



*short term has no future*

**DEXIA**

## Goldman Sachs European Financials Conference “Taking advantage of opportunities arising from the credit crisis”

**Rembert von Lowis, Member of the Management Board**

*Berlin, June 13<sup>th</sup>, 2008*

# Disclaimer

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# “Taking Advantage of Opportunities Arising from the Credit Crisis”

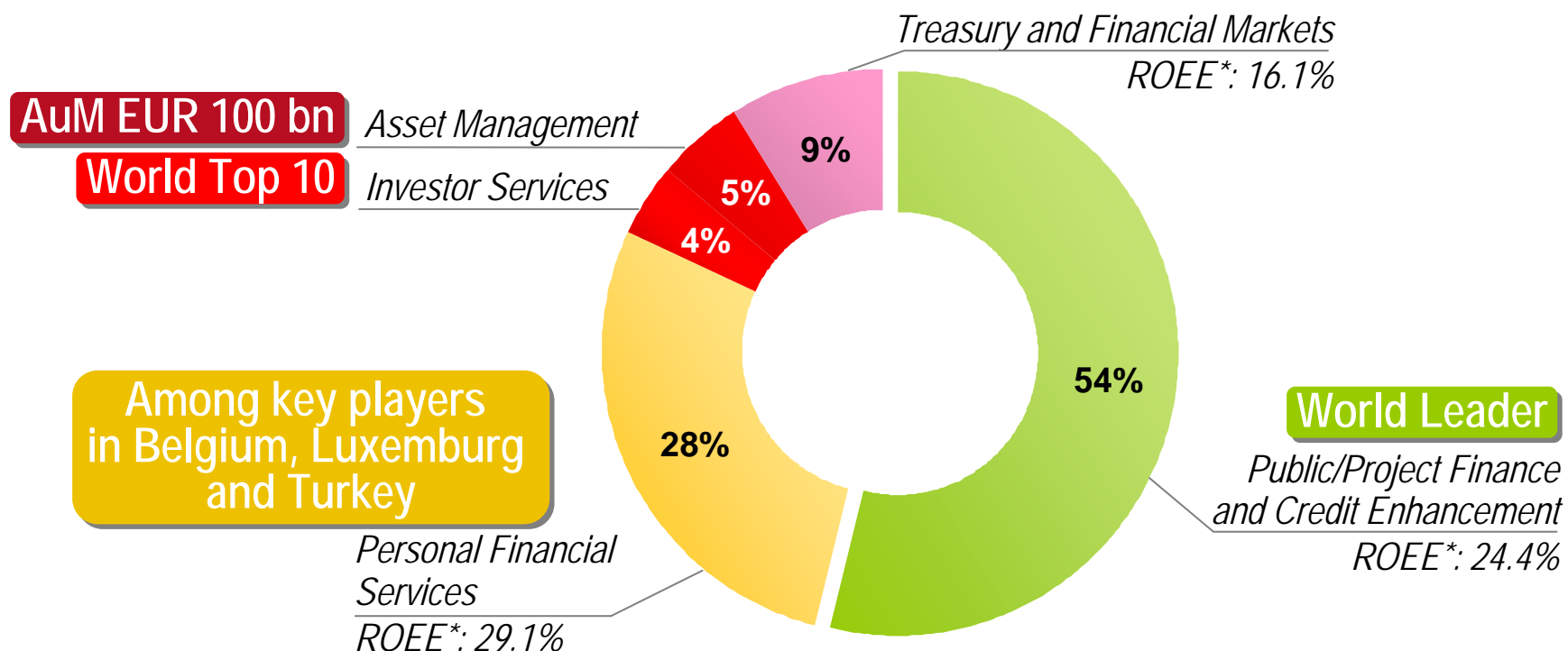
## *Summary*

- ❑ **Negative economic effects of the crisis are limited and concentrated on US Mortgages**
  - ❑ Losses at FSA, minimised by a fair level of protections from the transactions' structures
  - ❑ Accounting consequences of credit spread widening are huge but have little economic relevance
  
- ❑ **Significant opportunities arising from the crisis**
  - ❑ Public/Project finance globally benefits from widening asset spreads
  - ❑ FSA takes advantage of the disruption of the US Financial Guaranty market
  - ❑ Treasury & Financial Markets operations profit from Dexia's easy access to liquidity
  
- ❑ **Dexia is well equipped to capture current opportunities**
  - ❑ Defensive business mix
  - ❑ Low operating leverage
  - ❑ Comfortable solvency ratios
  - ❑ Excellent credit ratings
  - ❑ High quality of assets
  - ❑ Strong funding capabilities

# Overview of Dexia

*Business portfolio*

Segment contribution to net income - Group share (1)



Net income – Group share reported

FY 2007: EUR 2,533 m

(1) Excluding non-operating items and central assets

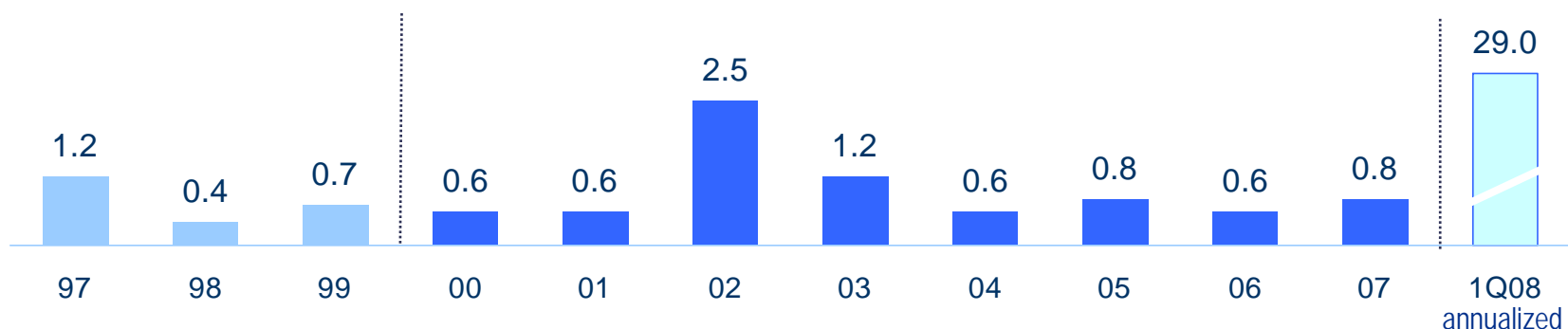
\* Return on Economic Equity underlying

# Credit Crisis Led to Losses in HELOCs and CES above Expectations

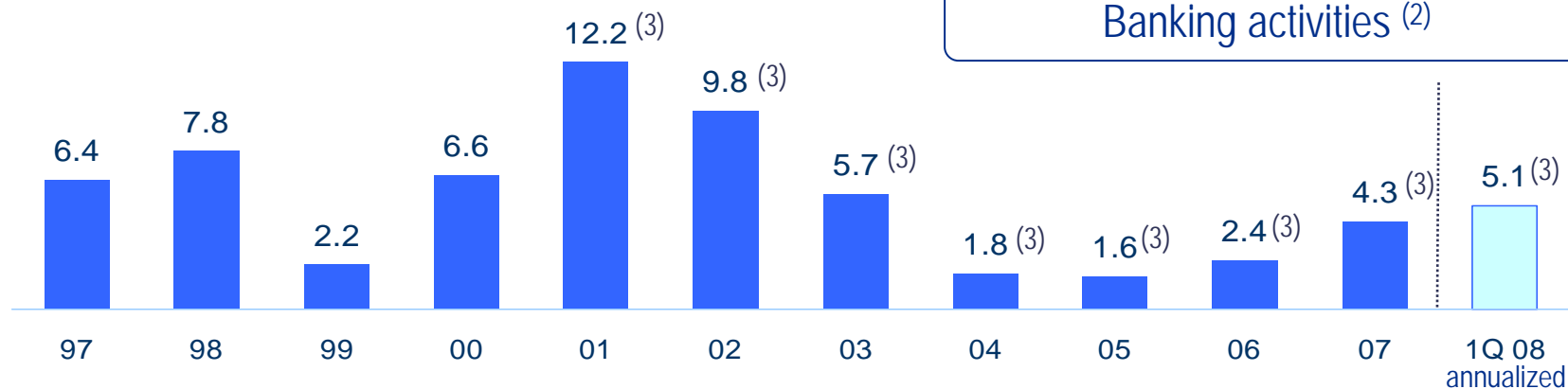
*1Q 08 : EUR 128 m after tax on HELOCs and Alt-A loans*

in basis points

Credit enhancement (1)



Banking activities (2)



(1) Cost of risk relates to net par outstanding insured

(2) Cost of risk relates to total net outstanding commitments

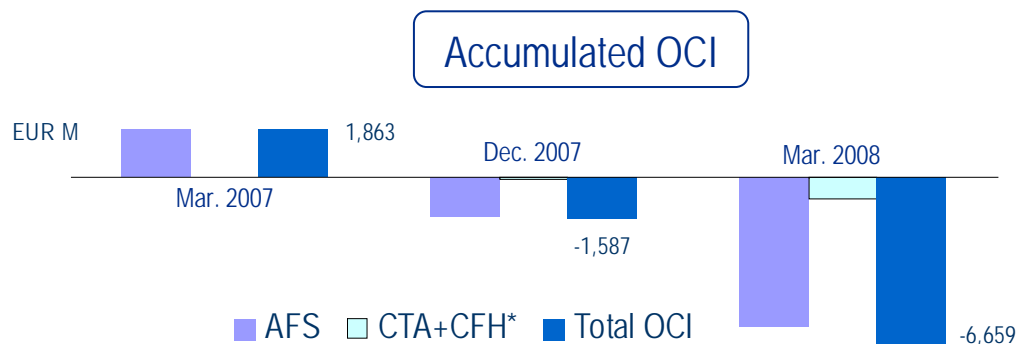
(3) Excluding impact of charges for Legio Lease at Dexia Bank Nederland

# The Widening of Credit Spreads had Significant Impacts on Accounts but Little Economic Relevance

## *Accounting effects from credit spread widening – Impact on Equity*

	31/12/07	31/03/08	Variation in 3 months
Core shareholders' equity (M EUR)	16,112	16,188	+ 0.5%
Total shareholders' equity (M EUR)	14,525	9,529	- 34.4%
Net assets per share <sup>(1)</sup> :			
Core shareholders' equity <sup>(2)</sup> (EUR)	12.87	12.83	- 0.3%
Total shareholders' equity <sup>(3)</sup> (EUR)	11.51	7.07	- 38.6%

- ❑ Equity fell by EUR 5 bn in 1Q 08 due to negative swing in OCI reserves
- ❑ Large bond portfolios are booked as AFS assets
  - ❑ FSA's FP portfolio: EUR 12 bn
  - ❑ CSP: EUR 62 bn
  - ❑ Public Fin bonds: EUR 90 bn
- ❑ The MtM of these portfolios does not reflect expectation of economic losses



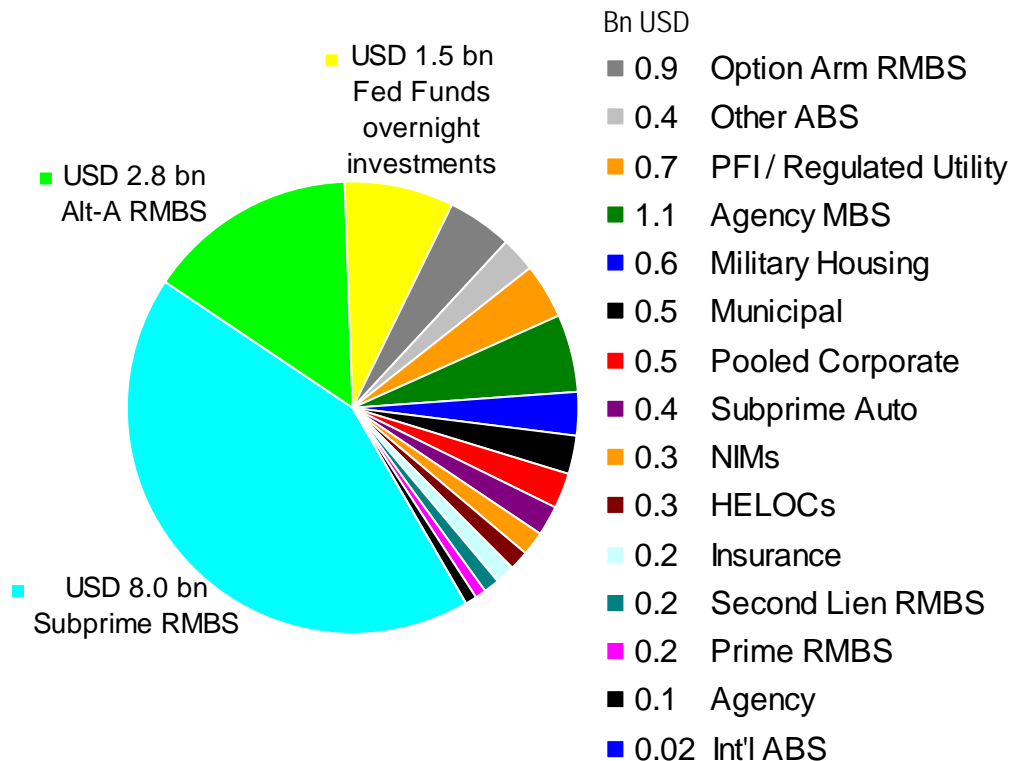
\*Includes Cash Flow Hedge reserves, Cumulative Translation Adjustments and reserves from associates

(1) Estimated dividend for the period deducted; (2) Without AFS and CFH reserves, and CTA; (3) With AFS, CFH and CTA

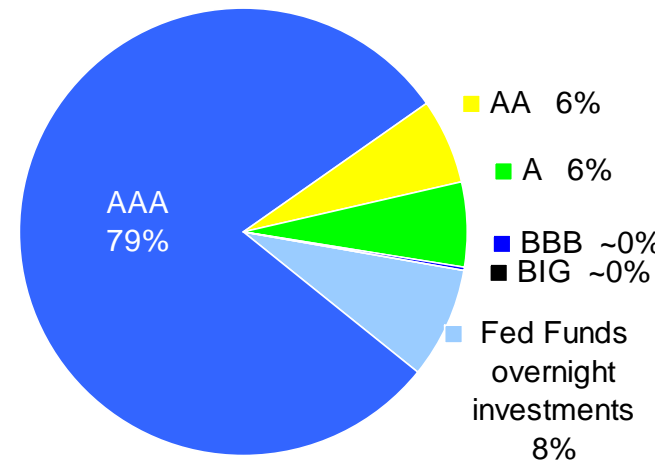
# FSA's Financial Products Portfolio is Invested in Highly Rated RMBS

## Accounting effects from credit spread widening – Impact on Equity

FP - Invested Assets by Sector  
USD 18.8 bn (\*)



FP – Invested Assets by rating  
USD 18.8 bn (\*)



**87% AAA/Fed funds overnight investments**

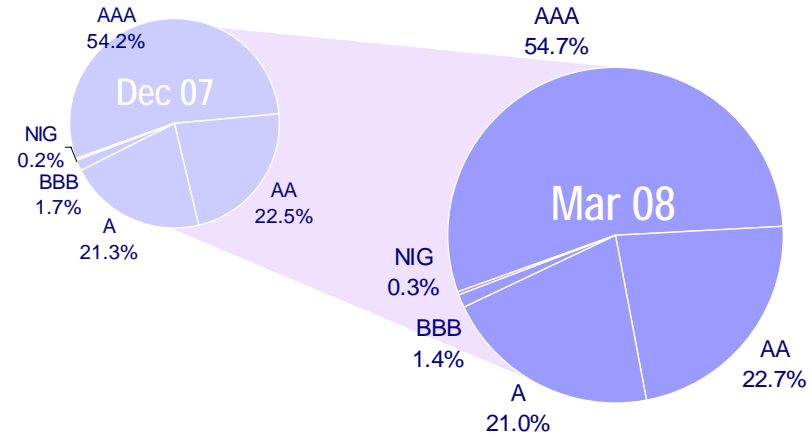
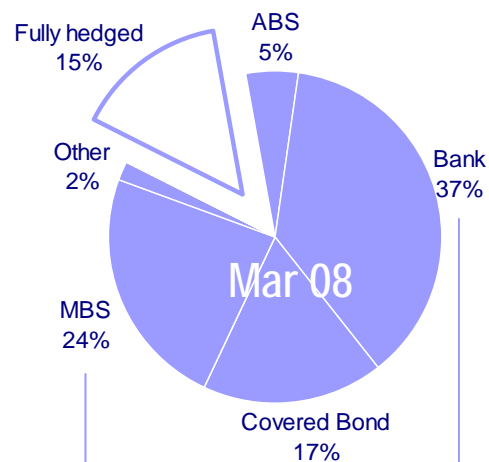
(\*) Investments at amortized cost. 4.5% of the portfolio is AAA by virtue of FSA insurance. As of 3/31/08; ratings are the lower of S&P and Moody's

# Credit Spread Portfolio : A Buy and Hold Model which Benefits from its High Quality Profile

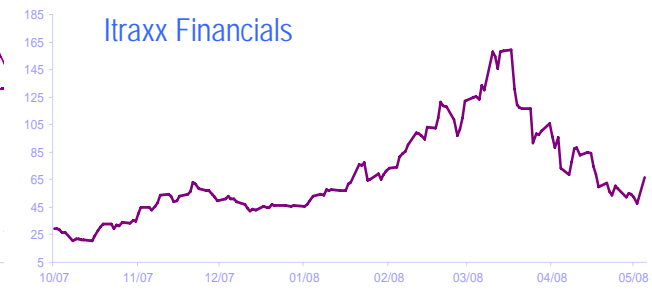
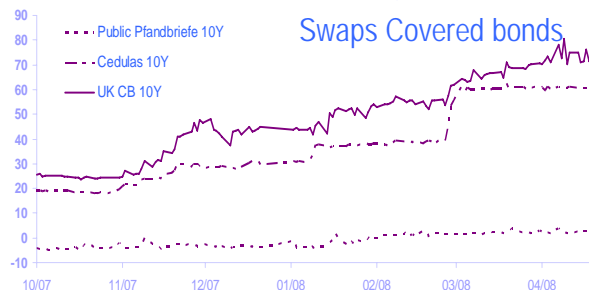
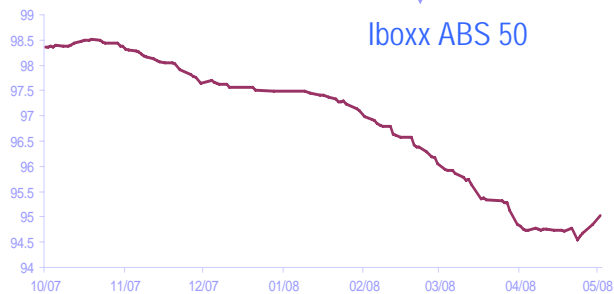
## Accounting effects from credit spread widening – Impact on Equity

CSP – Asset class breakdown  
 EUR 61.9 bn credit exposure and EUR 10.6 bn hedged

CSP – Rating breakdown  
 EUR 61.9 bn credit exposure



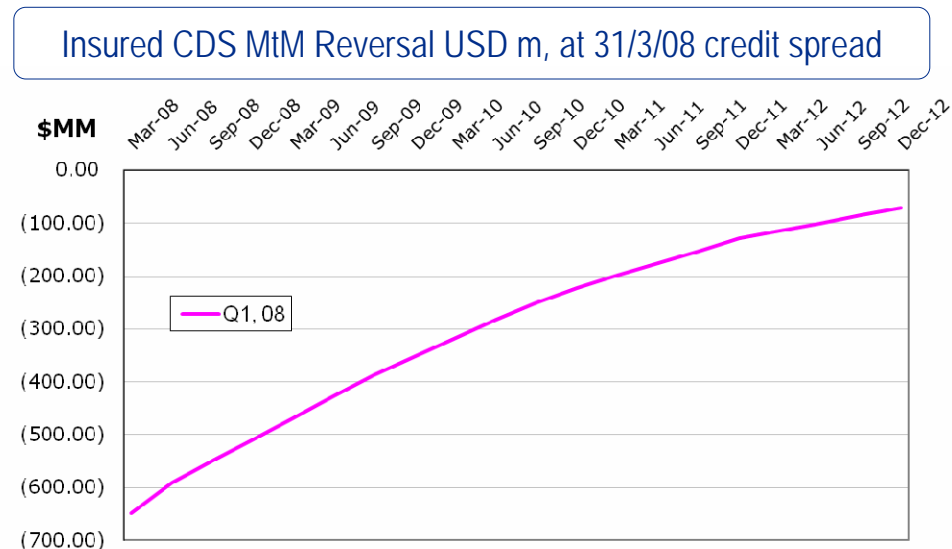
Market trend indicators



# The Widening of Credit Spreads also had Significant Impacts on P&L

## *Accounting effects from credit spread widening – P&L*

- Impact on the P&L 1Q 08
  - MtM effect on a high quality Insured CDS portfolio at FSA: EUR -335 m pre tax, -216 m post tax
  - Trading portion of the Credit Spread Portfolio: EUR -259 m pre tax
  - Positive MtM of Securitisation-related CDS: EUR +243 m pre tax
- Negative marks on FSA's insured CDS should reverse over time



# The Crisis Creates Opportunities for Dexia

*A new environment favourable to Dexia*

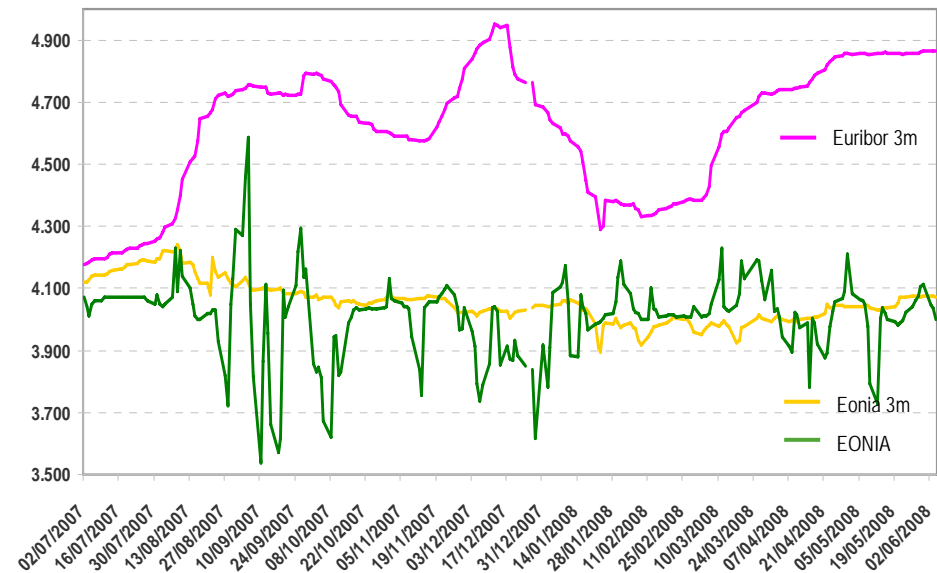
- ❑ Widening credit spreads...  
...after years of tightening

Corporate spreads since Y2000



- ❑ Liquidity becomes a scarce resource

EURIBOR 3M vs EONIA 3M vs EONIA



- ❑ Competitors are weakening

# Opportunities mainly arising in “Public/Project Finance and Credit Enhancement” and in “Treasury and Financial Markets”

*Several sources of growing revenues*

- ❑ **Public/Project Finance globally benefits from widening asset spreads**
  - ❑ US Public Finance
  - ❑ Project Financing
  - ❑ UK Social Housing Financing
  
- ❑ **Credit Enhancement: Financial Guaranty market dislocation benefits to strongest players**
  - ❑ FSA's peers suffered billions of losses on US mortgages and are not competing anymore
  - ❑ Substantial margin improvement for Credit Enhancement in Public & Infrastructure Finance
  
- ❑ **“Treasury & Financial Markets” operations benefit from Dexia’s easy access to liquidity**
  - ❑ Record 4Q 07 and 1Q 08 Cash & Liquidity Management

# Disruptions on the US Municipal Market Benefited Dexia

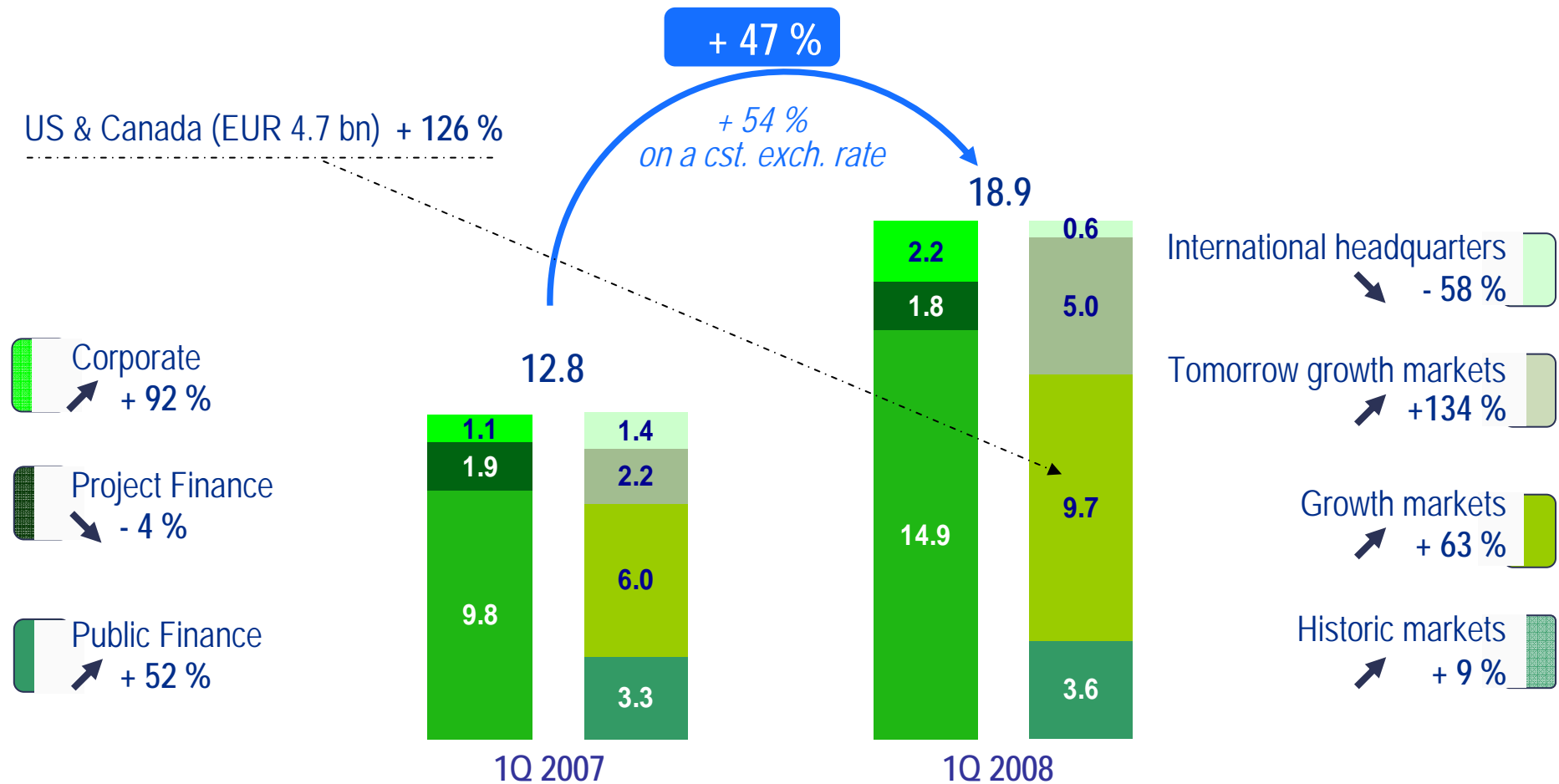
*Dexia New York*

- ❑ **US municipal market disrupted by significant events**
  - ❑ Rating concerns for a number of large monoline insurers (with the exception of FSA and Assured)
  - ❑ Failure of the USD 330 bn Auction Rate Securities market
  
- ❑ **In the current context, Dexia New York fully leverages its capabilities and know how**
  - ❑ Dexia sells liquidity guarantees to cover a huge volume of Variable Rate Demand Obligations which are being converted from the Auction Rate Securities market
  - ❑ Dexia writes high volumes of 'bank Letter of Credit' to enhance Public Finance securities previously insured by downgraded monolines
  - ❑ Increased activity in the recently launched direct lending business
  - ❑ Margins significantly higher than in 2007
  
- ❑ **The crisis has also raised interest in packaged solutions involving both FSA and Dexia NY**

# Public / Project Finance Long-Term Originations<sup>(1)</sup> Boosted by US Business

1Q 08 originations

Bn EUR



(1) Fully-consolidated companies

# ...FSA also Enjoyed a More Favorable Operating Environment

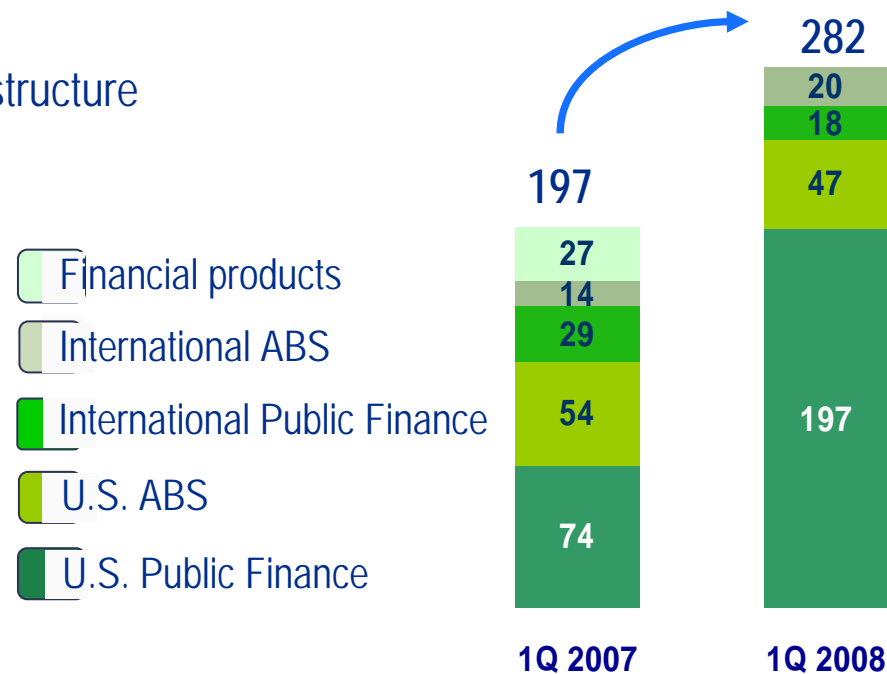
*Strong quarter for FSA on the US Municipal market*

- ❑ Insurance penetration rate on US Municipal Bonds decreased from 51% to 26% but FSA's market share increased from a traditional 25% market share to 64% during 1Q 08
- ❑ New business focused on Public & Infrastructure Finance during 1Q 08
- ❑ 2Q has had a very strong start

FSA - Gross present value originations

M USD

**+ 42.7 %**



# Weakening Competition in the UK Social Housing Market

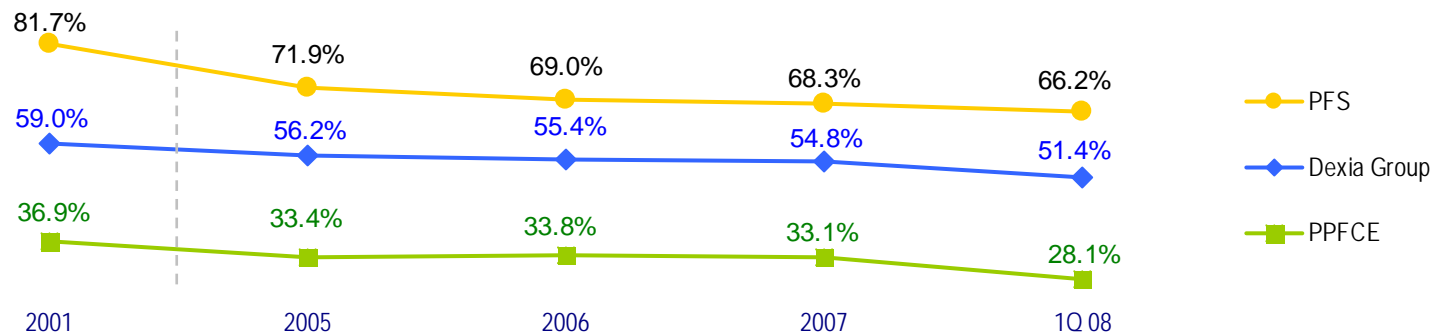
*Dexia UK*

- ❑ Before 2006, the market was extremely competitive (UK investment banks and building societies)
- ❑ Dexia's strategy on the Social Housing sector was activated in 2006 and 2007
  - ❑ Acquisition of a GBP 2 bn portfolio from Bradford & Bingley at end of 2007. Dexia London increased its market share from 3% to around 8%
- ❑ **Today new opportunities arise in the Social Housing Market**
  - ❑ Withdrawal of several competitors, Dexia being one of the two/three lenders currently active
  - ❑ Increase in margins
  - ❑ Debt restructuring potential

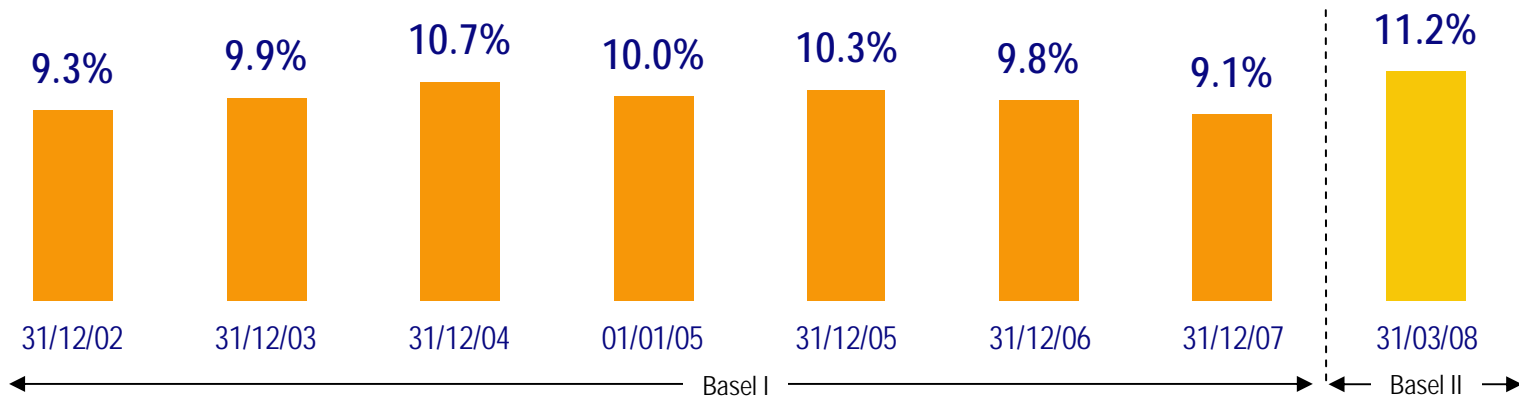
# A Distinctive Business Model : Dexia is Well Placed to Withstand the Current Crisis

*Low operating leverage; comfortable solvency ratios*

Cost income ratio underlying



Tier 1 ratio



# A Distinctive Business Model : Dexia is Well Placed to Withstand the Current Crisis

*Superior credit ratings*

## Credit rating of Dexia's main subsidiaries

	<i>S&amp;P</i>	<i>Moody's</i>	<i>Fitch</i>
<i>Dexia Crédit Local</i>	<i>AA</i>	<i>Aa1</i>	<i>AA+</i>
<i>Dexia Bank Belgium</i>	<i>AA</i>	<i>Aa1</i>	<i>AA+</i>
<i>Dexia BIL</i>	<i>AA</i>	<i>Aa1</i>	<i>AA+</i>
<i>Dexia Municipal Agency</i>	<i>AAA</i>	<i>Aaa</i>	<i>AAA</i>
<i>FSA</i>	<i>AAA</i>	<i>Aaa</i>	<i>AAA</i>

# A Distinctive Business Model : Dexia is Well Placed to Withstand the Current Crisis

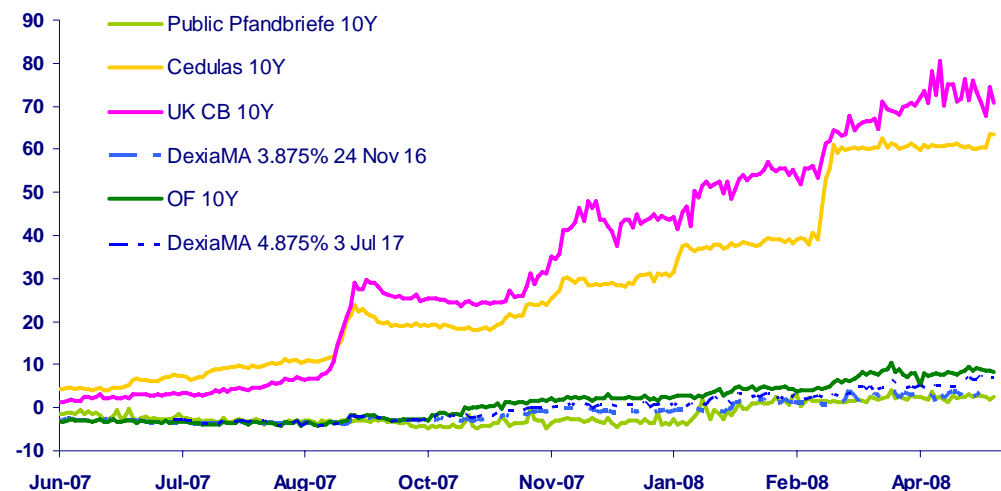
## *Strong funding capabilities*

- Long-term funding: at end of May, Dexia already realized 53% of its 2008 funding program
- 60% of issues were realized through its most efficient German and French Public covered bonds AAA vehicles

### Jan to May 08 Dexia LT funding issues

	Amount (EUR bn)	Cost of Funding (bps vs Euribor 3m)
AAA	12.3	6.0
AA	8.3	10.5
<b>Total</b>	<b>20.7</b>	<b>7.8</b>
<b>FY 08 Budget</b>	<b>39.1</b>	

### Swaps Covered Bonds 5 years (spreads over Euribor)



Source: Natixis