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## Conference Call Transcript

DEXB.BR - Q1 2008 Dexia Earnings Conference Call

Event Date/Time: May. 14. 2008 / 12:00PM CET

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## PRESENTATION

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**Operator**

Please stand by. This is MeetingZone. We are about to begin. Good morning, ladies and gentlemen, and welcome to today's Dexia's earnings release Q1 2008 conference call. For your information, this conference is being recorded. At this time, I would like to turn the call over to your host today, Mr. Rembert von Lowis, member of the management board of Dexia. Please go ahead, sir.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Good morning, ladies and gentlemen, and thank you for taking part in this conference call. I am going to comment the first quarter results of Dexia, and then there is going to be a Q&A session. A number of other members of the executive board-- of the management board of Dexia are

together with me, and from New York, Bob Cochran, Chief Executive of FSA will also be in a position to take your questions, if there are questions about FSA.

I will come on to some of the slides of the slideshow that was put on our website this morning at seven o'clock. Obviously, I'm not going to comment all of them. I will make a selection of them. I try to make my presentation short, in order to leave sufficient time for the Q&A session.

I start with the slide number four, which gives some highlights about our first quarter results. Overall, we believe that the first quarter 2008 has been a strong quarter in terms of the operating business. Underlying revenues were up 5.2% year-on-year.

The cost-income ratio of the Group has improved from the very positive level it had already reached in the first quarter of 2007, 52.3% down to 51.4%.

The cost of risk in the banking activities has remained very moderate, five basis points of overall banking commitments. Of course, there have been some provisions, some specific provisions at FSA, and we will have to tell you more about the reasons for these provisions.

In terms of the commercial activity, it has been very strong in the first quarter. In particular, in the public and project finance activities, both in the banking activities and the lending activities where the total outstandings grew up by 20% at constant rate of exchange, and also in the credit enhancement in the financial guarantee business, where FSA has gained considerable market share in the first quarter.

Underlying first quarter results were, however, marked by losses in our exposures on two categories of mortgage backed securities, the HELOCs and the second-lien Alt-As. The total impact of these provisions was a negative net impact of EUR128 million in the first quarter and therefore our underlying net income was down by 14.5% in Q1, as compared to Q1 '07.

Slide number five. The reported earnings, however, were sharply down, 60% as a result of the impact of some non-operating or non-recurring items. The main one being the negative impact of the spread widenings on the mark to market of FSA CDS, this is not new, it already happened in the previous quarters, and it has again been a negative impact in Q1 '08.

And then there have been EUR36 million net on the cost of risk at Dexia Bank Netherlands, mainly as a result of the ruling of the supreme court of the Netherlands about the spouse consent on some categories of share leasing products.

The spread widening has also had a material impact on our shareholders equity, which went down by EUR5 billion to EUR9.5 billion. This is mainly due to the net impact of the spread widening on the AFS reserves. Out of this EUR5 billion, EUR4 billion are due to the negative impact on the AFS reserve.

Here again, we say that we do not expect these accounting adjustments to materialize in actual losses over the coming quarters or years and, as you know, these negative marks have also no impact on regulatory capital, be it on the banking side of the business or on the insurance side, that is to say at FSA.

Given the problems that we are facing in some areas of the asset-backed security business at FSA, we have decided to discontinue some of the activities, and to allocate the maximum capital to the public finance business, where FSA has gained considerable market share and has a very enviable market position.

And last but not least, Dexia enjoys a very enviable financial position with a very strong capital ratio, a Tier 1 ratio on the Basel II of 11.2% and also a very strong liquidity position. Our funding activity has been extremely strong over the first months of the year and I will, of course, elaborate on that later in my presentation.

Moving on to slide number eight, this slide displays a summary of our underlying P&L for the first quarter of the year. A few remarks on this table.

First, the exchange rate movements had a negative impact, approximately 1% both on revenues and gross operating income and a little more than 1% on net income. This is mainly due to the weakening of the US dollar, on average 16% between Q1 '07 and Q1 '08.

Second, revenues were up 4.1%. Spread widenings had material impacts on the fair value of several clusters of assets or liabilities, some positive impacts and some negative impacts.

The overall impact is immaterial, but the impacts on the separate business lines, mainly public finance and treasury and financial markets, are material. So we provide you with more details about the mark to market impact on the different business lines, but as far as the Group as a whole is concerned, this impact is more or less neutral.

So this 4.1% increase of revenues, 5.2% at constant rate of exchange really is the underlying increase of revenues during the first quarter of this year. The cost increase has remained very moderate, which results in the improvement of our cost-income ratio I mentioned earlier.

The cost of risk has increased substantially. EUR236 million of which EUR197 million, pre-tax, EUR120 million, EUR28 million after tax due to the provisions passed at FSA on HELOCs and Alt-As. Absent these provisions, the cost of risk remained very moderate, EUR41 million only, which is not very different from the cost of risk in the first quarter of 2007.

Finally, the net income was down 14.5%. Absent the EUR128 million net impact of the provisions of FSA, the net income Group share at constant rate of exchange would have been up 7%. Of course, we have had these provisions, but this plus 7% gives you an idea of the underlying trend in the overall commercial activities.

Page nine. This is an important table to understand the impact on these mark-to-markets on items that we expect are going to reverse over time. You can see on this table the net impact, the overall impact in the first quarter was close to zero, minus EUR1 million as opposed to minus EUR44 million in Q4 '07 and minus EUR86 million in Q3 '07. So the negative marks and the positive marks were of same magnitude. But this neutral impact applies to the Group as a whole and it does not to the different business lines. You see that these marks have had a very positive impact on public finance and a negative impact of similar importance on the treasury and financial markets.

What are these different mark-to-markets? The first one applies to the credit spread portfolio. As you know and as we already mentioned earlier in 2007, part of the credit spread portfolio is accounted for as trading portfolio, approximately EUR4.5 billion and therefore the spread widening has a negative impact on valuations which went through the P&L, and it impacted the P&L by EUR259 million in Q1 '08. This again is going to reverse over time because the underlying assets are all AAA assets.

Second, in public finance. There's a very small part of our commitment are also accounted for under trading portfolio. These commitments are going to mature at the end of 2008 and therefore this negative mark -- this moderate negative mark, minus EUR5 million, is going to reverse very soon, probably as soon as Q2'08.

And then, the next topic has to do with two synthetic securitizations that we have performed last year. These synthetic securitizations take the form of CDS, we have bought protections under the form of CDS. And given that the CDS have derivatives, they are mark-to-market through P&L. The spread widening has had a positive impact this time, which impacted approximately half of it, public finance and half of it treasury and financial markets.

And finally, FSA has opted for the fair value option for some of their liabilities, and the spread widening has had slightly positive impact on the revenues, EUR20 million in the first quarter. So these are all the different volatile elements. Again, we expect most of these marks to reverse over time and to sum up to zero. These are very volatile items, within a small number of weeks the changes can be very important, and this is the reason why we feel that it is important for the market to really understand what is the contribution of these different items, of these different topics, to our results.

Page 11 for the non-operating items. Contrary to the first quarter of 2007 where the overall impact was positive, plus EUR92 million net, this time it has been strongly negative. Here again, the main reason for this negative mark is the impact of the spread widening on FSA CDS. The impact is EUR335 million pre-tax and EUR216 million after tax. And then there is this provision that we've made at Dexia Bank, Netherlands, EUR51 million of which the bulk of this, EUR32 million, has to do with the consequences of the Supreme Court of the Netherlands, I mentioned earlier. So all in all, a strongly negative impact of non-operating items which mainly explains the fact that our accounting net income has decreased by 60% year-on-year.

Page 14, some comments about our capital ratios and our capital situation. This is the first time that we present our Basel II Tier 1 ratio. The numbers we have provided to the market previously were based on pro forma accounts. These are actual numbers and the Tier 1 ratio which amounts to 11.2% is very much, I think, in line with expectations. Given that our target is to keep this Tier 1 ratio in excess of 10.5%, we consider that we currently have approximately EUR900 million excess capital. So we are in a very different situation to other banks. We definitely do not need to raise any form of capital. We have excess capital.

And this amount of excess capital is even bigger than it appears out of these numbers, because we have plans to make some refinements in our models, in our Basel II models. Before the end of this year, we believe that these refinements will reduce our total weighted assets to such an extent that this would generate an additional EUR500 million or EUR600 million.

And then our capital ratios are also impacted by the negative mark-to-markets of FSA CDS. The accumulative negative impact is of the order of EUR400 million. And as I said earlier, we expect these numbers to reverse over time, so that these EUR400 million will, over time, flow back into the tier one capital of the Group. So we are actually in a very strong position in terms of our capital ratios and I don't think that there are many banks, large international banks, that have such an enviable capital position.

Our Tier 1 equity was down by approximately EUR1 billion from EUR14.5 billion to EUR13.5 billion. The reason for this decrease is threefold.

First the methodology is different between Basel I and Basel II. I don't want to enter into the details unless you have questions, then we will take them in the Q&A session, but the way to compute the Tier 1 ratio costs us approximately EUR600 between Basel I and Basel II.

And the second reason has to do with the weakening both of the dollar and of the Turkish lira at the very end of the first quarter of this year which impacted the CTA, the accumulative translation adjustment. And this impacts not only the OCI but also the regulatory capital and impact was of the order of EUR600 million.

And finally, there has been our share buyback program. We have to date bought back a little more than EUR400 million own shares. We said earlier, last year that we intended to buy back up to EUR500 million by the time of our general meeting which is today. We have bought back a little more than EUR400 million, part of it having been bought back during the first quarter of this year. We are not going to continue as far as I would think that in that the Group has some very attractive opportunities to grow organically, and we should rather allocate our capital to the organic growth rather than to further share buybacks.

Page 18, I'll say a few words about the different business lines, starting with the public project finance and credit enhancement. Overall, the net income in this division has been flat, minus 1.2%. These accounts are difficult to read for many reasons. First, the Forex impact is material. A substantial part of our business is dollar denominated, as you know, and the depreciation of the dollar has had material impact on both revenues and costs. Second there has been this positive impact of the mark-to-markets I mentioned earlier in the presentation, plus EUR134 million. And finally the cost of risk has increased significantly, mainly due of course to the cost of risk at FSA. Absent FSA's contribution to the cost of risk, which is EUR197 million, the cost of risk would have been EUR15 million. It has been EUR15 million in the banking activities, which is very similar to the cost of risk in the first quarter of last year.

So to assess the underlying trend, I think it's important to break down this P&L between the banking activities on the one hand and the financial guarantee business on the other hand, which is the case in the next slide on page 19. The upper table presents the P&L of the division without FSA, that is to say just the banking activities. You see that of course the performance in this division has been extremely strong but you need to make some restatements. If you deduct the volatile items, that is to say mainly the mark-to-markets on the securitization, and add constant rate of exchange, you will see that the revenues are up 9% approximately, which is more or less in line with growth of the costs. I think this is a fair assessment of the growth of the business in this division. The commercial business has been strong in a number of countries. I am thinking of the United States where we currently have gorgeous opportunities to grow the business, but also in countries such as Japan, for instance, where the business has been growing very significantly. But in some of these countries, and particularly in Japan, the average margins of course are smaller than the ones that we have in some European countries, for instance in France, or in the United States. But all in all the revenues increase at a slower pace than the total outstandings, but still I think this plus 9% increase of revenues is a very impressive performance.

As far as FSA is concerned, you see here that performance in terms of revenues and costs are rather strong, plus 17.9% at constant rate of exchange, but this includes the positive impact of the fair value option of FSA's liabilities. Without this positive impact the revenues in dollars are like flat, which results from a both very strong increase of earned premiums, 20% which reflects the strong and very profitable business FSA has been able to write in the past months or even in the past quarters, and on the other hand a decrease in refundings and financial products. Expenses have been kept very slow. Actually they have decreased both in dollars and in euro, and of course there has been the negative impact of the cost of risk I have already mentioned on several occasions earlier in the presentation.

Moving on to Personal Financial Services on page 23, Q1 2008 has been a very favorable quarter with a total net income up 12.7%, which results both from the fact that the business in Turkey has been extremely strong, which is very much consistent with our expectations, with the reasons why we have made this acquisition, but in the rest of Group, that is to say mainly in Belgium and Luxembourg, this growth of the revenues and the net income has also been rather strong. The breakdown between Turkey and the rest of the countries is + 39% in Turkey and + 5.6% in the rest of the Group; +5.6% in mature markets such as Belgium and Luxembourg is, I think, a very positive performance.

As far as the costs are concerned they're up 5.9%, but 33% in Turkey and only 2.3% in Belgium and Luxembourg. The increase of costs in Turkey are mainly due to the fact that we are expanding very aggressively our distribution network. DenizBank has opened ten more branches in the first quarter of 2008. They have now 330 branches overall. We are going to continue to expand our commercial network in this country. We are gaining market share. We are gaining new customers. And therefore the contribution of Turkey has already substantially increased over the past quarters and will continue to increase over the next year. Actually, the contribution of Turkey were 13.4% of the net income in Q1 '08 coming from 9% only in Q1 '07. And again this is due to continue over the coming quarters.

Page 26, Asset Management. The decrease, the downturn in equity markets obviously has a negative impact on both the commercial activities and the financial results. Year-on-year, assets under management were down 5.7%, which is mainly the result of a negative market affect. Outflows in Q4 '07 and Q1 '08 have more or less offset the inflows that took place in Q2 '07 and Q3 '07. Year-on-year the new money was only slightly negative, minus 0.3%. In terms of the financial performance, revenues are down 14.9%. This is the result of both a decrease in management fees, minus EUR7 million roughly from EUR59.3 million to EUR52.2 million, but also from a decrease of the performance fees which went down from EUR5.6 million to EUR2.7 million. Actually there is a double effect of the financial crisis. First assets under management are going down, and the breakdown by categories of funds is also changing. We have outflows in unfortunately the most profitable funds, such as for instance enhanced money market funds and, on the contrary, traditional money market funds or fixed income funds, which are less profitable, are increasing.

Moving on to page 33, this slide displays the results of the Treasury and Financial Market activities. Net income went down rather sharply, minus 50%, but sure again, the impact of volatile items, these mark-to-markets that are due to reverse over time, is very substantial. And this is illustrated on the next slide on page 34, which displays the breakdown of TFM activities between the three large categories of debts.

First, the treasury activities, which also includes our involvement in the interbank market has had a very strong performance in the first quarter of this year, following the very strong performance that we already had in Q4 '07, EUR172 million revenues versus EUR83 million only in Q1 '07. This once again illustrates and demonstrates that our liquidity position is very strong. We have benefited from the recurring tensions on the interbank market, which have continued to prevail over the first quarter of 2008. Given that we are a net provider of funding to the interbank market we have benefited from the spreads widenings and this has had a very material impact in Q1.

On the contrary the fixed income desk, which include the credit spread portfolio, have had a very negative impact in Q1 '08, mainly for the reasons I mentioned at the beginning of this presentation, the fact that part of the credit spread portfolio is accounted for as a trading portfolio, despite the fact that the securitization of part of the portfolio has had, on the contrary, a positive impact of EUR135 million. So this again as I said in Q4 '08, has a negative impact, but contrary to the treasury operations, this is not real money, I would say. These are accounting impacts that are going to reverse over time, whereas the profits and the treasury operations are real money, if I may say so. This is really good and solid profit.

So this ends the part of my presentation about the accounting results of Q1. I would like to say a few words about our position in the context of the financial crisis, page 38.

I intend to touch upon three main topics. First of all, the credit risks. As you know, we fortunately have avoided the most toxic products, the CDOs of ABS. Our exposure to sub-prime RMBSs is also very well protected, but unfortunately, we had to make some provisions on HELOCs and Alt-As.

Second, I will update you about the impact of the spread widenings, both on the P&L and on the reserves, and finally I will say a few words about our liquidity position and our funding program.

First, page 41, the HELOCs and the Alt-As. I'm now going to reiterate the numbers. EUR333 million exactly, total provisions on HELOCs, EUR87 million on Alt-As, which is way beyond our expectations. The reasons why we have decided to make these provisions is that the rates of delinquencies have considerably increased over the first quarter of this year, and in particular over the very last months, in March and in April, well above our previous expectations and even well above the expectations that we had at the beginning of this year.

The landscape is totally different from what we expected just a few months ago, and we have decided to revisit all our projections, and based on, I would say, likely projections, we have come to the conclusion that we needed to increase substantially the provisions on these two classes of assets.

The table on page 44, I think, displays very clearly where we currently stand. The total net present value losses projected on these two classes of assets, that is to say, the HELOCs and the Alt-As, which are both classes of assets which are backed by second-lien mortgages, total \$420 million

pre-tax, of which \$120 million were drawn from the general reserves, \$65 million in Q4 '07, and another \$55 million in Q1 '08, so that the pre-tax P&L impact was \$300 million in Q1 '08, which is EUR128 million after tax. This is exactly the detail of this impact.

Obviously, this unexpected cost of risk forced us to take a number of decisions which are listed on page 45. First, we have decided to stop all the business which consists of insuring these kind of products, that is to say, asset backed securities, for which the underlying assets are backed by second lien mortgages.

These kinds of transactions, or more generally, the transactions for which the modeling of the risk is too complex, can lead to losses that are way beyond what is acceptable for Dexia and that is the reason why we have decided to discontinue this business from now on.

Moreover, we have decided to engage into a thorough review of our ABS business. We are going to review that in light of the risk profile that we consider is acceptable both for FSA and for Dexia, and we will tell the market about the outcome of this review. There are going to be further discussions between FSA and Dexia, and Dexia with the Board of Directors, to see what is an acceptable level of risk that could be taken by both Dexia and FSA. But we can already say that this will result in a downscaling of the ABS business. We believe that this business should not contribute to more than 20% in terms of all PV premiums generated in 2008, 20% of overall PV premiums generated at FSA.

We believe that this should not impair the prospects of growth of FSA, given the unique position that we have reached in the United States, again a market share of 64% in a market where the spreads have considerably widened and therefore where the business is much more profitable than it has ever been. We really believe that relying mainly on public finance is something that could enable us to continue to deliver very attractive returns in the financial guarantee business.

Moving on to my second topic, that is to say, the impact of spread widenings, page 50, I'm probably not going to comment on all these slides. Actually, the spread widening has had two casualties of impact. The first one is an impact on the AFS reserve without any impact on the P&L, and second, of course, the P&L impact. So I will go successively through these two categories of impact.

First, on page 51, the AFS reserve, or more generally, the other comprehensive income. The other comprehensive income went down very sharply. It total minus EUR6.6 billion at the end of March 2008, mainly as a consequence of the negative trend in the AFS reserve. But there has also been some negative changes in the CTA, that is to say, the cumulative transaction adjustments, due to the weakening of the US dollar and of the Turkish lira and also on the cash flow hedge.

The AFS reserve, which is on the bottom part of the slide, went down by approximately EUR4 billion between year-end 2007 and quarter-end 2008, mainly due to our exposure on fixed income assets, that is to say, mainly bonds.

On equities, our AFS reserve also went down, but it remains positive. We can only reiterate what we said on several occasions in the past, that is to say, first, that the creditworthiness of the underlying assets is very strong, it is on average AA-. We intend to keep these commitments until maturity, we don't expect there to be material losses in the coming quarters of years, and therefore these negative marks will reverse over time.

Second, these negative mark to markets have no impact on banking regulatory capital, be it in France, Belgium or in the countries where we operate, and therefore it does not have any effect on our ratios, and therefore does not result in any needs on the part of Dexia to raise capital.

I should add that these extremely volatile items have had a negative impact I mentioned earlier, but if we had closed our accounts one month later, at the end of April instead of the end of March, the impact would have been materially different. The spreads have been tightening over the past weeks, and at the end of April, the impact on the AFS reserve would have been better by approximately EUR700 million. In other words, if we decided to close our accounts at the end of April, the positive impact of the spread tightenings on the AFS reserve would have been as big as EUR700 million, so you see that's consistent with what we said earlier. This is a very volatile topic, there has been a negative impact, there will be, over time, positive impacts, and perhaps as soon as the second quarter 2008, provided the spreads remain where they currently stand.

As you know, this negative AFS reserve results mainly from three categories of exposures. The first one is FSA's financial products portfolio, which amounts to a little more than \$19 billion. You see here a breakdown of this portfolio by credit rating. The credit ratings are very strong. Here again we are positioned to keep these commitments until their final maturity. The position of our GICs is very strong in terms of liquidity, so we will certainly not be in position to be a forced seller in the market. And the average ratings are very high, 99.2% of the ratings are A or above.

However, as we state on the following slide, some transactions have less robust credit protection than others, and therefore we cannot exclude that if there is a further deterioration of the markets in the coming quarters there might be some potential economic losses.

On page 55, the impact of the spread widening on the credit spread portfolio; the impact has been very material. I think what is important to see from this slide is twofold. First you can see on the upper right hand side of this slide that the breakdown of our credit spread portfolio by rating has remained almost unchanged between year-end 2007 and the end of the first quarter 2008, which demonstrates that the negative marks are not caused by a deterioration of the underlying assets, but simply by general market trend which is illustrated by the Itaxx financials, which is the graph on the right-hand bottom side of this graph.

This is an extremely volatile index here. You see that since the end of the first quarter there has been a very strong improvement at least on credit derivatives, not so much on the cash market but on credit derivatives. If we had again to publish our accounts today the impact would have been much smaller.

On page 56, very quickly you see that the impact is mainly due to our exposure to banks. These are mainly high-rated large international banks for which the final credit risk is absolutely negligible.

Page 57: third class of assets that are a source of a negative AFS. It's the bonds that we hold within the Public Finance division. Here again you can see that the credit migration between year-end 2007 and the end of the first quarter is very limited so that the negative mark-to-market is again due to a general market effect and not to something that has to do with the duration of the underlying assets.

On page 58 I now move on to the impact on the spread widening on our P&L. I think you are very familiar -- the market is very familiar with FSA's CDS. Here again the underlying credit quality is extremely strong, 96% of the underlying assets are AAA or even Super AAA. We don't expect to have any losses on the underlying assets. And given that here again we keep these transactions until final maturity, those negative marks will reverse over time. I should add that if we had closed our accounts at the end of April, we would have had a positive impact of approximately \$300 million pre-tax as soon as the end of April. So this here again is very volatile.

On the next page, page 59, you have a graph that shows how volatile the spreads are in derivatives and how strong the recovery has been since mid-March.

And page 60, this slide quantifies the negative impact of the spread widenings on the mark-to-market of the CDS, EUR491 million pre-tax in the first quarter of 2008.

I would like now to end my presentation with a few words on liquidity with slide number 64. Again Dexia has a very strong liquidity position, which results mainly from the fact that we have access to very cheap long term funding through our two AAA vehicles, which are Dexia MA, Dexia Municipal Agency and our German subsidiary, Dexia DKD, Kommunalbank Deutschland.

You can see that on this graph that the spreads on the secondary market of these two categories of covered bonds have only slightly increased, and we have been very active on the bond market over the first months of the year. To date, the total amount of long term funding that has been raised totals EUR15 billion, of which approximately EUR9 billion through our AAA vehicles and EUR6 billion through our AA vehicles.

EUR15 billion, that's a lot. That is much more than last year. We are well in advance on our funding program for the year 2008. And what is even more important is that the cost of this long term funding has been extremely moderate. On average the cost of this EUR15 billion long term funding was 7 basis points above the EURIBOR, which is an average between approximately 5 basis points for the AAA funding, that is to say the covered bonds, and 10 basis points for the AA funding. If you think of the cost of funding of a number of very large international banks, still recently in the first quarter of this year we have issued long term debt at EURIBOR plus 80, 90 or 100 basis points you can see, and how privileged Dexia is in terms of its access to long term funding. This is definitely a very important competitive advantage and this is one of the reasons that explains why our liquidity position is so strong and will remain so strong.

So ladies and gentlemen, this ends my presentation. If you have any questions, my colleagues here in Brussels and the FSA team in New York would be very happy to hear them.

## QUESTION AND ANSWER

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**Operator**

Thank you. (OPERATOR INSTRUCTIONS).

Our first question comes through from Francesca Tondi from JP Morgan. Please go ahead.

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**Francesca Tondi - JP Morgan - Analyst**

Hello, good morning. Francesca Tondi here from JP Morgan. If that's okay, I would like to go back a little bit more on the credit adjustment that you've made on your HELOC portfolio. I know you've given us some details but how does the adjustment that you've made, which is over \$300 million, on the one hand relate to the \$125 million sensitivity which you gave us in Q4?

And also at this stage what have you taken into account? How conservative is that provision adjustment? What have you seen at this stage, also in April? What are you expecting in terms of potential further credit deterioration of some of these products? And what should we be seeing effectively going forward?

You were saying we don't necessarily exclude more adjustment; can you please give us details on what is going on there going forward, and perhaps a new sensitivity, if possible?

I seem to remember a higher portfolio of HELOC at the end of 2007. Can you tell us what actually is the amount comparable on a Q1 versus Q4 and if it has changed or gone down, how that has changed overall?

And then lastly, on the HELOCs, again you mention contribution generally not just on the HELOC, structured credit, insurance, you don't want more than 20%, if I remember correctly, on PBT. How quickly will that contribution come down? How quickly can you offset this with other business lines at FSA and in fact, if you can give us a broader update on the underlying business of FSA, you know, on the other business lines?

One last point, if I can, on the public finance business, or Dexia underlying, can you give us an update on the new business there and how is that performing versus last year, and which countries and where the business is, that would be great?

I hope it was clear, it's quite a few questions, I can repeat them if you need.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

I don't think it's necessary. Bob, can you take the question about the HELOCs and about the FSA in general?

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**Bob Cochran - Dexia - CEO of FSA**

Yes, I'd be happy to. Good morning, everyone. First of all my colleagues and I at FSA obviously take these additional HELOC and second-lien reserves, very seriously and we're not happy about them, and we understand that Dexia and Dexia's shareholders and other constituents aren't happy.

It is, I would have to say, the one time in our -- in the years that we've been a part of Dexia, where it's been a good thing that the dollar has been weak and down. As our earnings have grown over the years, it's always been disappointing to see them contribute less to Dexia than they would have had the dollar been strong, and so in this case, we get a small return benefit for that weak dollar.

I think the important question that you've asked is, how did this evolution occur, how did our point of view on these losses change so significantly between the end of 2007 and the reporting of those results in February, and where we are today, and then what is the sensitivity or what are our thoughts on the progression going forward. It's a very fair question.

The EUR125 million that we said to the market at the end of the third quarter, and then again at the end of the fourth quarter, was what we thought was a very conservative upside projection of the progression of potential delinquencies in losses in these transactions, and it turns out that that was just not sufficiently conservative.

The transactions have predominantly two major credit performance characteristics. One is the rate of delinquency and charge-off of the individual borrowers, and the other is the draw rate of additional funding provided by Countrywide.

At the time we made those estimates, Countrywide was generally advancing new loans on the portfolio at around a 10% rate. We made what we thought was a fairly conservative assumption of that declining over time to half that rate, to 5%; and we actually were increasing observed delinquencies and defaults, we thought, a pretty considerable amount and we were continually pressing Countrywide and the other servicers, but most of these are Countrywide transactions, for not only what the charge offs were for the most recent month, but the delinquency buckets by month.

So, in other words, a loan doesn't ultimately get delinquent at 180 days and charged off until it's been delinquent 30 days, and then 60, and 90, 120 and 150. That delinquency progression, I will call it, is obviously very important to be able to make a stable and reliable judgment about the likely future charge-offs.

Countrywide, I think, was simply overwhelmed by the amount of servicing challenge that they faced toward the end of 2007 and early 2008, and it was really not until the end of March that they were able to provide us with that information.

So at the end of March, we received the March charge-off information, which was higher, and that was disappointing, but more importantly, we got the next six months of delinquency progression information, which showed a continued rise in delinquencies, and we felt we just could not ignore that.

There's always the possibility, of course, that people who are delinquent 90 days find some way to begin to continue their payments, but we decided we needed to take a much more proactive view of the analysis of these transactions.

The additional six months of information permits us to really see into the future in a way that we couldn't in the past, and, in addition, Countrywide has systematically reduced the draw rates in the transactions to levels which are now so low that really the amount of additional protection there is not so significant.

So we've made those changes. If you look, we've summarized some of this in the slides that you have in the Dexia presentation, but if you go to the FSA website, you'll see a much more detailed explanation of exactly how we've run these numbers. Now project out the six months of additional delinquency information that we have, those rates rise to quite high levels, which are considerably higher than the previous estimates that underpinned the \$125 million number that we had given you previously.

We maintain those high rates all the way through the end of 2008. We've begun slowly to bring the default rates down throughout 2009, and we get back to what we call sort of a stable default rate progression from 2010 onward.

We think that that is a reasonable and perhaps conservative assumption, because by the time you get all the way to the end of 2009, the obligors who have by then made their payments on a timely basis for two to three years from the origination of the transaction, and we think at that point, you've really sorted out who the people are in the program who can and will make their mortgage payments and those who can't and won't.

But we would admit that this is still a series of assumptions projecting over a period of time, that the losses that we are taking to the income statement today are not losses that have already been incurred, they are a best estimate of what will happen over the next several years with these transactions, and I believe it is likely that -- well I know that, as we receive additional information, we will adjust these reserves.

We think we've got a very good conservative handle on them now, but they will go up a little or down a little, based on information as we actually receive it from quarter-to-quarter. And the only additional information we have at this point, that we didn't have at the time we set these reserves earlier, following the end of the quarter, is we have recently received April data, which is consistent with the information that we had, that went into these reserve calculations.

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**Francesca Tondi - JP Morgan - Analyst**

So effectively, from the data you've received, there has been no further deterioration or at least expected deterioration in the April data versus your end of March data?

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**Bob Cochran - Dexia - CEO of FSA**

That's correct. And so what we'll be able to do now with this additional tool that we have in terms of data feedback from the servicer, is that new delinquencies that begin, you know, 30 day delinquencies which then progress to 60 day delinquencies, we'll begin to be able to see what might happen to the portfolio six months out. And then we'll get the June data, we'll be seeing -- because obviously someone can't be 180 days delinquent in December unless they've started to be delinquent in June.

So I think we've got a much better view into the future. I think these reserves will be more stable, but they are still assumptions and there are still variabilities and predictions that are embedded in the reserves. And the same is true of the Alt-A closed-end seconds.

I think the important thing is that when you look at the cumulative default or loss assumptions that are embedded in both of these reserves, they are really quite substantial, and they do exceed I think the numbers that have been discussed by rating agencies, and I think they exceed the numbers that are embedded in the reserves that we're aware that others have taken.

We think they're on the conservative side of reasonable. They're not meant to be what the rating agencies would call AAA stress. So that's not to say that we don't have or won't have more capital against these transactions than we do loss reserves. But we think they are pretty well founded at this point.

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**Francesca Tondi - JP Morgan - Analyst**

Considering that actually I'm looking at your December year-end data, on your EUR8 billion of HELOC, you actually had a total of, if I'm correct, EUR6 billion of vintages 2007 and 2006, which is actually the most recent but perhaps most difficult years. What is the likelihood that actually those payments are only just about starting and you haven't really seen the potential impact? Some of the banks are actually taking particularly large charges on the nominal value of these vintages, writing them down by a significant amount.

What is the risk that actually that will hit you more over time? If I remember correctly, your loss absorption was in the region of 15% on average of typical original part on the writing. If that is the case, how does that reconcile with the potential higher losses on these products?

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**Bob Cochran - Dexia - CEO of FSA**

Well, what we've observed, and I think it's one of the reasons why we've reached the conclusion that Rembert reported on earlier, that we are not going to continue to do any new securitizations with second mortgage products of this nature. But what we've observed is a very distinct difference in the performance of portfolios originated by banks with their existing customer base, versus by finance companies that were essentially extending loans to customers they didn't know.

So a good portion of the portfolio that is not in these reserve calculations; the reserves are against about \$4.5 billion of transactions that we have identified as performing substantially off their expected track, and where the loss projections are in excess of the amount of projection embedded in the transactions.

About \$7.5 billion is the total outstanding, so the portfolio paid down about \$0.5 billion between the end of the year and today. So we have \$4.5 bn par exposure in this category of reserve calculations.

The remainder are transactions that are performing very differently and we think that will continue. They're building cash collateralization within the transaction, trapping cash, and they're originated differently. So we think there is a good basis for believing now that we're really more than a year into this mortgage crisis performance cycle that transactions that are performing that well, we think, and there's a good explanation for it, we believe will continue to do so.

And those loss projections within those transactions are well within the 15% coverage capabilities of the transactions.

So let me think. There was another important – does that cover your questions on the HELOCs?

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**Francesca Tondi - JP Morgan - Analyst**

Yes, broadly it does. However, I think I remain with the concern that in fact, you are effectively reliant on second-hand information from the originating banks to report to you as delinquencies progress. Some of the banks seem to themselves be taking a more conservative view and then anticipating some of the provisions on valuation downgrade, which would expose you, in my view, to your losses being more spread out over time.

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**Bob Cochran - Dexia - CEO of FSA**

Well I'm – we're happy to have you come here or have a separate conference call at some point on the HELOC reserves specifically.

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**Francesca Tondi - JP Morgan - Analyst**

Yes.

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**Bob Cochran - Dexia - CEO of FSA**

I understand your concern. We're obviously in a market environment where a lot of things that weren't predicted a year ago are happening today. And therefore, one has to take into account the possibility that things will continue to happen that aren't being predicted today, or this will extend further and deeper in some way than we anticipate.

We think these reserves are -- first of all, it's a fairly small portion of our overall portfolio. It's really the only segment that is performing significantly out of scale to projections, and I think over time, we will get these reserves right if we don't have them precisely today.

So the other thing that you had asked about, which gives me a chance to be a little bit more optimistic, is an update on our other business lines. And I would say there, things are going extremely well.

As you know, we have essentially three major categories of our activities. We have the US municipal market, which is extremely important to us and is the most core of our activities. We have infrastructure finance, which is very directly related, it's the financing of public essential purpose infrastructure, roads, bridges, tunnels, schools, hospitals, and the like. And then we have our asset-backed activity.

So I'll start with the asset-backed activity. That market has been essentially shut down for the first four months of this year. A very small number of transactions have gotten done on any terms by any one. We've had a very small amount of activity, but the interesting observation would be that now (you may recall if you've heard our commentary over the last several years), we've felt that the market was extremely risk insensitive, that credit spreads were tight, that transactions -- unfortunately we've proved ourselves more right than we wanted to -- were being done which would cause people problems.

And today, we have just the opposite. We have very wide spreads, and any transaction that we might choose to insure would have substantially more protection than it had in the past, substantially better terms and conditions, and substantially higher compensation. And I think that's the reason why we feel if -- after we carefully scrutinize all of our underwriting criteria to be sure that we've taken on board all the lessons learned from this recent evolution of the market, that on a more modest basis, there's a very, very solid, very profitable business to be done. But the truth is, almost none is getting done at the moment.

The infrastructure market is a little more open but not much, in truth. The interesting thing there is that, because of our unique position, we have not only the mandates that we've been working on for some time on these large transactions, but many of the sponsors are moving from our competitors over to working with FSA as, if you will, the only really viable remaining candidate for triple-A guarantee, with experience in global infrastructure.

Finally but most optimistically, the US municipal market has been fantastic. Our results for the first quarter reflect a combination of high and unique volume opportunity of secondary market transactions, where major financial institutions came to us with portfolios already insured by our competitors, and said we're nervous about their credit ratings, please look at this portfolio and tell us what you can guarantee. And we've

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systematically reunderwritten those portfolios, looked at each individual credit, given no credit to the guarantee, or wrap over it, although we do benefit from it. And we've given no credit to that in our pricing. So we've really been able to collect some very attractive premiums in that way. Then as the municipal market began to open up and generate some significant primary volume, that's the time where we have generated mid 60% market share that Rembert referred to.

And the truth is as we've gone into April and May, the municipal market here in the US has really gathered momentum now. It's gotten through that traumatic period of dealing with failed auctions in the auction rate security market. I shouldn't say we've gotten through it entirely, there's still a fair amount of that to be resolved. But the volume now of new issuance is really moving on very nicely. And FSA has really essentially all the market share we can handle. We think it would probably not be in our best interests or the market's best interests for us to have more than a 70% share when we're already charging premiums that are two to three times the level that we could charge just six or nine months ago in 2007. So, we're capturing significantly profitable new business in the municipal market. And we anticipate that continuing for a time, probably not indefinitely, that's really too much to ask I suppose.

But we feel very good on those points.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Okay, about the overall public finance business perhaps Bruno Deletre will take the question.

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**Bruno Deletre - Dexia - Public and Project Finance and Credit Enhancement**

Okay, if you go to page 15, in the presentation, you will see that commitments have increased by 20.4% at constant exchange rate compared to one year ago. Due obviously to very strong originations in Q2, Q3 and Q4 '07, but also in Q1 2008. You will see that the growth in project and corporate finances is quite high. And also you will see that the growth in "today's growth markets" is 13%, "tomorrow growth markets" are largely increasing by 80% (these are the countries which are in the third circle of our strategic target).

So when you look more specifically at the first quarter of 2008 on page fifteen, you will see that the increase is even higher - 54% but then at constant exchange rate. And the difference is that the growth in public finance is really higher during the first quarter '08.

If you have a look at the page nineteen of the activity report you have the split of the production by countries, you will see that a third of the increase comes from the US. Our banking activity in the US has really been very, very active over the first quarter, for the reasons that Bob explained about credit enhancement. And the end of the "auction rate securities" type of business opened very nice opportunities for us in the guaranteed liquidity business, which was one of our main business lines in the US with very, very nice margins. And, as Bob said, he expected this situation will continue at least over Q2 because of the conversion of a lot of auction rate securities to the VRDNs which are our liquidity guarantee.

You will see also that the growth has been very high in Japan. There has been nice opportunities there with traditional business, I would say, and also some new opportunities created by the projects led by the government who let some local authorities refinance their high interest debt due to the state. And you also, because you will see also that in a lot of other countries like Belgium, Turkey the prospect has been very good.

Although we see the margins increasing, it depends from one country to the other, but the conditions for our business are improving.

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**Francesca Tondi - JP Morgan - Analyst**

Thank you.

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**Operator**

Thank you, our next question comes through from the line of Christophe Ricetti from Natixis. Please go ahead.

**Christophe Ricetti - Natixis - Analyst**

Hello, well I have several questions. The first one, could you explain why you integrate the gain on the two CDS integrated in Public Finance and Treasury and financial markets as underlying revenues? So this is the first question.

The second and the third are related to the AFS reserve. The first one, could you explain to me on the slide page fifty-four, what are the rules of impairments on the FP portfolio? And are you saying in this slide that you are making provisions in the quarter to come?

And the last question, I understand clearly that you have zero impact on the Tier 1 calculation coming from the negative AFS reserve. But in the case of harmonization at the European level would you feel a bit of pressure on the existence of the credit spread portfolio as a whole? What is your feeling about that kind of possibility?

**Rembert von Lowis - Dexia - Strategy and Development, IR**

Okay, so your first question, why are we taking these negative marks on CDS as underlying instead of doing them as FSA, taking them as non-operating items.

Actually, the main reason is because we did so in the previous quarters. And when we started to treat these movements as underlying we never expected these movements to become so big. So it's a very simple reason.

Another reason is that in particular in treasury and financial markets businesses, mark to markets are very, very frequent. It's really part of the ongoing business to live with these mark to markets and to manage these mark to markets. And therefore if we started to treat as non-operating items, all these mark to markets, the substantial part of our business would be treated as non-operating. And it would not really be credible.

So the decision that we have taken is to keep only as non-operating the movements on the CDS of FSA, because this is an FSA business. This is an insurance business mainly and for the rest, to treat them as underlying topics, but to be as transparent as we can. I think we've given you all the elements to analyze correctly, work our revenues and our costs, and to make all the retreatments that you want to make in order to draw the consequences.

I think the answer is to be as transparent as we can and we've really done our best to be transparent.

Regarding the impairments, Xavier will take your question.

**Xavier de Walque - Dexia - CFO**

Yes, so the curve on the page 54 give you just the impact of the time going on. And the reversal of the AFS reserve on the financial products.

In the AFS securities of the FP portfolio, 99% are rated A, AA or AAA. In US GAAP the rule is that we check first the balance with market value, if it is 80% or less under the par. That is the first test we do, and then we'll look at the cash flow on the bonds to see if there an impairment or not.

US GAAP has a kind of presumption. If for more than six months, the security is at less than 80% of face value then the proof must be stronger on your side. That's the reason why we wrote the language you see at the bottom part of the slide 54. At the end of the first quarter, we had no indication of impairment of this portfolio. I don't know if Joe Simmon wants to add something on that?

**Joe Simmon - Dexia - FSA**

No., You made the point. I think that the idea is that the longer the time period investment remains marked with an unrealized loss, the larger the burden of proof on the preparer to demonstrate that it's not impaired. And obviously, we do this on a quarterly basis, and we just wanted to flag that as an accounting issue. Obviously from an economic standpoint for our reporting, we would only reflect what we would expect as an economic loss through our operating earnings. The rest, the full markdown, other than the amount of mark that would ultimately be expected to reverse, we would separate into non-operating.

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**Christophe Ricetti - Natixis - Analyst**

Just one word if I can? How does this translate in IFRS?

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**Xavier de Walque - Dexia - CFO**

IFRS does not the same rule as the six month period with a certain level of mark. In IFRS, the real question is to see if we think we will lose money. Of course, if you have a significant discount, the long term pressure will increase, but there is absolutely no rule saying that six or nine or something like that, you have to take an impairment. And if you look at the quality of the portfolio, frankly speaking, we don't expect anything.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Another question about the impact of regulatory capsules. We have had no indication whatsoever that our regulator, that is the French and the Belgian regulator, would attempt to change the rule of the games. Frankly, I don't believe it would be very reasonable in the middle of a crisis to change the rule of the games. So the negative AFS reverse does not and will not impact our regulatory capital.

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**Operator**

Thank you. Our next question comes to us from Manus Costello from Merrill Lynch. Please go ahead.

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**Manus Costello - Merrill Lynch - Analyst**

Hi, I have two questions please. One for Bob and one for Rembert. First of all for Dexia, I was reading the presentation you put up on your first quarter this morning, Bob, a list of internal downgrades which you've made, which is lengthy. You've downgraded your HELOCs, your Alt-A, your closed-end seconds, your Alt-A first liens, your auction arms, CLAs and CDS have all seen significant downgrades according to your rating system.

You seem to be saying that you're making those downgrades because of new data that you're receiving on some of those products. So my question is, how can shareholders of Dexia take comfort that the downgrades that you're making now, given that they're somewhat delayed, are going to lead to the correct loss projections for FSA, and why do your loss projections differ from, for example, Moody's, who say that FSA might lose over EUR4 billion under certain circumstances?

That's my first question to FSA. I'll come back to ask Rembert a question.

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**Bob Cochran - Dexia - CEO of FSA**

Okay, could you tell me what page of the presentation you're looking at?

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**Manus Costello - Merrill Lynch - Analyst**

82. Well, you reference in page 82, but it's spread through page 86, 88, 90, 92. I mean, each of the categories is seeing significant internal rating downgrades, correct?

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**Bob Cochran - Dexia - CEO of FSA**

Yes. Well, they're not insignificant, I would put it that way. We have a very vigorous internal process. We do not wait for the rating agencies to tell us what their revised ratings are on the transactions that we insure. We obviously have considerable direct information, we have a surveillance and oversight department that evaluates the transactions, really, on a monthly basis, so we sort of refresh internal ratings at the end of each quarter. So I think it's an appropriate and vigorous process. We're obviously in the middle of a historic evolution of at least mortgage-related credit, and we've revised ratings internally, appropriately, to reflect that.

I don't think that our view at this point is that this represents a continuous slide of ratings, that you can expect the same evolution for each of the next three or four quarters. We're trying to anticipate as much as we can the direction of evolution of these transactions.

If it starts at AAA internally and it's downgraded to AA, or A, it doesn't mean we think there is any significant risk of loss yet.

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**Manus Costello - Merrill Lynch - Analyst**

I think that's the concern that shareholders have, though, that as we progress through each quarter, there seem to be different assessments of potential loss projections, and therefore when someone such as Moody's comes out and gives a potential stress test scenario for FSA of over \$4 billion of losses, shareholders need, I think, need some kind of comfort as to how your rating, your loss projection methodology differs from Moody's, for example, so that we can be comfortable, so that when we come to Q2, we won't see a further round of internal downgrades and reserve building.

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**Bob Cochran - Dexia - CEO of FSA**

Well, first of all, the Moody's number is, it's always difficult to explain this, but S&P has a similar number that even in good times, if we had been two years ago, Moody's stress case loss for FSA would have been several billion. That's how they construct their AAA scenario in order to determine if we have enough capital and claims-paying resources in a dire circumstance to meet all of our obligations. If you look at the S&P model, you'll see similar or perhaps even greater losses in their stress case.

So, we're talking about, hopefully, quite remote potentiality that's embedded in maintaining a AAA rating, rather than a reasonable expectation. I think that in a market environment such as we're in today, it shouldn't be at all unreasonable or unexpected that if you have a good, rigorous, internal re-evaluation process, that some transactions that you did that were AA or AAA when they were originated would today be re-evaluated to A or AA or even BBB, and that's what we're doing. In each of these pages on our website for each product, we evaluate, we talk about what the revised ratings are, and what we think the sensitivity of loss is. Outside of the closed-end seconds and HELOCs, we think that we have very strong protections.

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**Manus Costello - Merrill Lynch - Analyst**

Okay, well I guess I will leave that there. I wanted to ask Rembert one other question, please. On your assertion that there's absolutely no need to raise capital, you talk about 10.5% being your Basel II target, and you've got, as you say, about EUR900 million in excess of that, although you're already at year end below your Basel I target. Should we assume that 10.5% is a floor, and if you dipped below that you would consider raising capital, or is it just a kind of a range and you'd be happy to go below it temporarily?

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Depends on what you mean temporarily. Normally it's a floor, so we don't want to go below 10.5%, but of course, there can be some volatile reasons that make us go very temporarily below 10.5%. If we believe that this is really temporary, that, the reasons why we went below what we consider a floor will reverse rapidly, then of course, we're not going to raise capital all of a sudden.

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**Manus Costello - Merrill Lynch - Analyst**

If you were, for example, forced to realize the EUR2.5 billion negative OCI on the FP portfolio through the P&L, that would take you, below, I believe, the target. Would that cause you to raise capital?

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

As Xavier has said, the counting rules are different under IFRS and US GAAP. If it's something that does not reflect the underlying credit risk, then there would be no impairment under IFRS and therefore it would not hit our Tier 1 ratios. If it does, that means that there is an underlying credit risk, and therefore that would translate into losses and force us to raise capital, yes.

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**Manus Costello - Merrill Lynch - Analyst**

Okay. Thank you.

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**Operator**

Thank you. Our next question comes through from Corrado Abertista from Phoenician Capital. Please go ahead.

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**Corrado Abertista - Phoenician Capital - Analyst**

Hi. I'm afraid I have to come back to a very emotional point of this presentation, which is the HELOC exposure. I just want to make a question about -- because I may have wrong information. Is that correct that these \$8 billion of exposure to HELOC in the insured portfolio is \$2.9 billion of vintage '07, \$3.1 billion vintage '06, and \$2 billion 2005 and prior? And only 11.3% is AAA rating and the 54% is BBB and quite a chunk, a 35% of this exposure is below investment grade. Is that correct?

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**Bob Cochran - Dexia - CEO of FSA**

Yes, that is correct based on the revised internal ratings. Those transactions obviously had higher ratings at the time they were originated. They had embedded protections that we thought were sufficient for the nature of the underlying loans and what's happened, of course, is that the loans have performed very dramatically differently than we expected.

If you look at slide 42 in the Dexia presentation, you can get perhaps a better summary of the way the transactions work, and how much of the loss can be withstood within the transaction based on collateralization level, the level of excess spread, the reinsurance that we utilize and other sources in the transaction and you see that -- if all of those are exhausted, then FSA ends up paying the incremental loss.

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**Corrado Abertista - Phoenician Capital - Analyst**

Yes, and thank you for this, but I guess that what the market is kind of confused about how dangerous is this position. Because first of all I would assume that these HELOCs are not in Ohio but are in California, in Florida, and if I am correct, I have to excuse myself because I'm not a credit expert, our home equity line of credit is junior to even the most subordinated tranches of a typical mezzanine CDO, which means that if effectively, correct me if I'm wrong, the collateral in a HELOC transaction is effectively the house price appreciation, which means when the house prices go down, effectively in a HELOC transaction, you have no collateral.

Therefore, if the end borrower goes into default, which I expect he will, the loss severity can be 100%. Is that correct?

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**Bob Cochran - Dexia - CEO of FSA**

Well, the last statement you made is correct, but the earlier statement you made is not correct. These securities don't have anything to do with mezzanine securities and ABS CDOs.

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**Corrado Abertista - Phoenician Capital - Analyst**

No, no, no, of course, of course, of course. What I wanted to say is they are in a way at least of the same dangerous kind of -- yes, what I'm saying is what is the assumption for these \$8 billion, or at least the '07 exposure, and the '06 exposure considering that the majority of this is BBB and below investment grade, I find very difficult to believe that you have reserved \$300 million, and it's conservative. Kind of not really.

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**Bob Cochran - Dexia - CEO of FSA**

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Well, first, let me go back and explain. The HELOC loans are secured by a second mortgage on the home, that is true, and if a home price declines significantly, you will be undersecured or completely unsecured.

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**Corado Abertista - Phoenician Capital - Analyst**

Yes, but they are going quite fast down.

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**Bob Cochran - Dexia - CEO of FSA**

But these loans were originally made to prime borrowers (and obviously in the market environment of 2006 and 2007, we now realize that not all the borrowers who were thought to be prime are behaving like prime borrowers), but the loans that are made here are secured by a second lien on the property, and were generally used by good quality borrowers as a way of borrowing at a lower cost against the value of their home. And under US tax law, interest paid on a home loan is deductible from your income tax, so there was a good solid reason for these kinds of loans.

They had a 15 year history in the US of losses ranging from 1% to 2%, 2.5% and the structure that we created could withstand about 15 points of cumulative loss.

So I admit that this has turned out in retrospect to be a mistake given the evolution of this product and of the market, but we're making quite high projections based on the default rates that we are seeing now, and although they are high, and they will result in some of these transactions suffering losses because they will be cumulative losses in excess of 15%, they are not 100%.

Not every one is defaulting, and not every loan was made to someone in California or Florida at 100% of market value. There are lots of loans in other parts of the country, and the longer people make their payments, the higher the probability is that they will continue to make the payments.

So I accept your concern that we may not have it perfectly right, but these are very conservatively set estimates. The numbers we're giving are obviously quite different than what a bank would report as their reserves against a whole loan portfolio - if they own all of these loans, not in a securitization structure. The securitization structure has other protections in it that at least give us substantial first loss protection before FSA pays a claim.

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**Corado Abertista - Phoenician Capital - Analyst**

I understand that, but the only problem that I have with that is that it looks like you may be reserved properly or conservatively as things stand as of now. Now I understand that especially American investors are trying to look through and see the glass half full, but the reality is if, as we all think, there is a very high probability that house prices in America will continue to slide down for another 10%, 15%, it's not a great assumption, I think. What would happen to this portfolio?

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**Bob Cochran - Dexia - CEO of FSA**

Well, the individual borrowers are still obligated to make their payments. They still suffer a significant negative to their credit history if they default, which makes it nearly impossible for them to borrow on reasonable terms for quite a long time into the future.

So the fact that house prices go down is a negative to performance, that's why we're seeing the behavior that we're seeing here now, but I don't think it suggests that every borrower in the portfolio will default and, I don't disagree with your assumption. As a matter of fact, it's embedded in our estimate that house prices will continue to fall for the rest of this year.

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**Corado Abertista - Phoenician Capital - Analyst**

I understand, but I still find it difficult that \$300 million is enough. I really do. I really do.

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**Bob Cochran - Dexia - CEO of FSA**

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Well, you can see that the total losses that are being withstood in these transactions are dramatically higher than that, and our first loss protections are enough to make our net payments considerably smaller --.

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**Corado Abertista - Phoenician Capital - Analyst**

That's exactly what is killing the monoline business, the AMBACs, the MBIA's, to take 15 basis points for something that is going to blow in your face because a 20 standard deviation event is occurring.

I mean --

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**Bob Cochran - Dexia - CEO of FSA**

Well, I'm --

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**Corado Abertista - Phoenician Capital - Analyst**

I'm not trying to -- forgive me, I'm not trying to put you in a corner. I am a shareholder and I am worried. And I don't know what to do.

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**Bob Cochran - Dexia - CEO of FSA**

Well, I would note that we didn't -- we haven't done the ABS CDOs. We have stayed out of many of the other areas of securitization that we think are of continuing concern. We have no commercial mortgage-related securities, no ABS CDOs, no whole business securitizations.

This, I think, is -- as I said, it's -- we are very unhappy about this too. And I can tell you are unhappy. But the -- this is the one segment of our portfolio where I think we've got significant loss potential and we think we've got a pretty good handle on it. I am not swearing to you that we won't have some ups and downs on these reserves before the final story is told, but I think we're in a reasonable range so that the performance ups and downs from here shouldn't be too dramatic.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Okay, I think we have many more questions to come, so perhaps we can move onto the next.

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**Corado Abertista - Phoenician Capital - Analyst**

Thank you.

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**Operator**

Thank you. Our next question comes from Guillaume Giberghien from Credit Suisse. Please go ahead.

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**Guillaume Tiberghien - Credit Suisse - Analyst**

Yes, good afternoon. All the questions on numbers have answered but I've got just more philosophical question on FSA. I just want to make sure that if the losses that FSA is currently incurring exceed substantially the level of potentially expected losses, then Dexia can pull the plug on FSA? And also, up to what level, or from what level of losses Dexia would make that decision?

And a follow up on that. Each time there is a crisis Dexia incurs a lot of questions on FSA, and I clearly appreciate that it is neither the time to sell or merge FSA at the moment. But are you making some serious thinking about potentially simply running off FSA or disposing of it because Dexia should be a defensive stock when there's a crisis, and it doesn't seem to be the case because questions are raised on FSA quite frequently. Thank you.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

If that's a philosophical question, and I'm not very good at philosophy, I would say. We announced that we are going to perform a review of FSA's business in order to make the credits profile -- the risk profile of FSA consistent with Dexia's risk profile. Don't forget that FSA is currently performing two separate businesses, ABS and Public Finance. The Public Finance business is almost riskless, and whatever the changes in the environment in the United States, lending to local authority will remain a very low risk business. So in that respect FSA fits totally into Dexia's business model, and we have no reasons whatsoever to divest FSA, because it's a very important player in this market and also because in the recent period of time, it has gained enviable market positions.

Now, as far as ABS is concerned, what just happens on the Alt-As and HELOCs was very unexpected from our part, and from the part of FSA. So we are going to think very much about the kind of conclusions we have to draw from the current situation. We announced the review that we're going to perform, don't task me to tell you what the outcome of these reflections are going to be because I don't know myself.

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**Guillaume Tiberghien - Credit Suisse - Analyst**

Thank you.

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**Operator**

Thank you. Our next question comes through from Albert Pleogh from ING. Please go ahead.

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**Albert Pleogh - ING - Analyst**

Yes, good afternoon. I've got two questions, one of them on FSA. With the review of the ABS part of FSA, is it possible to get some feeling on what implications on capital could be allocated to FSA? On one hand, it seems that this is the more capital intensive area of FSA, so could release capital. But on the other hand, when I look at the gearing of FSA over the past ten years basically, it has been an increasing -- like what is the case with most monolines, so could also take the opportunity may be, when, and you now review and you also want to de-gear basically, as I say, which could imply that you actually need more capital in FSA so may be you can say some words on that?

And the second point is on the Treasury and Financial Markets line. A bit funding related as well. At the end of Q4, I think the net lending position to the interbank market was about EUR35 billion to EUR40 billion, contributing about EUR100 million in revenues to the Treasury and Financial Markets line. Can you say what the current position is and what your contribution was in the first quarter?

And may be also something on short term funding. What are the amount of assets that could be used for ECB or FED funding. Thank you.

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**Bob Cochran - Dexia - CEO of FSA**

Rembert, do you want to first with the last questions and I'll come back, to say my say.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Okay, then I will give the floor to Alain Delouis who is responsible for Treasury and Financial Markets operations.

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**Alain Delouis - Dexia - Treasury and Financial Markets**

The net cash position of the Group didn't change substantially between Q4'07 and of Q1 '08. And the contribution of the cash and equity teams to the P&L was in line with Rembert's figures. So, overall EUR100 million.

Regarding the amounts of reserves we have to be pledged to central banks, mainly ECB, Bank of England and the Fed Reserve, these amount to roughly EUR180 billion which was almost steady compared to the last quarter.

This is a huge amount, we obviously do not use this full amount, but it is due to the specifics of the Dexia balance sheet with a high amount of public finance loans.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Bob, the first question?

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**Bob Cochran - Dexia - CEO of FSA**

Okay, well, first I would say that FSA's value to the Group is as a AAA company, and we as management certainly do everything within our power to maintain strong AAA capital headroom margin within our own resources, but it's also a significant objective of Dexia to make sure that the value of the franchise is maintained. And although I certainly take the point of volatility from the asset backed business in this particular cycle, I remind you that in the previous cycle that was referred to, I think the total charge offs were \$60 million pre-tax and those reserves turned out to be more than adequate to cover the losses that occurred in 2000 and from the 2002 period. So the asset backed business has been a very profitable part of FSA's total financial picture over the years.

That doesn't mean that we shouldn't do everything within our power to eliminate the volatility, and I think the judgment that we're making together and we'll evaluate pretty carefully over the course of the summer, both internally, here at FSA, and with Dexia, is that we need to run a smaller, tighter business in areas that don't contribute to this kind of volatility in the future, and if we can convince ourselves that that's doable, I think it will continue to be valuable to Dexia's shareholders.

If that's the course we take, that means there will be less volume of new asset backed transactions with lower capital charges, so the new business would essentially not replace the running-off business, and will over time return capital in our capital structure to be redeployed either directly in municipal finance or infrastructure finance worldwide, or the return to our shareholders as we've done in the past when we've had excess capital.

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**Albert Pleogh - ING - Analyst**

Maybe as a follow up, when I look at the gearing of FSAs, defined by the net part outstanding defined by the statutory capital, it has moved up. Are there any discussions with regulators or rating agencies that they want basically the monolines to deleverage. If you would bring it back to let's say ten years back, it seems that you probably need another \$700 million or \$800 million at least. So I would like to get a feeling how that would play out when you review the ABS business?

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**Bob Cochran - Dexia - CEO of FSA**

Well, the gearing ratio is really not a driving ratio for the financial guarantee companies when you consider how that number is calculated. It's total debt services obligations outstanding for the life of all existing policies. And actually it's our public finance business that drives that ratio up most, because it's total debt service on a 30-year obligation so that's two to two-and-a-half times the par amount guarantee that's factored into that ratio. So as we do more public finance and infrastructure finance it will tend to push our total gearing ratio upward. That's really not a driving factor in the rating agencies' analysis. They look at underlying risk for the nature of the transaction and build that into their capital calculations. In fact a lower gearing ratio with higher risk transactions would result in a more adverse capital requirement. So I think we're in a position now to act within our own resources, but we're certainly staying on top of that and communicating regularly with Dexia.

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**Albert Pleogh - ING - Analyst**

Thanks very much, Bob.

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**Bob Cochran - Dexia - CEO of FSA**

Thanks.

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**Operator**

Thank you. Our next question comes from Ralf Breuer from WestLB. Please go ahead.

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**Ralf Breuer - WestLB - Analyst**

Good afternoon, it's Ralf Breuer from WestLB. Could you perhaps give us a projection over what period of time your AFS reserve would recover given unchanged spreads? So as you did for part of the portfolio in the FSA and your presentation of what would be the average recovery per quarter for the foreseeable future? And the second question, quite simple. How much of your reduction in risk weighted assets during the first quarter is due to the application of Basel II and how much is the change in your risk weighted assets?

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

So the average maturity of the credit spread portfolio is 5.9 years and for the public finance bonds is 15 years. With the average maturities, that gives you an idea of the speed with which these negative marks recover.

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**Ralf Breuer - WestLB - Analyst**

Thank you, because the speed on the slides you provided is quite different.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

It depends on the maturity of the bonds.

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**Ralf Breuer - WestLB - Analyst**

Yes, of course.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

The credit spread portfolio whose maturities are much shorter than for the public finance bonds, the recovery is faster of course. But of course it depends on two parameters. The first one is the maturity and the second one is the speed with which the spreads will tighten because the spreads are not going to remain at their current indefinitely.

For your second question, which is the Tier 1 ratio and the risk weighted assets. The total risk weighted assets under Basel I are EUR162 billion as at the end of the first quarter. Given that they stand at EUR120 billion under Basel II, you see that the economy, if I may say so, is EUR40 billion between Basel I and Basel II. But you should also keep in mind that the capital is not computed in the same way under Basel I and Basel II, and under Basel II we have approximately EUR600 million capital less than under Basel I, all things being equal. So we have less weighted assets but also slightly less capital.

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**Ralf Breuer - WestLB - Analyst**

Thank you very much.

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**Operator**

Thank you. Our next question comes from Natasha Oliver from Cazenove. Please go ahead.

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**Natasha Oliver - Cazenove - Analyst**

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Good afternoon. I've just got three questions. First of all on the AFS reserve write-down of EUR5.1 billion, you said that the reversals to the end of April were only EUR0.7 billion, and given that the bank bonds spreads have come back so much I would have expected this to be higher, a higher write back I was just wondering area do you still -- have you not seen spreads narrow?

And then, secondly, just on the slides 53 and 54 where you talk about other than temporary impairments in the financial product portfolio, if, hypothetically, you were to see a big impairment in FSA under US GAAP in Q2, would this impact FSA's regulatory capital, and in that case, would Dexia have to supplement FSA's regulatory capital?

And then just finally, just for the sake of parity could you give the Tier 1 ratio under Basel I? Thanks very much.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

For the first question on the recovery in terms of the AFS reserves, we gave the recovery at the end of April, and I frankly don't know the extent to which the spreads have been shrinking since the end of April. Perhaps, Alain, do you have an idea?

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**Alain Delouis - Dexia - Treasury and Financial Markets**

Well, in fact what we have seen in the market in April was the beginning of tightening for some CDS and much less on the cash markets. The main asset category where spreads have tightened was that the banking sector. What we have seen in May is that this tightening has almost stopped, and on the other hand IMBS, European IMBS have tightened. So you see the market is also differentiated from one asset class to another asset class. But all in all we believe that the spread tightening has begun and that all banks and European NDAs will continue to tighten over the next few months.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Bob, there is a question about the impact of impairments on regulatory capital.

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**Bob Cochran - Dexia - CEO of FSA**

I'll answer the question on the financial products portfolio. The financial products portfolio is not in the regulated insurance company, so changes in value of those assets don't affect our regulatory capital. So the answer to your question specifically is no, that would not have an impact on our need for capital in the insurance company. But of course overall financial performance does affect our rating and, but again the rating agencies really look just at what they think is real economic loss exposure, not mark to market and they've said that a number of times.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

And then the last question was about our Basel I ratio. Actually the Basel I ratio is not really relevant as the rules of the game have changed. The new rules are Basel II. So I wonder what the use is of giving the ratios under rules that do not prevail any longer. But I can tell you that under the Basel I regulation our Q1 ratio would have been 8.7%.

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**Natasha Oliver - Cazenove - Analyst**

Okay, thank you.

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**Operator**

Thank you. Our next question comes through from the line of Bary Cohen from KnottPartners. Please go ahead.

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**Barry Cohen - Knott Partners - Analyst**

Hi. Can you hear me?

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Yes, we can.

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**Barry Cohen - Knott Partners - Analyst**

Well, thank you. I have a couple of questions if I could, and I'll ask them maybe one at a time just for ease of purpose. One is could you just walk me through – because I'm relatively new to the company so I apologize ahead of time if I ask questions which are obvious. Could you please walk me through the capital structure at FSA?

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Bob, I guess it's for you.

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**Bob Cochran - Dexia - CEO of FSA**

Okay. Well I'm not sure I quite understand the question. The capital structure of FSA is predominantly equity. We don't have very much borrowed capital at all. We have Joe a total of in debt securities outstanding ...

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**Joe Simmon - Dexia, FSA**

At the holding company -- \$730 million.

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**Bob Cochran - Dexia - CEO of FSA**

\$730 million, which is primarily used to put down into the insurance company to add to statutory operating capital. So the capitalization of the company is really driven by rating agency considerations which are to have sufficient total claims paying resources which are a combination of core capital, unearned premium reserve, reinsurance and certain other second-loss bank facilities that we've negotiated. The core capital is really the first line of defense in both...

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**Barry Cohen - Knott Partners - Analyst**

I didn't know what the number was. I guess I was – my apologies, I was asking you for like the hard numbers.

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**Bob Cochran - Dexia - CEO of FSA**

We're about \$3 billion of capital in the insurance company, of regulatory capital, a little over \$3 billion.

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**Barry Cohen - Knott Partners - Analyst**

That's regulatory capital, so it's GAAP capital. How about on the -- kind of an accounting basis?

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**Bob Cochran - Dexia - CEO of FSA**

Well, the regulated insurance company also has \$3 billion of GAAP capital because there isn't a mark-to-market effect inside the insurance company.

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**Barry Cohen - Knott Partners - Analyst**

Okay.

**Bob Cochran - Dexia - CEO of FSA**

As a result of all of the mark to market accounting, the total GAAP net worth of the company is just marginally positive at this point.

**Barry Cohen - Knott Partners - Analyst**

Okay. And then maybe this question is for you as well if I could. You actually -- I mean you didn't go out of your way, but you actually mentioned Countrywide, and I was wondering if you could kind of parse out a little bit, does the company have a large exposure essentially to Countrywide and that's why you made mention of it within the context of some of the issues that you've been talking about on this call?

**Bob Cochran - Dexia - CEO of FSA**

Well, Countrywide is the originator and servicer of most of the HELOCs that we have taken reserves on. So they play multiple roles.

The servicing role is not really a credit related role and wouldn't necessarily be adversely affected by their financial distress, but we do think if they're bought by B of A, as is anticipated, that's going to be a positive for us and for the performance of the transactions over time.

Countrywide also has obligations to make certain advances on draws under the transactions once they reach their rapid amortization, and so we are anticipating that they will make those payments; and they give us reps and warranties on the underlying loans that have been securitized, that they meet certain original representations as to the nature of the underwriting and the content of the nature of the borrowers, and we do anticipate recovering from them, because our observation so far is that quite a few of the loans that are defaulting are ones that don't meet the original represented criteria.

**Barry Cohen - Knott Partners - Analyst**

Okay. And what is the anticipated cash dividend from FSA for '08?

**Bob Cochran - Dexia - CEO of FSA**

We have been dividending over the last year or two now I think, about 5% of our equity capital, but I think under the current circumstances, there's a chance it will -- the Board hasn't taken a decision, but we'll probably slow that down for a while while we evaluate where we stand on these loss reserves and with the rating agencies. But we would anticipate over time having a fairly generous dividend to Dexia as we have had.

**Barry Cohen - Knott Partners - Analyst**

Okay. And then I guess I have two other questions. One might be a little complicated and I apologize for it, so I'll ask the simpler one first. Why the unbelievable focus on essentially Basel II and Tier 1 leverage? There doesn't seem to be any discussion about the leverage ratio the firm operates under, can you discuss that a little bit?

**Rembert von Lowis - Dexia - Strategy and Development, IR**

That's a question at a Group level, not for FSA.

**Barry Cohen - Knott Partners - Analyst**

No, I know.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Yes. Here again, we do not look at the leverage of the company as a whole. We have no gearing ratio or that kind of thing. We need to comply with the banking regulations according to which we need to have an amount of capital that is in proportion with the risk-weighted assets, and these risk-weighted assets depends on the risk profile of these assets.

A municipal exposure, for instance, has obviously a much lower risk profile than a corporate one, and therefore, for the same exposure, the amount of capital that is required by the regulation is much lower.

Dexia has an overall leverage or a gearing ratio that is higher than the industry average, because its main business consists of providing long term funding to clients whose risk profile is much lower than the average risk profile in the banking industry, and therefore it requires less capital and therefore our leverage is higher.

So the notion of leverage is not something that we really look at.

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**Barry Cohen - Knott Partners - Analyst**

Right, okay. And here's the other thing I was trying to understand, like the lack of share repurchase, because I mean if we listen to what you were saying, you seemed to indicate that today you have EUR900 million in excess capital, and that tweaking the statistical or structural models under Basel II, that there's a significant amount of more capital that's available to you under that calculation.

And on top of that, if you take a look at what the assumed ROE on the company is, and then do a plough-back ratio, it would appear that you have a significant amount of capital under your structure that would allow you to essentially repatriate treasury while, at the same time, growing your balance sheet rather significantly.

Can you walk us through why you wouldn't be repurchasing shares given that scenario?

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Well, we have been repurchasing shares. Until very recently, we have completed a EUR400 million share buyback program very recently. What you also have to keep in mind is that these Basel II rules are very new. Q1 '08 is the first quarter under which we have to report our Basel II ratio, so we need to be cautious because we don't really know how this ratio will behave in a very volatile market environment.

This ratio is impacted by, of course, accounting issues, but also the models themselves have to be restated periodically based on the track record of performance of the different kind of exposures that we have, and this is very new not only for us, but for the industry as a whole, and therefore, we prefer to be rather cautious and not to buy back the rest of our shares.

Another thing is that the current market environment offers very, very important opportunities to grow the business organically in a very profitable way, and I think when I talked to you recently, that the business, for instance, in the United States, has become incredibly profitable and that here we are growing very fast, so we prefer to allocate our excess capital to organic growth, rather than buying back our shares.

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**Barry Cohen - Knott Partners - Analyst**

And you don't include the par value at risk I'm assuming in your capital ratio calculation, is that correct?

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Excuse me, I'm not sure I understood the question. What don't we include?

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**Barry Cohen - Knott Partners - Analyst**

I don't think, I could be wrong, the net par written at FSA isn't put into the calculation for Tier 1?

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

No, no, FSA's capital, under the current regulatory rules, is deducted from the total Tier 1 plus Tier 2 capital at Dexia. This will change in 2013 exactly.

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**Barry Cohen - Knott Partners - Analyst**

Thank you very much. I really appreciate all the time and thanks for helping me understand things better.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

It's our pleasure.

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**Operator**

Thank you. We have a question now from Omar Fall from ABN Amro. Please go ahead.

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**Omar Fall - ABN Amro - Analyst**

Hi. Most of my questions have been answered actually, but I just had one slightly broader one. Can you just give us your view on the potential for policy and regulatory changes in the monoline industry given some of the headlines we're getting from the US of municipalities saber-rattling over their ratings, and whether there is the need for monoline insurance, certainly for the larger munis? That's all.

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**Bob Cochran - Dexia - CEO of FSA**

Okay. Well you're certainly right that there have been strong opinions expressed from various regulators, politicians, let me try to take these one step at a time. In terms of regulators, there has been both talk of federal regulation, although that talk has diminished substantially over the last month. And I don't really think we really currently expect that there will be a move toward federal regulation in the US, in part because the New York department I believe is viewed as not only having done an acceptable job, but being proactive now in increasing the level of regulatory oversight. And there will be a bill of amendments to the law which governs the regulation of our industry which is called Article 69 under the New York statutes.

There will be a series of proposed changes to that law which will tighten the restrictions. And although we've been active in advising and consulting with the department on that, we haven't seen the initial draft which will then go to Albany - our state capital - for consideration, over the next month or so.

Based on what we expect the changes in law to be, we're pretty comfortable that those are constraints that we can not only live with but probably are appropriate and we would anticipate living within even if the law weren't changed. So we view it as just good governance.

There is the other question which has been swirling also from state treasurers, suggesting that ratings should be higher. That if ratings fairly reflected credit risk in the municipal market, that there might not be a need for municipal bond insurance. I think the rating agencies actually don't take well to having issuers tell them what their ratings should be, and to a certain extent, they will resist that pressure.

But it's also easily observed that there has been an upward trend in ratings in the municipal sector in the US underway now for several years. That trend will probably stop or even reverse given the financial stress that even public entities are going to be under, given the current economic environment in this country. As we know, public entities generally have broad resources, so we don't necessarily think that's going to lead to defaults in the future. But certainly there's going to be, there will be more noise and more financial stress in the system.

I suppose the most obvious and immediate example, if you're aware of it, would be the Jefferson County, Alabama situation. It's a messy process as the public entity process at the local level quite often is. But we think they will ultimately get that organized. We're actually trying to be helpful. We think we have a positive role to play in that context.

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**Omar Fall - ABN Amro - Analyst**

I guess what I'm trying to get to, is if there's a potential - even a small one - for structurally lowered demand from the muni side and then if you're exiting or at the very least significantly scaling down the structured business, what do you think the size of your end market looks like for you guys, in let's say a year's time, even if your market share were to stay similar to the current elevated levels, and let's say pricing as well. It just seems you would be operating in a sizably smaller market. Am I just getting that wrong?

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**Bob Cochran - Dexia - CEO of FSA**

Well, I think that's a very fair question to ask. And I'm not sure anyone knows the answer to that question at the moment. I would make the following observations.

At the moment municipal investors are continuing to choose everyday to pay FSA premiums that are double and triple the level of premiums that we were being paid a year ago, when the market volume was higher and there were five or six competitors in that market, rather than the smaller but higher credit spread environment that we're in today. Even for AA municipal credits, that's the case.

I personally believe that there will continue to be a demand for municipal bond insurance for the simple capital markets efficiency reason that we have 30,000 or more separate municipal entities in the US. You don't have anything like common transparent GAAP financial statement availability for those separate entities. 10,000 of them come to market every year, and you're trying to match those up with nearly millions of individual investors and funds.

So, I think AAA municipal bond insurance is here to stay in terms of a value-added proposition. The size of market, of course, is something that has always gone up and down. As much as I would like to project that we'll continue to have the market share opportunity that we have today, I think it seems likely that over time either some of our competitors will find a way to raise the capital, or eliminate the uncertainties that are causing them problems at the moment. And we'll get to back to a normal, unfortunately competitive environment, or new capital will be attracted.

That's why it's so critically important that FSA maintain it's even keel in this market so that we can, for ourselves and for Dexia, continue to harvest what it really an amazing opportunity in the US municipal market and in the global infrastructure market which is also a very important part of our overall strategy.

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**Omar Fall - ABN Amro - Analyst**

Okay, thanks a lot.

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**Operator**

Thank you.

Ladies and gentlemen, that was our final question today, so I will now hand you back to your host to conclude today's conference call. Thank you.

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**Rembert von Lowis - Dexia - Strategy and Development, IR**

Okay, since there are no more questions I would like to thank everybody for taking part in to this conference call and say good bye.

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**Operator**

Thank you. Ladies and gentlemen, that will conclude today's conference call. You may now disconnect.

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