



No achievement without commitment



SUB-PRIME US RESIDENTIAL MORTGAGES

Analysis and Overview of Dexia Group's Exposure

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Conference Call

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- Over the past weeks, many questions have been raised about the « Sub-prime mortgages » in the US.
- A review of all activities which might be concerned within the Dexia Group has been performed.

Where could Dexia be exposed ?

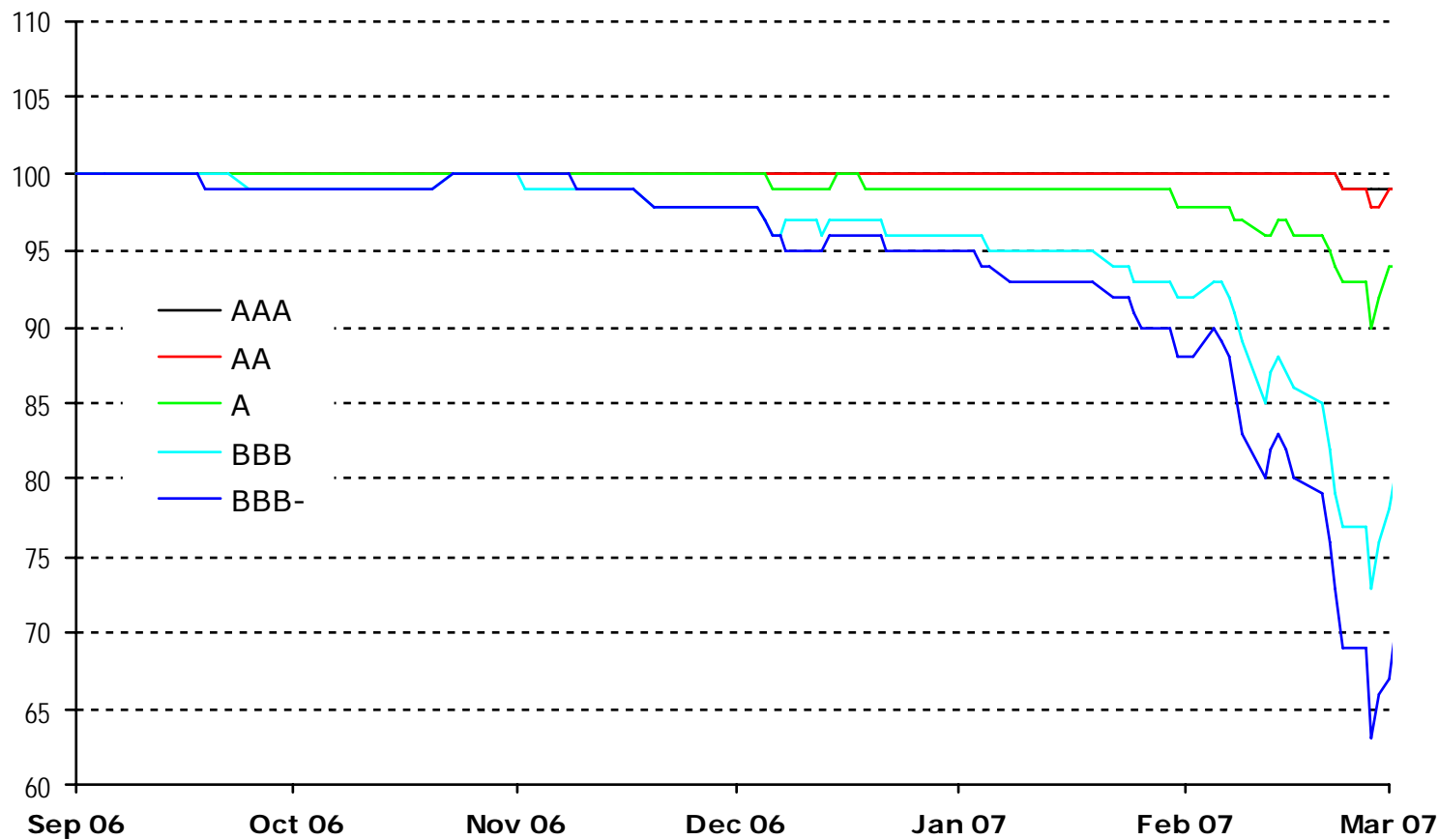
- FSA insurance portfolio
- FSA financial products portfolio
- Dexia's Credit Spread portfolio
- Securitization/equities activities
(in Treasury and Financial Markets)
- RBC Dexia Investor Services
- Dexia Asset Management

What Are Sub-Prime Mortgages

- Residential mortgage loans which are eligible for securitization by the government sponsored agencies (Fannie Mae; Freddy Mac and Ginnie Mae) are classified as « Prime » principally when:
 - there is a first lien;
 - when debt to Income ratios (DTI) limits are less than 28% for mortgage debt and 36% for total debt;
 - when income and employment are fully documented;
 - when credit quality measured by a FICO score (Fair Isaacs Corp.) is ≥ 720 .
- Loans are « Sub-Prime » typically when :
 - loan to value ratios are close to 80% or above;
 - FICO scores are between 450 and 650;
 - DTI are in the 40% to 45% range;
 - Flawed Credit history (late payments, defaults, etc...).
- Sub-Prime borrowers typically have a default rate 8-10 times greater than prime borrowers

- Over the past few months the press has been reporting that 2006 vintage sub-prime mortgage loans have been performing poorly. Symptoms include: rising delinquencies and early payment defaults, causing a number of smaller sub-prime originators to close because of rising repurchase obligations on early defaulting loans.
- The ABX Index for sub-prime mortgage backed securities (BBB class), typically issued at or near par, has been falling, suggesting investor concern over the quality of these tranches of securities and, by extension, the US sub-prime residential market (see graph on next slide). The downward pressure appears to be most focused on BBB tranches of 2006 originations.

ABX.HE Index: Series 2006-2 Pricing



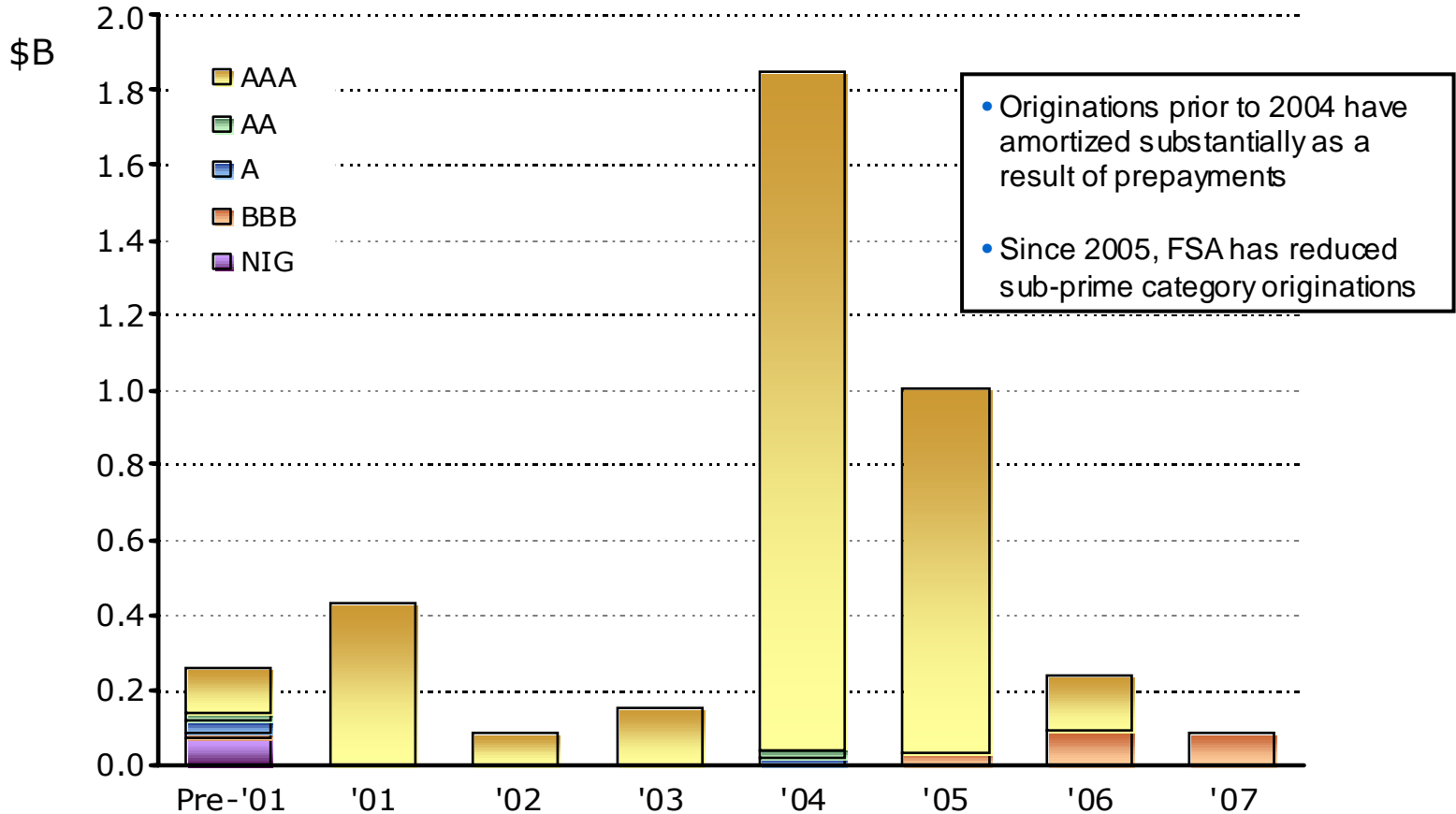
Source: www.morganmarkets.com

- RMBS's (Residential Mortgage Backed Securities) are a type of ABS using Residential Mortgage loans as underlying assets.
- FSA insures (or credit-enhances) such RMBS's. At 12/31/06, ABS's backed by Residential Mortgages represented 6% of total net par outstanding insured by FSA, of which 21% in the U.S. « Sub-prime » category (thus approximately 1.2% of total net par).
- FSA also holds such instruments in its « Financial Product » portfolio
- Dexia holds similar instruments in its « Credit Spread » portfolio

- **As with any other kind of asset backed securities, RMBS's are dedicated structures which pool together assets and allocate the corresponding income among investors who have different risk appetites, respectively:**
 - Senior tranche holders
 - Junior (or mezzanine) tranche holders
 - Equity tranche holders
- **FSA insures only senior tranches (or NIMs, described later)**
- **Transactions insured can be more or less highly rated, depending on the level of the cushion of protection which the senior tranches enjoy (see Appendices A and B).**

- **FSA's MBS portfolio is very well positioned against deterioration, particularly in 2006 vintage sub-prime loans.**
- **As of February 28, 2007, FSA's insured portfolio includes \$4.1 billion net par backed by sub-prime loans. Of the \$4.1 billion, \$3.7 billion (90.7%) is rated AAA (see graph on next slide).**
- **Of the \$4.1 billion, \$238 million net par are 2006 vintage deals.**
- **FSA has not insured a BBB sub-prime MBS other than a Net Interest Margin (NIMs) securitization since 2000.**
- **All outstanding sub-prime MBS other than NIMs, closed after 2000, are currently rated AAA by FSA.**
- **The Net Interest Margin (NIM) securitizations portfolio is well protected.**
 - NIM's are securitizations of early excess cash flows and prepayment penalties of RMBS transactions
 - NIM's perform differently than other RMBS's because of the rapid pay down (average life of 0.6 – 1.5 years)

FSA Insured Sub-Prime RMBS Net Outstanding Par By Origination Year



Net par insured at origination (\$MM)	'01	'02	'03	'04	'05	'06	'07
	14,506	6,927	4,884	22,759	1,913	370	91

Data as of February 28, 2007



Insured Sub-Prime MBS

Net Outstanding Par 2/28/07

\$Millions



● Overall portfolio quality is very high

	Pre 2004	2004	2005	2006	2007	Total	
AAA	787	1,808	970	150	0	3,716	
AA	21	26 (2)	0	0	0	47	(1)
A	36	14	0	0	0	50	(1)
BBB	9	0	32	88	84	213	(1)
NIG	72	0	0	0	0	72	
Total	924	1,848	1,002	238	84	4,097	

- Sub-prime securitizations have been intentionally reduced since 2004
- All originations since 2004 are rated AAA, except NIMs (see next chart)
- \$72MM of Non Investment Grade (NIG) transactions are nine legacies from 2000 and before, which have specific reserves against expected final loss (thus no material impact expected on P+L).

(1) The highlighted cells are NIM transactions totalling \$242MM, discussed on next slide

(2) Of which 24 are NIMs

Insured NIM MBS

Net Outstanding Par 2/28/07

\$Millions



	2004	2005	2006	2007	Total
AA	24	0	0	0	24
A	14	0	0	0	14
BBB	0	32	88	84	204
TOTAL	38	32	88	84	242
Average Life	1.39	0.97	0.90	0.64	0.90

- Since inception of the NIM program in 2001, FSA has insured 60 transactions totalling \$5.5 Bn of original par. All but the most recent 20 transactions have paid off in full without loss.
- The remaining portfolio comprises 20 transactions, 15 of which (\$78.9MM net par) benefit from 100% protection from AA rated insurance companies.
- Of the remaining 5 transactions (\$163.4MM net par), 4 transactions (\$142.5MM) have a minimum first loss policy of 33%.
- The performance of these transactions is regularly tested. At the present time, FSA sees no cause for concern about the most recent transactions. However they will be watched closely.

FSA Financial Products ("FP")

Sub-Prime Mortgage Investment Portfolio

As of February 28, 2007



- FSA has a line of activity in « Financial Products » whereby excess liquidity from Muni customers are placed, in Guaranteed Investment Contracts (GIC's) issued by FSA FP. This funding is invested in high quality financial instruments which FSA monitors closely
- Current balance of FP's sub-prime Principal and Interest (P&I) portfolio is \$5.9B (\$6.2B when NIMs are included - see next slide).

Rating of P&I bonds only (excl. NIMs)	Current Balance (\$MM)	%	Number of Positions	Current Balance Insured (\$MM)	Mark to Market Gain / (Loss)	
					\$MM	bps
AAA	5,347	91%	288	222		
AA +	223	4%	14	0	0.9	0.41
AA	269	5%	21	0	1.1	0.42
A +	43	1%	5	0	0.3	0.65
A	<u>23</u>	<u>0%</u>	<u>3</u>	<u>0</u>	<u>0.2</u>	<u>1.06</u>
Total	\$5,905	100%	331	\$222	\$2.6	0.46

- \$558MM are non triple A P&I bonds.
- All but two of the non triple A P&I positions were acquired in or prior to 2004. These transactions benefit from several positives including (i) high quality collateral, i.e., stricter originator U/W guidelines, (ii) deleveraging of capital structure via prepayments, and (iii) benefit of housing price appreciation.
- Two non triple A bonds were purchased in 2005. Aggregate principal outstanding of \$19.5MM. Both are rated AA+.
- Current Market value is in excess of book value for all holdings below AAA.

FSA Financial Products ("FP") Sub-Prime Mortgage Investment Portfolio (Cont'd) As of February 28, 2007



- Portfolio of Financial Products composed of NIMs stands as follows at 2.28.2007:

Rating of NIMs	Current Balance (\$MM)	Number of Positions	Insured
AAA/Aaa	53.5	19	100% (FSA,AMBAC,FGIC)
AA/Aa3	193.7	13	100% (Radian)
<u>A+/A/A-</u> ⁽¹⁾	<u>22.0</u>	<u>6</u>	None
Total	\$269.3	38	

- \$53.5MM of triple-A wrapped NIMs. Remaining weighted average life (WAL) of 0.28 years.
- \$193.7MM of Radian (AA/Aa3) insured NIMs. Remaining WAL of 1.2 years.
- \$22MM of unwrapped credit NIMs. Six positions with remaining WAL of 0.35 years. All these positions are performing as expected and should pay off in the next few months.

(1) S&P only

Exposure at Dexia's Credit Spread Portfolio

- **Sub-prime wrapped:** € 90 million
- **Sub-prime unwrapped:** € 303 million*

* the single biggest exposure amounts to €33 million; the next biggest is €25 million and all others are under €20 million.

- **Quality**

96 %	rated AAA
4 %	rated AA

- **The majority of the paper was purchased in 2004**

- **Strict credit disciplines along with the search for adequate returns on capital are the guiding criteria for underwriting risks and making investments.**
- **FSA and Dexia have long expected problematic developments to arise in the ABS sphere, and more particularly in the sub-prime segment. We have thus strongly reduced our underwritings and investments in the sub-prime mortgage asset class over the last two and a half years.**
- **The great majority of investments/underwritings which were made were with AAA rated instruments. Current market conditions, or even an unfavorable evolution of the current default rates, do not appear to pose a material threat to exposures of this quality (see examples of transactions insured in 2004 and 2005 in Appendices A and B).**

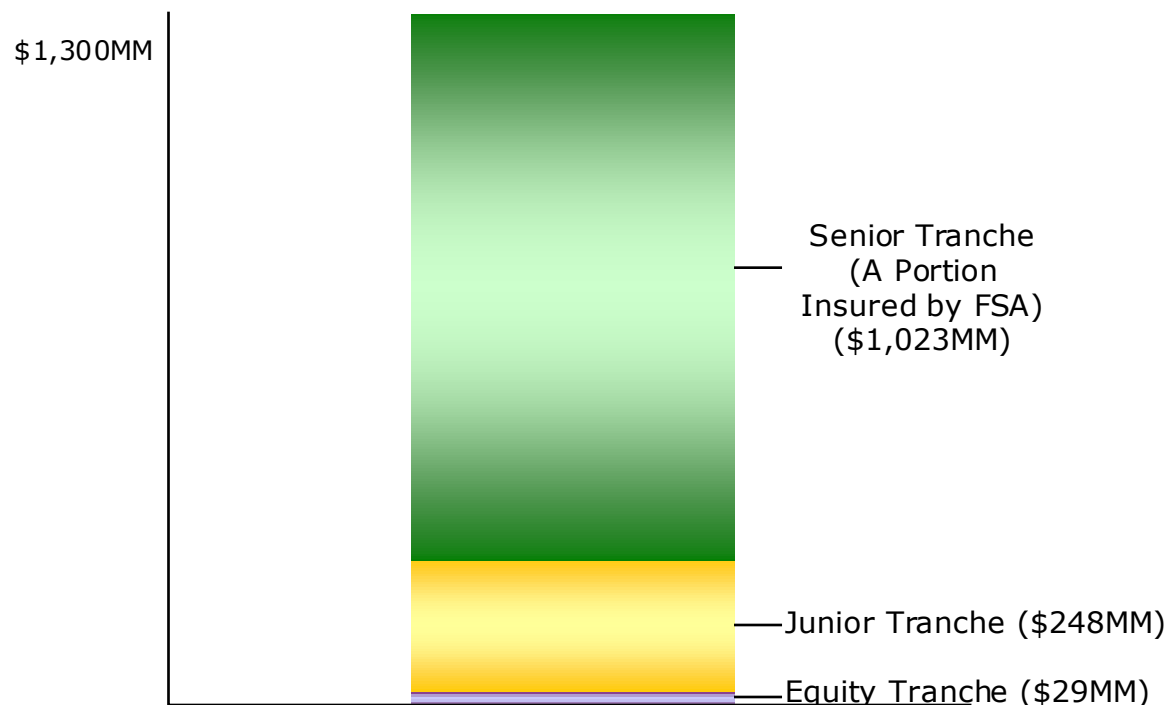
- **Both at Dexia and FSA, we are satisfied to “have kept our powder dry” in anticipation that weak underwriting and aggressive growth would ultimately lead to a market crisis.**
- **Current conditions are causing a broad reorganisation of the sub-prime mortgage industry, with the survival of stronger participants, strengthening of loan-to-value and other underwriting standards, and rating agency protection levels.**
- **In this new environment, both FSA and Dexia expect to find opportunities to write new business at attractive levels of risk and return on capital.**

Appendix A:
**A Typical Triple-A Rated Sub-Prime
Transaction from 2004**

A Typical FSA-Insured AAA Sub-Prime Transaction is Protected by Overcollateralization...



Example: Financing of a \$1,300MM transaction at origination



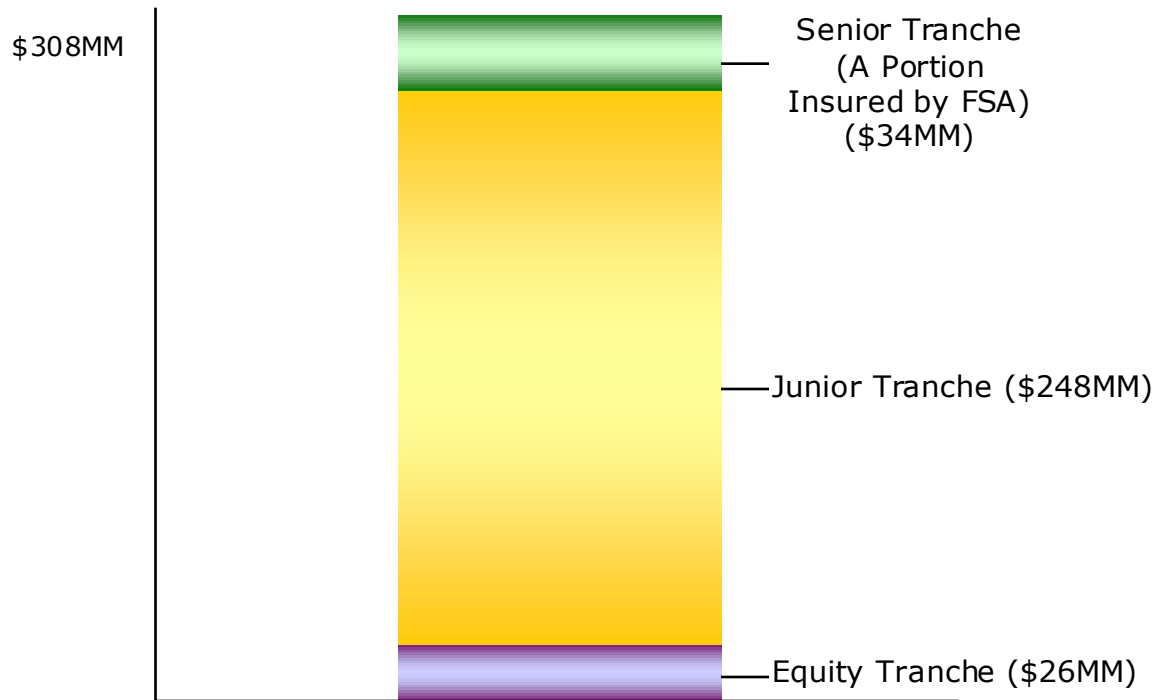
In this illustration (at Origination):

- The Junior and Equity tranches (\$277MM) provide overcollateralization for the Senior Tranche (\$1,023MM).

- Overcollateralization = $\frac{277\text{MM}}{1,023\text{MM}} = 27.1\%$

...Which Grows Over Time as the Transaction Pays Down

36 months later



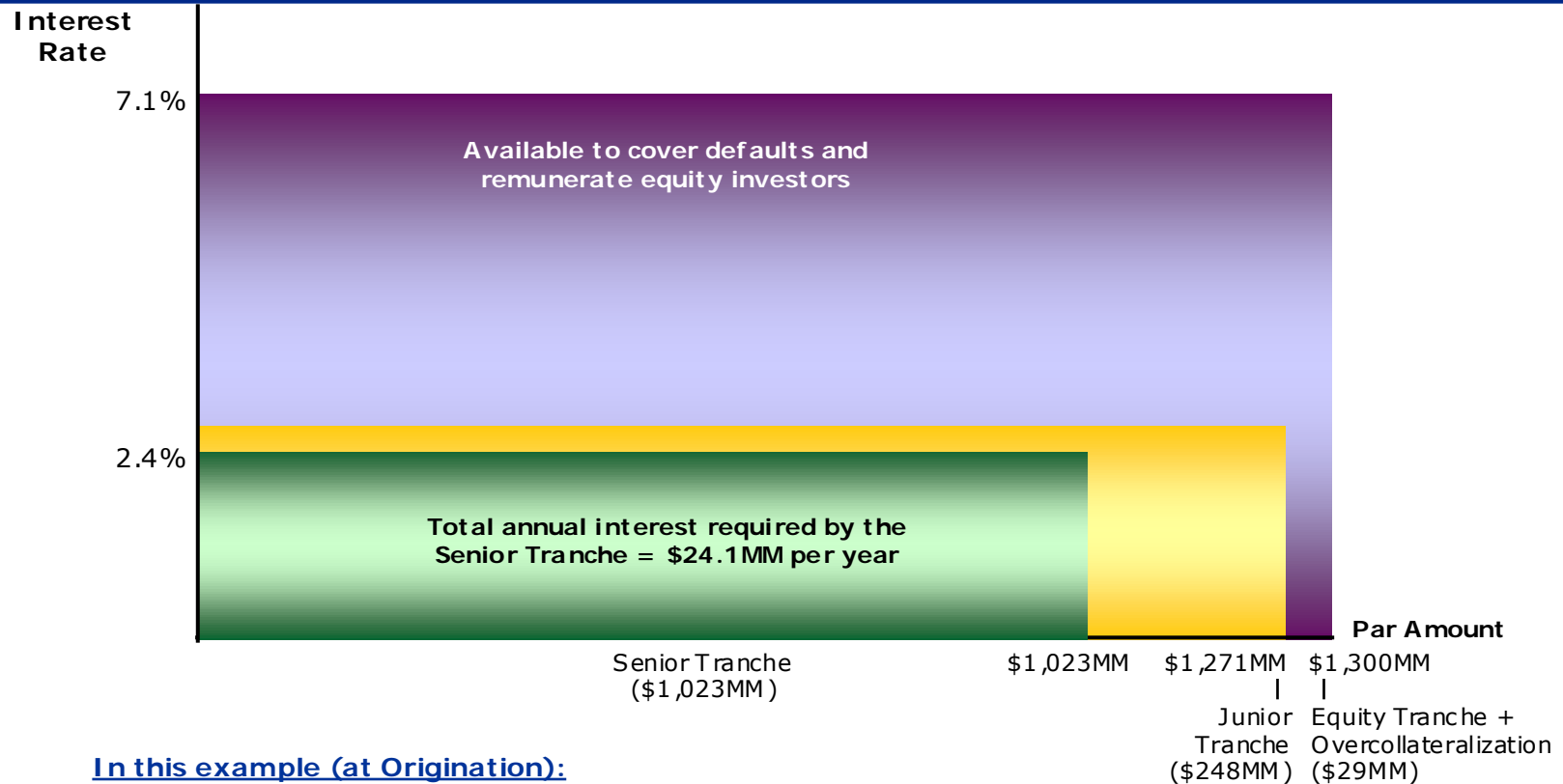
In this illustration (at Current):

- The Junior and Equity tranches (\$274MM) provide overcollateralization for the Senior Tranche (\$34MM).
- Overcollateralization = $\frac{274MM}{34MM} = 803.9\%$

A Typical FSA-Insured AAA Sub-Prime Transaction is Also Protected by Future Spread



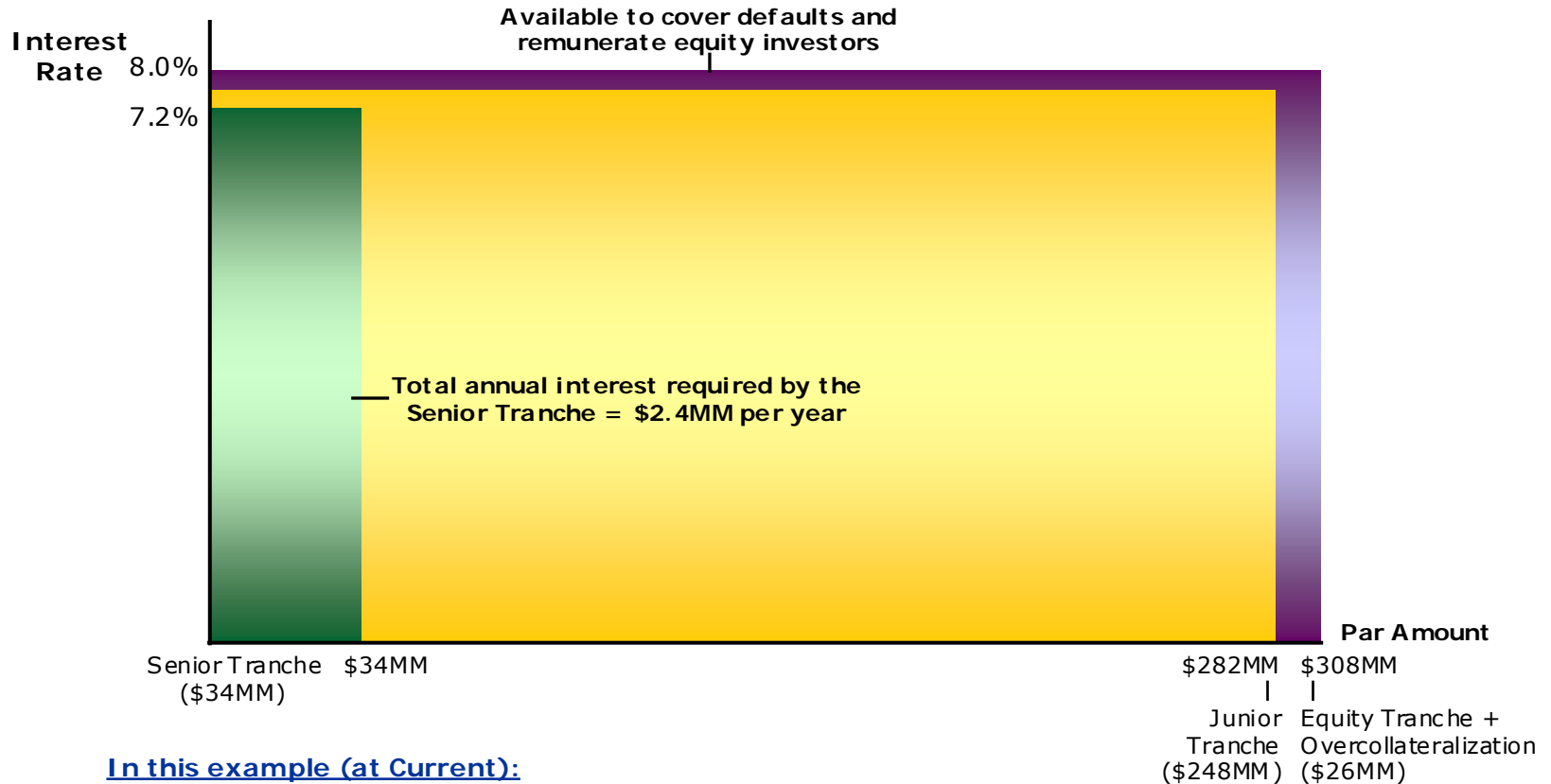
Example: Interest coverage at origination



In this example (at Origination):

- Interest rate on original assets: 7.1%
- Interest rate on senior notes: 2.4%
- Interest payments generated by the pool of assets=\$92.4MM per year
- Senior notes' required interest payments=\$24.1MM per year (\$1,023 x .024)
- Interest coverage = $\frac{92.6\text{MM}}{24.1\text{MM}} = 3.8x$

Example: Interest coverage 36 months later



In this example (at Current):

- Interest rate on original assets: 8.0%
- Interest rate on senior notes: 7.2%
- Interest payments generated by the pool of assets = \$24.8MM per year
- Senior notes' required interest payments = \$2.4MM per year (\$34.1MM x .072)
- Interest coverage = $\frac{24.8\text{MM}}{2.4\text{MM}} = 10.1\text{x}$

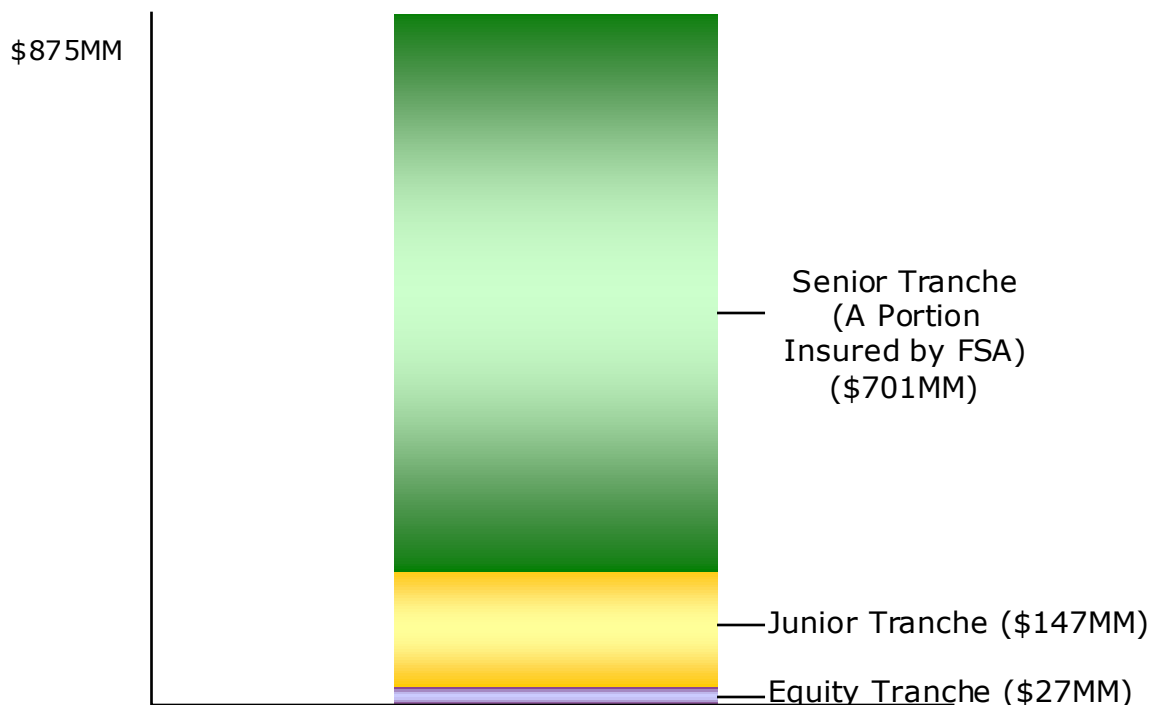
Appendix B:

A Typical Triple-A Rated Sub-Prime Transaction from 2005

A Typical FSA-Insured AAA Sub-Prime Transaction is Protected by Overcollateralization...



Example: Financing of a \$875MM transaction at origination



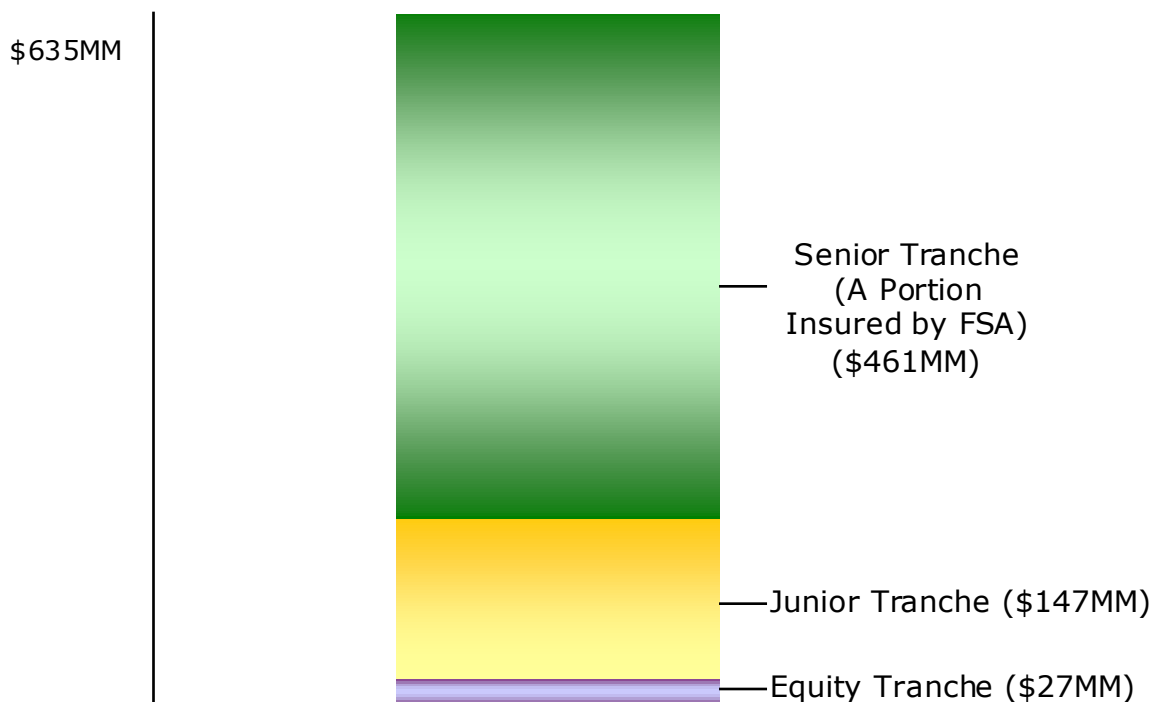
In this illustration (at Origination):

- The Junior and Equity tranches (\$174MM) provide overcollateralization for the Senior Tranche (\$701MM).

- Overcollateralization = $\frac{174\text{MM}}{701\text{MM}} = 24.8\%$

...Which Grows Over Time as the Transaction Pays Down

Example: 14 months later



In this illustration (at Current):

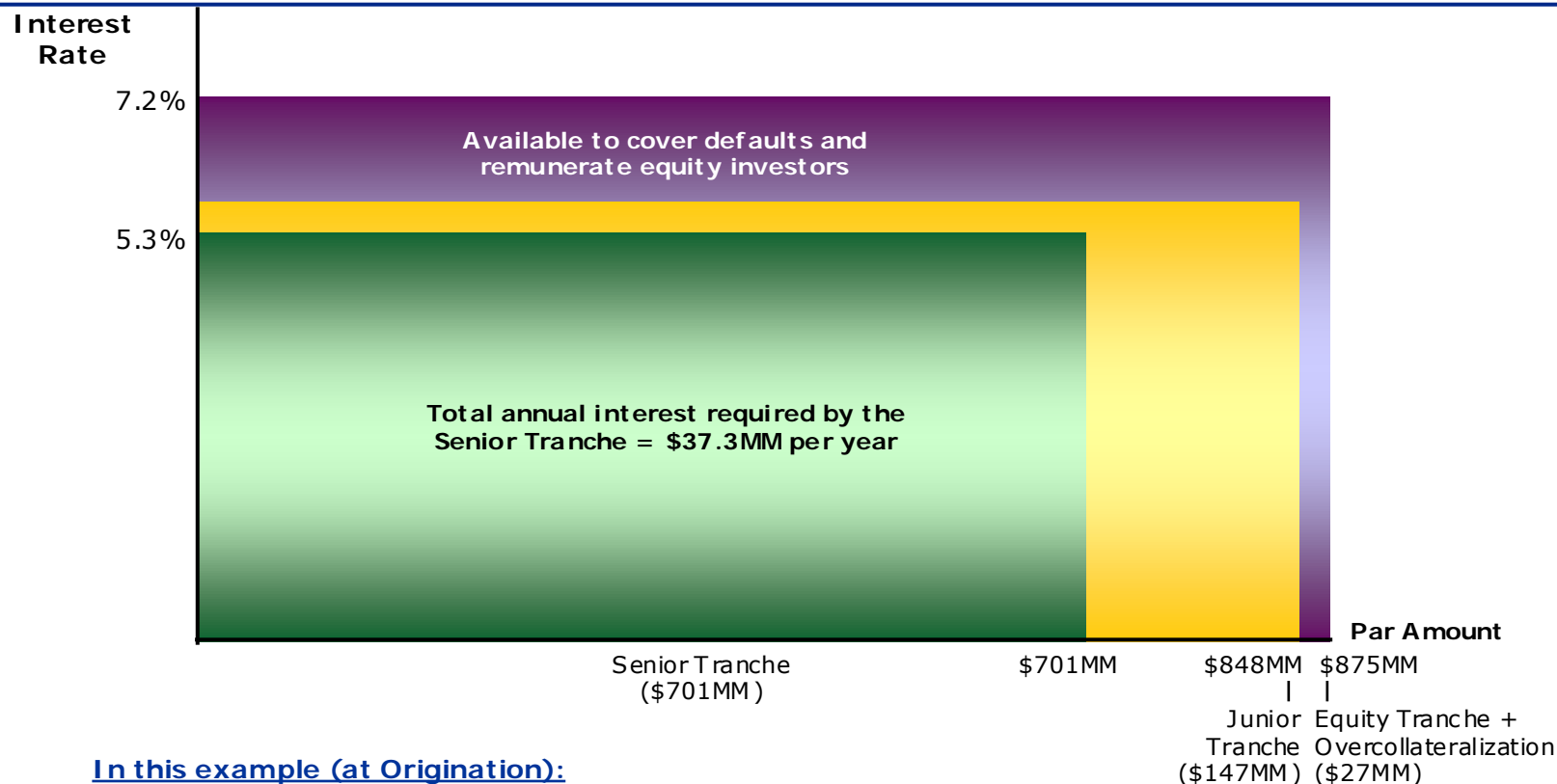
- The Junior and Equity tranches (\$174MM) provide overcollateralization for the Senior Tranche (\$461MM).

- Overcollateralization = $\frac{174\text{MM}}{461\text{MM}} = 37.8\%$

A Typical FSA-Insured AAA Sub-Prime Transaction is Also Protected by Future Spread



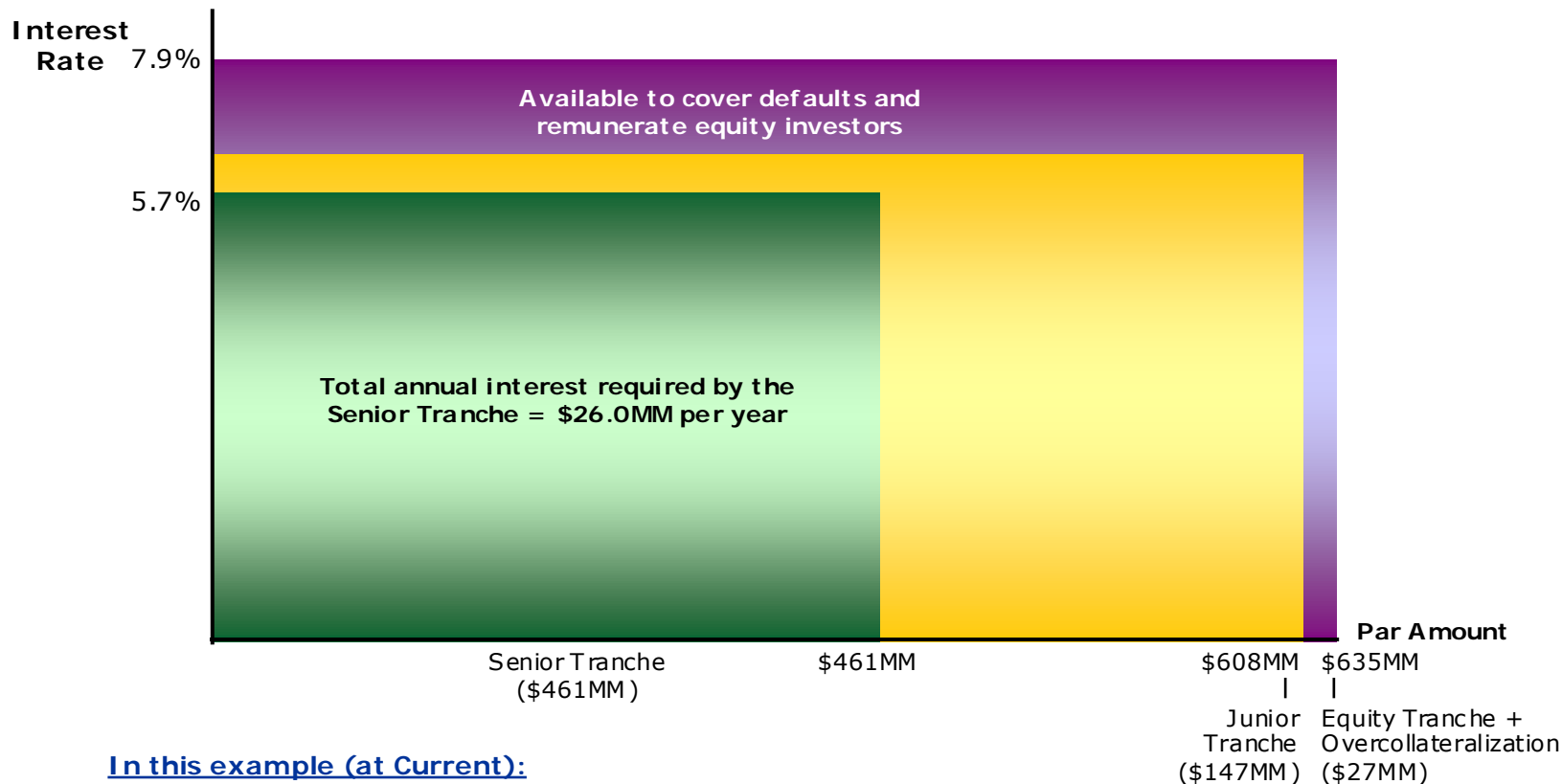
Example: Interest coverage at origination



In this example (at Origination):

- Interest rate on original assets: 7.2%
- Interest rate on senior notes: 5.3%
- Interest payments generated by the pool of assets=\$63.3MM per year
- Senior notes' required interest payments=\$37.3MM per year (\$701 x .053)
- Interest coverage = $\frac{63.3MM}{37.3MM} = 1.7x$

Example: Interest coverage 14 months later



In this example (at Current):

- Interest rate on original assets: 7.9%
- Interest rate on senior notes: 5.7%
- Interest payments generated by the pool of assets = \$50.1MM per year
- Senior notes' required interest payments = \$26.0MM per year (\$461MM x .057)
- Interest coverage = $\frac{50.1MM}{26.0MM} = 1.92x$