 billion for the year ended 31 December 2003). Net income for the year ended 31 December

	2004 was €705 million (compared to €617 million for the year ended 31 December 2003). Dexia Crédit Local currently has long-term senior debt ratings of Aa2 from Moody's Investors Service, Inc. ("**Moody's**"), AA from Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**") and AA+ from Fitch Ratings.
Risk Factors relating to the Issuer and to the Notes	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. These are set out under "**Risk Factors**" below and include the following risk factors related to the Issuer and its industry: (i) credit risk; (ii) market risk; (iii) structural risk (interest rates, exchange rates and liquidity); (iv) operational risk. In addition, there are certain factors which are material for the purpose of assessing the risks associated with Notes, including the following: (i) The Notes are Deeply Subordinated Notes; (ii) The Noteholders face a significantly increased risk that the Notes will not perform as anticipated; (iii) The Notes are undated securities with no fixed maturity date. The Issuer is under no obligation to redeem the Notes at any time; (iv) For so long as the mandatory interest provisions do not apply, the Issuer may elect not to pay interest falling due on the Notes on any Optional Interest Payment Date; (v) No Limitation on Issuing or Guaranteeing Debt Ranking Senior or *Pari Passu* with the Notes; (vi) The trading market for the Notes may be volatile and may be adversely impacted by many events. Please see "**Risk Factors**" below for further details.
Description:	EUR 700,000,000 Undated Deeply Subordinated Non-Cumulative Notes (the "**Notes**")
Joint Bookrunners:	BNP Paribas, Goldman Sachs International and Nomura International
Joint Lead Manager:	Dexia Capital Markets
Structuring Advisor:	BNP Paribas
Fiscal Agent, Principal Payin Agent and Listing Agent:	Dexia Banque Internationale à Luxembourg, société anonyme
Paying Agent:	Euro Emetteurs Finance
Calculation Agent:	BNP Paribas
Method of Issue:	The Notes will be issued on a syndicated basis.

Denomination:	EUR 50,000 per Note
Original Principal Amount:	EUR 50,000 per Note, which amount may be permanently reduced in the event of a partial call as described below under "Call from the First Call Date".
Current Principal Amount:	Equal to the principal amount of the Notes outstanding at any time, calculated on the basis of the Original Principal Amount of the Notes as such amount may be reduced pursuant to the application of the loss absorption mechanism and/or reinstated on one or more occasions, as described below under "Loss Absorption" and "Reinstatement", respectively.
Maturity:	The Notes will be undated securities of the Issuer with no fixed redemption or maturity date.
Form of the Notes:	The Notes (which constitute *obligations* under French law) will be issued in book-entry dematerialised bearer form (*au porteur*) in the denomination of EUR 50,000. Title to the Notes will be evidenced in accordance with Article L.211-4 of the French *Code monétaire et financier* by book-entries (*inscriptions en compte*) in the books of Account Holders (as defined below). No physical document of title (including *certificats représentatifs* pursuant to Article 7 of Decree No. 83-359 of 2 May 1983) will be issued in respect of the Notes. The Notes will, upon issue, be inscribed in the books of Euroclear France (acting as central depositary) which shall credit the accounts of the relevant Account Holders. "**Account Holders**" means any authorised financial intermediary institution entitled to hold accounts, directly or indirectly, with Euroclear France and include the depositary banks of Euroclear Bank SA/NV as operator of the Euroclear System ("**Euroclear, Brussels**") and of Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**").
Status of the Notes:	The Notes are deeply subordinated notes issued pursuant to the provisions of Article L.228-97 of the French *Code de commerce*. The principal and interest on the Notes (which constitute *obligations* under French law) constitute direct, unconditional, unsecured, undated and deeply subordinated obligations (*titres subordonnés de dernier rang*) of the Issuer and rank and will rank *pari passu* among themselves and with all other present and future Parity Securities (as defined below), but shall be subordinated to the present and future *prêts participatifs* granted to the Issuer, *titres participatifs* issued by the Issuer, Ordinarily Subordinated Obligations (as defined below) and Unsubordinated Obligations (as defined below). In the event of liquidation, the Notes shall rank in priority to any payments to holders of Equity Securities (as defined below). There will be no limitations on issuing debt at the level of the Issuer or of

any consolidated subsidiaries.

"Equity Securities" means (a) the ordinary shares of the Issuer and (b) any other class of the Issuer's share capital or other securities of the Issuer ranking junior to the Parity Securities.

"Parity Securities" means any deeply subordinated obligations (*titres subordonnés de dernier rang*) or other instruments issued by the Issuer which (i) rank, or are expressed to rank, *pari passu* among themselves and with the Notes and behind the *prêts participatifs* granted to the Issuer, the *titres participatifs* issued by the Issuer, the Ordinarily Subordinated Obligations and Unsubordinated Obligations and (ii) meet the requirements to be eligible as Tier 1 Capital (as defined below) of the Issuer.

"Ordinarily Subordinated Obligations" means any obligations (including any bonds or notes) of the Issuer which constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and which at all times rank *pari passu* and without any preference among themselves and equally and rateably with any other existing or future Ordinarily Subordinated Obligations, behind Unsubordinated Obligations but in priority to Equity Securities, the Notes, Parity Securities, *prêts participatifs* granted to the Issuer and *titres participatifs* issued by the Issuer.

"Unsubordinated Obligations" means any obligations (including any bonds or notes) of the Issuer which constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and which rank in priority to the Ordinarily Subordinated Obligations.

Regulatory Treatment: The proceeds of the issue of the Notes will be treated, for regulatory purposes, as *fonds propres de base* of the Issuer ("**Tier 1 Capital**"). *Fonds propres de base* shall have the meaning given to it in Article 2 of *Règlement* n° 90-02 dated 23 February 1990, as amended, of the *Comité de la Réglementation Bancaire et Financière* (the "**CRBF Regulation**"), or otherwise recognised as *fonds propres de base* by the *Secrétariat Général de la Commission Bancaire* ("**SGCB**"). The CRBF Regulation should be read in conjunction with the press release of the Bank for International Settlements dated 27 October 1998 concerning instruments eligible for inclusion in Tier 1 Capital (the "**BIS Press Release**"). The French language version of the BIS Press Release is attached to the report published annually by the SGCB entitled "*Modalités de calcul du ratio international de solvabilité*".

Negative Pledge: There will be no negative pledge in respect of the Notes.

Events of Default: There will be no events of default in respect of the Notes. However, the Notes must be redeemed in the event of liquidation of the Issuer, in an amount calculated on the basis of the Original Principal Amount of the Notes.

Interest: The Notes bear interest on their Current Principal Amount at a fixed rate of 4.300% per annum from, and including, 18 November 2005 (the "**Issue Date**") to, but excluding, the First Call Date payable annually in arrears on a non-cumulative basis on 18 November of each year (each a "**Fixed Rate Interest Payment Date**"), commencing on 18 November 2006.

Thereafter, the Notes will bear interest on their Current Principal Amount at a floating rate equal to 3-month Euribor plus a margin equal to 1.730% per annum payable quarterly in arrears on a non-cumulative basis on 18 November, 18 February, 18 May and 18 August of each year (each a "**Floating Rate Interest Payment Date**" and together with each Fixed Rate Interest Payment Date, an "**Interest Payment Date**"), commencing on 18 February 2016.

"First Call Date" means 18 November 2015.

"Fixed Rate Interest Period" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Fixed Rate Interest Payment Date and each successive period beginning on (and including) a Fixed Rate Interest Payment Date and ending on (but excluding) the next succeeding Fixed Rate Interest Payment Date.

"Floating Rate Interest Period" means the period beginning on (and including) the First Call Date and ending on (but excluding) the first Floating Rate Interest Payment Date and each successive period beginning on (and including) a Floating Rate Interest Payment Date and ending on (but excluding) the next succeeding Floating Rate Interest Payment Date.

"Interest Period" means a Fixed Rate Interest Period or a Floating Rate Interest Period, as the case may be.

Interest payments are subject to the provisions set forth below under "Interest Payments", "Loss Absorption" and "Reinstatement".

Interest Payments:

Optional Non-Payment of Interest

On each Interest Payment Date, the Issuer shall pay interest on the Notes accrued to that date in respect of the Interest Period ending immediately prior to such Interest Payment Date, subject to the provisions of the following paragraphs. The interest to be paid will be calculated on the basis of the Current Principal Amount of the Notes outstanding during any Interest Period.

For so long as the provisions set forth below under "Mandatory Interest Payment" do not apply, the Issuer may elect not to pay interest on any Interest Payment Date, in particular with a view to restoring its regulatory capital in order to ensure the continuity of its activities without weakening its financial structure.

Any amount of interest, excluding Broken Interest (as defined below), not so paid on an Interest Payment Date shall be forfeited and shall no longer be due and payable by the Issuer.

Furthermore, the Issuer shall be required not to pay interest on the Notes, subject to the provisions set forth below under "Mandatory Interest Payment", if, on or at any time prior to the fifth Business Day prior to such Interest Payment Date, a Capital Deficiency Event (as defined below) has occurred or would occur upon payment of the interest due on such Interest Payment Date.

Notice of non-payment of interest on the Notes on any Interest Payment Date in accordance with the above provisions (an "**Interest Non-Payment Notice**") shall be given to the Noteholders no later than two Business Days prior to the relevant Interest Payment Date. Furthermore, payment of any Broken Interest (as defined below) will not be made on such Interest Payment Date.

For the avoidance of doubt, the occurrence of a Capital Deficiency Event and any resulting notice will be effective only with respect to the interest amount due on the immediately following Interest Payment Date. As appropriate, the Issuer will make a new determination and deliver other notice(s) with respect to any subsequent Interest Payment Date in relation to which a Capital Deficiency Event is continuing or occurs again.

The amount of Broken Interest may be reduced pursuant to the provisions set forth below under "Loss Absorption". At the option of the Issuer, any Broken Interest, to the extent not reduced to absorb losses, may be paid on the first Interest Payment Date after the end of a Capital Deficiency Event. Any Broken Interest not paid by the Issuer on such Interest Payment Date shall be forfeited.

"Broken Interest" means, with respect to the period from (and including) the immediately preceding Interest Payment Date (or in the case of the first Interest Payment Date, the Issue Date) to (but excluding) the date of the occurrence of a Capital Deficiency Event, the amount of interest accrued on the Notes during such period as calculated by the Calculation Agent.

"Capital Deficiency Event" means the first date on which either of the following events occurs:

(a) the total risk-based consolidated capital ratio of the Issuer, calculated in accordance with Applicable Banking Regulations, falls below the minimum percentage required by Applicable Banking Regulations; or

(b) the Issuer is notified by the SGCB, or its successor or any other relevant regulatory authority by which the Issuer is then-supervised (the "**Relevant Banking Regulator**"), that it has determined, in its sole discretion, in the view of the deteriorating financial condition of the Issuer, that the foregoing paragraph (a) of this definition would apply in the near term.

"Applicable Banking Regulations" means, at any time, the capital adequacy regulations then in effect of the regulatory authority in the French Republic (or if the Issuer becomes domiciled in a jurisdiction other than the

French Republic, such other jurisdiction) that are applicable to the Issuer.

Mandatory Interest Payment

In the event that during the one-year period prior to any Interest Payment Date any of the following events occurs:

(i) a declaration or payment of a dividend, or a payment of any nature by the Issuer on any Equity Securities (other than (x) a dividend or other distribution paid on the ordinary shares of the Issuer consisting solely of newly-issued ordinary shares, or (y) a redemption, repurchase or acquisition of any Equity Securities); or

(ii) a payment of any nature by the Issuer on any Parity Securities (other than (x) a Reinstatement (as defined under "Reinstatement" below), or (y) any payment on any Parity Securities that was required to be made as a result of a dividend or other payment having been made on any Equity Securities or Parity Securities, or (z) a redemption, repurchase or acquisition of any Parity Securities);

then irrespective of whether an Interest Non-Payment Notice has been delivered and is outstanding, the Issuer shall be required to pay interest on the Notes accrued in respect of the Interest Period ending immediately prior to such Interest Payment Date (such payment, a "**Mandatory Interest Payment**" and such date a "**Mandatory Interest Payment Date**"); provided, however, that if a Capital Deficiency Event occurred during the Interest Period immediately preceding such Interest Payment Date, such Interest Payment Date shall only be a Mandatory Interest Payment Date if such Capital Deficiency Event occurred prior to the relevant event described in sub-paragraph (i) or (ii) of this section.

The interest amount payable on each Note in relation to a Mandatory Interest Payment will be calculated as follows:

(x) if the Mandatory Interest Payment results from an event described in sub-paragraph (i) of this section, it will be calculated on the basis of the Current Principal Amount of such Note; and

(y) if the Mandatory Interest Payment results from an event described in sub-paragraph (ii) of this section, it shall be equal to the Notional Interest Amount.

"Notional Interest Amount" means, in respect of any Note, the amount of interest which would have been payable, absent a voluntary or automatic non-payment of interest pursuant to "Optional Non-Payment of Interest" above, for the one-year period prior to, and including, such Interest Payment Date, calculated on the basis of the Current Principal Amount of such Note, multiplied by the Underlying Security Payment Percentage, as calculated by the Calculation Agent prior to the relevant Interest Payment Date. The relevant calculation will be made by the Calculation Agent on the basis of information provided by the Issuer in particular (without limitation) regarding the Underlying Security, Underlying Security Payment Percentage and any Loss Absorption or Reinstatement.

"Underlying Security" means the class of Parity Securities in respect of which the payments made represent the highest proportion of the payment which would have been payable during the one-year period prior to, and including, the relevant Interest Payment Date.

"Underlying Security Payment Percentage" means the ratio, calculated as a percentage, equal to (i) the payments effectively made on the Underlying Security during the one-year period prior to, and including, the relevant Interest Payment Date, divided by (ii) the payment which would have been payable during such period on the Underlying Security.

Loss Absorption:

In the event that at any time a Capital Deficiency Event has occurred, the board of directors of the Issuer will convene an extraordinary shareholders' meeting to be held during the three months following the occurrence of such event in order to propose a share capital increase or any other measure regarded as necessary or useful to remedy such event. If a share capital increase or any such other proposed measure is not adopted by the Issuer's extraordinary shareholders' meeting or if the share capital increase is not sufficiently subscribed to remedy such event in full, or if such event remains in effect on the last day of the fiscal half-year during which the said event has occurred, the board of directors of the Issuer will implement, within ten days following the last day of such fiscal half-year, a reduction of the amount of Broken Interest, if any, and thereafter the Current Principal Amount of the Notes (a "**Loss Absorption**") necessary in order to remedy such event to the fullest extent possible. Notwithstanding anything to the contrary, the nominal value of the Notes shall never be reduced to an amount lower than one cent (EUR 0.01).

The amounts by which Broken Interest and, as the case may be, the Current Principal Amount of the Notes are reduced to enable the Issuer to absorb losses in order to ensure the continuity of its activities, will be the lower of (i) the amount of consolidated losses of the Issuer which, following a Capital Deficiency Event, have not been allocated to its shareholders' funds (*capitaux propres*) as set out in its consolidated financial statements and (ii) the sum of the amounts of Broken Interest, if any, and the Current Principal Amount of the Notes before such reduction.

For the avoidance of doubt, the first remedy to the Capital Deficiency Event will be the share capital increase or the implementation of any other measures adopted by the extraordinary shareholders' meeting of the Issuer to remedy such Capital Deficiency Event. To the extent such increase of share capital or other measures are not sufficient, the Loss Absorption will be applied first against the amount of Broken Interest, if any, and thereafter, if necessary, against the Current Principal Amount of the Notes as herein described.

Reinstatement:

If, following a Loss Absorption, the Issuer has recorded positive Consolidated Net Income for at least two consecutive fiscal years (a "**Return to Profitability**") following the end of the most recent fiscal year in which there was a Loss Absorption (the "**Absorption Year End**"), the Issuer shall increase the Current Principal Amount of the Notes (a "**Reinstatement**") on any date and in an amount that it determines (either up to the Original Principal Amount or up to any other amount lower than the Original Principal Amount), to the extent any such Reinstatement complies with Applicable Banking Regulations.

Irrespective of whether a Return to Profitability has occurred, the Issuer shall increase the Current Principal Amount of the Notes in an amount equal to the Mandatory Reinstatement Amount (as defined below) on any date that it determines if (i) a Mandatory Reinstatement Event (as defined below) has occurred since the Absorption Year End, and (ii) the Issuer has not since such Mandatory Reinstatement Event occurred made a Reinstatement up to the Original Principal Amount pursuant to the provisions of the immediately preceding paragraph.

For the avoidance of doubt, following a Reinstatement the Current Principal Amount of the Notes may never be greater than the Original Principal Amount of the Notes.

"Consolidated Net Income" means the consolidated net income (excluding minority interests) of the Issuer, as calculated and set out in the audited annual consolidated financial statements of the Issuer.

"Mandatory Reinstatement Event" means (i) a Restricted Payment, or (ii) the increase by the Issuer of the principal amount of any Parity Securities other than the Notes, the terms of which contain a provision for the reinstatement of their principal amount similar to that of the Notes.

"Mandatory Reinstatement Amount" means the lesser of (i) the difference between the Original Principal Amount of the Notes and the Current Principal Amount of the Notes, and (ii) the positive Consolidated Net Income of the Issuer as set out in its latest audited annual consolidated financial statements. Additionally, for the purpose of a Reinstatement pursuant to clause (ii) of the definition of "Mandatory Reinstatement Event", the Mandatory Reinstatement Amount will be computed so that the Notes will be reinstated by a principal amount which is the same in percentage terms as the largest increase in principal amount of such Parity Securities.

"Restricted Payment" means an Equity Securities Payment or a Parity Securities Payment.

"Equity Securities Payment" means any declaration or payment of a dividend on any Equity Securities (other than, for the avoidance of doubt, (x) a dividend or other distribution on the ordinary shares of the Issuer consisting solely of newly-issued ordinary shares, or (y) any redemption, purchase or acquisition of Equity Securities by any means).

"Parity Securities Payment" means any payment of any nature on any Parity Securities (other than, for the avoidance of doubt, (x) any payment on any Parity Securities (other than the Notes) that was required to be made as a result of a dividend or other payment having been made on any Equity

Securities or Parity Securities, or (y) any redemption, purchase or acquisition of Parity Securities by any means).

Call from the First Call Date:	The Issuer will have the right, subject to the prior consent of the Relevant Banking Regulator, to call the Notes in whole or in part on the Interest Payment Date falling on the First Call Date or upon any Interest Payment Date thereafter. Such call will be exercised at a price (the "**Base Call Price**") equal to the Original Principal Amount of the Notes plus any accrued but unpaid interest thereon. In the case of a partial call, this shall be performed by way of an equal reduction of the Current Principal Amount of each of the Notes. For the avoidance of doubt, such reduction of Current Principal Amount is distinct from the Loss Absorption mechanism and the resulting reduced Current Principal Amount. Unlike in the case of a Loss Absorption, following a partial call the Original Principal Amount of each Note shall be permanently reduced by the amount of principal called and paid for.
Call before the First Call Date:	The Issuer will have the right, and in certain circumstances the obligation, to redeem the Notes at the Base Call Price at any time (in whole but not in part) in case of imposition of withholding tax on interest payments on the Notes, in case of loss of deductibility of interest paid on the Notes for corporate income tax purposes and in case of loss of Tier 1 Capital status of the Notes due to a change in Applicable Banking Regulations, subject to the prior consent of the Relevant Banking Regulator.
Taxation:	The Notes will, upon issue, benefit from an exemption from deduction for withholding tax. If French law shall require any such deduction, the Issuer shall, to the extent permitted by law and subject to certain exceptions, pay additional amounts.
Use of proceeds:	The net proceeds of the issue of the Notes amount to approximately EUR 696,799,663 and will be used for general corporate purposes by the Issuer.
Listing:	Application has been made for the Notes to be admitted to trading on the EU regulated market of the Luxembourg Stock Exchange and to listing on the official list of the Luxembourg Stock Exchange. Such listing is expected to occur as of the Issue Date or as soon as practicable thereafter.
Selling Restrictions:	The Issuer has not registered, and will not register, the Notes under the Securities Act or any state securities laws. Accordingly, the Notes may not be offered or sold except pursuant to an exemption from the registration requirements of the Securities Act and any applicable state securities laws. See "Notice to Investors" and "Subscription and Sale".
Ratings:	The Notes have been assigned a rating of "A1" by Moody's Investors Service, Inc., "A+" by Standard & Poor's Ratings Services and "AA" by Fitch Ratings. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating agency. A revision, suspension, reduction or withdrawal of a rating may adversely affect the

market price of the Notes.

As defined by Standard & Poor's Ratings Services, an obligation rated ‘A+’ is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor’s capacity to meet its financial commitment on the obligation is still strong. The ratings from ‘AA’ to ‘CCC’ may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Obligations rated ‘A’ by Moody’s Investors Service, Inc. are considered upper-medium grade and are subject to low credit risk. Moody’s Investors Service, Inc. appends numerical modifiers 1, 2 and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category.

As defined by Fitch Ratings an AA rating means very high credit quality and an expectation of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

Governing Law: The Notes will be governed by, and construed in accordance with, French law.

Note Codes: The Notes have been accepted for clearance through Euroclear France, Clearstream, Luxembourg and Euroclear with the Common Code number of 023501589.

The International Securities Identification Number (ISIN) for the Notes is FR0010251421.

RISK FACTORS

The following sets out certain aspects of the offering of the Notes of which prospective investors should be aware. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus, including in particular the following risk factors detailed below. This summary is not intended to be exhaustive and prospective investors should make their own independent evaluations of all risk factors and should also read the detailed information set out elsewhere in this Prospectus. Terms defined in the "Terms and Conditions of the Notes" shall have the same meaning where used below.

FACTORS RELATING TO THE NOTES

The Notes are Deeply Subordinated Notes

The Issuer's obligations under the Notes are deeply subordinated obligations of the Issuer which are the most junior debt instruments of the Issuer, subordinated to and ranking behind the claims of all other unsubordinated and ordinary (dated and undated senior) subordinated creditors of the Issuer, lenders in relation to *prêts participatifs* granted to the Issuer and holders of *titres participatifs* issued by the Issuer. The Issuer's obligations under the Notes rank in priority only to any class of share capital of the Issuer.

The Noteholders face a significantly increased risk that the Notes will not perform as anticipated

In the event of any insolvency or liquidation of the Issuer, the Noteholders would receive payments on any outstanding equal ranking subordinated Notes only after holders of notes ranking senior to the Noteholders and other senior creditors have been repaid in full, if and to the extent that there is still cash available for those payments. Thus, the Noteholders face a higher performance risk than holders of Unsubordinated Obligations or of Ordinarily Subordinated Obligations.

Undated Securities

The Notes are undated securities with no fixed maturity date. The Issuer is under no obligation to redeem the Notes at any time, except as provided in "Terms and Conditions of the Notes – Mandatory Redemption" if a judgment is issued for the judicial liquidation (*liquidation judiciaire*) of the Issuer or if the Issuer is liquidated for any other reason, except in the case of a consolidation, amalgamation, merger or other reorganisation in which all or substantially all of the assets of the Issuer are transferred to another legal entity which simultaneously assumes all the obligations of the Issuer under the Notes whether by operation of law or otherwise.

The Noteholders have no right to require redemption of the Notes.

Restrictions on Payment

Interest

For so long as the mandatory interest provisions do not apply, the Issuer may elect not to pay interest falling due on the Notes on any Optional Interest Payment Date, in particular with a view to restoring the regulatory capital of the Issuer in order to ensure the continuity of its activities without weakening its financial structure. Any interest not so paid on any such Optional Interest Payment Date shall be lost and shall therefore no longer be due and payable by the Issuer.

Principal

As further specified under Condition 5 (Loss Absorption and Return to Profitability) below:

(i) the Current Principal Amount of the Notes may be reduced, as required, on one or more occasions following a Capital Deficiency Event; and

(ii) following any such reductions, the Current Principal Amount of the Notes may be increased, as required, on one or more occasions following a Return to Profitability.

In the event of the occurrence of a Capital Deficiency Event, the board of directors of the Issuer will convene an extraordinary shareholders' meeting to be held during the three months following the occurrence of such event in order to propose a share capital increase or any other measure regarded as necessary or useful to remedy such event. If a share capital increase or any such other proposed measure is not adopted by the Issuer's extraordinary shareholders' meeting or if the share capital increase is not sufficiently subscribed to remedy such event in full, or if such event remains in effect on the last day of the fiscal half-year during which the said event has occurred, the board of directors of the Issuer will implement, within ten days following the last day of such fiscal half-year, a reduction of the amount of Broken Interest, if any, and thereafter the Current Principal Amount of the Notes necessary in order to remedy such event to the fullest extent possible, all as further specified in Condition 5.

No Limitation on Issuing or Guaranteeing Debt Ranking Senior or *Pari Passu* with the Notes

There is no restriction on the amount of debt which the Issuer may issue or guarantee. The Issuer and its subsidiaries and affiliates may incur additional indebtedness or grant guarantees in respect of indebtedness of third parties, including indebtedness or guarantees that rank *pari passu* or senior to the obligations under and in connection with the Notes. If the Issuer's financial condition were to deteriorate, the Noteholders could suffer direct and materially adverse consequences, including reduction of the then Current Principal Amount of the Notes (as the Current Principal Amount may be lower than the Original Principal Amount), loss of interest and, if the Issuer were liquidated (whether voluntarily or involuntarily), loss by Noteholders of their entire investment.

Redemption Risk

The Notes are undated securities with no specified maturity date. Nevertheless, the Notes may be redeemed in whole or in part, at the option of the Issuer, (i) in whole or in part on 18 November 2015 and on any Interest Payment Date thereafter or (ii) in whole at any time for certain taxation or regulatory reasons.

There can be no assurance that, at the relevant time, Noteholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same return as their investment in the Notes.

The trading market for the Notes may be volatile and may be adversely impacted by many events.

The market for debt securities issued by banks is influenced by economic and market conditions and, to varying degrees, interest rates, currency exchange rates and inflation rates in other European and other industrialised countries. There can be no assurance that events in France, Europe or elsewhere will not cause market volatility or that such volatility will not adversely affect the price of the Notes or that economic and market conditions will not have any other adverse effect.

An active trading market for the Notes may not develop.

There can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market or trading price and liquidity of the Notes may be adversely affected. The Issuer or its affiliates are entitled to buy and sell the Notes for their own account or for the account of others, and to issue further Notes. Such transactions may favourably or adversely affect the price development of the Notes. If additional and competing products are introduced in the markets, this may adversely affect the value of the Notes.

No legal and tax advice

A Noteholder's effective yield on the Notes may be diminished by the tax impact on that Noteholder of its investment in the Notes.

A Noteholder's actual yield on the Notes may be reduced from the stated yield by transaction costs.

Each prospective investor should consult its own advisers as to legal, tax and related aspects of an investment in the Notes.

FACTORS RELATING TO THE ISSUER

The Issuer and its Operations

Operational Risk

Operational risk is defined as the risk of loss arising from the inadequacy or failure of procedures, individuals or internal systems, or even external events (such as, but not limited to natural disasters and fires). It includes risk relating to the security of information systems, litigation risk and reputation risk.

Unforeseen events like severe natural catastrophes, terrorist attacks or other states of emergency can lead to an abrupt interruption of the Issuer's operations, which can cause substantial losses. Such losses can relate to property, financial assets, trading positions and to key employees. Such unforeseen events can also lead to additional costs (such as relocation of employees affected) and increase the Issuer's costs (such as insurance premiums). Such events may also make insurance coverage for certain risks unavailable and thus increase the Issuer's risk.

As with most other banks, the Issuer relies heavily on communications and information systems to conduct its business. Any failure or interruption or breach in security of these systems could result in failures or interruptions in the Issuer's customer relationship management, general ledger, deposit, servicing and/or loan organisation systems. The Issuer cannot provide assurances that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions could have a material adverse effect on the Issuer's financial condition and results of operations.

It may not be possible to serve process on or enforce judgements against the Issuer in the United States

The Issuer is a limited company organised under the laws of the Republic of France. None of the directors and executive officers of the Issuer are residents of the United States, and all or a substantial portion of the assets of the Issuer and such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or such persons or to enforce against any of them in the United States courts judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

The Banking Industry

Credit Risk

As a credit institution, the Issuer is exposed to the creditworthiness of its customers and counterparties. The Issuer may suffer losses related to the inability of its customers or other counterparties to meet their financial obligations. Most of the commitment decisions concern customers in the local government sector, which is low risk and also subject to specific controls relating to its public nature.

The Issuer cannot assume that its level of provisions will be adequate or that it will not have to make significant additional provisions for possible bad and doubtful debts in future periods.

Capital Adequacy

The introduction in 2007 of the general agreement of the Basel Committee for Bank Supervision for the International Convergence of Capital Measurement and Capital Standards of June 2004, or Basel II, is likely to bring changes to banks' capital ratios, including those of the Issuer. The direction and magnitude of the impact of Basel II will depend on the particular asset structures of each bank and its precise impact on the

Issuer cannot be quantified with certainty at this time. The Issuer expects to incur costs in complying with the new guidelines. The new guidelines may also require the Issuer to operate its business in ways that may be less profitable than its present operations.

Market risk

Market risk is the risk of loss relating to fluctuations in market prices and interest rates, their interactions and their level of volatility. Due to the nature of its activity, the Dexia Crédit Local Group is prevented from assuming significant exposure to market risk. It does not act as a market maker and therefore has exposure mainly on its short-term cash management and a portfolio of derivative products with customers that is managed on a market value basis.

Dexia Crédit Local also manages on a proprietary basis a bond portfolio known as the credit spread portfolio, aimed at building up a liquidity reserve and generating a stable lending margin. This portfolio is managed without any exposure to interest rate risk by means of appropriate hedges, but remains subject to price risk relating to the market's assessment of the Issuer's situation.

Structural Risks – Interest Rates, Exchange Rates and Liquidity

Structural risks are grouped together and designated as ALM ("assets and liabilities management") risks. The various components making up the assets (such as, but not limited to, loans and other financial assets), liabilities (such as, but not limited to, bonds), and off-balance sheet items (such as, but not limited to, derivatives) of Dexia Crédit Local do not have the same characteristics in terms of interest rates, currencies, depreciation and amortization and maturity. Structurally, some or all of the future maturities represent residual surpluses or deficits. These differences constitute interest rate or exchange rate positions that generate market risk. They also constitute an imbalance between future sources and applications of funds by generating a liquidity risk.

Risk Management

Monitoring of the risks relating to the Issuer and its operations and the banking industry is performed jointly by the appropriate committees and the Risk Management department, with the help of tools that it develops, in compliance with the guidelines established by the Dexia Group and all legal constraints and rules of prudence. As regards the supervision of risks in the subsidiaries and branches, each entity has its own local risk management structure. These structures are strictly independent of the front-offices and reporting to the Dexia Crédit Local Risk Management department either directly (branches) or functionally (subsidiaries).

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Prospectus. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Issuer's knowledge, in accordance with the facts and contains no omission likely to affect its import.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents which have been previously published or are published simultaneously with the Prospectus, and have been filed with the Luxembourg *Commission de Surveillance du Secteur Financier* which is the competent authority for purposes of the Prospectus Directive and shall be incorporated in, and form part of, this Prospectus:

- the audited consolidated and non-consolidated financial statements of the Issuer for the financial years ended 31 December 2004 and 31 December 2003 and the notes related thereto contained in the Annual Report of the Issuer for the year 2004 and 2003 respectively and the reports of the statutory auditors of the Issuer in respect of such financial statements.

The consolidated financial statements of Dexia Crédit Local for the financial year ended 31 December 2004 are prepared in accordance with the European Union standards (the "**EU Standards**") and in accordance with French GAAP.

The consolidated financial statements which are established in accordance with the EU Standards have been prepared for the purpose of the presentation of the consolidated financial statements for the year ended 31 December 2005 only and consequently have not been published and have not been audited.

Therefore, the consolidated financial statements which are contained in the Annual Report of the Issuer for 2004 are those prepared in accordance with French GAAP.

Dexia Crédit Local will begin publishing its financial statements under the new standards for the year starting 1 January 2005.

Dexia Crédit Local adopted the new accounting standards on 1 January 2005 and consequently restated its 2004 consolidated financial statements. The Group decided to apply IAS 32, IAS 39 and IFRS 4 with effect from 1 January 2005 and not earlier, as authorized by IFRS 1.

The Group decided to apply all IAS/IFRS standards and SIC/IFRIC Interpretations, as approved by the European Commission on 1 January 2004, with the exception of the following, which will be applied with effect from 1 January 2005:

- IAS 32 and related SIC/IFRIC;
- AS 39 and related SIC/IFRIC;
- IFRS 4.

The Group decided to standardize its presentation by presenting financial assets and liabilities in the manner described in IAS 32 and 39 in 2004 and 2005. Financial assets and liabilities are, however, valued under Dexia standards in 2004 and under IFRS in 2005, as authorized by IFRS 1.

The Issuer will provide, without charge, to each person to whom a copy of this Prospectus has been delivered, upon the oral or written request of such person, a copy of any or all of the documents which, or portions of which, are incorporated herein by reference.

All documents incorporated by reference in this Prospectus may be obtained, free of charge, at the registered office of the Issuer and the offices of the Fiscal Agent and each Paying Agent set out at the end of this Prospectus during normal business hours so long as any of the Notes are outstanding. They will also be available on the website of the Luxembourg Stock Exchange: ("www.bourse.lu"). Any information not listed in the cross reference table but included in the documents incorporated by reference is given for information purposes only.

CROSS-REFERENCE LIST IN RESPECT OF THE FINANCIAL INFORMATION OF DEXIA CREDIT LOCAL FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

Prospectus Regulation – Annex XI in respect of Dexia Credit Local		**Annual Report 2004**	**Annual Report 2003**
11. Financial Information concerning the Issuer's assets and liabilities, financial position and profits and losses	Audit reports for the latest two financial years	Page 137 and Page 161	Page 145 and Page 172
	Own or consolidated financial statements (if both are prepared, at least the consolidated financial statements) for the latest two financial years	Pages 66 to 69 and Pages 140 to 143	Pages 66 to 69 and Pages 148 to 150
	Notes to consolidated and non-consolidated financial statements for the latest two financial years including a description of the accounting policies	Pages 70 to 136 and Pages 144 to 154	Pages 70 to 144 and Pages 151 to 164
	Consolidated balance sheet	Pages 66 and 67	Pages 66 and 67
	Consolidated Income statement	Pages 68 and 69	Pages 68 and 69

TERMS AND CONDITIONS OF THE NOTES

The issue outside the French Republic of the €700,000,000 Undated Deeply Subordinated Non-Cumulative Notes (the **Notes**) of Dexia Crédit Local (the "**Issuer**") was decided on 3 November 2005 by Daniel Caille, a member of the Executive Board (*directoire*) of the Issuer, acting pursuant to a resolution of the Executive Board (*directoire*) of the Issuer dated 27 September 2005. The Notes are issued with the benefit of a fiscal agency agreement (the "**Fiscal Agency Agreement**"), expected to be dated 16 November 2005 among the Issuer, Dexia Banque Internationale à Luxembourg, société anonyme as fiscal agent and principal paying agent (the "**Fiscal Agent**", which expression shall, where the context so admits, include any successor for the time being of the Fiscal Agent), the other paying agent named therein (together with the Fiscal Agent and any successors for the time being of the paying agent or any additional paying agents appointed thereunder from time to time, the "**Paying Agents**") and BNP Paribas, as calculation agent (the "**Calculation Agent**", which expression shall, where the context so admits, include any successor for the time being of the Calculation Agent). References below to the "**Agents**" shall be to the Fiscal Agent, the Paying Agents and/or the Calculation Agent, as the case may be. Copies of the Fiscal Agency Agreement are available for inspection at the specified offices of the Paying Agents. References below to "**Conditions**" are, unless the context otherwise requires, to the numbered paragraphs below.

1. DEFINITIONS

For the purposes of these Conditions:

Absorption Year End means the end of the most recent fiscal year in which there was a Loss Absorption.

Account Holders has the meaning set forth in Condition 2.

Agents has the meaning set forth in the preamble to these Conditions.

Applicable Banking Regulations means, at any time, the capital adequacy regulations then in effect of the regulatory authority in the French Republic (or if the Issuer becomes domiciled in a jurisdiction other than the French Republic, such other jurisdiction) that are applicable to the Issuer.

Base Call Price has the meaning set forth in Condition 6.2.

BIS Press Release has the meaning set forth in Condition 3.

Broken Interest means, with respect to the period from (and including) the immediately preceding Interest Payment Date (or in the case of the first Interest Payment Date, the Issue Date) to (but excluding) the date of the occurrence of a Capital Deficiency Event, the amount of interest accrued on the Notes during such period as calculated by the Calculation Agent. Broken Interest is only applicable with respect to an Interest Period whose Interest Payment Date is an Optional Interest Payment Date.

Business Day means any day (other than a Saturday or a Sunday) which is a TARGET Settlement Day.

Calculation Agent has the meaning set forth in the preamble to these Conditions.

Capital Deficiency Event means the first date on which either of the following events occurs:

(a) the total risk-based consolidated capital ratio of the Issuer, calculated in accordance with Applicable Banking Regulations, falls below the minimum percentage required by Applicable Banking Regulations; or

(b) the Issuer is notified by the Relevant Banking Regulator that it has determined, in its sole discretion, in view of the deteriorating financial condition of the Issuer, that the foregoing paragraph (a) of this definition would apply in the near term.

A Capital Deficiency Event shall be deemed to occur pursuant to paragraph (a) above on the date on which the Issuer publishes its annual or half-year results indicating that the total risk-based consolidated capital ratio has fallen below the relevant level, or on any such other date on which the Issuer determines that such ratio has fallen below such level.

Consolidated Net Income means the consolidated net income (excluding minority interests) of the Issuer, as calculated and set out in the audited annual consolidated financial statements of the Issuer.

CRBF Regulation has the meaning set forth in Condition 3.

Current Principal Amount means the principal amount of the Notes outstanding at any time, calculated on the basis of the Original Principal Amount of the Notes as such amount may be reduced pursuant to the application of the Loss Absorption mechanism and/or reinstated on one or more occasions, pursuant to Conditions 5.1 and 5.2, respectively.

End of Capital Deficiency Event means, following a Capital Deficiency Event, the first date on which either of the following events occurs:

(a) if the Capital Deficiency Event occurred pursuant to paragraph (a) of the definition of Capital Deficiency Event, the total risk-based consolidated capital ratio of the Issuer, calculated in accordance with Applicable Banking Regulations, complies with the minimum percentage required in accordance with Applicable Banking Regulations; or

(b) if the Capital Deficiency Event occurred pursuant to paragraph (b) of the definition of Capital Deficiency Event, the notification by the Relevant Banking Regulator to the Issuer that it has determined, in its sole discretion, in view of the financial condition of the Issuer, that the circumstances which resulted in the Capital Deficiency Event have ended.

An End of Capital Deficiency Event shall be deemed to occur pursuant to paragraph (a) above on the date on which the Issuer publishes its annual or half-year results indicating that the total risk-based consolidated capital ratio has been restored to the relevant level, or on any such other date on which the Issuer determines that such ratio has been so restored.

Equity Securities means (a) the ordinary shares of the Issuer and (b) any other class of the Issuer's share capital or other securities of the Issuer ranking junior to the Parity Securities.

Equity Securities Payment means any declaration or payment of a dividend on any Equity Securities (other than, for the avoidance of doubt, (x) a dividend or other distribution on the ordinary shares of the Issuer consisting solely of newly-issued ordinary shares, or (y) any redemption, purchase or acquisition of Equity Securities by any means).

Euro-zone means the region comprised of member states of the European Union which have adopted the Euro as their national currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

First Call Date means 18 November 2015.

Fiscal Agency Agreement has the meaning set forth in the preamble to these Conditions.

Fiscal Agent has the meaning set forth in the preamble to these Conditions.

Fixed Interest Rate has the meaning set forth in Condition 4.

Fixed Rate Interest Amount has the meaning set forth in Condition 4.

Fixed Rate Interest Payment Date has the meaning set forth in Condition 4.

Fixed Rate Interest Period means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Fixed Rate Interest Payment Date and each successive period beginning on (and including) a Fixed Rate Interest Payment Date and ending on (but excluding) the next succeeding Fixed Rate Interest Payment Date.

Floating Interest Rate has the meaning set forth in Condition 4.

Floating Rate Interest Amount has the meaning set forth in Condition 4.

Floating Rate Interest Determination Date has the meaning set forth in Condition 4.

Floating Rate Interest Payment Date has the meaning set forth in Condition 4.

Floating Rate Interest Period means the period beginning on (and including) the First Call Date and ending on (but excluding) the first Floating Rate Interest Payment Date and each successive period beginning on (and including) a Floating Rate Interest Payment Date and ending on (but excluding) the next succeeding Floating Rate Interest Payment Date.

Interest Amount means a Fixed Rate Interest Amount and/or a Floating Rate Interest Amount, as the case may be.

Interest Non-Payment Notice has the meaning set forth in Condition 4.4.

Interest Payment Date means a Fixed Rate Interest Payment Date or a Floating Rate Interest Payment Date, as the case may be.

Interest Period means a Fixed Rate Interest Period or a Floating Rate Interest Period, as the case may be.

Issue Date means 18 November 2005.

Issuer means Dexia Crédit Local.

Loss Absorption has the meaning set forth in Condition 5.

Luxembourg Stock Exchange means the regulated market situated in Luxembourg as defined in the Investment Service Directive 93/22/EEC.

Mandatory Interest Payment means the amount of interest due on any Mandatory Interest Payment Date, as calculated in accordance with Condition 4.

Mandatory Interest Payment Date means each Interest Payment Date as to which at any time during the one-year period prior to such Interest Payment Date any of the following events occurs:

(i) a declaration or payment of a dividend, or a payment of any nature by the Issuer on any Equity Securities (other than (x) a dividend or other distribution paid on the ordinary shares of the Issuer consisting solely of newly-issued ordinary shares, or (y) a redemption, repurchase or acquisition of any Equity Securities);

(ii) a payment of any nature by the Issuer on any Parity Securities (other than (x) a Reinstatement, or (y) any payment on any Parity Securities that was required to be made as a result of a dividend or other payment having been made on any Equity Securities or Parity Securities, or (z) a redemption, repurchase or acquisition of any Parity Securities);

provided, however, that if a Capital Deficiency Event occurred during the Interest Period immediately preceding such Interest Payment Date, such Interest Payment Date shall only be a Mandatory Interest Payment Date if such Capital Deficiency Event occurred prior to the relevant event described in sub-paragraph (i) and (ii) above.

Mandatory Reinstatement Amount means the lesser of (i) the difference between the Original Principal Amount of the Notes and the Current Principal Amount of the Notes, and (ii) the positive Consolidated Net Income of the Issuer as set out in its latest audited annual consolidated financial statements. Additionally, for the purpose of a Reinstatement pursuant to clause (ii) of the definition of "Mandatory Reinstatement Event", the Mandatory Reinstatement Amount will be computed so that the Notes will be reinstated by a principal amount which is the same in percentage terms as the largest increase in principal amount of such Parity Securities.

Mandatory Reinstatement Event means (i) a Restricted Payment, or (ii) the increase by the Issuer of the principal amount of any Parity Securities other than the Notes, the terms of which contain a provision for the reinstatement of their principal amount similar to that of the Notes.

Noteholders means the holders of the Notes.

Notional Interest Amount has the meaning set forth in Condition 4.4.

Optional Interest Payment Date means any Interest Payment Date other than a Mandatory Interest Payment Date.

Ordinarily Subordinated Obligations means any obligations (including any bonds or notes) of the Issuer which constitute direct, unconditional, unsecured and subordinated obligations of the Issuer and which at all times rank *pari passu* and without any preference among themselves and equally and ratably with any other existing or future Ordinarily Subordinated Obligations, behind Unsubordinated Obligations but in priority to Equity Securities, the Notes, Parity Securities, *prêts participatifs* granted to the Issuer and *titres participatifs* issued by the Issuer.

Original Principal Amount means the nominal amount of each Note on the Issue Date (*i.e.* EUR 50,000), which amount may be permanently reduced in the event of a partial call as set forth in Condition 6.2.

Parity Securities means any deeply subordinated obligations (*titres subordonnés de dernier rang*) or other instruments issued by the Issuer which (i) rank, or are expressed to rank, *pari passu* among themselves and with the Notes and behind the *prêts participatifs* granted to the Issuer, the *titres participatifs* issued by the Issuer, the Ordinarily Subordinated Obligations and Unsubordinated Obligations and (ii) meet the requirements to be eligible as Tier 1 Capital of the Issuer.

Parity Securities Payment means any payment of any nature on any Parity Securities (other than, for the avoidance of doubt, (x) any payment on any Parity Securities (other than the Notes) that was required to be made as a result of a dividend or other payment having been made on any Equity Securities or Parity Securities, or (y) any redemption, purchase or acquisition of Parity Securities by any means).

Paying Agents has the meaning set forth in the preamble to these Conditions.

Reference Banks means the principal Euro-zone office of four (4) major banks in the Euro-zone interbank market selected by the Calculation Agent after prior consultation with the Issuer.

Reference Rate means the offered rate, expressed as a rate per annum, for three (3) month Euro deposits commencing on the first day of the relevant Floating Rate Interest Period, as calculated by Bridge Information Systems on behalf of the European Banking Federation and the International Foreign Exchange Dealers' Association, which appears, for information purposes only, at or about 11.00 a.m. (Brussels time) on the display designated as page "248" on Bridge/Telerate (or such other page or service as may replace it for the purpose of displaying Euribor).

Reinstatement has the meaning set forth in Condition 5.

Relevant Banking Regulator means the SGCB or its successor or any other relevant regulatory authority by which the Issuer is then supervised.

Relevant Date has the meaning set forth in Condition 8.

Restricted Payment means an Equity Securities Payment or a Parity Securities Payment.

Return to Profitability has the meaning set forth in Condition 5.

SGCB means the *Secrétariat Général de la Commission Bancaire*.

TARGET Settlement Day means any day on which the TARGET System is operating.

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer System.

Tier 1 Capital has the meaning set forth in Condition 3.

Underlying Security has the meaning set forth in Condition 4.4.

Underlying Security Payment Percentage has the meaning set forth in Condition 4.4.

Unsubordinated Obligations means any obligations (including any bonds or notes) of the Issuer which constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and which rank in priority to the Ordinarily Subordinated Obligations.

2. FORM, DENOMINATION AND TITLE

The Notes (which constitute *obligations* under French law) are issued in bearer form in the denomination of €50,000 each and will at all times, in compliance with Article L.211-4 of the French *Code monétaire et financier*, be represented in book-entry form (*dématérialisé*) in the books of the Account Holders. No physical documents of title (including *certificats représentatifs* pursuant to Article 7 of *décret* no. 83-359 of 2 May 1983) will be issued in respect of the Notes. The Notes will, upon issue, be inscribed in the books of Euroclear France which shall credit the accounts of the Account Holders.

For the purpose of these Conditions, "**Account Holders**" means any authorised financial intermediary institution entitled to hold accounts, directly or indirectly, with Euroclear France and include the depositary banks of Euroclear Bank SA/NV as operator of the Euroclear System ("**Euroclear, Brussels**") and of Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**").

Title to the Notes shall be evidenced by entries in the books of Account Holders and will pass upon, and transfer of Notes may only be effected through, registration of the transfer in such books.

3. STATUS OF THE NOTES AND SUBORDINATION

The Notes are deeply subordinated notes of the Issuer issued pursuant to the provisions of Article L. 228-97 of the French *Code de commerce* (the "**Code**").

The proceeds of the issue of the Notes will be treated, for regulatory purposes, as *fonds propres de base* of the Issuer ("**Tier 1 Capital**"). *Fonds propres de base* shall have the meaning given to it in Article 2 of Règlement n° 90-02 dated February 23, 1990, as amended, of the Comité de la Réglementation Bancaire et Financière (the "**CRBF Regulation**"), or otherwise recognized as *fonds propres de base* by the SGCB. The CRBF Regulation should be read in conjunction with the press release of the Bank for International Settlements dated October 27, 1998 concerning instruments eligible for inclusion in Tier 1 Capital (the "**BIS Press Release**"). The French language version of the BIS Press Release is attached as an exhibit to the report published annually by the SGCB entitled "*Modalités de calcul du ratio international de solvabilité*".

The principal and interest on the Notes (which constitute *obligations* under French law) constitute direct, unconditional, unsecured, undated and deeply subordinated obligations (*titres subordonnés de dernier rang*) of the Issuer and rank and will rank *pari passu* among themselves and with all other present and future Parity Securities, but shall be subordinated to the present and future *prêts participatifs* granted to the Issuer, *titres participatifs* issued by the Issuer, Ordinarily Subordinated Obligations and Unsubordinated Obligations of the Issuer.

In the event of liquidation of the Issuer, the Notes shall rank in priority to any payments to holders of Equity Securities.

There is no restriction on the amount of debt that the Issuer may issue or guarantee. The Issuer and its subsidiaries and affiliates may incur additional indebtedness or grant guarantees in respect of indebtedness of third parties, including indebtedness or guarantees that rank senior in priority of payment to the Notes.

4. INTEREST AND INTEREST SUSPENSION

4.1 General

The Notes bear interest on their Current Principal Amount at a fixed rate of 4.300% per annum (the "**Fixed Interest Rate**") from (and including) the Issue Date to (but excluding) the First Call Date, payable annually in arrears on a non-cumulative basis on 18 November of each year (each a "**Fixed Rate Interest Payment Date**"), commencing on 18 November 2006. Thereafter, the Notes will bear interest on their Current Principal Amount at a floating interest rate (the "**Floating Interest Rate**"), as defined in and as determined by the Calculation Agent in accordance with Condition 4.3 below and payable quarterly in arrears on a non-cumulative basis on 18 November, 18 February, 18 May and 18 August of each year (each, a "**Floating Rate Interest Payment Date**"), commencing on 18 February 2016.

Interest will cease to accrue on the Notes on the due date for redemption thereof unless, upon such due date, payment of principal is improperly withheld or refused or if default otherwise occurs in respect of payment thereof. In such event, interest will continue to accrue at the relevant rate as specified in the preceding paragraph (before as well as after any judgment) on the Original Principal Amount of the Notes until the day on which all sums due in respect of the Notes up to that day are received by or on behalf of the relevant Noteholder.

4.2 Fixed Interest Rate

(a) The amount of interest (the "**Fixed Rate Interest Amount**") payable on the Notes on each Fixed Rate Interest Payment Date will be the product of the Current Principal Amount of the Notes and the Fixed Interest Rate (half a cent being rounded upwards).

(b) Interest will be calculated on a Actual/Actual (ISMA) basis. If interest is required to be calculated for a period within the Fixed Rate Interest Period of less than one year, it will be calculated on the basis of the actual number of days elapsed in the relevant period from and including the date from which interest begins to accrue to, but excluding, the date on which it falls due, divided by the actual number of days in the Fixed Rate Interest Period in which the relevant period falls (including the first such day but excluding the last) and rounding the resultant figure to the nearest €0.01 (half a cent being rounded upwards).

4.3 Floating Interest Rate

4.3.1 Determination of Floating Interest Rate

The Notes bear interest at the Floating Interest Rate from the First Call Date, payable on each Floating Rate Interest Payment Date.

The Floating Interest Rate for each Floating Rate Interest Period will be determined by the Calculation Agent on the following basis:

(a) On each "**Floating Rate Interest Determination Date**", namely the second Business Day before the first day of the Floating Rate Period for which the rate will apply, the Calculation Agent will determine the Reference Rate as at or about 11.00 a.m. (Brussels time) on the Floating Rate Interest Determination Date in question. If the Reference Rate is unavailable, the Calculation Agent will request each of the Reference Banks to provide the Calculation Agent with its offered quotation to prime banks in the Euro-zone interbank market for Euro deposits for a period of three (3) months commencing on the first day of the relevant Floating Rate Interest Period, as at or about 11.00 a.m. (Brussels time) on the Floating Rate Interest Determination Date in question. The Floating Interest Rate for the Floating Rate Interest Period shall be the Reference Rate plus the Margin or, if the Reference Rate is unavailable, the arithmetic average (rounded upwards if necessary to the nearest fifth decimal place with 0.000005 being rounded upwards) of the offered quotations as established by the Calculation Agent plus the Margin.

(b) If on any Floating Rate Interest Determination Date the Reference Rate is unavailable and two (2) or three (3) only of the Reference Banks provide offered quotations, the Floating Interest Rate for the relevant Floating Rate Interest Period shall be determined in accordance with the provisions of paragraph (i) on the basis of the offered quotations of those Reference Banks providing the offered quotations.

(c) If on any Floating Rate Interest Determination Date the Reference Rate is unavailable and less than two (2) Reference Banks provide offered quotations, the Floating Interest Rate for the relevant Floating Rate Interest Period shall be the rate per annum which the Calculation Agent determines to be the sum of the Margin and the arithmetic mean (rounded upwards if necessary to the nearest fifth decimal place with 0.000005 being rounded upwards) of the Euro lending rates quoted by major banks in the Euro-Zone (selected by the Calculation Agent after prior consultation with the Issuer and being at least two (2) in number) at or about 11.00 a.m. (Brussels time) on the Floating Rate Interest Determination Date in question for loans in Euro to leading European banks for a period of three (3) months commencing on the first day of the relevant Floating Rate Interest Period, except that if the banks so selected by the Calculation Agent are not quoting on such Floating Rate Interest Determination Date, the Floating Interest Rate for the relevant Floating Rate Interest Period shall be determined on the basis of the last Reference Rate available immediately before the relevant Floating Rate Interest Determination Date to which one of paragraphs (i) or (ii) of this Condition 3(c) shall have applied.

(d) The Margin (the "**Margin**") in respect of each Floating Rate Interest Period is 1.730 per cent. per annum.

4.3.2 Calculation of Floating Rate Interest Amount by the Calculation Agent

The Calculation Agent will, as soon as practicable after 11.00 a.m. (Brussels time) on each Floating Rate Interest Determination Date in relation to each Floating Rate Interest Period, calculate the amount of interest (the "**Floating Rate Interest Amount**") payable in respect of each Note for such Floating Rate Interest Period. The Floating Rate Interest Amount payable on the Notes on the relevant Floating Rate Interest Payment Date will be the product of the Current Principal Amount of the Notes and the Floating Interest Rate for such Floating Rate Interest Period, multiplied by the actual number of days in such Interest Period divided by 360 and rounding the resulting figure, if necessary, to the nearest cent (half a cent being rounded upwards). Period end dates will be subject to adjustment for the purpose of calculating the Floating Rate Interest Amount.

4.3.3 Publication of Floating Interest Rate and Floating Rate Interest Amount

The Calculation Agent will cause the Floating Interest Rate and the Floating Rate Interest Amount for each Floating Rate Interest Period and the relevant Floating Rate Interest Payment Date to be notified to the Issuer, the Fiscal Agent and the Luxembourg Stock Exchange and will cause the publication thereof in accordance with Condition 11 on or prior to the first day of the relevant Floating Rate Interest Period. The Floating Interest Rate and/or the Floating Rate Interest Amount so published may subsequently be amended (or appropriate arrangements made by way of adjustment). If the Notes become due and payable under Condition 6.2(b) or 6.3 (in case of a purchase of all the outstanding Notes) or under Condition 9, no publication of the Floating Interest Rate or the Floating Rate Interest Amount so calculated need be made.

4.4 Mandatory Interest and Optional Interest

4.4.1 Mandatory Interest Payment

The Issuer shall, on each Mandatory Interest Payment Date, for so long as the mandatory interest provisions apply (as set out in the definition of "Mandatory Interest Payment Date"), pay interest on the Notes accrued to that date in respect of the Interest Period ending immediately prior to such Mandatory Interest Payment Date.

In order to calculate the amount of interest required to be paid on the Notes on a Mandatory Interest Payment Date pursuant to this condition (the "**Mandatory Interest Payment**"):

(x) if the Mandatory Interest Payment results from an event described in sub-paragraph (i) or (ii) of the definition of Mandatory Interest Payment Date, it will be calculated on the basis of the Current Principal Amount of the Notes applying the Fixed Interest Rate or the Floating Interest Rate for such Interest Period, as the case may be, and

(y) if the Mandatory Interest Payment results from an event described in sub-paragraph (ii) of the definition of Mandatory Interest Payment Date, it shall be equal to the Notional Interest Amount.

"Notional Interest Amount" means, in respect of any Note, the amount of interest which would have been payable, absent a voluntary or automatic non-payment of interest pursuant to conditions 4.4.2 and 4.5 below, for the one-year period prior to, and including, such Interest Payment Date, calculated by the Calculation Agent on the basis of the Current Principal Amount of such Note, multiplied by the Underlying Security Payment Percentage, as calculated by the Calculation Agent prior to the relevant Interest Payment Date. The relevant calculation will be made by the Calculation Agent on the basis of information provided by the Issuer in particular (without limitation) regarding the Underlying Security, Underlying Security Payment Percentage and any Loss Absorption or Reinstatement.

"Underlying Security" means the class of Parity Securities in respect of which the payments made represent the highest proportion of the payment which would have been payable during the one-year period prior to, and including, the relevant Interest Payment Date.

"Underlying Security Payment Percentage" means the ratio, calculated by the Calculation Agent as a percentage, equal to (i) the payments effectively made on the Underlying Security during the one-year period prior to, and including, the relevant Interest Payment Date, divided by (ii) the payment which would have been payable during such period on the Underlying Security.

Interest accrued and payable on any Mandatory Interest Payment Date is not subject to reduction in accordance with Condition 5.1.

4.4.2 Optional Interest Payment

For so long as the mandatory interest provisions do not apply, the Issuer may elect not to pay interest on any Optional Interest Payment Date, in particular with a view to restoring its regulatory capital in order to ensure the continuity of its activities without weakening its financial structure.

On any Optional Interest Payment Date, the Issuer may, at its option, pay all or part of the interest in respect of the Notes accrued to that date in respect of the Interest Period ending immediately prior to such Optional Interest Payment Date, but the Issuer shall have, subject to such election and decision having been made as described above, no obligation to make such payment and any such failure to pay shall not constitute a default by the Issuer under the Notes or for any other purpose.

Notice of non-payment of all or any interest under the Notes on any Optional Interest Payment Date (an **"Interest Non-Payment Notice"**) shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, to the Luxembourg Stock Exchange. The Interest Non-Payment Notice shall be given no later than two Business Days prior to the relevant Optional Interest Payment Date.

Save as otherwise provided, any interest not paid on an Optional Interest Payment Date will be forfeited and accordingly will no longer be due and payable by the Issuer.

4.5 Optional Interest and Capital Deficiency Event

4.5.1 Interest Payable on Optional Interest Payment Dates Following the Occurrence of a Capital Deficiency Event.

In the event that during any Interest Period, on or at any time prior to the fifth Business Day prior to an Optional Interest Payment Date, a Capital Deficiency Event has occurred or would occur upon payment of the interest due on the next Optional Interest Payment Date:

(x) the accrual of interest, if any, in respect of the Notes shall automatically be suspended. In addition, the amount of Broken Interest in respect of the Interest Period ending immediately prior to any Optional Interest Payment Date may be reduced following a Capital Deficiency Event, as provided in Condition 5.1. ; and

(y) no interest on the Notes shall accrue nor be payable by the Issuer with respect to the remaining period in such Interest Period or any other Interest Period during the period starting on the date of the Capital Deficiency Event and ending on the date of the End of Capital Deficiency Event.

Payment of interest will automatically be suspended upon the occurrence of a Capital Deficiency Event (and until the occurrence of an End of Capital Deficiency Event), unless the relevant Interest Payment Date is a Mandatory Interest Payment Date.

Notice of any Capital Deficiency Event and of any End of Capital Deficiency Event shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Luxembourg Stock Exchange. Such notice shall be given as soon as practicable following the occurrence of a Capital Deficiency Event and of any End of Capital Deficiency Event.

For the avoidance of doubt, the occurrence of a Capital Deficiency Event and any resulting notice will be effective only with respect to the interest amount due on the immediately following Interest Payment Date. As appropriate, the Issuer will make a new determination and deliver other notice(s) with respect to any subsequent Interest Payment Date in relation to which a Capital Deficiency Event is continuing or occurs again.

4.5.2 Interest Payable on Optional Interest Payment Dates after End of Capital Deficiency Event

At the option of the Issuer, any Broken Interest, to the extent not reduced to absorb losses in accordance with Condition 5.1, may be paid on the first Optional Interest Payment Date falling on or after the date of the End of Capital Deficiency Event. Any Broken Interest not paid by the Issuer on such first Optional Interest Payment Date will be forfeited.

In respect of any Optional Interest Payment Date which occurs on or after the End of Capital Deficiency Event, interest on the Notes will recommence accruing on its Current Principal Amount, on the basis of the number of days elapsed during the period from (and including) the date of End of Capital Deficiency Event to (but excluding) the next succeeding Interest Payment Date as calculated by the Calculation Agent in accordance with Condition 4.2 or, as the case may be, 4.3. At the option of the Issuer, such interest may be paid on the next succeeding Optional Interest Payment Date occurring as from the date of the End of Capital Deficiency Event (inclusive). Any such interest not paid by the Issuer on such first Optional Interest Payment Date will be forfeited.

5. LOSS ABSORPTION AND REINSTATEMENT

5.1 Loss Absorption

In the event of the occurrence of a Capital Deficiency Event, the board of directors of the Issuer will convene an extraordinary shareholders' meeting to be held during the three months following the occurrence of the Capital Deficiency Event in order to propose a share capital increase or any other measure regarded as necessary or useful to remedy the Capital Deficiency Event. If a share capital increase or any such other proposed measure is not adopted by the Issuer's extraordinary shareholders' meeting or if the share capital increase is not sufficiently subscribed to remedy the Capital Deficiency Event in full, or if the Capital Deficiency Event remains in effect on the last day of the fiscal half-year during which the Capital Deficiency Event has occurred, the board of directors of the Issuer will implement, within ten days following the last day of such fiscal half-year, a reduction of the amount of Broken Interest, if any, and thereafter the Current Principal Amount of the Notes (a "**Loss Absorption**") necessary in order to remedy the Capital Deficiency Event to the fullest extent possible. A Loss Absorption will firstly be implemented by partially or fully reducing the amount of the Broken Interest, if any. If the total reduction of Broken Interest is not sufficient for the purpose of the Loss Absorption, a further Loss Absorption will be implemented by partially or fully reducing the Current Principal Amount of the Notes. Such reductions will be recorded as a profit in the Issuer's consolidated financial statements (whether audited annual or unaudited semi-annual).

The amounts by which Broken Interest and, as the case may be, the Current Principal Amount of the Notes are reduced to enable the Issuer to absorb losses in order to ensure the continuity of its activities, will be the lower of (i) the amount of consolidated losses of the Issuer which, following a Capital Deficiency Event, have not been allocated to its shareholders' funds (*capitaux propres)* as set out in its consolidated financial statements and (ii) the sum of the amounts of Broken Interest, if any, and the Current Principal Amount of the Notes before such reduction.

Notwithstanding any other provision, the Current Principal Amount of each Note shall never be reduced to an amount lower than one cent (EUR 0.01).

For the avoidance of doubt, the first remedy to the Capital Deficiency Event will be the share capital increase or the implementation of any other measures adopted by the extraordinary shareholders' meeting of the Issuer to remedy such Capital Deficiency Event. To the extent such increase of share capital or other measures are not sufficient, the Loss Absorption will be applied first against the amount of Broken Interest, if any, and thereafter, if necessary, against the Current Principal Amount of the Notes as herein described.

Broken Interest and the Current Principal Amount of the Notes may be reduced on one or more occasions, as required.

In the event that other Parity Securities, which would be subject to such reductions are outstanding, such reductions will be applied on a pro-rata basis among the Notes and such other Parity Securities.

Interest accrued and payable on any Mandatory Interest Payment Date is not subject to reduction.

Notice of any reduction of the Current Principal Amount of the Notes shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Luxembourg Stock Exchange. Such notice shall be given at least seven days prior to the relevant reduction of the Current Principal Amount.

5.2 Reinstatement

If, following a Loss Absorption, the Issuer has recorded positive Consolidated Net Income for at least two consecutive fiscal years (a "**Return to Profitability**") following the end of the most recent fiscal year in which there was a Loss Absorption (the "**Absorption Year End**"), the Issuer shall increase the Current Principal Amount of the Notes (a "**Reinstatement**") on any date and in any amount that it determines (either up to the Original Principal Amount or up to any other amount lower than the Original Principal Amount), to the extent any such Reinstatement complies with Applicable Banking Regulations.

Irrespective of whether a Return to Profitability has occurred, the Issuer shall increase the Current Principal Amount of the Notes in an amount equal to the Mandatory Reinstatement Amount on any date that it determines if (i) a Mandatory Reinstatement Event has occurred since the Absorption Year End, and (ii) the Issuer has not since such Mandatory Reinstatement Event occurred made a Reinstatement up to the Original Principal Amount pursuant to the provisions of the immediately preceding paragraph.

Any Reinstatement shall be recorded by the Issuer in its consolidated financial statements as a loss in an amount corresponding to such Reinstatement. The amount of any Reinstatement will not exceed the amount of the latest positive Consolidated Net Income of the Issuer.

For the avoidance of doubt, any Reinstatement shall be made in a maximum amount that will ensure that such Reinstatement does not trigger the occurrence of a Capital Deficiency Event or, except with respect to any optional redemption by the Issuer of the Notes in accordance with their terms, a worsening of a Capital Deficiency Event.

No payments will be made to holders of Equity Securities, in each case to the extent categorized as Tier 1 Capital, before all amounts due, but unpaid, to all Noteholders under the Notes have been paid by the Issuer.

In the event that other Parity Securities are outstanding and may also benefit from a reinstatement or an increase of their current principal amount in accordance with their terms, any Reinstatement will be applied on a pro-rata basis with other reinstatements or increases of the principal amount made on such other Parity Securities.

Such Reinstatement or increase of the Current Principal Amount of the Notes shall be made on one or more occasions in the conditions described above until the Current Principal Amount of the Notes has been reinstated to the Original Principal Amount (save in the event of occurrence of another Capital Deficiency Event).

For the avoidance of doubt, any Broken Interest that has been reduced pursuant to Condition 5.1 shall not be reinstated pursuant to this Condition 5.2.

Notice of any Return to Profitability shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, the Luxembourg Stock Exchange. Such notice shall be given as soon as practicable following the occurrence of a Return to Profitability. Notice of any Reinstatement and any increase of the Current Principal Amount of the Notes shall be given to the Noteholders in accordance with Condition 11 and, for so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, to the Luxembourg Stock Exchange. Such notice shall be given at least seven days prior to the relevant Reinstatement and increase of the Current Principal Amount of the Notes.

6. REDEMPTION AND PURCHASE

The Notes may not be redeemed otherwise than in accordance with this Condition 6 and Condition 9.

6.1 No Final Redemption

The Notes are undated securities in respect of which there is no fixed redemption or maturity date.

6.2 Issuer's Call Options Subject to the Approval of the Relevant Banking Regulator

(a) General Call Option

On the First Call Date and on any Interest Payment Date thereafter, the Issuer, subject to having given not less than 30, and not more than 60, days' prior notice to the Noteholders (which notice shall be irrevocable) in accordance with Condition 11, and subject to prior approval of the Relevant Banking Regulator, may, at its option, redeem the Notes in whole or in part at a price (the "**Base Call Price**") equal to the Original Principal Amount of the Notes, together with any amounts outstanding thereon, including accrued interest.

In the case of a partial call, this shall be performed by way of an equal reduction of the Current Principal Amount of each of the Notes. For the avoidance of doubt, such reduction of Current Principal Amount is distinct from a Loss Absorption. Unlike in the case of a Loss Absorption, following a partial call the Original Principal Amount of each Note shall be permanently reduced by the amount of principal called and paid for.

(b) Redemption for Regulatory Reasons or Taxation Reasons

(i) If by reason of any change in French law, any change in Applicable Banking Regulations, or any change in the official application or interpretation of such laws or regulations, becoming effective on or after the Issue Date, the proceeds of the Notes cease to be eligible as Tier 1 Capital for the Issuer, the Issuer may, at its option, at any time, subject to having given not more than 45 nor less than 30 days' notice to Noteholders (which notice shall be irrevocable) in accordance with Condition 11, and subject to the prior approval of the Relevant Banking Regulator, redeem the Notes (in whole but not in part) at the Base Call Price provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the last day before the date on which the proceeds of the Notes cease to meet the requirements to be eligible as Tier 1 Capital.

(ii) If by reason of any change in the laws or regulations of the French Republic, or any political subdivision therein or any authority thereof or therein having power to tax, any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), or any other change in the tax treatment of the Notes, becoming effective on or after the Issue Date, interest payment under the Notes is no longer tax-deductible by the Issuer for French corporate income tax (*impôts sur les bénéfices des sociétés*) purposes, the Issuer may, at its option, at any time, subject to having given not more than 45 nor less than 30 days' notice to Noteholders (which notice shall be irrevocable) in accordance with Condition 11, and subject to the prior approval of the Relevant Banking Regulator, redeem the Notes (in whole but not in part) at the Base Call Price provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the latest practicable date on which the Issuer could make such payment with interest payable being tax deductible for French corporate income tax (*impôts sur les bénéfices des sociétés*) purposes.

(iii) If by reason of a change in the laws or regulations of the French Republic, or any political subdivision therein or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), becoming effective on or after the Issue Date, the Issuer would on the occasion of the next payment of principal or interest due in respect of the Notes, not be able to make such payment without having to pay additional amounts as specified under Condition 8.2, the Issuer may, at any time, subject to having given not more than 45 nor less than 30 days' prior notice to the Noteholders (which notice shall be irrevocable), in accordance with Condition 11, and subject to the prior approval of the Relevant Banking Regulator, redeem the Notes (in whole but not in part) at the Base Call Price provided that the due date for redemption of which notice hereunder may be given shall be no earlier than the latest practicable date on which the Issuer could make payment of principal and interest without withholding for French taxes or, if such date has passed, as soon as practicable thereafter.

(iv) If the Issuer would on the next payment of principal or interest in respect of the Notes be prevented by French law from making payment to the Noteholders of the full amount then due and payable, notwithstanding the undertaking to pay additional amounts contained in Condition 8.2, then the Issuer shall forthwith give notice of such fact to the Fiscal Agent and the Issuer shall upon giving not less than seven days' prior notice to the Noteholders in accordance with Condition 11, and subject to the prior approval of the Relevant Banking Regulator, redeem the Notes (in whole but not in part) at the Base Call Price provided that the due date for redemption of which notice hereunder shall be given shall be no earlier than the latest practicable date on which the Issuer could make payment of the full amount of principal and interest payable without withholding for French taxes or, if such date has passed, as soon as practicable thereafter.

6.3 Purchases

The Issuer may at any time purchase Notes in the open market or otherwise at any price provided that it has obtained the prior approval of the Relevant Banking Regulator.

6.4 Cancellation

All Notes which are purchased or redeemed by the Issuer (other than in the event of a partial call, as set out in paragraph 6.2 of Condition 6) pursuant to paragraphs 6.2 or 6.3 of this Condition 6 will be cancelled and accordingly may not be reissued or sold.

7. PAYMENTS AND CALCULATIONS

7.1 Method of Payment

Payments of principal and interest in respect of the Notes will be made in Euro by transfer to a Euro denominated account (or any other account to which Euro may be credited or transferred) specified by the payee with a bank, in a country within the TARGET System. Such payments shall be made for the benefit of the Noteholders to the Account Holders. No commission or expenses will be charged to the Noteholders in respect of such payments by the Issuer or the Agents.

None of the Issuer, the Fiscal Agent, the Calculation Agent or the Paying Agents shall be liable to any Noteholder or other person for any commission, costs, losses or expenses in relation to, or resulting from, the credit or transfer of Euro, or any currency conversion or rounding effect in connection with such payment being made in Euro.

Payments in respect of principal and interest on the Notes will, in all cases, be made subject to any fiscal or other laws and regulations or orders of courts of competent jurisdiction applicable in respect of such payments to the Issuer, the relevant Paying Agent, the relevant Account Holder or, as the case may be, the person shown in the records of Euroclear France, Euroclear, Brussels or Clearstream, Luxembourg as the holder of a particular nominal amount of Notes, but without prejudice to the provisions of Condition 8.

7.2 Payments on Business Days

If the due date for payment of any amount of principal, interest or other amounts in respect of any Note is not a Business Day, payment shall not be made of the amount due and credit or transfer instructions shall not be given in respect thereof until the next following Business Day and the holder shall not be entitled to any interest or other sums in respect of such postponed payment.

7.3 Fiscal Agent, Paying Agents and Calculation Agent

The name and specified office of the initial Fiscal Agent, the name and specified office of the initial Paying Agent and the name and specified office of the initial Calculation Agent are as follows:

FISCAL AGENT, PRINCIPAL PAYING
AGENT AND LUXEMBOURG LISTING AGENT
69 route d'Esch
L-1470 Luxembourg
Luxembourg

PAYING AGENT
Euro Emetteurs Finance
48, boulevard des Batignolles
75850 Paris Cedex 17
France

CALCULATION AGENT
BNP Paribas
10 Harewood Avenue
London NW1 6AA
England

The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal and Paying Agent and/or Calculation Agent and/or appoint additional or other Agents or approve any change in the office through which any such Agent acts, provided that there will at all times be (i) a Fiscal Agent having a specified office in a European city, (ii) so long as the Notes are listed on the regulated market of the Luxembourg Stock Exchange and the rules applicable to that exchange so require, a Paying Agent having a specified office in Luxembourg (which may be the Fiscal and Paying Agent) and (iii) so long as any Note is outstanding, a Calculation Agent having a specified office in a major European city. The Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26 and 27, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Any termination or appointment shall only take effect (other than in the case of certain insolvency related events set out in the Fiscal Agency Agreement, when it shall be of immediate effect) after not more than forty five (45) nor less than thirty (30) calendar days' notice thereof shall have been given to the Noteholders by the Issuer in accordance with Condition 11.

7.4 Certificates to be final

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Reference Banks (or any of them) or the Calculation Agent, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Calculation Agent, the Fiscal Agent, the Paying Agents and all Noteholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer or the Noteholders shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

8. TAXATION

8.1 Withholding Tax Exemption

The Notes being denominated in Euro and therefore deemed to be issued outside the Republic of France, interest and other revenues paid by the Issuer in respect of the Notes to non-French tax residents benefit under present law from the exemption provided for in Article 131 *quater* of the *Code Général des Impôts* (General Tax Code) from deduction of tax at source. Accordingly, such payments do not give the right to any tax credit from any French source.

8.2 Additional Amounts

If French law or regulations should require that payments of principal or interest in respect of any Note be subject to deduction or withholding in respect of any present or future taxes, duties, assessments or other governmental charges of whatever nature imposed or levied by or on behalf of the French Republic or any authority therein or thereof having power to tax, the Issuer shall, to the fullest extent then permitted by law, pay such additional amounts as may be necessary so that the holder of each Note, after such deduction or withholding, will receive the full amount then due and payable thereon in the absence of such deduction or withholding; provided, however, that the Issuer shall not be liable to pay any such additional amounts in respect of any Note to a Noteholder (or beneficial owner (*ayant droit*)):

(a) who is subject to such taxes, duties, assessments or other governmental charges in respect of such Note by reason of his having some present or former connection with the French Republic other than the mere holding of such Note; or

(b) more than 30 days after the Relevant Date (as defined below), except to the extent that the holder thereof would have been entitled to such additional amounts on the last day of such period of 30 days; or

(c) where such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusion of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

For this purpose, the "**Relevant Date**" in relation to any Note means whichever is the later of (A) the date on which the payment in respect of such Note first becomes due and payable, and (B) if the full amount of money payable on such date in respect of such Note has not been received by the Fiscal Agent on or prior to such date, the date on which notice is given in accordance with Condition 11 to Noteholders that such money has been so received.

References in these Conditions to principal and interest shall be deemed also to refer to any additional amounts that may be payable under the provisions of this Condition 8.

9. MANDATORY REDEMPTION

If any judgment is issued for the insolvent judicial liquidation (*liquidation judiciaire*) of the Issuer or if the Issuer has been liquidated for any other reason, then the Notes shall become immediately due and payable as described below.

The rights of the Noteholders in the event of a liquidation of the Issuer will be calculated on the basis of the Original Principal Amount of the Notes they hold together with interest accrued and due in accordance with the Conditions and any other outstanding payments under the Notes. No payments will be made to the Noteholders before all amounts due, but unpaid, to all other creditors of the Issuer (including holders of Unsubordinated Obligations, holders of Ordinarily Subordinated Obligations, lenders in relation to *prêts participatifs* granted to the Issuer and holders of *titres participatifs* issued by the Issuer, but excluding Parity Securities, which will be paid *pro rata* with the Notes) have been paid by the Issuer, as ascertained by the liquidator.

No payments will be made to holders of Equity Securities before all amounts due, but unpaid, to all Noteholders have been paid by the Issuer, as ascertained by the judicial liquidator.

10. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

(a) The Masse

The Noteholders will be grouped automatically for the defence of their respective common interests in a *masse* (hereinafter referred to as the "***Masse***").

The *Masse* will be governed by those provisions of the Code with the exception of the provisions of Articles L.228-48, L.228-59 and L.228-65 II of the Code and by *décret* No. 67-236 of 23 March 1967 (as modified or re-enacted from time to time) (the "**Decree**") with the exception of Articles 218, 222, 224 and 226 of the Decree, as amended by the conditions set forth below.

(b) Legal Personality

The *Masse* will be a separate legal entity, by virtue of Article L.228-46 of the Code acting in part through one representative (the **Representative**) and in part through a general assembly of the Noteholders.

The *Masse* alone, to the exclusion of all individual Noteholders, shall exercise the common rights, actions and benefits which now or in the future may accrue with respect to the Notes.

(c) Representative

The office of Representative may be conferred on a person of any nationality. However, the following persons may not be chosen as Representative:

(i) the Issuer and its employees and their ascendants, descendants and spouses;

(ii) companies possessing at least ten (10) per cent. of the share capital of the Issuer or of which the Issuer possesses at least ten (10) per cent. of the share capital;

(iii) companies guaranteeing all or part of the obligations of the Issuer; and

(iv) persons to whom the practice of banker is forbidden or who have been deprived of the right of directing, administering or managing a business in whatever capacity.

The initial Representative shall be:
Sébastien Domanico
C/O BNP Paribas
10 Harewood Avenue
London NW1 6AA
England

In the event of death, retirement or revocation of the initial Representative, the replacement Representative shall be:

Eric Noyer
C/O BNP Paribas
10 Harewood Avenue
London NW1 6AA
England

In the event of death, retirement or revocation of the replacement Representative, a replacement will be elected by a meeting of the general assembly of Noteholders.

The representative will not be entitled to any remuneration in connection with its functions or duties.

All interested parties will at all times have the right to obtain the names and the addresses of the initial and replacement Representatives at the head office of the Issuer and at the offices of any of the Paying Agents.

(d) Powers of the Representative

The Representative shall, in the absence of any decision to the contrary of the general assembly of Noteholders, have the power to take all acts of management to defend the common interests of the Noteholders.

All legal proceedings against the Noteholders or initiated by them in order to be justifiable, must be brought against the Representative or by it, and any legal proceedings which shall not be brought in accordance with this provision shall not be legally valid.

The Representative may not interfere in the management of the affairs of the Issuer.

(e) General Assemblies of Noteholders

General assemblies of the Noteholders may be held at any time, on convocation either by the Issuer or by the Representative. One or more Noteholders, holding together at least one-thirtieth (1/30) of outstanding Notes may address to the Issuer and the Representative a demand for convocation of the general assembly; if such general assembly has not been convened within two (2) months from such demand, such Noteholders may commission one of themselves to petition the competent court in Paris to appoint an agent who will call the meeting.

Notice of the date, hour, place, agenda and quorum requirements of any meeting of a general assembly will be published as provided under Condition 11 not less than fifteen (15) calendar days prior to the date of the general assembly on first convocation and six (6) calendar days on second convocation.

Each Noteholder has the right to participate in meetings of the *Masse* in person or by proxy. Each Note carries the right to one vote.

(f) Powers of General Assemblies

A general assembly is empowered to deliberate on the fixing of the remuneration of the Representative and on its dismissal and replacement, and also may act with respect to any other matter that relates to the common rights, actions and benefits which now or in the future may accrue with respect to the Notes, including authorising the Representative to act as law as plaintiff or defendant.

A general assembly may further deliberate on any proposal relating to the modification of the Conditions of the Notes, including:

(i) any proposal, whether for arbitration or settlement, relating to rights in controversy or which were the subject of judicial decisions; and

(ii) any proposal relating to the issue of securities carrying a right of preference compared to the rights of the Noteholders;

it being specified, however, that a general assembly may not increase amounts payable by the Noteholders, nor establish any unequal treatment between the Noteholders, nor decide to convert the Notes into shares.

Meetings of a general assembly may deliberate validly on first convocation only if Noteholders present or represented hold at least one quarter (1/4) of the Nominal Amount of the Notes then outstanding. On second convocation, no quorum shall be required. Decisions at meetings shall be taken by a simple majority of votes cast by the Noteholders attending such meeting or represented thereat.

(g) Notice of Decisions

Decisions of the meetings must be published in accordance with the provisions set out in Condition 11 not more than ninety (90) days from the date thereof.

(h) Information to the Noteholders

Each Noteholder or representative thereof will have the right, during the fifteen (15) day period preceding the holding of each meeting of a general assembly, to consult or make a copy of the text of the resolutions which will be proposed and of the reports which will be presented at the meeting, which will be available for inspection at the principal office of the Issuer, at the offices of the Paying Agents and at any other place specified in the notice of meeting.

(i) Expenses

The Issuer will pay all reasonable expenses incurred in the operation of the *Masse*, including expenses relating to the calling and holding of meetings and the expenses which arise by virtue of the remuneration of the Representative, and more generally all administrative expenses resolved upon by a general assembly of the Noteholders, it being expressly stipulated that no expenses may be imputed against interest payable on the Notes.

11. NOTICES

Any notice to the Noteholders will be valid if published so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that stock exchange so require, in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *D'Wort*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which such publication is made.

In addition, notices required to be given to the Noteholders pursuant to these Conditions may also be given by delivery of the relevant notice to Euroclear France, Euroclear, Brussels, Clearstream, Luxembourg and/or any other clearing system through which the Notes are for the time being cleared in substitution for the publications as aforesaid if prior approval is obtained from the competent authority of any stock exchange on which the Notes are listed. Any such notice shall be deemed to have been given on the third Business Day following delivery of the notice to the relevant clearing system.

12. PRESCRIPTION

Claims against the Issuer for the payment of principal and interest in respect of the Notes shall become prescribed 10 years (in the case of principal) and 5 years (in the case of interest) from the due date for payment thereof.

13. FURTHER ISSUES

The Issuer may from time to time, subject to the prior written approval of the Relevant Banking Regulator but without the consent of the Noteholders, issue further notes to be assimilated (*assimilables*) with the Notes as regards their financial service, provided that such further notes and the Notes shall carry rights identical in all respects (or in all respects except for the first payment of interest thereon) and that the terms of such further notes shall provide for such assimilation.

14. GOVERNING LAW AND JURISDICTION

The Notes and the Fiscal Agency Agreement are governed by the laws of the Republic of France.

Any action against the Issuer in connection with the Notes will be submitted to the exclusive jurisdiction of the competent courts in Paris.

USE OF PROCEEDS

The net proceeds of the issue of the Notes are estimated to be approximately € 696,799,663 and constitute Tier 1 Capital and will be used to increase the regulatory capital of the Issuer.

DEXIA CRÉDIT LOCAL

INTRODUCTION

Dexia Crédit Local is a limited company (*société anonyme à directoire et conseil de surveillance*) incorporated under French company law and having its registered office in Paris, France, Tour Cristal, 7 à 11 quai André Citroen F-75015 Paris. The telephone number at Dexia Crédit Local's registered office is +33 1 43 92 77 77.

One of its main activities is to provide funding for capital expenditure to government and public sector entities.

Dexia Crédit Local is one of a number of banking institutions (*établissements de crédit*) established under the French Banking Law, being an entity authorized to carry out banking operations, subject to all the provisions of the French Banking Law.

Dexia Crédit Local is administered by an Executive Board and a Supervisory Board (*directoire et conseil de surveillance*). Dexia Crédit Local is registered as a company under the number 351 804 042 Paris (*Registre du Commerce et des Sociétés*).

HISTORY

Dexia Crédit Local was incorporated on August 28, 1989 for a term of 99 years.

Crédit Local de France ("**CLF**") was formed by the French State in 1987 upon the transfer to it of the *Caisse d'aide à l'équipement des collectivités locales* and was privatized by the French State in 1991 and in 1993. In 1996, CLF and Crédit Communal de Belgique pooled their activities and formed a single group called Dexia. As part of this restructuring, CLF contributed all of its assets and liabilities to an inactive entity, Local Finance which was renamed Dexia Crédit Local de France. This entity was subsequently renamed Dexia Crédit Local.

BUSINESS OVERVIEW

The main objects for which Dexia Crédit Local is established are:

- to conduct in France and abroad any and all credit operations promoting local development and, in particular, local amenities, mainly for the benefit of local authorities and public corporations, local authority-backed agencies, local semi-public companies, concessionary public service companies and, more generally, agencies carrying out development or housing programs, or which have entered into an agreement with a local authority for the construction or management of local amenities;

- to carry out, for the benefit of the above parties, insurance brokerage activities and any consulting and assistance work in matters of financial management, financial engineering and, more generally, to offer any and all services to facilitate their financial management subject to the legislative provisions relating to the exercise of certain regulated professions;

- to receive cash deposits from local authorities and local public corporations in accordance with the regulations applicable to such bodies;

- to hold the funds lent to customers, pending their use;

- to issue debt securities in France and abroad in order to fund its lending operations.

For this purpose, Dexia Crédit Local may:

- create subsidiaries;

- hold interests in companies whose business is likely to contribute to the Issuer's objects;

- establish and manage reserve funds securing loans granted to the agencies mentioned in the first paragraph.

The Issuer may also carry out any and all transactions falling within the scope of its company object on behalf of and on the instructions of agencies and institutions set up to serve the public interest.

New long-term lending, excluding Germany and subsidiaries accounted for by the equity method, came to EUR 29.0 billion, in line with 2003 in spite of an overall unfavorable currency effect. New long-term lending was especially strong in Europe, posting a 7% increase over 2003, thanks notably to the particularly outstanding results achieved in France. After two remarkable years in North and South America, business was down 29% in 2004, and by 22% in local currency terms.

- New loans to the public sector, excluding Germany, came to EUR 24.6 billion, down 7% compared with 2003. Performances were mixed depending on the region: new lending increased by 8% in Europe, especially in France, which was up 21.6% on an already noteworthy 2003, and the United Kingdom, which was up 72.3%, but fell 28% in North and South America after several years of outstanding results. It should be noted that the year-on-year decrease observed at 30 June shrankcontinually during the second half, in part thanks to the tax-exempt bond business.

- In structured finance, new lending was up 47% over 2003 at EUR 4.4 billion. The strong increase reflects primarily the impact of several large transactions in the transportation sector in Italy. Dexia Crédit Local also obtained several mandates in the United Kingdom, placing it among the leading Private Finance Initiative (PFI) banks (the UK equivalent of French PPP Public-Private Partnerships).

In 2004, Dexia Crédit Local carried out EUR 10.9 billion in structured transactions in France, Italy, Germany, Spain, Austria and Sweden. Dexia Finance continued to expand abroad, especially in Germany. In France, Dexia reorganized the way it processes transactions at the beginning of the year, allowing it to carry out transactions with large customers more efficiently while delegating more day-to-day transactions to the sales network.

Financial Security Assurance ("FSA") generated 3.7% more interest margin and present value (PV) premiums than in 2003, which was itself a record year for the company.

Outstanding loans (including Germany and excluding subsidiaries accounted for by the equity method) came to EUR 163.3 billion at 31 December 2004, up 9.7% over the previous year; holding exchange rates constant, the increase would have been 11.1%. Nearly every Dexia entity posted an increase, and Spain, the United Kingdom, the Slovak Republic and the International Headquarters each recorded gains of over 30%. At FSA, net insured capital increased by 11.1% over 31 December 2003.

As part of its international development program, as presented to the Supervisory Board meetings of 6 May and 31 August 2004, Dexia Crédit Local opened representative offices in Japan and Canada during the third and fourth quarters, respectively, and began to examine the possibility of opening a location in Mexico. It should be noted that the Dexia Crédit Local Sydney subsidiary, created in the first quarter of 2004, brought in its first transactions in 2004 for a total of EUR 85 million. Lastly, Dexia Crédit Local finalized its request for a banking license in Poland, and on 23 September the Supervisory Board of Kommunalkredit Austria AG approved the creation of a bank specializing in Central Europe; Dexia Crédit Local bank will be the majority shareholder of that subsidiary.

ORGANISATIONAL STRUCTURE

DEXIA GROUP

Dexia Crédit Local is part of the Dexia group of companies (the "**Dexia Group**") and is 99.98% owned by Dexia, the holding company of the Dexia Group. Dexia was born out of the 1996 alliance of the two major European players in local public finance, Crédit Local de France and Crédit Communal de Belgique. Both institutions, together with Banque Internationale à Luxembourg ("**BIL**") were united in 1999 under the name of Dexia, thus forming one of the first cross-border mergers in the European banking sector.

Serving two markets

Dexia operates on two principal markets: *local public institutions* and *private companies and individuals*. On the first market, Dexia occupies a leading position on a world scale, and on the second its field of action is regional.

The four Dexia business lines

Dexia's activities and management mode are organized according to four business lines which transcend the entities which compose them:

- Public/project finance and credit enhancement
- Retail financial services
- Investment management services
- Treasury and financial markets.

DEXIA CRÉDIT LOCAL

Dexia Crédit Local is the Dexia group subsidiary specializing in public and project finance and financial services for local governments, the Group's first business line. Dexia Crédit Local built up its expertise in France. From its base in France, Dexia Crédit Local supervises the activities of its specialized subsidiaries, branches and representative offices throughout the rest of the world.

Subsidiaries in France

Name of subsidiary	**Main activity**
Dexia Bail	equipment lease financing
Dexia CLF Banque	banking services for the local public sector
Dexia CLF Regions Bail	real estate lease financing for the public sector
Dexia Finance	financial engineering
Dexia Flobail	lease financing of local investments
Dexia Location Longue Durée	long-term leasing and management of public sector vehicle fleets
Dexia Municipal Agency	Société de crédit foncier
Dexia Sofaxis	employer risks insurance and management advisory services for local governments (Sofcap) and hospitals (Sofcah)

International subsidiaries

Name of subsidiary	Location
Dexia Hypotheken Bank Berlin	Germany
Dexia Crédit Local Asia Pacific Pty Ltd	Australia
Dexia Kommunalkredit Bank	Austria
Dexia Sabadell Banco Local	Spain
Astris Finance	USA
Dexia Delaware LLC	USA
Dexia Municipal Leasing & Finance LLC	USA
Financial Security Assurance Inc	USA
Otzar Hashilton Hamekomi (OSM)	Israel
Dexia Crediop	Italy
Dexia Kommunalkredit Polska	Poland
Dexia banka Slovensko	Slovak Republic

MAJOR SHAREHOLDERS

As at 31 December 2004 Dexia Crédit Local's issued share capital amounted to EUR1,327,004,846 divided into 87,045,757 ordinary shares.

Dexia (formerly Dexia Belgium), the holding company, owns 99.98% of Dexia Crédit Local's share capital and private French and Belgian investors own 0.02% of Dexia Crédit Local's share capital.

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

Dexia Crédit Local is governed by a supervisory board and an executive board, in accordance with French law governing French *sociétés anonymes*.

Members of the Supervisory Board in 2004

Name / Address / Current Position	Principal Occupation / Other Directorships and Business Experience
Chairman of the Supervisory Board *Pierre Richard* 7/11 quai André Citroen 75015 Paris	• Chief Executive Officer of Dexia • Vice-Chairman of Dexia Banque • Vice-Chairman of Dexia BIL • Vice-Chairman of Financial Security Assurance Holdings Ltd. • Director of Crédit du Nord • Member of the Supervisory Board of Le Monde • Director of Air France - KLM • Financial expert, member of the Board of Directors of the European Investment Bank • Director of Generali France
Vice-Chairman of the Supervisory Board *Dominique Marcel* 56 rue de Lille 75007 Paris	• Member of the Executive Committee of Caisse des Dépôts et Consignations • Member of the Supervisory Board of CNCE • Chairman of Financière Transdev • Member of the Supervisory Board of CNP • Member of the Supervisory Board of Ixis Corporate and Investment Bank (ICIB) • Member of the Executive Board of Crédit Foncier, Icade and Transdev

Name / Address / Current Position	Principal Occupation / Other Directorships and Business Experience
Rembert von Lowis 7/11 quai André Citroen 75015 Paris	• Director of Dexia BIL • Director of Dexia Banque • Vice-Chairman of the Supervisory Board of Dexia Municipal Agency • Director of Financial Security Assurance Holdings Ltd. • Director of Dexia Holdings Inc. • Chairman of the Board of Directors of Dexia Habitat
*Fédération Nationale des Travaux Publics represented by Patrick Bernasconi** 3 rue de Berri 75008 Paris	• Chairman of Fédération Nationale des Travaux Publics • Legal manager of SAS Bernasconi TC
*Fédération Française du Bâtiment represented by Christian Baffy** 33 avenue Kléber 75784 Paris cedex 16	• Chairman of Fédération Française du Bâtiment • Legal manager of SARL Sanitaire, Thermique, electricité (Sanitel) (through November 2004) • Chief Operating Officer (in a personal capacity) and permanent representative of Fédération Française du Bâtiment, Vice-Chairman of SMA VIE • Director (in a personal capacity) and Vice-Chairman of Banque du Bâtiment et des Travaux Publics (since October 2004) • Permanent representative of Fédération Française du Bâtiment, Director of Dresdner RCM Entreval • Director (in a personal capacity) and permanent representative of Fédération Française du Bâtiment, Director of SMA BTP • Chairman and Chief Executive Officer, legal representative of Société Financière Baffy • Legal manager of Baffy Invest SARL • Joint legal manager of Société d'Isolation Plafonds Suspendus et Acoustique (ISOPLAC) (through October 2004) • Legal manager of B J Immobilier SARL • Legal manager of BD • Legal manager of SNC Cour des Godrans • Legal manager of SCI Laurem • Chairman and Chief Executive Officer of Baffy SA • Legal manager of l'Orle d'Or • Legal manager of PIC Transactions • Legal manager of the SCI Espace Cracovie • Legal manager of BDCL (since June 2004)
*Jean-Pierre Brunel** 1 rue du Bac 75007 Paris	• Director of Services Conseil Expertises Territoires • Director of Iéna Environment • Chairman of the Board of Directors of SA de HLM Le Nouveau Logis Centre Limousin (since June 2004) • Member of the Supervisory Board of Compagnie Nationale du Rhône • Chairman of the Supervisory Board of France Retraite
*Philippe Duron** Abbaye aux Dames, Place de la Reine Mathilde 14035 Caen cedex	• Permanent representative of the Basse-Normandie region, Director of Société des Autoroutes Paris Normandie (SAPN)
*Jean-Pol Henry** Rue de la Madeleine 118 6041 Gosselies Belgique	• Director of Société Le Val d'Heure
*Patrick Lachaert** Hundelgemsesteenweg 166 9820 Merelbeke Belgique	

Name / Address / Current Position	Principal Occupation / Other Directorships and Business Experience
*Loïc Le Masne de Chermont** La Juliennais 44360 St-Etienne de Montluc	• Director of Dexia Banque • Permanent representative of the of Loire-Atlantique department, Director of Société d'équipement de la Loire-Atlantique (SELA) • Chairman of SAS La Juliennais • Legal manager of SCI Locla and SCI Locla 1-2-3-4-5-6 • Joint legal manager of SCI Lorod • Managing partner of SCI Racan
Claude Piret 1 Square de Meeus B-1000 Bruxelles Belgique	• Chairman of the Board of Directors of Société Espace Léopold S.A. • Director of SCRL Management 14 • Director of Dexia Sabadell Banco Local
*François Rebsamen** 19 rue de l'Amiral Courbet 2100 Dijon	
*Antoine Rufenacht** Place de l'Hôtel de Ville 76600 Le Havre	• Legal manager of Société Financière Interocéanique • Chairman of the Board of Directors of Armor • Director of Ascendi • Director of Établissement Public Foncier de Normandie
Francine Swiggers 6 avenue Livingstone 1000 Bruxelles Belgique	• Director of Arcofin • Director of Arcopar • Director of Arcoplus • Director of Auxipar • Director of Interfinance • Director of Arcosyn • Director of Sofato • Director of Procura • Director of Aquafin • Director of VDK - Caisse d'Épargne • Director of Dexia Insurance • Director of DVV Verzekeringen/Les AP Assurances
*René Thissen** Rue de Bouhémont 23 4950 Waimes Belgique	• Chief Executive Officer of SAGI • Chief Executive Officer of MACOMA • Director of Centre Hospitalier Chrétien
Works Council representatives	
Régine Fournier Tour Mirabeau quai André Citroen 75015 Paris	
Dominique Bonabosch 76 rue de la Victoire 75009 Paris	

*Independent member of the Supervisory Board

Members of the Executive Board in 2004

Name / Address / Current Position	Principal Occupation/ Other Directorships and Business Experience
Jacques Guerber, Chairman 7/11 quai André Citroen 75015 Paris	• Director of Crédit du Nord • Director of Dexia Insurance • Director of Financial Security Assurance Holdings Ltd. • Chairman of the Supervisory Board of Dexia Municipal Agency • Permanent representative of Dexia Crédit Local, Director of Dexia Finance • Member of the Supervisory Board of Financière Centuria • Vice-Chairman of the Board of Directors of Dexia Asset Management (through September 2004)
Philippe Valletoux, Vice-Chairman 7/11 quai André Citroen 75015 Paris	• Chairman and Chief Executive Officer of Floral • Permanent representative of Dexia Crédit Local, Director of Guide Pratique de la Décentralisation (through June 2004)

Bruno Deletré 76 rue de la Victoire 75009 Paris	Permanent representative of Dexia Crédit Local, member of the Supervisory Board of Dexia Municipal Agency • Director of Dexia Finance • Director of Financial Security Assurance Holdings Ltd. • Chairman of Dexia Holdings Inc. • Director of Financial Security Assurance UK Ltd. • Director of Dexia Crediop • Chairman of the Supervisory Board of Dexia Hypothekenbank Berlin • Vice-Chairman of the Supervisory Board of Kommunalkredit Austria • Chairman of the Board of Directors of Dexia Sabadell Banco Local
Daniel Caille 7/11 quai André Citroen 75015 Paris	• Director of Progress • Chairman of the Supervisory Board of Domus Vi Holding • Member of the Supervisory Board of Dexia Municipal Agency • Chairman of the Board of Directors of Dexia CLF Banque • Chairman of the Supervisory Board of Dexia Sofaxis • Director of Dexia Habitat

Potential conflicts of interest among members of the Supervisory Board and of the Executive Board

At the date of this Prospectus, the Issuer confirms that there are no conflicts of interest material to the Notes between the duties of the members of the Supervisory Board and of the Executive Board to Dexia Crédit Local and their private interests and/or their other duties.

STATUTORY AUDITORS

The statutory auditors (*Commissaires aux Comptes*), who are members of the *Compagnie des Commissaires aux Comptes*, are appointed every six years by Dexia Crédit Local's shareholders to audit Dexia Crédit Local's accounts and financial reports. Dexia Crédit Local's statutory auditors appointed on 21 May 2002 for a six-year term are:

— MAZARS ET GUÉRARD
Le Vinci 4 Allée de l'Arche 92075 Paris La Défense Cedex
represented by Guillaume POTEL, Partner
and Anne VEAUTE Partner
Substitute: Yves ROBIN

— CADERAS MARTIN
76, rue de Monceau-75008 Paris
represented by Daniel BUTELOT, Partner
and Olivier AVRIL, Partner
Substitute: Benoït DESAUW

Caderas Martin and Mazars & Guérard are regulated by the *Haut Conseil du Commissariat aux Comptes* and are duly authorised as *Commissaires aux comptes*.

BUSINESS REVIEW BY COUNTRY

A LOCAL PUBLIC SECTOR MARKET

1 *Long-term lending*

General comment (excluding Germany)

Total new lending came to EUR 24.6 billion at 31 December 2004, including EUR 5.2 billion under off-balance sheet commitments (primarily in the United States).

The 7.3% decrease versus 2003 was heightened by the overall unfavorable impact of exchange rates; holding exchange rates constant, new lending fell by only 5.2%.

Business review by location

France

In 2004, Dexia Crédit Local confirmed its leadership in lending to all four segments of the local public sector market: local governments, public health, urban development and public housing, local business and social development.

- New lending reached a new historically high level, close to EUR 10 billion, and was up by nearly 40% over the past two years;
- Dexia Crédit Local confirmed its share of its local government market at over 42%, and increased its share of the public health sector to over 45%;
- With EUR 43.7 billion in outstanding loans to local governments at 31 December 2004, Dexia Crédit Local's market share rose to over 42%;
- Dexia is a leader in lending to the public housing market, alongside Caisse des Dépôts et Consignations;
- Dexia Crédit Local has successfully diversified its global financial service offerings, confirming its position as a global bank specializing in large institutional customers.

Dexia Crédit Local's French sales activity was very strong in 2004:

- Business with **local governments** increased by 16.4% over 2003, to EUR 6,302 million. This increase touched all of our customer segments, and major customers - the French administrative departments and regions in particular - demonstrated a return to borrowing, posting a 9.2% increase. Under these market conditions and despite intense competition in this segment, Dexia Crédit Local was able to secure its share of the market at 40%. The core target segment increased by 11% over 2003 thanks to the performances achieved on innovative products that were delivered to the sales network during the year. Having commenced operations in 2003, the sales departments in charge of the local customer segment posted an excellent 37% increase over 2004. This segment is considerably more fragmented and is less subject to swings in borrowing needs, permitting this new organization to prove its true capacity to take market share.
- Business with the other **local public sector** borrowers continued to increase sharply, rising 32% in 2004. Other local public sector borrowers now represent more than 35% of Dexia Crédit Local's long-term business and confirm our strategy of growing new markets. With EUR 1,308 million in new lending, the public health sector increased by 67.3%. This record level was driven

by the general buoyancy of the market, including the impact of the Hospital 2007 project, and by Dexia Crédit Local increasing its market share to over 46%. The urban development and public housing sector was up by 41.7%, with EUR 1,509 million in new lending. Lastly, the local business market was stable in 2004, despite the effect of a EUR 400 million non-recurring transaction carried out at the end of 2003 with the financing of special French assistance allowances to the elderly (FAPA). Dexia Crédit Local also carried out several large leasing transactions in this sector.

North and South America

New lending came to USD 8,291 million in 2004, down 1% over the previous year, as the strong volumes recorded during the second half of the year partially offset the drop recorded during the first six months. The market for variable-rate bond issues experienced a mild recovery in 2004 after having fallen by 10% the previous year, and new off-balance sheet financing came to USD 6,231 million, including credit enhancements on several notable issues such as the New York State Dormitory Authority (USD 483 million, provided by FSA), Economic Recovery Bonds for the State of California (USD 732 million, provided by FSA and XLCA) and Water Systems for the city of Chicago (USD 530 million, provided by MBIA). Investments made in tax-exempt bonds under the new Tender Option Bonds program that began in June amounted to USD 572 million at 31 December 2004.

Italy

After a record year for local public sector lending in 2003, results in 2004 were slightly less favorable, yet new lending remained high at EUR 3.7 billion. Business was particularly strong on international issues, which represented 40% of the new financing provided, and Dexia Crediop played leading roles and obtained numerous mandates in the principal transactions carried out by the Italian regions, including Piedmont (Dexia Crediop's share equaled EUR 217 million), Puglia (EUR 243 million), Lazio (EUR 100 million), Abruzzi (EUR 250 million), Friuli Venezia Giulia (EUR 220 million), Sardinia (EUR 200 million), Campania (EUR 100 million) and Liguria (EUR 200 million). Moreover, as part of the reopening of the international issue carried out in November 2003, the city of Rome entrusted Dexia Capital Markets with the mandate of Joint Bookrunner and Joint Lead Manager for a new EUR 400 million tranche maturing in 2033, in which Dexia Crediop invested an additional EUR 100 million. The most noteworthy securitization transaction carried out this year was for the Lazio region's public health receivables, in which Dexia Capital Markets acted as Joint Bookrunner and Joint Lead Manager of the issue of EUR 193 million asset-backed securities (ABS), subscribed entirely by Dexia Crediop.

Spain

Although local government demand remained low throughout the year, new lending rose to EUR 1,147 million in 2004, up 13.5% over the previous year. Dexia Crédit Local was involved in several large transactions during the year, including a 9-year EUR 94 million loan to the city of Madrid (on which the bank was up against a consortium comprising BBVA, SCH and Caja Madrid), a EUR 99 million loan for the Autonomous Community of Catalonia and a EUR 75 million participation in a syndicated loan for the Region of Valencia. Dexia Sabadell Banco Local also participated alongside DEPFA and Calyon in a 30-year EUR 500 million bond issue for the Autonomous Community of Catalonia (Cooke ratio 0), taking a EUR 125 million quarter share of the entire issue.

United Kingdom

New lending came to EUR 1,171 million at 31 December 2004, up 72% over 2003. Business in London was focused primarily on the local government sector throughout the year, with EUR 1,134 million in new lending, up 83% over 2003. Of note are the transactions carried out with the Camden London Borough Council and the city of Glasgow for EUR 63 million and EUR 44 million, respectively, as well as the acquisition of Barclays' LOBO portfolio for a total of EUR 265 million. In the public housing sector, the only transaction carried out in 2004 was a EUR 7 million loan for the Hanover Housing Association.

Slovakia

New lending came to EUR 246 million at 31 December 2004, up 50.8% over 2003. The increase was even more notable in the purely commercial business, with new lending to local governments (excluding purchases of sovereign issues) totaling EUR 157 million in 2004, nearly twice the amount achieved the previous year. The larger transactions carried out in 2004 include the EUR 5 million increase in outstanding loans to the city of Zilina and the restructuring of the debt of the city of Kosice. Lastly, Dexia banka Slovensko (DBS) set in place a EUR 85 million loan with Bratislava to finance primarily transportation infrastructure-related projects. This was DBS's first major transaction with the capital of the Slovak Republic, and the company faced stiff competition from Slovakian and multinational banks.

International Headquarters

New lending came to EUR 1,041 million in 2004, nearly three times the volume recorded in 2003.

- In Switzerland, new lending of EUR 461 million included three loans to the Canton of Geneva for a total of EUR 177 million.

- In Japan, new lending of EUR 289 million included two transactions with the city of Tokyo for a total of EUR 124 million.

- New lending in the rest of the world came to EUR 291 million, including three loans to Ports of the Azores, guaranteed by the Autonomous Region, for EUR 18.5 million. Moreover, Dexia Crédit Local actively developed its business in Poland in partnership with Kommunalkredit Austria (KA). The major transactions carried out in 2004 included a EUR 88 million long-term lending transaction for Warsaw and a score of transactions with other cities of varying sizes.

Israel

Given the extremely tense political and economic environment, the restrictive measures taken by Otzar Hashilton Hamekomi (OSM) and Dexia Crédit Local resulted in a sharp decrease in the subsidiary's business throughout the year. New long-term lending was limited by choice in 2004, and at EUR 74 million was down 29.3% versus the previous year. It should be noted that Dexia and the Israeli government have begun negotiations for lending to Israeli towns, allowing for a more favorable outlook in 2005.

Sweden

New lending came to EUR 849 million in 2004, up 87.7% over 2003. The year was marked by a higher proportion of structured transactions in both the Swedish and Finnish markets as well as the acquisition of EUR 27 million in securities for the Gothenburg county public transit authority.

Austria (49%-held company accounted for by the equity method)

Total originations came to EUR 2,950 million in 2004, up 22.9% over 2003.

- In Austria, new lending of EUR 514.5 million included EUR 42 million in public health loans for the Upper Austria region;

- In Switzerland, new lending of EUR 186.3 million included EUR 19.5 million for the Canton of Bern and EUR 57.8 million in transactions with the Canton of Geneva.

- In Central Europe, new lending was up sharply at EUR 923 million, with an especially large part in the form of bond issues in Poland, including transactions with the cities of Warsaw, Plock and Bydgoszcz for EUR 88 million, EUR 5.8 million and EUR 7.6 million, respectively. These transactions were shared with International Headquarters. Several transactions were also carried out in the Czech Republic, Hungary and Croatia.

- Lastly, total new lending includes assets relating to the temporary investment of part of the EUR 1 billion jumbo issue carried out by Kommunalkredit Austria AG in March 2004, pending the use of the funds in long-term loans.

Germany

Total originations came to EUR 9,351 million in 2004:

- The EUR 1.2 billion in total new lending signed by the Frankfurt office consisted primarily of EUR 1 billion in structured loans (175% over 2003), including loans for the cities of Hagen and Frankfurt-am-Main.

2 ***Outstanding loans***

Changes in outstanding loans

In 2004, outstanding long-term public sector loans were up 9.4% over the previous year, reaching EUR 152 billion at 31 December. At constant exchange rates this growth figure would have reached 10.8%.

The 8% total increase for all European locations was particularly important in the United Kingdom, Spain and Italy. In France, outstanding loans grew by only 4.7%, due to the cumulative impact of the slowing of the amortization of local government debt resulting from refinancing transactions and extensions of maturities in recent years and an increase in competition from other local participants in the sector. In Italy (10%), Spain (27%) and the United Kingdom (51%), the increase in outstanding loans was driven by the high levels of new lending attained during the previous twelve months.

In North and South America, outstanding loans increased by 15% over 31 December 2003, and by 24% at constant exchange rates, despite the slowdown in new lending observed in 2004.

Debt restructuring

In France, Dexia's debt restructuring business was down 18% in 2004, which remained an extraordinary year nonetheless. The slowdown observed with major customers at the start of the year (especially in the administrative regions and departments at the height of the electoral season) could not be made up entirely by the end of the year, however it was compensated by a very strong contribution from financially-innovative products.

Several large debt restructurings for a total of EUR 1.2 billion were carried out in Italy in 2004, including EUR 158 million for the Tuscany region, EUR 213 million for the city of Milan, EUR 141 million for the Piedmont region and a transaction whereby the Puglia region replaced bank debt with an international bond issue maturing in 2023, EUR 243 million of which was subscribed by Dexia Crediop.

3 ***Short-term lending***

Outstanding short-term loans came to EUR 6.2 billion at 31 December 2004. In France, where nearly 95% of these loans are made, the short-term business began to slow during the final quarter of 2003 following the French government's decision to modify regulations relating to payment facilities on new loans. Most of the outstanding short-term loans outside France are in Germany, Spain and Israel.

B STRUCTURED FINANCE

1 *Summary by location*

Total originations for the structured finance activity came to EUR 4,386 million in 2004, up from EUR 2,992 million the previous year. The strong increase reflects several large transactions in the Italian transportation sector.

France

Total new structured finance arranged was down 39.5% to EUR 397 million in 2004. Among the major transactions concluded during the year were a EUR 200 million innovative high added-value structure for Vinci Park and its subsidiaries and a new EUR 20 million line of financial guarantees for SITA set in place under regulations concerning the operation of final waste disposal sites. We arranged EUR 10 million in financing for two *gendarmeries* using a PPP model under the Orientation and Planning of Domestic Security Act (LOPSI), took part in a tax-structure transaction to finance locomotives for the Belgian national railroad company and took a EUR 22 million participation as Lead Arranger for the financing of the 3i investment fund's acquisition of Keolis. It is also worth mentioning our success in advisory services: Dexia is acting as financial advisor to the bidding parties on two of the three very large highway concession projects currently up for tender and is also acting as financial advisor to the bidding parties on new PPPs for the three largest projects currently underway: the first instalment of a building program for prisons and hospitals for the cities of Caen and Corbeil-Essonne.

North and South America

Structured finance originations were down 66% to EUR 116 million in 2004, due to a cautious environment in the electrical power industry. The New York branch signed its first mandate as Sole Lead Arranger and underwrote 100% of the financing for a 27 MW wind power generation farm near Oliver Springs, Tennessee. This transaction was syndicated successfully, and Dexia ended up with a USD 11.2 million share. Dexia New York was also named Lead Arranger for the refinancing of a 160 MW wind power generation project sponsored by Shell and Mitsui, taking a final share of USD 11 million. Lastly, Dexia New York signed the financing of two letters of credit for a total of USD 36 million in favor of tax-exempt bonds issued on behalf of the Northeastern Power Company (subsidiary of Tractebel), a coal-fueled cogeneration plant in Pennsylvania. The New York branch also obtained two financial advisor mandates, one with Osaka Gas for the acquisition of a natural gas-powered electric power station in Texas from Shell and the other with Diamond Energy (a Mitsubishi company) for the acquisition of two gas-powered electrical power stations in California from Intergen.

In the asset-based lending area, the emergence of a bill that would greatly reduce the feasibility of U.S. lease transactions prevented Dexia Crédit Local New York Branch from carrying out any such business during the first three quarters and prompted the decision to close Dexia GSF down for practical purposes. Dexia nonetheless participated in the financing of the acquisition of the international airport in Brussels (BIAC) by issuing a USD 25 million letter of credit.

Italy

Dexia Crediop generated EUR 2,061 million in originations in 2004, nearly five times the volume the company achieved the previous year. Dexia Crediop was much more active in the primary bond market, including its role as Co-Arranger on ISPA's EUR 1 billion bond issue to finance its TAV high-speed train project (Dexia Crediop ended up with a EUR 365 million share) and its EUR 600 million participation, in collaboration with Dexia Finance Italia, in two ISPA bond issues. Dexia also took a EUR 415 million participation in the Italian national railroad's EUR 830 million ABS issue.

Dexia Crediop also acted as Sole Arranger for the EUR 82 million financing of the Andretta Bisaccia wind power generation project led by EDF Energies Nouvelles (Dexia Crediop's final share equaled EUR 25.5 million), for the Nuove Acque project, the first PPP-type financing in the Italian water industry, and for the EUR 150 million loan (guaranteed by the region) on behalf of Fira Spa, a financial company controlled by the Abruzzi region. Dexia Crediop acted as Joint Lead Manager of a bond issue by Acquedotto Pugliese, a public sector water distribution company in the Puglia region. Dexia Crediop also acquired EUR 190 million in bonds issued by Autostrade, the highway operating company. Lastly, Dexia Crediop obtained nine new financial advisory mandates, with local governments privatizing certain activities and with private parties submitting bids under invitations to tender for various infrastructure projects.

Spain

Total originations rose 15.9% to EUR 225 million in 2004. Dexia Sabadell Banco Local (DSBL) arranged and underwrote the entire EUR 39 million tranche guaranteed by the European Investment Bank (EIB) put in place for the Meruelo project, a waste-treatment plant in the Cantabria region, the chief sponsor of which is a subsidiary of the ACS Dragados group. DSBL also arranged the financing (under the so-called "German system") for the highway linking Alicante to Elche in the Valencia region and for Almeria City's service centers project. A significant share of the business was carried out in the transportation sector, with DSBL obtaining three underwriting mandates (Barcelona subway system and Madrid and Vitoria Eibar tollroads) for a total of EUR 87 million. It should also be noted that DSBL participated in ten transactions totaling EUR 134 million in the infrastructure and wind power generation sectors, and participated for the first time in the financing of a biofuel plant.

United Kingdom

Originations were down 20.5% to EUR 513 million in 2004. The PFI business remained particularly strong, notably with the arrangement of four school financing projects (Exeter, Waltham Forest, Barking and Dagenham and Derby School) for a total of GBP 221 million before syndication, the GPB 37 million financing of the construction and maintenance of a hospital in Roehampton in the southwest section of London, and the financing of University Lewisham Hospital, in which Dexia Crédit Local ended up by taking a GBP 38.5 million share. These six mandates placed Dexia among the leading PFI banks in England. Dexia also signed six participations during the year for a total of GBP 88 million.

Slovakia

New long-term loan originations came to EUR 88 million in 2004, two and one-half times the volume recorded in 2003. The most significant long-term financing was for a EUR 20 million loan to ZS, the entirely state-owned corporation responsible for the national railroad's sales-related activities.

International Headquarters

New long-term lending was up 46% to EUR 876 million in 2004. In the energy sector, Dexia consolidated its presence with important customers and sponsors by arranging the financing for Babcock's acquisition of Oviedo's 158 MW wind power generation farm and the financing for the

Cabezo San Roque wind power generation farm in Aragon: the trade magazine Infrastructure Journal acknowledged Dexia's transactions in the renewable energies sector in 2004 (in Italy and the United States as well as in Spain) by honoring Dexia as "2004 Renewables Arranger of the Year". Dexia also underwrote a total of USD 350 million, including USD 120 million (final share equaled USD 67 million) on the financing of the oil pipeline between Baku and Ceyhan on the Turkish coast, USD 130 million on the Qatargas II LNG project (currently being syndicated) and USD 100 million on the pre-financing of Gazprom's sales to Transgaz. In the telecommunications sector, Dexia was mandated Lead Arranger in the EUR 165 million syndicated loan on behalf of Invitel, the second-largest telephone operator in Hungary, and underwrote EUR 50 million in the refinancing of One, the third-largest cellular telephone operator in Germany. In the infrastructure sector, Dexia participated for a total of EUR 41 million in the financing of Terminal II of the Warsaw airport, a section of the toll road between Zagreb and the Slovenian border, the M5 highway in Hungary, and Europass, which operates the concession for an electronic toll system for trucks in Austria, the last three of which alongside Kommunalkredit.

Moreover, the financial advisory mandate from Colas on the restoration project for the road system for the city of Portsmouth was successfully completed when all contractual and financial documents were signed at the end of July. This EUR 100 million project is the first of its kind ever to be structured under a PFI.

Asia-Pacific

Created in the first quarter of 2004, the Dexia Crédit Local Sydney subsidiary carried out its first transactions, notably underwriting an AUD 114 million loan for a freeway between Mitcham and Frankston. Dexia Crédit Local Asia Pacific Pty also took two participations, an AUD 30 million PFI-type loan for two prisons and an AUD 35 million loan in the refinancing of the Loy Yang [A] coal-fueled electrical power plant subsequent to its acquisition by a consortium led by AGL and Tepco.

Austria (49%-Held Company Accounted For By The Equity Method)

New lending was down 77.1% to EUR 60 million in 2004, including notably Kommunalkredit Austria AG's participation in the financing of the TAV high-speed train project for ISPA and its EUR 14 million participation in the Europass electronic toll project.

2 *Long-term lending*

Total outstanding long-term structured finance loans rose 13.7% year-on-year to EUR 11.3 billion at 31 December 2004. Strong increases in Italy and Spain more than compensated for the decline in North and South America.

C INSURANCE

1 *Dexia Sofaxis*

The year was marked by positive signs from companies announcing a cautious return to underwriting, paired with increased vigilance with regard to generating profitable business. Under these conditions, EUR 343 million in premiums were issued in 2004, up 15.2% over 2003. Commissions earned are valued at EUR 40.4 million. The statutory insurance market continued to languish, and the first signs of a technical recovery are expected to be confirmed in 2005.

2 *Dexia Épargne Pension*

The public sector life insurance activity was very active, with EUR 63 million in funds collected in 2004 including EUR 24 million in social engineering and EUR 39 million in capitalization pension plans. At 31 December 2004, over two hundred of our customers had public sector insurance, including some 50 public housing bodies, more than 40 public-private joint ventures (SEM) and 10 consular offices. The funds collected by the associated networks, VCFux Funéraires, Nortia Créatis, Crédit Social des Fonctionnaires, which were joined by Mutuelle Générale de l'Équipement et des Territoires in late 2004, were up 17.9% over the previous year to EUR 105 million.

D FINANCIAL SECURITY ASSURANCE ("FSA")

FSA originated USD 927 million of new business in interest margin and PV premiums in 2004, up 3.6% over the previous record set in 2003.

The very high level of originations recorded during the year drove net insured capital 11% higher to USD 454 billion at 31 December 2004.

1 *Municipal finance*

FSA recorded USD 558 million in PV premiums in 2004, down 8.9% compared with 2003.

In the United States, municipal bond issue volumes continued to trend downward in the fourth quarter (down 2.2% versus the fourth quarter of 2003). On total municipal issues of USD 360 billion in 2004, FSA's year-on-year decline amounted to 6.1%, while the penetration rate for credit enhancement increased to 54% from 50% in 2003. Stronger competitive pressure, notably from XLCA and FGIC (subsequent to its being acquired by American investors) which are penetrating market segments in which they had never before been present, and the aggressive levels of premium offered customers, notably by MBIA and AMBAC, induced FSA to reduce its market share. During the year, FSA insured issues with a (gross) par value of USD 49 billion, giving it a 24% market share, down from 27% in 2003, and generating USD 434 million in PV premiums.

The hospital sector generated the most originations, with twenty-nine transactions totaling USD 139 million in PV premiums. Four large transactions in this market are worth noting, namely credit enhancement on USD 350 million in bond issues for Kaiser Permanente, the Oakland, California-based healthcare provider (USD 10 million in premiums), USD 170 million for Fletcher Allen Health Care, a network of hospitals located in Vermont and New York State (USD 11 million in premiums), USD 250 million for Methodist Healthcare of Tennessee (USD 11 million in premiums) and USD 111 million for the Blanchard Valley Regional Health Center in Ohio, to finance construction of a new six-storey building (USD 11 million in premiums). It should also be noted that in 2004 the company signed major transactions in the transportation sector with the Dallas Fort Worth Airport, Hartsfield-Jackson Atlanta International Airport - the busiest airport in the world - the Maryland Transportation Authority and the Metropolitan Washington Airports Authority, generating a total of USD 16 million in PV premiums for USD 1 billion in total insured par value.

Four important transactions carried out in other sectors in 2004 are worth citing, namely a transaction with Citizens Property Insurance (an insurance company created by the State of Florida for providing insurance coverage to those who cannot obtain commercial insurance) for an insured par value of USD 350 million, which generated USD 5 million in premiums; credit enhancement of a USD 102 million bond issue for the city of Philadelphia to finance the proposed investments of its Philadelphia Gas Works subsidiary specialized in the storage and distribution of natural gas, which generated USD 7.3 million in premiums; enhancement of a USD 474 million share of the USD 11 billion in total bonds issued by the State of California, which generated USD 3.3 million in premiums; and enhancement of a USD 849 million share of the USD 3.2 billion in total bonds issued by the city of Atlanta to finance the renovation program of its water company, which generated USD 4.9 million in PV premiums.

Outside France, originations generated USD 124 million in PV premiums, more than half of which in the United Kingdom. Among these transactions it is worth mentioning the enhancement of a GBP 149 million bond issue for the Artesian Finance Program to finance Southern Water (water company operating in the south of England), which generated USD 12 million in PV premiums. On the European continent (excluding the United Kingdom), although FSA's business was impacted by the cancellation of two of its mandates (for Spanish and Portuguese highways), the company did close a significant transaction with the Italian water company Acquedotto Pugliese, generating USD 11 million in premiums.

2 *Asset-backed securities*

FSA generated USD 369 million in interest margin and PV premiums in the ABS sector in 2004, a 31.0% year-on-year increase.

ABS origination in the **United States** came to USD 311 million, with residential real estate proving to be the most active market: FSA carried out numerous transactions involving the enhancement of AAA tranches and Net Interest Margin (NIM) transactions, along with an important transaction (USD 12 million in premiums) with Fannie Mae (Federal National Mortgage Association), and the real estate market as a whole generated total premiums of USD 94 million.

The Collateralized Debt Obligation (CDO) market also enjoyed high growth in 2004, generating USD 96 million in PV premiums.

In the consumer finance sector, two important transactions with car loan provider AmeriCredit are worth mentioning, each for a par value of USD 750 million and giving rise to USD 5.0 million and USD 5.6 million in premiums, respectively.

The Guaranteed Investment Contracts (GIC) business continues to grow nicely: deposits reached USD 6.0 billion in 2004 and this activity generated USD 74 million in discounted interest margin.

Outside France, FSA originated USD 58 million in new business, USD 34 million of which was on CDOs and, more particularly, Credit Default Swap (CDS) synthetic securitization transactions. The largest transaction of the year was in Australia, where FSA guaranteed a transaction with the airport of Sydney, already enhanced by MBIA (USD 6.7 million in premiums).

E DEPOSITS AND ASSETS MANAGED

Assets managed in connection with Dexia Crédit Local's first line of business continued to rise, and were up 20% year-on-year at EUR 7,044 million at 31 December 2004.

In France, assets managed increased by 25% to EUR 4.3 billion at 31 December 2004. Mutual fund assets broke the EUR 2 billion mark.

In Italy, assets managed increased by 11% to EUR 1.7 billion at 31 December 2004. It should be noted that a significant share of these deposits are related to the contract Dexia Crediop obtained in early 2003 to manage the entire, nearly EUR 650 million asset portfolio of INAIL, the institution responsible for injury-related workman's compensation payments.

F FUNDING AND FINANCIAL MARKETS

1 *Funding*

The Dexia Crédit Local Group raised EUR 31.3 billion from long-term markets in 2004, up from EUR 22 billion in 2003. Total funds raised excluding FSA came to EUR 27 billion, significantly higher (38%) than the previous year. The average cost of funding came to 3-month Euribor + 0.5 bp (compared to Euribor + 1.7 bp in 2003), on an average maturity of 7.5 years (compared to 6.3 years in 2003).

The funding program included the following:

- **Public issues:** EUR 7.9 billion (up 9% over 2003)

  Access to public issues is restricted to the Group's AAA-rated issuers. Dexia Municipal Agency, the Group's largest issuer in this segment, continued to develop its euro yield curve and pursue its international diversification strategy. Thus, in more than three transactions similar to existing benchmarks for a total of EUR 1.4 billion, Dexia MA created three new yield curve benchmarks, each with EUR 1.0 billion in assets (2.5 and 7 years). In foreign currencies, Dexia MA rounded out its Australian dollar yield curve with two domestic issues at 5 years and 10 years and created new benchmarks in Swiss francs and pounds sterling on maturities of between two and seven years. Lastly, Dexia MA targeted investors in Hungarian forints and New Zealand dollars. Total funding in foreign currencies other than euro amounted to the equivalent of EUR 1.2 billion. Dexia Hypothekenbank Berlin (DHB) launched two benchmarks, one at 3 years (EUR 1.25 billion) and the other at 6.5 years (EUR 1 billion) in order to refinance large Jumbo CD maturities.

- **Private placements:** EUR 14.3 billion (up 60% over 2003)

  Use of this method of funding increased quite significantly for all Group issuers. Dexia MA raised EUR 2.6 billion (up 176% over 2003), representing more than 30% of its total annual funding. DHB turned to the deep German market to raise EUR 7.5 billion (up 35% over 2003). Dexia Crediop took advantage of a highly active Italian market that is often problematic for foreign issuers to raise EUR 2 billion (up 83% over 2003), representing more than 37% of its total annual funding. Dexia Crédit Local benefited from investors' appetite for structured products to leverage up a record volume of EUR 2.2 billion (up 60% over 2003) in funding. Overall, although average maturities remain long for AAA companies (Dexia MA at 12.8 years and DHB at 9.2 years), they are getting longer in the approximately 5-to-7-year range for AA companies as investors seek higher returns.

- **Retail issues:** EUR 3.5 billion (up 107% over 2003)

  Dexia MA's retail issues with the Dexia Group amounted to EUR 133 million. Retail issues with non-Group customers increased significantly to EUR 3.4 billion, primarily under the impetus of Dexia Crediop. Through partnerships with retail banking networks, Dexia Crediop was able to meet significant demand from Italian private investors by distributing 48 issues for a record total of EUR 2.9 billion (up 110% over 2003), representing 54% of its total annual funding program. Dexia Crédit Local targeted Japanese private investors with a 3-year AUD 715 million issue (EUR 421 million).

- **Specific resources:** EUR 1.3 billion (down 21% from 2003)

  Dexia Crediop and Dexia Crédit Local each made several drawings in relation to specific large projects. Dexia Crediop drew down EUR 475 million, 35% less than in 2003, and Dexia Crédit Local drew down EUR 699 million, 7% more than the previous year. For the fourth consecutive year, Dexia MA issued an EMTN program for the European Investment Bank (EIB), in a 10-year USD-denominated transaction worth EUR 100 million.

2 *Financial Markets*

In 2004, all the activities of Dexia's fourth line of business profited from positive expectations for financial market trends marked by:

- a flattening of the yield curve: uncertainties regarding U.S. employment, the European economy's strong reliance on high exports and the euro's gain against the dollar led to a drop in

European long-term interest rates and a flattening of the short end of the EUR and USD yield curves;

- the fall in credit spreads that began in 2003 continued in an environment marked by a fall-off in bankruptcies, good bank earnings and a strong demand for credit-related financial assets.

Under these conditions, the earnings on Dexia Crédit Local's fourth line of business in 2004 were excellent and well above budget.

- **Credit Spread Portfolio** (Paris, Dublin, Rome and New York): Dexia Crédit Local's total Credit Spread Portfolio increased 1% during the year to around EUR 21 billion, despite an unfavorable dollar effect and in spite of the sale of a large share of the credit default swap portfolio prior to the adoption of IFRS. The average maturity of outstanding loans remained stable at 7.4 years at 31 December 2004. The acquisition strategy concentrated primarily on bank debt, on issues secured by credit default swaps and on sovereign issues.

- **Long Term Funding** (Paris, Rome, Berlin): record funding volumes (see above).

- **Fixed-Income** (Rome): sharp increase in bond originations, in the Italian banking and public sectors.

- **Financial Engineering and Derivatives** (Rome and Paris): the fourth quarter 2004 was marked by the launch of the macro hedging desk in Paris, an activity which allows us to internally hedge certain small structured loans made to French local governments by Dexia's first line of business. Several similar transactions were also carried out with Dexia Banque for customers in Belgium. We also increased our distribution of derivatives to banks and Italian institutional customers in Rome considerably in 2004.

- **Money Market** (most locations): the Paris and New York desks were able to protect the gains they made on dollar positions, despite the rise in U.S. rates.

Management and control procedures have not changed noticeably. The Treasury and Financial Markets (TFM) committees that started up in 2004 have all been working satisfactorily, as are the Financial Markets committees of the different Dexia Crédit Local Group entities.

Dexia Crédit Local's consolidated VaR in interest rates is well below the limit.

MATERIAL CONTRACTS

Dexia Municipal Agency

The "declaration of financial support" agreement between Dexia Crédit Local and Dexia Municipal Agency, which was approved by the Shareholders' Meeting of 10 January 2000, benefits to the holders of asset-backed securities issued by Dexia Municipal Agency. This agreement stipulates that Dexia Crédit Local will hold over 95% of the share capital of Dexia Municipal Agency on a long-term basis. In addition, Dexia Crédit Local will ensure that Dexia Municipal Agency develops its activity in compliance with the requirements of articles L. 515-13 through L. 515-33 of the French Financial and Monetary Code concerning mortgage credit companies and has the financial resources it needs to meet its obligations.

OUTLOOK

The local government sector remains in the foreground in the European Union. Local government budgets now represent EUR 1,300 billion, nearly 13% of total European gross domestic product (GDP) and over one-fourth of all public spending, and the EUR 150 billion in local government investment represents on average nearly two thirds of all public-sector capital spending.

In most countries, local governments now help central governments manage public policies, or are directly responsible for them, in such areas as education, social welfare and aid and local public services. Their authority continues to increase with the implementation of decentralization policies, especially in France and the new member states of the European Union. In recent years, local government has become very active in the environment, an area that is certain to continue to develop in light of public needs and increasingly stringent quality standards.

Moreover, European authorities' strategy to make Europe financially competitive requires a new effort in terms of communications and telecommunications infrastructures. This should incite local governments to increasingly turn to debt financing and public-private partnerships to accelerate their projects.

The U.S. and Japanese local government sectors also play an important role in public-sector capital spending, and local debt has grown in recent years. In 2005 it is likely that the borrowing market will cool, given the expected improvement of local tax revenues and, in certain cases, due to the impact of specific budget-reduction policies.

Under these conditions, Dexia Crédit Local will continue to expand its product and service offering in Europe and the United States and should assist numerous countries with the development of public-private partnership projects. A new geographical growth phase will moreover be launched, with new front offices opened in Central and Eastern Europe, Japan, Mexico and Canada.

Medium and long term debt in the form of the notes issued by Dexia Crédit Local since 1 January 2005 :

Between 1 January 2005 and 20 October 2005, Dexia Crédit Local has issued debt securities for an amount of € 2,961,913,683.49 under the Euro Medium Term Note Programme and € 145,050,000 on a stand-alone basis.

SELECTED FINANCIAL STATEMENTS

SUMMARY CONSOLIDATED AUDITED FINANCIAL STATEMENTS OF DEXIA CRÉDIT LOCAL FOR THE YEAR ENDED 31 DECEMBER 2004

The consolidated balance sheet, the consolidated income statement, the accounting policies and explanatory notes for the financial years ended 31 December 2004 and 2003 are included in the documents incorporated by reference in this Prospectus.

Consolidated balance sheet

Assets

	At December 31	*Note*	2002	2003	2004
				(EUR millions)	
(1)	Cash, central banks and postal checking accounts	*2.0*	644	325	252
(2)	Government securities eligible for central bank financing	*2.1*	5,503	3,461	8,686
	(a) Banking activity and other		3,330	3,253	8,420
	(b) Insurance activity		2,173	208	266
(3)	Interbank loans and advances		7,431	9,755	12,105
	(a) Sight		526	670	1,568
	(b) Time	*2.2*	6,905	9,085	10,537
(4)	Customer loans	*2.3*	86,029	88,434	95,506
(5)	Bonds and other fixed-income securities	*2.4*	55,726	58,511	72,466
	(a) Banking activity and other		44,768	51,175	62,735
	(i) Government bonds		17,579	19,945	26,252
	(ii) Other bonds		27,189	31,230	36,483
	(b) Insurance activity		10,958	7,336	9,731
(6)	Equities and other variable-income securities	*2.5*	291	194	505
	(a) Banking activity and other		291	194	495
	(b) Insurance activity		0	0	10
(7)	Long-term investments	*2.6*	855	671	692
	(a) Investments in companies accounted for by the equity method		442	303	308
	(b) Investments at cost		413	368	384
	(i) Banking activity and other		400	359	377
	(ii) Insurance activity		13	9	7
(8)	Intangible assets		1,600	1,532	1,434
	(a) Organization expenses and other intangible assets	*2.9*	47	46	56
	(b) Goodwill arising on consolidation	*2.8*	1,553	1,486	1,378
(9)	Property and equipment	*2.10*	156	147	122
(10)	Unpaid capital		0	0	0
(11)	Uncalled capital		0	0	0
(12)	Treasury stock	*2.14*	0	0	0
(13)	Other assets	*2.12*	2,979	3,981	5,890
	(a) Banking activity and other		2,617	3,655	5,552
	(b) Insurance activity		362	326	338
(14)	Accruals and other assets	*2.11*	7,279	7,153	8,373

At December 31	Note	2002	2003	2004
Total assets		168,493	174,164	206,031

(*EUR millions*)

Liabilities and shareholders' equity

	At December 31	Note	2002	2003	2004
				(EUR millions)	
1	Interbank loans and deposits		41,582	44,084	52,164
	(a) Sight		5,911	2,583	2,907
	(b) Time	3.1	35,671	41,501	49,257
2	Customer deposits	3.2	7,833	10,235	14,088
	(a) Savings accounts		0	0	0
	(b) Other deposits		5,612	5,353	6,627
	(i) Sight		995	1,230	1,318
	(ii) Time		4,617	4,123	5,309
	©Insurance activity		2,221	4,882	7,461
3	Debt securities	3.3	100,662	99,157	116,096
	(a) Banking activity and other		91,601	98,696	115,801
	(i) Notes and bonds		69,419	66,000	75,202
	(ii) Other		22,182	32,696	40,599
	(b) Insurance activity		9,061	461	295
4	Other liabilities	3.12	2,625	1,941	2,177
	(a) Banking activity and other		1,687	978	1,161
	(b) Insurance activity		938	963	1,016
5	Accruals and other liabilities	3.4	7,277	9,512	11,656
6	Reserves and provisions		935	918	876
	(a) Contingencies and charges	3.5	298	279	235
	(b) Deferred taxes	3.6	451	484	530
	© Insurance activity	3.5	186	155	111
7	General banking risks reserve	3.7	478	478	478
8	Subordinated debt	3.8	2,144	2,925	3,483
9	Minority interests	3.10	924	686	693
	Consolidated shareholders' equity	3.10	4,033	4,228	4,320
10	Capital stock	3.10	1,327	1,327	1,327
11	Additional paid-in capital	3.10	1,087	1,087	1,087
12	Reserves and retained earnings	3.10	1,231	1,348	1,463
13	Revaluation reserve		0	0	0
14	Negative goodwill arising on consolidation	2.8	0	15	0
15	Cumulative translation adjustments	3.10	(66)	(166)	(262)
16	Consolidated net income for the year	3.10	454	617	705
17	Interim dividends		0	0	0
	Total liabilities and Shareholder's equity		168,493	174,164	206,031

CONSOLIDATED OFF-BALANCE SHEET ITEMS

	At December 31	*Note*	2002	2003	2004
				(EUR millions)	
1	Contingencies	*4.1*	16,236	19,598	23,703
2	Financing commitments	*4.2*	23,506	25,384	22,376
3	Assets held on behalf of third parties	*4.3*	0	0	0
4	Amounts due on shares in affiliates		0	0	0
5	Commitments received		103,717	93,608	103,120
	(a) Finance commitments received	*4.8*	7,265	7,041	4,838
	(b) Guarantees received		8,590	9,732	12,295
	© Commitments received by insurance companies	*4.12*	87,862	76,835	85,987
6	Commitments related to foreign currency transactions		111,282	97,202	108,224
	(a) Amounts receivable		55,275	47,527	52,402
	(b) Amounts to be delivered	*4.4*	56,007	49,675	55,822
7	Commitments related to derivatives	*4.4*	513,075	547,038	613,473
8	Commitments related to securities transactions	*4.10*	4,385	2,320	4,035
9	Other commitments given		348,560	317,424	335,691
	(a) Banking activity and other		7,336	7,501	10,508
	(b) Insurance activity	*4.12*	341,224	309,923	325,183

CONSOLIDATED INCOME STATEMENT

	At December 31	Note	2002	2003	2004
			(EUR millions)		
1	Interest income	5.0	16,205	14,390	16,440
	(a) Interbank transactions		2,481	2,583	2,956
	(b) Customer loans		11,647	9,950	11,456
	© Bonds and fixed-income securities		2,077	1,857	2,028
2	Interest expense	5.0	(15,423)	(13,439)	(15,597)
	(a) Interbank transactions		(3,492)	(3,243)	(3,671)
	(b) Customer deposits		(8,125)	(6,965)	(8,855)
	© Bonds and fixed-income securities		(3,806)	(3,231)	(3,071)
3	Income from variable-income securities		18	18	13
	(a) Equities and other variable-income securities		2	1	0
	(b) Long-term investments	5.1	16	17	13
4	Commission income	5.2	67	77	75
5	Commission expense	5.2	(13)	(16)	(19)
6	Gains (losses) on trading securities transactions	5.3	175	86	189
7	Gains (losses) on securities available for sale transactions	5.3	(42)	11	5
8	Other banking income		136	125	152
9	Other banking expense		(108)	(99)	(111)
10	Underwriting and investment income from insurance activity	5.12	387	453	468
	Net banking income		1,402	1,606	1,615
11	Total general operating expenses		(431)	(433)	(443)
	(a) Payroll costs	5.4	(231)	(237)	(253)
	(i) Wages and salaries		(156)	(157)	(169)
	(ii) Payroll taxes		(75)	(80)	(84)
	(b) Other general operating expenses		(143)	(144)	(140)
	(i) Taxes other than on income		(20)	(17)	(11)
	(ii) Other		(123)	(127)	(129)
	© Deferred acquisition costs		(57)	(52)	(50)
12	Depreciation, amortization and allowances				
	for impairment in value of assets		(40)	(40)	(45)
	Operating income before cost of risk		931	1,133	1,127
13	Cost of risk	5.5	(134)	(52)	(13)
	Operating income		797	1,081	1,114
14	Income (losses) from companies accounted for by the equity method		71	23	39
	(a) Income		72	32	39
	(b) Losses		(1)	(9)	0
15	Net gains (losses) on fixed assets		(8)	8	8
	(a) Intangible assets, property and equipment		0	1	10
	(b) Long-term investments	5.6	(8)	7	(2)

	At December 31	Note	2002	2003	2004
			(EUR millions)		
	Recurring income before income taxes		860	1,112	1,161
16	Non-recurring items	5.7	0	0	0
17	Corporate income tax	5.9	(229)	(314)	(307)
	(a) Current taxes		(221)	(284)	(256)
	(b) Deferred taxes		(8)	(30)	(51)
18	Amortisation of goodwill		(93)	(89)	(78)
	(a) Consolidated companies		(83)	(80)	(70)
	(b) Companies accounted for by the equity method		(10)	(9)	(8)
19	Net allocation to the general banking risks reserve		0	0	0
20	Minority interests		84	92	71
	Consolidated net income		454	617	705
	Earnings per share (EUR)	5.13	5.22	7.09	8.10
	Diluted earnings per share (EUR)		5.22	7.09	8.10

The notes to the consolidated annual audited financial statements, including a description of the accounting policies, are set out on pages 70 to 136 Dexia Crédit Local's 2004 Annual Report, which notes are incorporated herein by reference.

Dexia Crédit Local - Cash flow statement

(in millions of EUR)	Dec. 31, 2003	Dec. 31, 2004
Operating activities		
Consolidated net income	617	705
Minority interests in consolidated net income	92	71
Income of companies accounted for under the equity method	(23)	(39)
Dividends from companies accounted for under the equity method	19	23
Amortization of capital expenditure on tangible and intangible assets	40	45
Amortization of goodwill	89	78
Allowances for loan losses	(69)	12
Allowances on securities available for sale and investment securities	(32)	(37)
Allowances on long-term investments	41	3
Change in provisions	0	(73)
Change in general banking risks reserve	0	0
Deferred taxes	30	51
Capital gains or losses on securities available for sale, investment securities and other assets	(20)	24
Change in operating working capital requirements	3 810	1 839
Increase (decrease) of operating cash flow	4 594	2 702
Investing activities		
Acquisition of tangible assets	(19)	(17)
Acquisition of intangible assets	(26)	(31)
Acquisition of long-term investments	(266)	(215)
Sale of tangible assets	6	30
Sale of long-term investments	109	75
Increase (decrease) of net cash from investing activities	(196)	(158)
Financing activities		
Capital increase	0	0
Increase of additional paid-in capital	(3)	(1)
Increase of capital/additional paid-in capital received from third parties	7	3
Issue/reimbursement of subordinated debt	907	663
Purchase/sale of treasury shares	0	0
Dividends paid	(336)	(501)
Dividends paid to minority interests	(32)	(47)
Increase (decrease) of net cash from financing activities	543	117
Net increase in net cash and cash equivalents	4 941	2 661
Net cash and cash equivalents at the beginning of the year (excluding outstanding accrued interest)	(4 521)	(1 628)
Net increase in net cash and cash equivalents	4 941	2 661
Effects of exchange rates changes on cash and cash equivalents	(404)	241
Effects of changes in scope of consolidation on cash and cash equivalents	(1 644)	
Net cash and cash equivalents at the closing of the year (excluding outstanding accrued interest)	(1 628)	1 274

The cash flow statements detailed above have been drawn up in October 2005 on the basis of certified accounting data solely and exclusively for the purpose of the compliance of the Prospectus with the requirements of Directive 2003/71/EC (the "Prospectus Directive")

As a consequence, these cash flow statements have been established after the date on which the audited consolidated financial statements for the financial years 2003 and 2004 have been approved and published and therefore they have not been audited by the statutory auditors of the Issuer,

The cash flow statements for the financial years 2003 and 2004 are based on the audited financial statements of the said years which method of calculation and calculations themselves have been approved by the statutory auditors of the Issuer.

INTERIM CONSOLIDATED (UNAUDITED) FINANCIAL STATEMENTS OF DEXIA CRÉDIT LOCAL FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005 SUBJECT TO A LIMITED REVIEW OF THE AUDITORS

Dexia Crédit Local - consolidated balance sheet				
	Assets **(EUR millions)**	**At 31 Dec. 2004 (IFRS 2004)**	**At 1st January 2005 (EU IFRS)**	**At 30 June 2005 (EU IFRS)**
I.	**Cash, central banks and postal checking accounts**	**252**	**252**	**547**
II.	**Financial assets at fair value through profit and loss**	**9,047**	**9,211**	**15,884**
III.	**Derivatives used for hedging purposes**	**5,292**	**7,327**	**8,408**
IV.	**Available for sale financial assets**	**70,262**	**73,433**	**93,501**
V.	**Interbank loans and advances**	**12,278**	**12,888**	**17,882**
VI.	**Customer loans and advances**	**98,167**	**100,009**	**103,666**
VII.	**Remeasurement adjustment on interest rate risk hedged portfolios**		**220**	**513**
VIII.	**Held to maturity financial assets**	**1,450**	**1,740**	**1,761**
IX.	**Current tax assets**	**122**	**120**	**147**
X.	**Deferred tax assets**	**61**	**29**	**23**
XI.	**Accrued income and other assets**	**6,189**	**6,113**	**9,380**
XIII.	**Investments in associates**	**304**	**313**	**323**
XIV.	**Investment property**	**2**	**2**	**2**
XV.	**Property and equipment**	**148**	**148**	**165**
XVI.	**Intangible assets**	**56**	**56**	**60**
XVII.	**Goodwill**	**1,468**	**1,468**	**1,468**
	Total assets	**205,098**	**213,329**	**253,730**

The information for opening balance sheet at 1 January 2005 cannot be yet considered definitive. However, Dexia Credit Local believes that any remaining differences would not have a material impact on the information that is presented. Moreover, new standards and interpretations may yet be issued by December 2005.

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission

IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

Dexia Crédit Local - consolidated balance sheet				
	Liabilities (EUR millions)	At 31 December 2004 (IFRS 2004)	At 1 January 2005 (EU IFRS)	At 30 June 2005 (EU IFRS)
I.	Central banks and postal checking accounts	1,657	1,657	2,330
II.	Financial liabilities at fair value through profit and loss	2,047	3,278	3,991
III.	Derivatives used for hedging purposes	8,907	12,876	15,618
IV.	Interbank loans and deposits	50,074	50,331	55,301
V.	Customer borrowings and deposits	12,480	12,590	19,073
VI.	Debt securities	117,080	118,333	141,013
VII.	Remeasurement adjustment on interest rate risk hedged portfolios		1,145	1,319
VIII.	Current tax liabilities	97	97	61
IX.	Deferred tax liabilities	535	545	595
X.	Accrual expenses and other liabilities	2,922	2,940	3,499
XII.	Technical provisions of insurance companies	105	105	127
XIII.	Provisions	130	130	138
XIV.	Subordinated and convertible debts	3,482	3,487	4,606
XV.	Shareholders' equity	5,582	5,815	6,059
XVI.	Shareholders' equity (group share)	4,880	5,104	5,286
XVII.	Capital stock and additional paid-in capital	2,414	2,414	2,414
XVIII.	Retained earnings	1,791	2,262	1,683
XIX.	Unrealised or deferred gains and losses	(96)	428	796
XX.	Net income for the period	771	0	393
XXI.	Minority interests	702	711	773
	Total liabilities	205,098	213,329	253,730

The information for opening balance sheet at 1 January 2005 cannot be yet considered definitive. However, Dexia Credit Local believes that any remaining differences would not have a material impact on the information that is presented. Moreover, new standards and interpretations may yet be issued by December 2005.

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission

IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

Dexia Crédit Local - Consolidated income statement				
	(EUR millions)	Half-Year 2004 (IFRS 2004)	Year 2004 (IFRS 2004)	Half-Year 2005 (EU IFRS)
I.	**Interest income**	**10,082**	**23,016**	**13,109**
II.	**Interest expense**	**(9,525)**	**(21,917)**	**(12,482)**
III.	**Commission income**	**53**	**101**	**55**
IV.	**Commission expense**	**(12)**	**(25)**	**(14)**
V.	**Net gain/loss on financial instruments at fair value through profit or loss**	**30**	**69**	**(36)**
VI.	**Net gain/loss on available for sale financial assets**	**(5)**	**3**	**48**
VII.	**Income from other activities (1)**	**243**	**800**	**277**
VIII.	**Expenses from other activities (1)**	**(86)**	**(477)**	**(128)**
IX.	**Net banking income**	**780**	**1,570**	**829**
X.	**Operating expenses**	**(213)**	**(442)**	**(252)**
XI.	**Depreciation, amortisation and impairment of property and equipment and intangible assets**	**(19)**	**(43)**	**(19)**
XII.	**Gross operating income**	**548**	**1,085**	**558**
XIII.	**Cost of risk**	**8**	**25**	**(6)**
XIV.	**Operating income**	**556**	**1,110**	**552**
XV.	**Income (losses) from companies accounted for by the equity method**	**31**	**35**	**30**
XVI.	**Net gain/loss on other assets**	**12**	**14**	**3**
XVII.	**Change in value of goodwill**			
XVIII.	**Net income before income taxes**	**599**	**1,159**	**585**
XIX.	**Corporate income tax**	**(163)**	**(309)**	**(157)**
XXI.	**Net income**	**436**	**850**	**428**
XXII.	**Minority interests**	**(44)**	**(79)**	**(35)**
XXIII.	**Net income before minority interests**	**392**	**771**	**393**
	- Earnings per share, group share	4.50	8.86	4.52
	- Diluted earnings per share, group share	4.50	8.86	4.52
(1) of which technical margin of insurance companies		**159**	**317**	**150**

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission

IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

Dexia Crédit Local - Consolidated cash-flow statement (EUR millions)	At 31 Dec. 2004 (IFRS 2004)	At 1st January 2005 (EU IFRS)	At 30 June 2005 (EU IFRS)
Cash flow from operating activities			
Net income after income taxes	436	850	428
Adjustment for:			
- Depreciation, amortization, and other impairment	20	49	21
- Impairment on bonds, equities, loans and other assets	(5)	(19)	0
- Net gains on investments	(13)	(18)	(20)
- Charges for provisions	(37)	(81)	(2)
- Unrealized gains or losses	(14)	12	34
- Income from associates	(31)	(37)	(30)
- Dividends from associates	13	23	18
- Deferred taxes	41	77	9
- Other adjustments	0	0	0
Changes in operating assets and liabilities	771	(60)	2,391
Net cash provided (used) by operating activities (1)	**1,181**	**796**	**2,849**
Cash flow from investing activities			
Purchase of fixed assets	(19)	(56)	(47)
Sales of fixed assets	28	30	9
Acquisitions of unconsolidated equity shares	(30)	(181)	(33)
Sales of unconsolidated equity shares	10	15	141
Aquisitions of subsidiaries	(34)	(34)	0
Sales of subsidiaries	53	60	3
Net cash provided (used) by investing activities	**8**	**(166)**	**73**
Cash flow from financing activities			
Issuance of new share		3	25
Reimbursement of capital		(1)	
Issuance of subordinated and convertible debt	111	744	985
Reimbursement of subordinated and convertible debt	(81)	(81)	(81)
Purchase of treasury shares			
Sales of treasury shares			
Dividends paid	(376)	(548)	(600)
Net cash provided (used) by financing activities	**(346)**	**117**	**329**
Net cash provided	**843**	**747**	**3,251**
Cash and cash equivalents at the beginning of the period	**6,854**	**6,854**	**7,668**
Cash flow from operating activities	1,181	796	2,849
Cash flow from investing activities	8	(166)	73
Cash flow from financing activities	(346)	117	329
Effect of exchange rates changes and change in scope of consolidation on cash and cash equivalents	7	67	162
Cash and cash equivalents at the end of the period	**7,704**	**7,668**	**11,081**
Additional information			
Income tax paid	(171)	(261)	(212)
Dividends received	25	36	33
Interest received	8,241	21,627	13,834
Interest paid	(9,373)	(21,202)	(12,802)

(1) The increase in cash provided by operating activities results mainly from the activities of the new branch in the Caymans.

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission

IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

NOTES TO THE HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS

1 – General basis for the preparation of the consolidated financial statements

The half-year consolidated financial statements were prepared for the first time applying the accounting and valuation principles set forth in the International Financial Reporting Statements (IFRS) endorsed by the European Union and are presented in the form of interim statements as defined in the General Regulations of the French Stock Market Regulator (*Autorité des Marchés Financiers –AMF*). For the purpose of comparison, they include information for the year ended 31 December 2004 and the six months ended 30 June 2004 prepared on the same basis.
Dexia Crédit Local adopted these new standards as from 1 January 2005 and accordingly restated its 2004 consolidated financial statements. The Group opted to apply the provisions of IAS 32, IAS 39 and IFRS 4 as from 1 January 2005, which does not therefore constitute an early application of the standards, as permitted by IFRS 1.
Note that comparative information relating to the consolidated accounts for the six months to 30 June dealing with the presentation of the consolidated financial statements for the year ending 31 December 2005 and the six months to 30 June 2006 may eventually be modified, notably as IFRS standards endorsed by the European Union might be amended and this could affect the consolidated financial statements of Dexia Crédit Local.
The format of the summarised statements complies with Recommendation 2004-R-03 issued on 27 October 2004 by the French National Accounting Board (*Conseil National de la Comptabilit*é - CNC).
All the accounting policies and methods used for presentation and valuation are set out in Note 9 – Accounting policies and methods.

2 – Changes in the consolidation scope

Changes in the consolidation scope of the Dexia Crédit Local Group since the first half of 2004 are summarised below. None of these changes had a material impact.

- Creation of a subsidiary in Australia named Dexia Crédit Local Asia Pacific Pty Ltd
- Consolidation of Dexia Delaware LLC and Dexia Municipal Leasing & Finance LLC, two subsidiaries overseen by the New York branch
- Consolidation of the subsidiary Kommunalkredit Capital I Ltd into the Kommunalkredit Austria group
- First-time consolidation of FSA Credit Protection Ltd by FSA, which also increased its participating interest in Select Portfolio Servicing Inc (formerly Fairbanks Capital Holding Corp) from 28.9% to 34.06%, this investment being accounted for by the equity method
- GIE GRH Informatique, which was part of the Dexia Sofaxis sub-group, has been wound up
- All of the assets and liabilities of IFAX have been transferred to Dexia Crédit Local
- Dexia Holdings Inc. reduced its ownership interest in FSA from 98.09% to 98.07% in connection with the programme involving the sale of shares to FSA's former shareholders (with a repurchase commitment on the part of Dexia)

The list of companies included in the consolidation scope at 30 June 2005 is provided in Note 10.

3 – First-half highlights

There was only one event in the first half of 2005 deserving mention, which is:

- The sale of the participating interest in the entity created in connection with the restructuring of the Callahan loans, which generated a profit on disposals of EUR 9.0 million before tax. These shares resulted from the conversion of part of the debt of the company when it was restructured in 2003, which resulted in a loss of EUR 10.4 million for Dexia Crédit Local.

4 – Subsequent events

There has been no significant event since the end of the accounting period.

5 - Changes in shareholders' equity

	Core shareholders' equity			Unrealised or deferred gains and losses			
(EUR millions)	Capital stock, 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	Cumulative translation adjustment (1)	Total
At 31 December 2003, French GAAP	**2,414**	**1,980**	**4,394**			**(166)**	**(166)**
Effect of first adoption of IFRS applicable in 2004		313	313			166	166
At 1 January 2004	**2,414**	**2,293**	**4,707**	**0**	**0**	**0**	**0**
Movements for the period							
- Capital stock			0				0
- Additional paid-in capital			0				0
- Dividends		(331)	(331)				0
- Cumulative translation adjustments						29	29
- Net income for 1st semester, French Gap		362	362				0
- Net income for 1st semester, Effect of first adoption of IFRS applicable in 2004		30	30				0
- Other movements		(1)	(1)				0
At 30 June 2004, under IFRS 2004	**2,414**	**2,353**	**4,767**	**0**	**0**	**29**	**29**
Movements for the period							
- Capital stock			0				0
- Additional paid-in capital			0				0
- Dividends		(170)	(170)				0
- Cumulative translation adjustments			0			(125)	(125)
- Net income for 2nd semester, French Gap		343	343				0
- Net income for 2nd semester, Effect of first adoption of IFRS applicable in 2004		36	36				0
- Other movements			0				0
At 31 December 2004, under IFRS 2004	**2,414**	**2,562**	**4,976**	**0**	**0**	**(96)**	**(96)**
Effect of first adoption of IAS 32, 39 & IFRS 4 standards		(300)	(300)	607	(86)	3	524
At 1 January 2005, under IFRS EU	**2,414**	**2,262**	**4,676**	**607**	**(86)**	**(93)**	**428**
Movements for the period							

- Capital stock			0				0
- Additional paid-in capital			0				0
- Dividends		(580)	(580)				0
- Cumulative translation adjustments			0	42	(2)	123	163
- Changes in fair value of available for sale financial assets through shareholders' equity			0	284			284
- Changes in fair value of hedging derivatives through shareholders' equity			0		(79)		(79)
- Changes in fair value of available for sale financial assets through profit and loss			0				0
- Changes in fair value of hedging derivatives through profit and loss			0				0
- Net income for 1st semester		393	393				0
- Other movements		1	1				0
At 30 June 2005, under IFRS EU	**2,414**	**2,076**	**4,490**	**933**	**(167)**	**30**	**796**

		Minority interests			
(EUR millions)	**Shareholders' equity (group share)**	Core shareholders' equity	Unrealised or deferred gains and losses	Total	**Shareholders' equity**
At 31 December 2003, French GAAP	**4,228**	**765**	**(79)**	**686**	**4,914**
Effect of first adoption of IFRS applicable in 2004	**479**	(78)	79	**1**	**480**
At 1 January 2004	**4,707**	**687**	**0**	**687**	**5,394**
Movements for the period					
- Capital stock	**0**			0	**0**
- Additional paid-in capital	**0**			0	**0**
- Dividends	**(331)**	(45)		(45)	**(376)**
- Cumulative translation adjustments	**29**		8	8	**37**
- Net income for 1st semester, French Gap	**362**	41		41	**403**
- Net income for 1st semester, Effect of first adoption of IFRS applicable in 2004	**30**	3		3	**33**
- Other movements	**(1)**	3		3	**2**
At 30 June 2004, under IFRS 2004	**4,796**	**689**	**8**	**697**	**5,493**
Movements for the period	**0**			0	**0**
- Capital stock	**0**			0	**0**
- Additional paid-in capital	**(170)**	(2)		(2)	**(172)**
- Dividends	**(125)**		(28)	(28)	**(153)**
- Cumulative translation adjustments	**343**	30		30	**373**
- Net income for 2nd semester, French Gap					
- Net income for 2nd semester, Effect of first adoption of IFRS applicable in 2004	**36**	5		5	**41**
- Other movements	**0**			0	**0**
At 31 December 2004, under IFRS 2004	**4,880**	**722**	**(20)**	**702**	**5,582**
Effect of first adoption of IAS 32, 39 & IFRS 4	**224**	(10)	19	9	**233**

standards					
At 1 January 2005, under IFRS EU	**5,104**	**712**	**(1)**	**711**	**5,815**
Movements for the period					
- Capital stock	**0**			0	**0**
- Additional paid-in capital	**0**			0	**0**
- Dividends	**(580)**	(20)		(20)	**(600)**
- Cumulative translation adjustments	**163**		36	36	**199**
- Changes in fair value of available for sale financial assets through shareholders' equity	**284**		3	3	**287**
- Changes in fair value of hedging derivatives through shareholders' equity	**(79)**		(5)	(5)	**(84)**
- Changes in fair value of available for sale financial assets through profit and loss	**0**			0	**0**
- Changes in fair value of hedging derivatives through profit and loss	**0**			0	**0**
- Net income for 1st semester	**393**	35		35	**428**
- Other movements	**1**	13		13	**14**
At 30 June 2005, under IFRS EU	**5,286**	**740**	**33**	**773**	**6,059**

(1) Dexia Credit Local elected to take the option of IFRS1 standard that allows the company to eliminate cumulative translation adjustments by incorporating them into reserves at the transition date.

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission

IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

6- Reconciliations required for the first adoption of EU IFRS (French GAAP to EU IFRS)

• 6. A) Reconciliation of shareholders' equity - group share

The reconciliation of shareholders' equity at January 1, 2004 was set up in 2004 annual report.

(EUR millions)	**At 31-déc-04**	**Notes**
Shareholders' equity - group share, French Gap	**4,320**	
(of which 2004 net income- group share)		
Effect of IFRS 2004 at 1 January 2004	*479*	
General banking risks reserve	478	a)
Employee benefits	(7)	b)
Adjustments to property and equipment	4	c)
Recognition of income	(2)	d)
Deferred taxes	1	e)
Other adjustments	5	
Effect of IFRS 2004 on 2004 net income, group share	*66*	see note 6.B)
Effect of IFRS 2004 standards at 31 December 2004	*15*	
Negative goodwill (1)	15	
Shareholders' equity - group share, under IFRS 2004 at 31 December 2004	**4,880**	
Effect of IAS 32/39 & IFRS 4 standards	*224*	
Restatement of actual hedges as fair value hedges (FVH)	4	f)
Restatement of actual hedges as cash-flow hedges (CFH)	(137)	g)
Restatement of actual hedges as European hedge portfolio (EHP)	0	h)
Other derivatives classified as trading under EU IFRS	(177)	i)
Modification in recognition of balancing payments and early repayment indemnities	(237)	j)
Remeasurement of securities classified as available for sale	844	k)
Cancellation of provisions on securities not permitted under EU IFRS	11	l)
New provisions (including impairment provisions)	(36)	m)
Modification of rules for calculating the general provision for credit risks	(4)	n)
Deferred taxes	(41)	o)
Other adjustments	(3)	
Shareholders' equity - group share, under EU IFRS at 31 December 2004	**5,104**	

(1) This is the other side of the entry cancelling the amortisation of negative goodwill recorded in the 2004 income statement prepared under French GAAP (see note 6. B. a.).

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission

IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

NOTES

Effect of IFRS 2004 at 31 December 2004

a) The amount of general banking reserve is transferred to shareholders' equity due to IAS 30.

b) Dexia Crédit Local hired an external actuarial group to review the Company's employee benefits commitments, calculate the value of certain plans and ensure the consistency of the methods used when other actuaries performed the actuarial calculations.
The actuarial assumptions for the discount rate, inflation rate and performances were standardised throughout the Group by geographical region. The Group use the "corridor" to decrease the volatility of income statement.

c) Impairment tests performed on the buildings held by the Group resulted in the recognition of EUR 3 million in impairment.
Certain assets' depreciable bases were reviewed, leading to the reversal of EUR 7 million in accumulated depreciation (positive impact on shareholders' equity). The Group chose to value its office buildings and investment properties at their historical costs and hence, in the future, will not revalue them in profit and loss or through shareholders' equity.

d) The adjustment pertains to a Group company whose debit cards revenues must be recognised over the life of the contract under EU standards.

e) In 2003, the Group decided to apply IAS 12 for the calculation of deferred taxes under French GAAP. The impact of deferred taxes at January 1, 2004 is solely the consequence of the other adjustments related to the change of standards. This adjustment also comprises the constitution of a provision on the undistributed reserves of companies accounted for by the equity method.

Effect of EU IFRS at 1 January 2005

f) Most existing microhedging relations can be classified as fair value hedges (FVH) in the opening balance sheet. Derivatives and hedged assets and liabilities are revalued through the profit and loss. Most of the ineffectiveness concerns prior hedging relations entered into by FSA and Kommunalkredit Austria (see Note 9, paragraph 4.3.2 dealing with hedge accounting principles).

g) This adjustment corresponds mainly to the reclassification as cash flow hedges (CFH) of the hedge swaps in respect of the FSA participating interest for their interest rate element (see Note 9, paragraph 4.3.2. dealing with derivatives designated as cash flow hedges).

h) The European hedge portfolio (EHP) resulting from the "carve out" option chosen by the European Union was used in the opening balance sheet, but is without effect in opening shareholders' equity inasmuch as the revaluation of the derivative instruments is offset by the revaluation of the hedged items (see Note 9, paragraph 4.4.3 dealing with the hedging of a portfolio's interest rate risk).

i) Certain existing hedging relations were not kept in the opening balance sheet. Hedged items continue to be recorded at historical cost while derivatives are recorded as trading items and accounted for at fair value: fair value on first adoption, which is negative in the present case, is dealt with in retained earnings. The most material amounts concern swaps covering securities that have been classified as held-to-maturity securities. This adjustment also includes the effect of restating at market value the credit default swaps of FSA for EUR 35 million.

j) Principles for spreading remaining balances and early repayment indemnities applied until 2004 were modified as a result of adopting EU IFRS. Amounts to be spread (renegotiation fees, balances on swap negotiations, premiums, etc.) are now calculated on an actuarial basis by reference to the terms of the transaction. The effect of this change of accounting method on the transactions concerned by this at 1 January 2005 was dealt with in retained earnings (see Note 9, paragraph 4.1.5 dealing with the method of accounting for early repayment indemnities).

k) This adjustment corresponds to the effect of restating at market value the securities classified as available-for-sale securities.

l) Existing provisions on securities (which correspond generally to a negative variance in their market value) have been cancelled, except when there exists a real risk of non-collection. This is because these securities have already been marked to market through the reserve for available-for-sale securities.

m) This concerns mainly permanent reductions in the value of securities, which should have been recognised earlier applying the criteria set out in IFRS 39.

n) The general provision for credit risks was determined in accordance with a calculation method based on the Basel II data recognised under EU IFRS. This provision replaces general and statistical provisions recorded previously under French GAAP.

o) The deferred tax adjustment at 1 January 2005 results from the other adjustments made on the first-time adoption of EU IFRS.

- ## 6. B) Reconciliation of net income - group

share

(EUR millions)	Half-Year 2004	Year 2004	Notes
Net income - group share, French GAAP	**362**	**705**	
Effect of IFRS 2004	*30*	*66*	
Cancellation of net amortisation of goodwill	35	69	a)
Adjustments to property and equipment	1	2	b)
Employee benefits	(1)	3	c)
Provisions	(4)	(7)	d)
Deferred taxes	(1)	(1)	e)
Net income - group share, under IFRS 2004	**392**	**771**	

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission

IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

NOTES

a) In accordance with IFRS 3, goodwill is no longer amortized but tested for impairment.
This adjustment therefore corresponds to the cancellation of the net amortization charge recorded under French GAAP. (i.e. EUR 84 million in respect of positive goodwill less EUR 15 million in respect of negative goodwill). The results of the impairment tests did not reveal the need to book any provision for impairment.

b) This corresponds to an adjustment of fixed asset depreciation charges after revisions to the base as at 1 January 2004.

c) Provisions set aside or written back in 2004 under French GAAP give rise to an adjustment to the extent provisions required under IAS 19 were dealt with in opening reserves at 1 January 2004.

d) This is the net impact arising from the cancellation of provisions set aside but not recognised under 2004 IFRS and the cancellation of provisions written back that were considered as non-authorised in opening reserves at 1 January 2004.

e) The deferred tax adjustment results from the above adjustments.

• 7- Notes to the income statement

Net Gain/loss on financial instruments at fair value through profit and loss

(item V. of income statement)

(EUR millions)	Half-Year 2004 (IFRS 2004)	Half-Year 2005 (EU IFRS)
Net Gain/loss on Trading transactions	20	(17)
Net Gain/loss on Hedging transactions		(6)
Foreign exchange gains and losses	10	(13)
Total	**30**	**(36)**

Because of the application of IAS 39 as from 1 January 2005, prior-year comparatives are not meaningful.

Net Gain/loss on available for sale financial assets

(item VI. of income statement)

(EUR millions)	Half-Year 2004 (IFRS 2004)	Half-Year 2005 (EU IFRS)
Dividends from available for sale securities	11	15
Net gain/loss on disposals of available for sale securities	(38)	28
Depreciation of variable income securities available for sale	(11)	(1)
Net gain/loss on disposals of loans	33	14
Net gain/loss on disposals of debt securities		(8)
Total	**(5)**	**48**

Because of the application of IAS 39 as from 1 January 2005, prior-year comparatives are not meaningful.

Operating expense

(item X. of income statement)

(EUR millions)	Half-Year 2004 (IFRS 2004)	Half-Year 2005 (EU IFRS)
Staff expense	123	140
General and administrative expense	67	87
Deferred acquisition cost	23	25
Total	**213**	**252**

Cost of risk

(item XIII. of income statement)

(EUR millions)	Half-Year 2004 (IFRS 2004)	Half-Year 2005 (EU IFRS)
Credits (loans and securities held to maturity)	1	3
Credit enhancement	(8)	(8)
Fixed income securities available for sale	15	(1)
Total	**8**	**(6)**

Given the still favourable environment, the credit risk remains at an extremely low level. It is in fact positive in the case of the credit activities (EUR 3 million) both in France and abroad, and is slight in the case of FSA (unchanged negative amount of EUR 8 million).
In the first half of 2004, the portfolio of available-for-sale securities gave rise to significant provision write-backs.

Net Gain/loss on other assets
(item XVI. of income statement)

(EUR millions)	Half-Year 2004 (IFRS 2004)	Half-Year 2005 (EU IFRS)
Net gain/loss on disposals of buildings	11	2
Net gain/loss on other tangible and intangible assets		1
Net gain/loss on disposals of consolidated shares	1	
Total	**12**	**3**

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission
IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

8 - Information by geographic area and by business segment

Information by geographic area

(EUR millions)	Half-Year 2004 (IFRS 2004)	Year 2004 (IFRS 2004)	Half-Year 2005 (EU IFRS)
Net banking income	**780**	**1,570**	**829**
Eurozone (countries using the euro currency)	461	883	506
Rest of Europe	39	78	31
USA	271	589	281
Rest of the world	9	20	11
Income from companies accounted for by the equity method	**31**	**35**	**30**
Eurozone (countries using the euro currency)	18	34	25
Rest of Europe			
USA	13	1	5
Rest of the world			
Net income before income taxes	**599**	**1,159**	**585**
Eurozone (countries using the euro currency)	354	654	344
Rest of Europe	25	49	26
USA	213	442	207
Rest of the world	7	14	8

Information by business segment

(EUR millions)	Half-Year 2004 (IFRS 2004)	Year 2004 (IFRS 2004)	Half-Year 2005 (EU IFRS)
Net banking income	**780**	**1,570**	**829**
Public sector financing, project financing and credit enhancement	685	1,419	745
Personal financial services	9	18	9
Treasury and financial markets	79	137	77
Other	7	(4)	(2)
Income from companies accounted for by the equity method	**31**	**35**	**30**
Public sector financing, project financing and credit enhancement	18	13	16
Personal financial services	9	17	10
Treasury and financial markets			
Other	4	5	4
Net income before income taxes	**599**	**1,159**	**585**
Public sector financing, project financing and credit enhancement	496	1,017	524
Personal financial services	12	20	12
Treasury and financial markets	80	131	60
Other	11	(9)	(11)

EU IFRS : IFRS standards endorsed or that can be endorsed by the European Commission

IFRS 2004 : IFRS standards applicable in 2004 (IAS32, IAS39 and IFRS4 standards excluded)

9 – ACCOUNTING POLICIES AND VALUATION METHODS

1. APPLICABLE ACCOUNTING STANDARDS

1.1 Application of IFRS rules endorsed by European commission

The European Commission published Regulation EC 1606/2002 on 19 July 2002, requiring listed groups to apply IFRS as from 1 January 2005. This regulation has been updated several times since 2002, validating the various texts published by the IASB with the exception of certain rules included in IAS 39.

- The European Commission has carved out some paragraphs of IAS 39 with the objective of:

- forbidding to designate liabilities at fair value at the option of the entity;
- enabling European companies to reflect appropriately in their consolidated financial statements the economic hedges they make in the course of their interest rate risk management (application of interest rate portfolio hedging and the possibility to hedge core deposits)

Dexia Crédit Local's financial statements have therefore been prepared in accordance with all IFRS regulations and interpretations published and endorsed by the EC up to 30 June 2005 or likely to be adopted prior to 31 December 2005 for the amendment of cash flow hedge accounting of forecast intra-group transactions.

By adopting this amendment, Dexia Crédit Local is in a position to hedge the currency risk arising on internal transactions between companies included in the consolidation scope, whereas this possibility had previously been restricted to external transactions.

Regarding this amendment, EFRAG's endorsement of 22 June 2005, allows Dexia Crédit Local to anticipate an adoption prior to 31 December 2005 by European Union.

1.2 First half year closing

For the purpose of first half year closing, Dexia Crédit Local's consolidated statements have been prepared applying AMF rules and CNC (Conseil National de la Comptabilité) Recommendation 99R01 relating to interim statements, and in accordance with the principles set out above , in particular Recommandation 2001-R.02 of 26 June 2001 relating to interim statements prepared by undertakings governed by the Comité de la Réglementation Bancaire et Financière (CRBF). The complete application of the provisions of IAS 34 would have required additional disclosure, in particular regarding comparative.

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

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

2. CHANGES IN ACCOUNTING POLICIES DUE TO FIRST ADOPTION

2.1 Effect of changes

2.1.1 For the year ended 31 December 2004

Dexia Crédit Local has decided to apply all IAS, IFRS, SIC and IFRIC regulations endorsed by the European Commission as of 1 January 2004 and has accordingly restated its previously reported 2004 consolidated financial statements.

2.1.2 From 1 January 2005

Dexia Crédit Local decided to apply IAS 32&39 and IFRS 4 and related SIC-IFRIC as from 1 January 2005, without restating the 2004 comparative information as permitted by IFRS 1.

2.2 Analysis of IFRS 1 options

2.2.1 Business combination

Dexia Crédit Local has not applied IFRS 3 Business Combination retrospectively to business combinations that occurred before 1 January 2004.

2.2.2 Employee benefits

Dexia Crédit Local has elected to recognize all cumulative actuarial gains and losses in reserves at the date of transition.

2.2.3 Cumulative translation differences

Dexia Crédit Local has decided to use the following exemption: the cumulative translation differences for all foreign operations are deemed to be zero at the date of transition.

3. ACCOUNTING POLICIES APPLIED TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004 (IFRS 2004)

Dexia Crédit Local has decided to apply all IAS, IFRS, SIC and IFRIC regulations endorsed by the European Commission as of 1 January 2004, except for the following ones that are applied as of 1 January 2005:

- IAS 32 and related SIC-IFRIC;
- IAS 39 and related SIC-IFRIC;

- IFRS 4.
In those area (financial instruments & insurance), policies previously applied under French GAAP continue to apply in 2004
The principal accounting policies under IFRS adopted in the preparation of these consolidated financial statements are set out below.

3.1 Consolidation

3.1.1 Business combinations

Dexia Crédit Local has applied IFRS 3 as from 1 January 2004 and has not restated business combinations before 1 January 2004, as permitted by IFRS 1.

3.1.2 Subsidiaries

The consolidated financial statements include those of the parent company, its subsidiaries and Special Purpose Entities (SPE). Subsidiaries and SPE are those entities in which Dexia Crédit Local, directly or indirectly, has the power to exercise control over financial and operating policies.
Subsidiaries are consolidated from the date on which effective control is transferred to Dexia Crédit Local and are no longer consolidated as from the date on which Dexia Crédit Local loses significant influence over a subsidiary. Intercompany transactions, balances and unrealized gains and losses on transactions between Dexia Crédit Local's companies have been eliminated. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. When necessary, the accounting policies of the subsidiaries have been amended to ensure consistency with the policies adopted by Dexia Crédit Local.
Equity and net income attributable to minority interests are shown separately in the balance sheet and statement of income respectively.

3.1.3 Jointly controlled entities

A joint venture (JV) is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for via the proportionate consolidation method. In the financial statements, joint ventures are integrated by combination of their share of the assets, liabilities, income and expenses on a line-by-line basis.
The same consolidation treatment, as for subsidiaries, is applied for intercompany transactions. Where necessary, the accounting policies of subsidiaries have been amended to ensure consistency with the policies adopted by Dexia Crédit Local.
At 30 june 2005, Dexia Crédit Local did not exercise control over any joint venture.

3.1.4 Associates

Investments in associates are accounted for using the equity method of accounting. Associates are investments where Dexia Crédit Local has significant influence, but does not exercise control. This is usually the case, when Dexia Crédit Local owns between 20% and 50% of the voting rights. The ownership share of net income for the year is recognized as income from associates and the investment is recorded in the balance sheet at an amount that reflects its share of the net assets including net goodwill.
Unrealized gains on transactions between Dexia Crédit Local and its "equity method investments" are eliminated to the extent of Dexia Crédit Local's interest. Unrealized losses are also eliminated unless the transaction shows evidence of an impairment of the asset transferred. Equity accounting is discontinued when the carrying amount of the investment reaches zero, unless Dexia Crédit Local has incurred or guaranteed obligations in respect of the associates' undertakings. Where necessary, the accounting policies of the associates have been amended to ensure consistency with the policies adopted by Dexia Crédit Local.

3.1.5 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 could happen when there is a legally enforceable right to set off the recognized amounts and there is an intention that expected future cash flows will be settled on a net basis, or that the asset will be realized and the liability settled simultaneously. Assets are presented net of any allowance for loss on impairment.

3.1.6 Foreign currency translation and transactions

The consolidated financial statements are stated in EUR which is the functional and presentation currency of Dexia Crédit Local.

- Foreign currency translation

On consolidation, the statements of income and cash flow statements of foreign entities, that have a functional currency different from Dexia Crédit Local's presentation currency are translated into Dexia Crédit Local's presentation currency (EUR) at average exchange rates for the year or the period and their assets and liabilities are translated at the closing rate.
Exchange differences arising from the translation of the net investment in foreign subsidiaries and associates and of borrowings and other currency instruments designated as hedges of such investments, are recorded as a cumulative translation adjustment within shareholders' equity. On disposal of a foreign entity, such exchange differences are recognized in the statement of income.
Dexia Crédit Local has taken the option permitted under IFRS 1 to reset its cumulative translation adjustments to zero as of 1 January 2004. This includes the cumulative exchange difference on translation of the equity of subsidiaries and also the cumulative amount hedging of the position at 1 January 2004.
Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

- Existing goodwill as of 1 January 2004 will remain in euro, where as new goodwill will be recorded in the currency of the purchased company.

- Foreign currency transactions

For individual Dexia Crédit Local entities, foreign currency transactions are accounted for using the approximate exchange rate at the date of the transaction. Outstanding balances denominated in foreign currencies at year-end are translated at closing rates for monetary items and non-monetary items carried at fair value. Historical rates are used for non-monetary items carried at cost. The resulting exchange differences from monetary items are recorded in the consolidated statement of income; for non-monetary items carried at fair value, the exchange differences follow the same accounting treatment as for fair value adjustments.

3.2 Trade date and settlement date accounting

All "regular way" purchases and sales of financial assets and financial liabilities are recognized on the settlement date, which is the date that a financial asset or a financial liability is delivered to r by Dexia Crédit Local, except for trading financial instruments which are recognized and derecognized at trade date. For assets and liabilities recognized at fair value, Dexia Crédit Local recognizes from the trade date any unrealized gains or losses arising from revaluing the contract to fair value at the reporting date. These unrealized gains and losses are recognized in the statement of income unless the transactions have been assigned to cash flow hedge relationships or are related to an available-for-sale asset.

3.3 Commission income and expense

Commissions are recognized in accordance with IAS 18. Per this standard, most of the commissions arising from Dexia Crédit Local's activities are recognized on an accrual basis over the life of the underlying transaction.
For significant acts such as commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of loans, equity securities or other securities or the purchase or sale of businesses, are recognized based on the stage of completion of the underlying transaction, when the underlying transaction has been completed.

For asset management operations, revenue consists principally of unit trust and mutual fund management and administration fees. Revenue from asset management is recognized as earned when the service is provided. Performance fees are recognized when they are definitively acquired.
Loan commitment fees are recognized as part of the effective interest rate if the loan is granted, and recorded as commission income on expiry if no loan is granted.

When the underlying transaction is included in the scope of IAS 39, the commission pertaining to the transaction is recognized according to IFRS based on the date of first time adoption of IAS 39 i.e. 1 January 2005.

3.4 Tangible fixed assets

Tangible fixed assets include Property, plant and equipment and investment properties.
All property, plant and equipment are stated at historical cost less accumulated depreciation and impairments. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful lives.
The main service lives are as follows:
- buildings (including acquisition costs and non deductible taxes) : 20 to 40 years,
- computer equipment : 3 to 6 years,
- leasehold improvements, equipment and furniture : 2 to 12 years,
- vehicles : 2 to 5 years.

The exchange losses on liabilities for the acquisition of an asset as well as the interest on specific or general borrowings to finance the construction of qualifying assets are expensed immediately.
Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. Gains and losses on disposals of property and equipment are determined by reference to their carrying amount and are included in “Net gain/loss on other assets”. Expenditure that enhances or extends the benefits of real estate or fixed assets is capitalized and subsequently depreciated.
Investment properties are those properties held to earn rentals or for capital appreciation. Dexia Crédit Local may also partly use certain investment properties. If the “own use” portions can be sold separately or leased out separately under finance lease then these portions are accounted for separately. If the “own use” portions cannot be sold separately, the property is an investment property only if Dexia Crédit Local holds an insignificant portion for its own use.
Investment properties are recorded at acquisition cost less accumulated depreciation and impairments. The investment properties are depreciated over their useful lives on a straight-line basis.

3.5 Intangible assets

Intangible assets mainly consist of internally generated and acquired software. Costs associated with maintaining computer software programs are recognized as expense as incurred. However, expenditure that enhances or extends the benefits of computer software programs beyond one year is used to increase the original cost of the software. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives from the time the software is available for use. This amortization period is usually between 3 and 5 years.

3.6 Goodwill

3.6.1 Positive goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Dexia Crédit Local’s share of the net assets of the acquired subsidiary or associated undertaking at the date of acquisition. Goodwill on acquisition occurring on or after 1 January 2004 is reported in the balance sheet as an intangible asset.
Goodwill is allocated to cash generating units for the purpose of impairment testing. Cash generating units are designed by the criteria of legal entity, geographic area and business segment.
Variations in percentage of ownership in fully-consolidated companies are considered as transactions with shareholders. Therefore, neither fair value adjustments nor goodwill adjustments are made, when percentage increases nor decreases take place without change in the consolidation method. The difference between purchase or sale of net asset and the purchase or sale price is directly recorded in equity.
Goodwill as of 1 January 2004 remains in the same currency as they are booked under Dexia Crédit Local GAAP (IFRS 1). New goodwill arising after 1 January 2004 will be booked in the currency of the subsidiary (IAS 21).
The net amount of goodwill in the opening IFRS balance sheet is its carrying amount under Dexia Crédit Local GAAP at the date of transition to the new accounting principles. They have stopped to be amortized at the transition date.

3.6.2 Impairment of goodwill

The carrying amount of goodwill is reviewed at year-end or when circumstances or events indicate that there may be uncertainty over the carrying amount. It is written down for impairment when the recoverable amount of the business is insufficient to support the carrying value.

3.6.3 Other assets

Other assets mainly comprise accrued income (non-interest related), prepayments and other accounts receivable. They also include insurance products (reinsurance, insurance premiums receivables, etc.), construction contracts, inventories, plan assets relating to employee benefit obligations. These other assets are recorded at amortized cost less any allowance for impairment if applicable. Benefits granted to employees are recognized in accordance with IAS 19 requirements.

3.7 Leases

3.7.1 A Dexia Crédit Local company is the lessor

When assets held are subject to a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.
If the lease agreement substantially transfers the risk and rewards of ownership of the asset, the lease is recorded as a finance lease and the related asset is capitalized. At inception the asset is recorded at the lower of the present value of the minimum lease payments or fair value and is depreciated over its estimated useful life. The corresponding rental obligations are recorded as borrowings and interest payments are recorded using the effective interest rate method.

3.7.2 A Dexia Crédit Local company is the lessee

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.
When an operating lease is terminated before the lease period has expired, any payment to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.
Amortization of those assets is included in “Net banking income”.

3.8 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
The rates enacted or substantively enacted at the balance-sheet date are used to determine deferred income tax.
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 income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, 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 tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognized in the statement of income together with the deferred gain or loss from 1 January 2005.

3.9 Employee benefits

Employee benefit obligations are measured at the present value of the estimated future cash outflows using interest rates of corporate bonds rated AA, which have terms to maturity approximating to the terms of the related liability and taking into consideration also actuarial and demographic assumptions.

Qualified internal and external actuaries carry out valuations of these obligations. All valuations assumptions and results are reviewed and validated by an external actuary for Dexia Crédit Local that ensures that all calculations are harmonized and calculated in conformity with IAS 19 and IFRS 2.

3.9.1 Pension obligations

Dexia Crédit Local operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate insurance companies. The pension plans are generally funded by payments from employees and by the relevant Dexia Crédit Local companies.

- Defined benefit plans

For defined benefit plans, pension costs are assessed using the projected units credit method. Under this method, the cost of providing pensions is charged to the statement of income so as to spread
the regular cost over the service lives of employees. Net cumulative unrecognized actuarial gains and losses exceeding the corridor (greater than 10% of the present value of the gross defined benefit obligation or 10% of the fair value of any plan assets) are recognized in income over the average remaining life of the plan.
The defined obligation is presented net of plan assets as a liability unless the assets are held by a Group entity in which case the assets are recorded gross in the related lines of the assets.

- Defined contribution pension plans
- Dexia Crédit Local's contributions to defined contribution pension plans are charged to the statement of income in the year to which they relate. The obligation of Dexia Crédit Local is limited to the contributions that Dexia Crédit Local agrees to pay into the fund on behalf of the employee.

3.9.2 Other post-retirement obligations

Some Dexia Crédit Local companies provide post-retirement health care benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans.

3.9.3 Other long-term benefits

This mainly includes provisions for jubilee premiums that will be received by employees when they become entitled to this right.

3.9.4 Termination benefits

These provisions are provided for when the conditions are met.

3.9.5 Employee entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance-sheet date.

3.10 Provisions for risks and charges

A provision is a liability of uncertain timing or amount. Provisions are recognized based on their discounted value when :

- Dexia Crédit Local 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.

3.11 Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are declared (authorized and no longer at the discretion of the entity). Dividends for the year that are declared after the balance-sheet date are disclosed in the subsequent events note.

3.12 Financial instruments and insurance

Principles applied for those operations (related to IAS 39, 32 and IFRS 4 after 1 January2005) are strictly the same as described in 2004 annual report.

3.13 Earnings per share

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

3.14 Related party transactions

- 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 in making financial or operational decisions. The ultimate parent of the Group is Dexia, incorporated in Belgium. Relations with equity-accounted companies are reported, as well as relations with the directors. They include:

- remuneration and equity holdings;
- loans and advances to the Board of Directors and senior executives;
- loans, advances to and transactions with significant associated companies and joint-ventures.

3.15 Segment reporting

A segment is a distinguishable component of Dexia Crédit Local that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are 10 per cent or more of all the segments are reported separately.

3.15.1 Geographic segments (primary segment reporting)

Dexia Crédit Local’s business segments are managed on a worldwide basis. They operate in four main geographic areas as follows:
- eurozone (countries using the euro currency),
- rest of Europe (European countries which do not belong to the Eurozone),
- USA,
- rest of the world.

This segmentation is performed by reference to the location of the entity having carried out the transactions.

3.15.2 Business segments (secondary segment reporting)

Dexia Crédit Local's reportable segments are defined using the “management approach” which are those considered by management to strategically manage Dexia Crédit Local and make business decisions.
Dexia Crédit Local is organized as follows:
- Public sector financing, project financing and credit enhancement,
- Personal financial services,
- Treasury and financial markets,

- Other.
The “other” part is mainly composed of:
- equities portfolio not attributable to other segments;
- exceeding share capital;
- building property, other tangible and intangible fixed assets not attributable to other business lines;
- items non attributable to other segments.
The results of each business line also include:

- - the earnings from commercial transformation, including the management costs of this transformation and the group equity allocated to this activity on the basis of medium and long-term outstanding,

- - interest on economic capital: economic capital is allocated to the business lines for internal purposes and the return on economic capital is used to measure the performance of each business line,

- funding cost.
Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet but excluding items such as tax assets and liabilities.
The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

4. ACCOUNTING POLICIES APPLIED WITH EFFECT FROM 1 JANUARY 2005 (EU IFRS)

- These policies related to IFRS 32,39 and IFRS 4 are applied since 1 January 2005. Besides, all the previous policies, described above, have been also applying for the first half year.

4.1 Financial assets

This section presents the different types of financial assets (4.1.1 to 4.1.3.), deals with realized gains and losses on sales of financial assets (4.14.), early repayment indemnities (4.1.5), the impairments on financial assets (4.1.6), and sale and repurchase agreements and lending of securities (4.1.7).

4.1.1 Loans and advances due from banks and customers

Loans categorized as “loans and advances”, being those not included within trading and AFS, are carried at amortized cost, i.e. the outstanding principal amount, net of any deferred fees and material direct costs on loans and net of any unamortized premiums or discounts.

4.1.2 Loans and securities held for trading

Loans held for trading purposes are included in “Financial assets at fair value through profit and loss” and are carried at fair value, with unrealized gains and losses recorded in earnings as “Net gain/loss on financial instruments at fair value through profit and loss”. Interest income is accrued using the effective interest rate method and net deferred fees or costs and discounts or premiums are amortized over the life of the assets as an adjustment to the effective interest rate. Both are recorded under “Interest income” or “Interest expense”.
Trading securities are securities acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognized at fair value (which includes transaction costs) and subsequently re-measured at fair value. All related realized and unrealized gains and losses, as well as dividends, are included in “Net gain/loss on financial instruments at fair value through profit and loss”. Interest earned while holding trading assets is reported as interest income.
All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognized at settlement date. Other trading transactions are treated as derivatives until settlement occurs (see also Paragraph 3.2 “Trade date and settlement date accounting”).

4.1.3 Loans and securities available for sale and held to maturity

- Classification and valuation rules

Quoted securities with fixed maturity are classified as held-to-maturity (HTM) when management has both the intent and the ability to hold the assets to maturity.
Securities and loans and receivables intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, are classified as available-for-sale (AFS).
Management determines the appropriate classification of its investments at the time of the purchase.
Securities and loans and receivables are initially recognized at fair value (which includes transaction costs). Interest is recognized based on the effective interest rate method and is recognized within the interest margin. Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models. Unrealized gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognized within equity.
Held-to-maturity (HTM) investments are carried at amortized cost using the effective interest method, less any allowance for impairment.

4.1.4 Realized gains and losses on sales of financial assets

For financial assets not revalued through the statement of income, realized gains or losses on disposals is the difference between the proceeds received (net of transaction costs) and the cost or amortized cost of the investment using the FIFO method.
When financial assets, classified as available-for-sale is derecognised, at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss.

4.1.5 Accounting for early repayment indemnities

Dexia Crédit Local has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 dealing with the restructuring of debts on financial assets.

Regarding the method of accounting for early repayment indemnities, there are several possibilities depending on whether the early repayment is recognised as not being an extinguishment (with refinancing) or as an extinguishment (no refinancing).

- *Case of early repayment with refinancing*

- The method of accounting for early repayment indemnities differs depending on whether the restructuring results in terms that are substantially different to those set initially.

- In accordance with the principles of AG 62, Dexia Crédit Local considers that the terms are substantially different when the net present value of the cash flows under the new terms, including any fees paid net of any fees received, is at least 10 per cent different from the discounted net present value of the remaining cash flows from the original loan.

- The early repayment indemnity is recognised immediately in the income statement or else amortised over the remaining term of the modified loan depending on the results of the eligibility test. If the eligibility test is passed, i.e. the income statement difference is less than 10%, the early repayment indemnity is amortised over the remaining term of the modified loan. If not, i.e. the difference exceeds 10%, the early repayment indemnity is recognised immediately in the income statement.

- *Case of early repayment without refinancing*

When the loan has been extinguished, the early repayment indemnity, as well as any gains or losses from apportioning the balance, is recognised in the income statement as income for the period, as required by IAS.

4.1.6 Impairments on financial assets

Dexia Crédit Local records allowances for impairment losses when there is an objective evidence that a financial asset or group of financial assets is impaired, in accordance with IAS 39 (§58-70). The impairments represent the management's best estimates of losses at each balance-sheet date.
An interest bearing financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Two types of allowances for impairment losses are recorded on assets :

- ***Specific loss allowance***. The amount of the provision on specifically identified assets is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted using the effective interest rate at the time of impairment. Impairment and Reversal impairment are recognized on a case-by-case basis in accordance with the standard.
Assets with small balances (including retail loans) that share similar risk characteristics are generally aggregated in this measurement.

- ***Portfolio credit risk allowance***. Loss impairments cover incurred losses where there is objective evidence that probable losses are present in segments of the portfolio or other lending related commitments at the balance-sheet date. These have been estimated based upon historical patterns of losses in each segment, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate. Dexia Crédit Local develops for that purpose credit risk models using an approach that combines appropriate default probabilities and loss given defaults, that are subject to regular back testing and are based on Basel II data and risk models.
The country risk is included within portfolio and specific impairment.
When an asset is determined by management as being uncollectible, it is written off against its related impairment ; subsequent recoveries are within the cost of risk in the statement of income, in the heading "Impairment on loans and provisions for credit commitments". If the amount of the impairment subsequently decreases due to an event occurring after the write-down of the initial impairment, the release of the provision is credited to the cost of risk.
"Available for sale" assets are only subject to specific loss risk allowance
"Available for sale" (AFS) quoted equities are valued at market price through "Unrealised or deferred gains and losses" or within the statement of income in the case of impairment. Impairments are recognized if the carrying amount is no longer considered as recoverable. Dexia Crédit Local analyses all equities that have declined by more than 25% of their quoted price or when a risk is identified by management and takes the decision to impair based on its recoverability. A prolonged decline in the fair value below its cost is also objective evidence of impairment. Impairments on equity securities cannot be reversed in the statement of income due to later recovery of quoted prices.
Impairments on loans included in HTM and AFS are reported in the heading "Cost of risk".

4.1.7 Sale and repurchase agreements and lending of securities

Securities sold subject to a linked repurchase agreement ("repos") remain in the financial statements recognized as financial assets held for trading, financial assets available for sale or financial assets held to maturity. The corresponding liability is included in "Interbank loans and advances" or "Customer loans and advances" as appropriate. The asset is reported as pledged in the notes.
Securities purchased under agreements to resell ("reverse repos") are recorded as:
- an obligation to return securities within off-balance sheet items; and
- "Interbank loans and advances" or "Customer loans and advances" as appropriate.

The difference between the sale and repurchase price is treated as interest income or expense and is accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparts are retained in the financial statements.
Securities borrowed are not recognized in the financial statements.
If they are sold to third parties, the gain or loss is included in "Net gain/loss on financial instruments at fair value through profit and loss" and the obligation to return them is recorded at fair value in "Financial liabilities at fair value though profit and loss".

4.2 Financial liabilities

4.2.1 Liabilities held for trading

Liabilities held for trading follow the same accounting rules as those for loans and securities held for trading.

4.2.2 Borrowings

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

Debts are included in the financial statements, based on their economic underlying characteristics more than their legal form.

4.3 Derivatives

Fair value derivatives

Derivative financial instruments generally include foreign exchange contracts, currency and interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (both written and purchased). All derivatives are initially recognized in the balance sheet at fair value (including transaction costs) and are subsequently re-measured at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.
The amount reported on these lines of the balance sheet includes the premium paid/received net of amortization, the revaluation to fair value and the accrued interest, the sum of all elements representing the fair value of the derivative.
Certain derivatives embedded in other financial instruments are treated as separate derivatives when:
- their risks and characteristics are not closely related to those of the host contract,
- the hybrid contract is not carried at fair value with unrealized gains and losses reported in the statement of income.

4.3.2 Hedging derivatives

On the date a derivative contract is entered into, Dexia Crédit Local may designate certain derivatives as either:
- a hedge of the fair value of a recognized asset or liability or a firm commitment (fair value hedge),
- a hedge of a future cash flow attributable to a recognized asset or liability or a forecasted transaction (cash flow hedge),
- a hedge of a net investment in a foreign entity (net investment hedge).

If a derivative is not designated in a hedging relationship, it is to be deemed held for trading.
Hedge accounting may be used for derivatives designated in this way, provided certain criteria are met.
The criteria for a derivative instrument to be accounted for as a hedge include inter alia:

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship prepared before hedge accounting is applied,
- the hedge is documented showing that it is expected to be highly effective (within a range of 80% to 125%) in offsetting changes in fair value or cash flows attributable to the hedged risk in the hedged item throughout the reporting period,
- the hedge is effective at inception and on an ongoing basis.

Entities of Dexia Crédit Local use internal derivative contracts (internal hedging) mainly to cover their interest rate risk. Those internal contracts are offset with external parties. If the contracts cannot be offset with third parties, the hedging criteria are not met. Internal derivative contracts between separate divisions within the same legal entity and between separate entities within the consolidated group can qualify for hedge accounting in the consolidated financial statements only if the internal contracts are offset by derivative contracts with a party external to the consolidated group. In this case, the external contract is regarded as the hedging instrument.
Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the statement of income, along with the corresponding change in fair value of the hedged assets or liabilities that is attributable to that specific hedged risk.
If 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 net profit or loss over the period to maturity through an adjustment of the yield of the hedged item.
Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognized in the hedging reserve in equity as “Unrealised or deferred gains and losses” (see Note 5 ”Changes in shareholders’ equity”). The non-effective portion of the changes in the fair value of the derivatives is recognized in the statement of income. Amounts deferred in equity are transferred to the statement of income and classified as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects the statement of income.

Certain derivative transactions, while providing effective economic hedges under Dexia Crédit Local's risk management positions, do not qualify for hedge accounting under the specific rules in IFRS and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

4.3.3 Hedge of the interest rate risk exposure of a portfolio

Dexia Crédit Local has decided to apply IAS 39 as endorsed by the European Commission because it better reflects the way Dexia Crédit Local manages its activities.
The objective of the hedge relationships is to reduce the interest rate risk exposure stemming from the selected category of assets or liabilities designated as the qualifying hedged items.
The entity performs a global analysis of interest rate risk exposure. It consists of assessing fixed rate exposure taking into account all the exposure coming from balance sheet and off-balance sheet items. This global analysis may exclude certain components of the exposure, such as financial market activities, provided that the risk exposure stemming from the excluded activities are monitored on an activity-by-activity basis. The entity selects assets and/or liabilities to be entered into the hedge of interest rate risk exposure of the portfolio. The entity defines at inception the risk exposure to be hedged, the length of the time-band, the way and the frequency it performs tests. The entity constantly applies the same methodology for selecting assets and liabilities entering in the portfolio. Assets and liabilities are included on a cumulative basis in all the time-bands of the portfolio. Hence, when they are removed from the portfolio, they must be removed from all the time-bands in which they had an impact.
The entity may choose which assets and/or liabilities it wishes to classify into the portfolio provided they are included in the global analysis. Demand deposits and savings accounts may be included in the portfolio based on behavioural study for estimating expected maturity date. The entity may designate as qualifying hedged items different categories of assets or liabilities such as "available for sale" assets or loan portfolios.
The hedging instruments are a portfolio of derivatives. Such a portfolio of derivatives may contain offsetting positions.
The hedging items are recognized at its full fair value (including accrued interest expense or income) with adjustments accounted for in the statement of income.
In the balance sheet, revaluation part could be recognized as :

- Fair value revaluation of Portfolio hedge in assets
- Fair value revaluation of Portfolio hedge in liabilities
- Part of the heading "AFS financial assets".

Effectiveness tests consist of verifying that the hedging objective, i.e. reducing the interest rate risk exposure, is fulfilled. Inefficiency can come only from overhedging due to non-contractual events occurring within the categories of assets or liabilities.

4.4 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 it is the best evidence of the fair value of a financial instrument. Market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by Dexia Crédit Local. Therefore, for financial instruments where no market price is available, the fair values have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance-sheet dates.
The values derived from applying these techniques are significantly affected by the underlying assumptions made concerning both the amounts and timing of future cash flows and the discount rates.
Financial investments classified as trading assets, available for sale, derivatives and other transactions undertaken for trading purposes are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or discounted cash flows.
For trading and AFS, when quoted prices are not available, the pricing models try to reflect as precisely as possible the market conditions at the calculation date as well as the changes in the credit quality of the financial instruments.

4.5 Interest income and expense

Interest income and expense are recognized in the statement of income for all interest bearing instruments on an accrual basis using the effective interest rate method based on the actual purchase price (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 interest rate method. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.
Accrued interest is reported in the same line as the related financial asset or liability in the balance sheet.

Once a financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for measuring the recoverable amount.

4.6 Insurance activities

Dexia Crédit Local is mainly active in credit enhancement of municipal and corporate bonds. Some insurance products sold by insurance companies are considered as financial instruments under IFRS 4. Dexia Crédit Local is applying IFRS 4 as from 1 January 2005, in order to be consistent with its date of implementation of IAS 32&39.
IFRS 4 allows the possibility to continue to account for its insurance products under local GAAP if they qualify as such under IFRS 4. Insurance activities of Dexia Crédit Local are performed by Financial Security Assurance (FSA) in the USA.
Dexia Crédit Local has decided to net the amounts received and paid relating to insurance products on a separate line in the consolidated statement of income. "Technical margin of insurance companies" is stated in a footnote of income statement.
Amortization of deferred acquisition costs is presented on a separate heading within operating expense.
All other items arising from insurance activities are classified according to their nature in the balance sheet.

4.7 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months remaining maturity included within cash and balances with central banks, interbank loans and advances, loans and advances to customers, financial assets held for trading, financial assets available for sale and financial assets of the full fair value portfolio.

10 - Dexia Credit Local scope of consolidation at June 30, 2005

A. Fully-consolidated subsidiaries

Name	Head Office	Business code	% interest
Dexia CLF Banque	7 à 11, quai André Citroën 75015 Paris France	01	80
Dexia Finance	7 à 11, quai André Citroën 75015 Paris France	20	100
Dexia CLF Immo	1, rue Foucault 75116 Paris France	10	100
Dexia CLF Regions Bail	7 à 11, quai André Citroën 75015 Paris France	05	100
Dexia Hypothekenbank Berlin	Charlottenstrasse 82 D - 10969 Berlin Deutschland	01	100
Dexia Crediop	Via Venti Settembre 30 00187 Roma Italia	01	70
Dexia Flobail	7 à 11, quai André Citroën 75015 Paris France	05	100
Floral	7 à 11, quai André Citroën 75015 Paris France	49	100
SISL (ex Société d'Investissement Suisse Luxembourgeoise)	69, route d' Esch L-2953 Luxembourg	10	100
Crediop Overseas Bank Ltd (1)	P.O. Box 707 - West Bay Road Grand Cayman - British West Indies	01	100
Dexia Crediop per la - Cartolarizzazione (1)	Via Venti Settembre 30 00187 Roma Italia	49	100
Dexia Kommunalkredit Holding Gmbh	Turkenstrass 9 A-1092 WIEN	07	50.84
Dexia banka Slovensko	Hodzova ul. 11 010 11 Zilina - Slovaquie	01	78.98
Dexia Sofaxis (ex SOFCA)	18020 BOURGES Cedex	47	100
SNC SOFCAH (2)	18020 BOURGES Cedex	30	100
SNC SOFCAP (2)	18020 BOURGES Cedex	30	100
SARL DS Formation France (2) (ex SARL Es Form)	18020 BOURGES Cedex	47	100
SNC SOFIM (2)	18020 BOURGES Cedex	47	100
S.A SOFCA Investissements (2)	18020 BOURGES Cedex	47	100
SAS DS Services France (2) (ex Dexia Sofaxis Services)	18020 BOURGES Cedex	47	100
DEXIA Location Longue Durée	7 à 11, quai André Citroën	05	49

(ex Dexia CLF Lease Services)	75015 Paris France		
Dexia Bail	7 à 11, quai André Citroën 75015 Paris France	05	100
Dexia Municipal Agency	7 à 11, quai André Citroën 75015 Paris France	01	100
Otzar Hashilton Hamekomi (3)	3 Heftman street 64737 Tel Aviv Israël	01	65.31
Dexia Sabadell Banco Local	Paseo de las doce Estrellas, 4 Campo de las naciones 28042 Madrid Espagne	01	60
CLF Patrimoniale	7 à 11, quai André Citroën 75015 Paris France	31	100
SCI Quai de New York	1 rue Foucault 75116 Paris	31	100
Dexia Crédit Local Asia Pacific	Level 23, Veritas House 207 Kent Street Sydney NSW 2000, Australia	01	100
Dexia Delaware LLC	15, East North Street Dover, Delaware 19901	49	100

(1) Companies consolidated by Dexia Crediop.
(2) Companies consolidated by Dexia Sofaxis.
(3) 65.99% of voting rights held.

Name	Head Office	Business code	% interest
Dexia Municipal Leasing & Finance LLC	211 Centerville Road, Suite 400 Wilmington, Delaware 19808	05	100
Dexia Holding Inc	350 Park Avenue New York, NY 10022	10	90
Financial Security Assurance Holdings Ltd	350 Park Avenue New York, NY 10022	10	98.07
Transaction Services Corporation (4)	350 Park Avenue New York, NY 10022	47	100
CLFG Corp (4)	350 Park Avenue New York, NY 10022	47	100
FSA Portfolio Management Inc (4)	350 Park Avenue New York, NY 10022	10	100
Financial Security Assurance Ltd (4)	167 Macquarie Street Sydney, Australia	47	100
FSA Services (Australia) Pty Ltd (4)	Level 23, Veritas House 207 Kent Street Sydney NSW 2000, Australia	29	100
Financial Security Assurance Inc (4)	350 Park Avenue New York, NY 10022	28	100
FSA Insurance Company (4)	350 Park Avenue New York, NY 10022	28	100
Financial Security Assurance (UK)	1 Angel Court	28	100

Ltd (4)	London, EC2R 7AE England		
FSA Services (Japan) Inc. (4)	Tokyo Ginko Kyokai Building 17 Floor 3-1, Marunouchi 1 - chome Chiyoda-ku, Tokyo 100-0005 Japan	29	100
Financial Security Assurance International Ltd (4)	3 Bermudiana Road PO Box HM 1272 Hamilton, Bermuda	28	80
FSA Asset Management LLC (4)	350 Park Avenue New York, NY 10022	19	100
FSA Capital Markets Services LLC (4)	350 Park Avenue New York, NY 10022	19	100
FSA Capital Management Services LLC (4)	350 Park Avenue New York, NY 10022	19	100
FSA Administrative Services LLC NY (4)	350 Park Avenue New York, NY 10022	10	100
FSA Global Funding LTD (4)	Queensgate house Grand Cayman, Cayman Island British West Indies	10	29
Canadian Global Funding * (4)	P.O Box 1984 GT, Elizabethan Square Grand Cayman, Cayman Islands Bristish West Indies	49	0
R2Co. (4)	Queensgate House Grand Cayman, Cayman Islands British West Indies	49	29
Enterprise Co.(4)	Queensgate House Grand Cayman, Cayman Islands British West Indies	49	29
Premier International Funding (4)	Queensgate House Grand Cayman, Cayman Islands British West Indies	10	0
FSA International Credit Protection Ltd (4)	P.O Box 309 GT, Ugland House South Church Street, George Town Grand Cayman, Cayman Islands Bristish West Indies	28	100
FSA Capital Markets Services Ltd (4)	P.O Box 1093 GT, Queensgate House South Church Street, George Town Grand Cayman, Cayman Islands Bristish West Indies	19	100
FSA Credit Protection Ltd (4)	350 Park Avenue New York, NY 10022	49	100

* Currently being liquidated
(4) Companies consolidated by FSA Holdings Ltd

B. Affiliated companies consolidated for by the equity method

Name	Head Office	Business code	% interest
Kommunalkredit Austria AG	Turkenstrasse 9 A - 1092 Wien Austria	01	49
Crédit du Nord	59, boulevard Haussmann 75008 Paris	01	10
Select Portfolio Servicing Inc (ex Fairbanks Capital Holding Corp) (1)	3815 SW Temple Salt Lake City Utah, USA	47	34.06
XL Insurance (1)	Cumberland House 1 Victoria street Hamilton, Bermuda	28	15
Kommunalkredit International Bank Ltd (2)	25 Spyrou Araouzou St. Cy - 3036 Limassol	01	100
Kommunalkredit Beteiligungs und Immobilien Gmbh (2)	Turkenstrasse 9 A - 1092 Wien Austria	31	100
Kommunalkredit Finance AS (2)	Krakovskà 1366/25 CZ - 110 00 Praha	49	100
Kommunalleasing Gmbh (2)	Turkenstrasse 9 A - 1092 Wien Austria	05	50
Kommunalkredit Public Consulting Gmbh (2)	Turkenstrasse 9 A - 1092 Wien Austria	41	100
Kommunalkredit Depotbank AG (2)	Turkenstrasse 9 A - 1092 Wien Austria	01	100
Kommunalkredit Capital I Ltd (2)	22 Grenville Street, St Helier Jersey JE4 8PX	17	100
Kofis Leasing (2)	Jana Milca 6 010 01 Zilina - Slovaquie	05	100

(1) Companies consolidated by FSA Holdings Ltd
(2) Companies consolidated by Kommunalkredit Austria AG : some fully (100%), and some accounted for by the equity method (50% - owned),
(Dexia Credit Local uses the equity method to account for the consolidated financial statements of Kommunalkredit Austria AG).

BUSINESS CODE

1. Bank, credit institution
2. Private savings bank
3. Government credit institution
4. Banking agency
5. Leasing
6. Mortgage loans
7. Development capital
8. Consumer credit
9. Other lending activities
10. Investment company

26. Non-life insurance
27. Captive reinsurance
28. General insurance
29. Financial products agency and brokerage
30. Insurance products agency and brokerage
31. Real estate agency (proprietary portfolio)
32. Real estate agency (third party)
33. Health and welfare
34. IT services
35. Banking associations

11. Stockbroking
12. SICAV mutual funds
13. FCP mutual funds
14. SICAV management company
15. Factoring
16. Infrastructure and construction financing
17. Other specific financing
18. Financial markets administration
19. Portfolio management and private banking, financial advisory services
20. Financial engineering, consulting and financial research
21. Other professional services in the financial sector
22. Guarantee company
23. Trust company
24. Foreign currency exchange
25. Life insurance

36. Other associations
37. Urban cleaning and waste management
38. Leisure activities
39. Telecommunications
40. Transport
41. Other business-to business services
42. Energy
43. Economic development
44. Water
45. Publishing and multimedia
46. Engineering design, research and development
47. Other services
48. Production, management and distribution of electronic payment system
49. Funding company
50. Merchant Bank

This is a free translation into English of the original statutory auditors' report on the consolidated interim financial statements, issued in the French language, and is provided solely for the convenience of English speaking readers.

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders,

In our capacity as statutory auditors of **Dexia Crédit Local** and in accordance with the Article L.232-7 of the Code de commerce, we have carried out :

- a limited review of the accompanying report on activity and results, presented in the form of consolidated interim financial statements of **Dexia Crédit Local**, for the period from January 1st, 2005 to June 30th, 2005 ;
- the verification of information given in the consolidated interim management report.

These consolidated interim financial statements are the responsibility of the Executive Board. Our responsibility is to express a conclusion on these financial statements based on our limited review.

As part of the transition to IFRS as adopted in the European Union in respect of the preparation of consolidated financial statements for the financial year ended 31st December 2005, these consolidated interim financial statements have been prepared for the first time, using the IFRS accounting and assessment rules which should be adopted in the European Union and in the form of intermediate accounts as defined in presentation and information rules of the General Regulations of the *Autorité des marchés financiers* (French market authority). For the purposes of comparison, these intermediate accounts include comparative information relating the financial year 2004 and the first half-year 2004, restated according to the same rules.

We conducted this limited review in accordance with the professional standards applicable in France ; those standards require that we plan and perform the review to obtain moderate assurance, to a lesser extent than pursuant to an audit, that the consolidated interim financial statements are free from material misstatement. Such a limited review does not include all of the verifications performed in an audit, but rather, is limited to implementing analytical procedures and to obtaining the information deemed necessary from the company's management executives and any other relevant persons.

Based on our limited review, nothing has come to our attention giving cause to believe that the accompanying consolidated interim financial statements are not in conformity, in all material respects, with the IFRS accounting and assessment rules which should be adopted in the European Union and applied by the company to prepare the consolidated financial statements for the financial year ended 31 December 2005 as described in note 9-1 of the financial statements.

Without qualifying our conclusion expressed above, we draw attention to :

- Paragraph 1 of explanatory note 9-1.2 of the financial statements, which sets out the options retained for the presentation of the consolidated interim financial statements which do not include all the information of the annexe required by the IFRS accounting and assessment rules adopted in the European Union;

- Paragraph 3 of explanatory note 1 of the financial statements which sets out the reasons why the comparative information to be presented in the first complete set of consolidated financial statements for the financial year ended 31 December 2005 and in the consolidated interim financial statements at 30 June 2006 may differ from the information in the accompanying consolidated interim financial statements;

- Paragraphs 3 to 5 of the explanatory note 9-1.1 of the financial statements which describes the amendment to IAS 39 approved by EFRAG related to the booking of cash flow hedge on intra group futures transactions, not yet adopted by the European Union and applied by anticipation at 30 June 2005 for the sake of coherence with accounting references to be used for the period.

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

Based on our limited review we have nothing to report on the fairness of this information and its consistency with the consolidated interim financial statements.

Paris, 6th September 2005

The statutory auditors

Caderas Martin	**Daniel BUTELOT**
	Olivier AVRIL
Mazars & Guerard	**Guillaume POTEL**
	Anne VEAUTE

RECENT DEVELOPMENTS

1. As part of its strategy of diversifying its business, Dexia Crédit Local's New York Branch created a municipal lease company for small asset-based lending and equipment finance transactions; the company is fully-held by Dexia Crédit Local and will be fully consolidated.

Dexia is currently studying the possibility of opening a location in Mexico. This non-bank financial institution would be a subsidiary of Dexia Crédit Local, and is expected to commence operations in 2005.

At the same time that the Canadian authorities authorized Dexia's opening of a representative office in Canada, Dexia Crédit Local submitted an application to open a branch, and expects to be able to open one during the third quarter of 2005.

2. MANAGEMENT REPORT FOR THE FIRST HALF OF 2005

1 Commercial activity

A. Not taking Germany into account, production reached EUR 20,058 million in the first half of 2005, up 75% year-on-year (77% neutralising the negative currency effect). At constant consolidation scope (*), namely excluding non-G12 sovereigns and student loans in New York, production grew by 63%. Virtually all operations recorded a very strong increase, especially the DCL International Headquarters, Central and Eastern Europe, Italy, and North and South America.

⇨ In the Public Sector, and not taking Germany into account, production reached EUR 17,479 million, equivalent to a twofold increase compared with the first half of 2004 (84% at constant consolidation scope). Growth was recorded by nearly all operations, with particular strong increase in Central and Eastern Europe (x22), Italy (x4), DCL International Headquarters (x5 excluding non-G12 sovereigns), North and South America (+68% without the impact of student loans), and Spain (+52%).

⇨ In Structured Financing, production reached EUR 2,579 million, down 6% compared with the first half of 2004. For the first time, Dexia vied on equal terms with leading banks in project finance.

B. Including Germany, the outstanding loans amounted to EUR 184 billion at 30 June 2005, up 20% year-on-year (equivalent to increases of 20% at constant exchange rates and 17% at constant consolidation scope). Growth was fuelled by the faster development of the new activities in Central and Eastern Europe and at the DCL International Headquarters. Particularly robust growth was recorded in North and South America, Italy, France and Spain. Net capital insured by FSA increased to USD 474 billion at 30 June 2005, up 11% year-on-year.

C. In connection with the group's international development - and following the creation in the first quarter of Dexia Kommunalkredit Bank Central & Eastern Europe, a new subsidiary of Dexia Crédit Local and Kommunalkredit formed to develop the first business line in Central and Eastern Europe – the second quarter was marked by the grant of a banking licence by the Polish authorities on 8 June 2005. The operating licence should be awarded in September of this year.

D. In connection with the diversification of its activity, Dexia Crédit Local New York Branch has set up a municipal lease company that will specialise in asset and equipment financing on a small scale. A study is under way to set up operations in Mexico to be conducted through a finance company that will be a subsidiary of Dexia Crédit Local. This activity should start up later this year. Concurrently with the authorisation to open a representative office in Canada, documents for the creation of a branch were filed with the Canadian authorities. This branch should be opened before the year-end.

E. Interest margins and the net present value of gross premiums generated by FSA amounted to USD 408 million in the first half of 2005, down 11% year-on-year.

(*) *Sovereign bonds issued by non-G12 countries (Greece, China, Poland, etc.) were transferred from the fourth business line to the first business line on 1 January 2005.*
Furthermore, the activity of DBB NY was taken over by DCL NY on 1 January 2005. The first business line of DBB NY involved mainly student loans.

2 Change in the scope of the Group's activities

There was no significant change in the consolidation scope compared with the first half of 2004.

However, there were a number of developments:

- First, the US activity of Dexia Banque (Belgium) was taken over by the New York branch of Dexia Crédit Local. This transfer has taken place gradually since September 2004 through the acquisition of various portfolios and of DCL Delaware, a company issuing short dated paper, as well as through the creation of a branch in the Caymans.
- Second, a company was set up to oversee development in Central Europe under the supervision of Dexia Kommunalkredit Bank (formerly Dexia Kommunalkredit Holding). This company, which is owned for 51% by Dexia Crédit Local and for 49% by Kommunalkredit Austria, carries on activities as a bank as well as a holding company for the participating interest acquired in Central European countries.

The new activities in the US contributed loans of EUR 5.5 billion at 30 June 2005 and those in Central Europe loans of EUR 0.1 billion. Their contribution to net banking income amounted to respectively EUR 9.0 million and EUR 0.3 million, their contribution to operating expenses to EUR 2.3 million and EUR 3.7 million (including start-up expenses for the new entity), while they contributed income of EUR 6.0 million and a loss of EUR 1.0 million to net income after minority interests.

Details of changes in the consolidation scope are given in the notes to the consolidated financial statements.

3 Changes in accounting policies and methods

The financial statements for the six months ended 30 June 2005 were the first published statements to have been prepared by Dexia Crédit Local under the new International Financial Reporting Standards (IFRS) endorsed by the European Union. These new standards apply to consolidated financial statements for accounting periods beginning on or after 1 January 2005, which is the date of first application.
The interim financial statements were prepared in accordance with the General Regulations of the French Stock Market Regulator (*Autorité des Marchés Financiers – AMF*). They include comparatives for the year ended 31 December 2004 and the six months ended 30 June 2004 that were restated applying the same accounting policies and methods.
The notes to the consolidated financial statements provide all necessary details regarding these changes of accounting policies and methods.

4 First-half consolidated financial statements

4-1 FIRST HALF HIGHLIGHTS

There was only one event in the first half of 2005 deserving mention, which is:

- The sale of the participating interest in the entity created in connection with the restructuring of the Callahan loans, which generated a profit on disposals of EUR 9.0 million before tax. These shares resulted from the conversion of part of the debt of the company when it was restructured in 2003, which resulted in a loss of EUR 10.4 million for Dexia Crédit Local.

Results in the first half of 2004 were affected by the following items:

- A provision of EUR 10.4 million was recorded against shares in US company GSF, a 75%-owned subsidiary of Dexia Holding Inc that is not consolidated. The activity of this subsidiary declined significantly because of regulatory changes in the US leases sector. This shareholding has been fully provisioned.
- The sale of property assets generated profit of EUR 7.3 million in Italy and EUR 2.8 million in the UK.
- Business tax amounting to EUR 3.5 million was repaid following a revision of the tax base.

4-2 Changes in the Group's results

The application of the new standards had a limited impact on the first-half financial statements.

Net banking income increased to EUR 829 million in the first half of 2005, up 6.3% from EUR 780 million the year before. Net banking income was affected significantly by the dollar's depreciation against the euro.

	First half 2004	First half 2005	Change	% change
Net banking income	780	829	49	6.3
o/w Dollar-euro currency effect		(12)	(12)	
o/w Income (loss) on dollar-euro hedges	12	(2)	(14)	
Net banking income before dollar effect	**766**	**843**	**75**	**9.8**

Non-recurring items contributed to the increase in net banking income in the first half of 2005, but this impact was largely offset by the change in the value of the credit derivatives of FSA. Adjusted for these elements, Dexia Crédit Local recorded a significant 9.2% increase in net banking income.

	First half 2004	First half 2005	Change	% change
Net banking income before dollar effect	**766**	**843**	**75**	**9.8**
o/w Changes in consolidation scope		10	10	
o/w Profit on disposal of Callahan shares		9	9	
o/w Write-down of GSF shareholding	(10)		10	
o/w Change in value of FSA credit derivatives	7	(14)	(21)	
Adjusted net banking income	**769**	**838**	**69**	**9.0**

At consolidated level, **operating expenses** (i.e. overheads and depreciation charges) increased to EUR 271 million, up 16.8% from EUR 232 million in the first half of 2004. But for the dollar effect

(+EUR 3 million), changes in consolidation scope (-EUR 6 million) and the repayment of business tax in 2004 (+EUR 4 million), operating expenses would have increased by EUR 32 million, up 13.6% year-on-year.

Gross operating income increased to EUR 558 million in the first half of 2005, up 1.8% from EUR 548 million the year before. The cost-to-income ratio increased from 29.7% to 32.7%, bearing in mind it reached 30.9% in the year ended 31 December 2004.

Cost of risk, as reported under the new standards, concerned the following portfolios:

	First half 2004	First half 2005	Change
Credit (loans and held-to-maturity securities)	1	3	2
Credit enhancement	(8)	(8)	-
Available-for-sale securities (other than shares)	15	(1)	(16)
Total	**8**	**(6)**	**(14)**

Given the still favourable environment, credit risk remained at an extremely low level. It is in fact positive in the case of credit activities (EUR 3 million) both in France and abroad, and is slight in the case of FSA (unchanged negative amount of EUR 8 million). In the first half of 2004, the portfolio of available-for-sale securities gave rise to significant provision write-backs.

The **net gain/loss on other assets** was positive at EUR 3 million in the first half of 2005, while the year before it was positive at EUR 12 million. This gain consists mainly of profits on the sale of property assets amounting to EUR 2 million in the first half of 2005 and EUR 11 million the year before.

Corporate income tax declined by EUR 6 million, down 3.7%, reflecting the decrease in taxable income.

The group's share of **net income** reached EUR 393 million in the first half of 2005, up 0.3% from EUR 392 million the year before.

TAXATION

The statements herein regarding taxation are based on the laws in force in the European Union, the Republic of France and the Grand Duchy of Luxembourg as of the date of this Prospectus and are subject to any changes in law. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Notes. Each prospective holder of Notes should consult its tax advisor as to the tax consequences of any investment in or ownership and disposition of the Notes under the laws of the European Union, the Republic of France, the Grand Duchy of Luxembourg, and/or any other jurisdiction. All prospective Noteholders should seek independent advice as to their tax positions.

EU Directive on the Taxation of Savings Income

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

The Directive was implemented into French law by the Amended Finance Law for 2003 and by the Amended Finance Law for 2004, which impose on paying agents based in France an obligation to report to the French tax authorities certain information with respect to interest payments made to beneficial owners domiciled in another Member State, including, among other things, the identity and address of the beneficial owner and a detailed list of the different categories of interest payments made as from 1 July 2005.

French Taxation

Payments in respect of the Notes may be made without withholding or deduction for, or on account of, the withholding tax on interest set out under Article 125 A III of the *Code général des impôts* (general tax code) as provided by article 131 *quater* of the *Code général des impôts* as interpretated in the Circular of the *Direction générale des impôts* dated 30 September 1998.

Luxembourg Taxation

Under Luxembourg tax law currently in effect, there is no withholding tax for Luxembourg resident and non-resident Noteholders on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax payable on payments received upon repayment of the principal or upon redemption of the Notes.

Luxembourg withholding tax on payments to individual Noteholders (resident in another EU country than Luxembourg) will, as from 1 July 2005, be required to be made by Luxembourg paying agents pursuant to the Savings Income Directive or any law implementing or complying with, or introduced in order to conform to, the Savings Income Directive.

Luxembourg will impose a withholding system for a transitional period unless the beneficiary of the interest payments elects for the exchange of information. The withholding tax rate will initially be 15%, increasing steadily to 20% and to 35%. The duration of such transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries.

A Luxembourg withholding tax may also in the future be introduced for interest payments made to Luxembourg individual residents.

SUBSCRIPTION AND SALE

BNP Paribas, Goldman Sachs International, Nomura International plc and Dexia Banque Internationale à Luxembourg, société anonyme (the "**Managers**") have pursuant to a Subscription Agreement dated 16 November 2005 (the "**Subscription Agreement**") agreed with the Issuer, subject to satisfaction of certain conditions, to purchase the Notes at a price equal to 100 per cent. of their principal amount, less a total commission of 0.450 per cent. The total expenses related to the admission to trading are estimated at €14,500. The total expenses (including the trading fees) related to the issue are estimated at €50,337.

In addition, the Issuer and the Managers have entered into separate arrangements in respect of their legal and other expenses respectively incurred in connection with the issue of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has represented and agreed that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the lead manager, of all Notes, within the United States or to, or for the account or benefit of, U.S. persons. Each Manager has further agreed that it will send to each Manager to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of the Notes, an offer or sale of such Notes within the United States by any Manager may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

France

(a) Each of the Managers and the Issuer acknowledges that Notes are being, or are deemed to be, issued outside the Republic of France; and

(b) Each of the Managers and the Issuer has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in the Republic of France (*appel public à l'épargne*), and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France, this Prospectus or any other offering material relating to Notes, and that such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties and/or (ii) qualified investors (*investisseurs qualifiés)* acting for their own account, as defined in, and in accordance with, Article L.411-1, L.411-2 and D.411-1 of the *Code monétaire et financier*;

except that it may make an offer of Notes to the public in France in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by a Member State of the European Economic Area (other than France) which has implemented the Prospectus Directive on the date of notification to the *Autorité des marchés financiers* in France, all in accordance with articles L.412-1 and L.621-8 of the French *Code monétaire et financier* and article 212-3 of the *Règlement général* of the *Autorité des marchés financiers* and ending at the latest on the date which is 12 months after the date of such publication.

Italy

The offering of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

i. to professional investors ("*operatori qualificati*"), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended; or

ii. in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the "**Financial Services Act**") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of the Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be:

i. made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1 September 1993 (the "**Banking Act**"), as amended; and

ii. in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and

iii. in accordance with any other applicable laws and regulations.

General

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Managers shall have any responsibility therefor.

None of the Issuer and the Managers represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

No action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of the Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Neither the Issuer nor any of the Managers represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to any exemption available thereunder or assumes any responsibility for facilitating such sale. There will be no public offering of the Notes.

GENERAL INFORMATION

(1) The issue of the Notes has been authorised pursuant to a decision of Daniel Caille, a member of the Executive Board of the Issuer dated 3 November 2005, acting pursuant to a resolution of the Executive Board *(directoire)* of the Issuer dated 27 September 2005.

(2) Neither the Issuer nor any member of the group constituted by the Issuer and its consolidated subsidiaries taken as a whole (the "**Group**") is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or any member of the Group is aware) which may have or have had, during the 12 months preceding the date of this Prospectus, significant effects on the financial position or profitability of the Issuer or the Group nor so far as the Issuer is aware is any such governmental, legal or arbitration proceeding pending or threatened.

(3) Except as disclosed on pages 102 to 105 of this Prospectus, there has been no significant change in the consolidated financial or trading position of the Issuer or of the Issuer and the Group which is material in the context of the issue and offering of the Notes since 31 December 2004 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2004.

(4) The Notes have been accepted for clearance through Euroclear France and Clearstream, Luxembourg and Euroclear, Brussels with the Common Code number of 023501589. The International Securities Identification Number (ISIN) for the Notes is FR0010251421. Euroclear France is in charge of keeping the records for the book entry representation of the Notes. The address of Euroclear France is 155, rue Réaumur, 75081 Paris Cedex 02 France.

(5) The Issuer publishes (i) audited annual consolidated and non-consolidated accounts and (ii) semi-annual unaudited consolidated accounts. The Issuer's statutory auditors carry out a limited review of such semi-annual accounts. The Issuer does not currently publish semi-annual non-consolidated accounts.

(6) For so long as any of the Notes are outstanding, copies of the following documents may be obtained free of charge during normal business hours at the specified office of the Fiscal and Paying Agent and at the registered office of the Issuer in Paris:

(i) the most recently published annual, audited, non-consolidated and consolidated financial statements of the Issuer;

(ii) the Fiscal Agency Agreement;

(iii) the *statuts* of the Issuer; and

(iv) copies of the Prospectus together with any supplement to this Prospectus.

The Prospectus and all documents incorporated by reference are also available on the website of the Luxembourg Stock Exchange: ("www.bourse.lu")

(7) The re-offer yield of the Notes is equal to 4.300% which corresponds to the 10 year swap rate on the pricing date, 3 November 2005 (namely 3.570 per cent.) plus a spread of 73 basis points.

(8) At the date of this Prospectus, there is no interest, including conflicting ones, that is material to the issue.

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