

Presentation of Pierre Mariani

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Thank you very much, thank you all of you. I will not make a full presentation to allow time for questions, but I will maybe try to update you on where we stand today after nine very difficult months, i.e. nine months after the major turmoil we saw at the end of last September and early last October, which led to the bailout of Dexia by the three States (Luxembourg, Belgium and France). I will not go back over the origins of the crisis but maybe just give you a full update on where we stand today.

Briefly, though, three factors were at the origin of this crisis.

The first one was the development of the public finance activity far from the core markets. We spread into markets where we didn't have franchises, where we didn't have appropriate funding, and where the goals were really intermediated through brokers mainly, en not with direct customers.

The second factor that created the big liquidity problem that we experienced in October was our heavy reliance on wholesale debt markets and excessive leverage. This was mainly due to the growth of the bond portfolio over the past three years (2006 to 2009), i.e. our over €157 bn portfolio of bonds (mainly public but also banking bonds). This portfolio was mainly financed through wholesale funding markets, and short-term funding in particular, so, when the markets dried up in September, we were left in the middle of the river and there was no more water in it. And with a huge liquidity mismatch.

The third one was of course a consequence of our exposure to the US market. There are two components here. The first (and major one) was of course our position as only shareholder of FSA, one of the big monoliners with an overall exposure of more than US\$ 400 bn on the US market, not only to public entities but also to credit enhancement of asset-backed securities (US\$ 115 bn exposure).

This situation led to a crisis. The States provided support on three main fronts.

The first one was the recapitalisation. The States of course participated. But also Dexia's main shareholders, which is something quite original, compared to the situations of other groups that States have bailed out.

The second one was of course the liquidity guarantee granted by the Luxembourg, Belgian and French States on our borrowings (up to €150 bn). I'll come back in a moment on the way we are using this guarantee.

The third one, in the context of the decision to sell FSA, was the guarantee granted on part of the activity we would keep (FSA's Financial Products activity).

Taking into account this decision, and with the new management team, we have defined in fact three priorities.

The first one was a commercial one: to refocus our business on our core client franchises.

The second one was to improve and restore the Group's risk profile.

The third one was an additional effort to control our cost base by launching a significant cost-reduction plan.

The first component was the priority given to the core franchises. In the first weeks, we analysed our situation on the different markets we were active on and decided to completely refocus our activities, particularly in the public banking sector, on our core client franchises, i.e. in France, Belgium, Luxembourg, of course, as well as Italy and Iberia. But also Germany, more for funding purposes because we have there a very important component of our funding instruments which is DKD. It helped us tap into the German covered bond market in terms of funding. We have also kept a number of small funding activities (not commercial activities) in Japan and Switzerland to fund our portfolio in these currencies.

We have also significantly reduced our activities in the UK and North America and completely stopped all commercial lending and public lending activities in Australia, Central and Eastern Europe (with the exception of Slovakia, where we are present in retail activities), Mexico, India and Scandinavia.

When we look at production, we have seen that we have made significant progress as regards implementing this policy. In Q1 2009, more than 90% of our new production is concentrated on the core markets, and the rest of our production only stems from former commitments, which we implemented in Q1, but with very limited new business in these markets. This will be the case for all of 2009, during which more than 90% of our business will be concentrated on these core markets.

The second component was the improvement of the Group's risk profile. My first decision was to sell FSA and to exit from this business. We made a significant step yesterday, achieving the discussion and the formalisation of all the legal documentation. We also have green lights from all the rating agencies in terms of future business plans, etc. So all the conditions precedent to the deal have now been met. The deal is now unconditional from both sides. Assured Guaranty will begin its road show to raise equity from today and I think the fund-raising will take place next week. We decided in common and announced yesterday that the closing will be on July 1st. This is of course a significant step for us. It's a step where we are protected from this insurance business, which was a heavy source of losses during 2008, and even during Q1 2009 when we look at the underlying business. But we also think it's a good move for us. It strengthens the company. It helps us to exit from this business. We are keeping a stake in the combined entity, which, theoretically, can reach 24%, but I anticipate that Assured Guaranty will exercise the option to reduce that equity stake to the minimum. It is very likely that we will be nearer the lower end of the equity-stake bracket, i.e. around 12% rather than 24%. We are keeping out of this deal the exposure on the Financial Products business. That is something that has also been heavily discussed and commented and a source of

question to the level of exposure and the level of risk embedded in this portfolio. We have State guarantees on the most risky aspects of this portfolio. Just to give you an update on that, we have a franchise on the State guarantee, which is US\$ 4.5 bn. If we have an excess loss, it will be covered by the States, but we will have to issue equity for this guarantee. But we are not expecting to reach this threshold. Just to give you an update, in this portfolio we already made a provision in excess of US\$ 2 bn and the actual losses are still very low. We had losses of only US\$ 12 m from this portfolio at the end of Q1 and we don't see any major deterioration of the credit risk on this portfolio. And when I look at all the underlying indicators of the ABS assets contained in this portfolio, we have seen a complete stabilisation of the delinquency rates of the underlying assets in all the compartments of the real-estate portfolio, since February. So it's a good sign that we're moving in the right direction in terms of further degradation of these assets. So I think we don't anticipate any major impact from an accounting point of view and, from a solvency point of view, we have taken into account all the consequences of the structuration of the State guarantee, i.e. we have deducted the US\$ 4.5 bn threshold from our equity. So, from a solvency point of view and from a Tier 1 point of view, the regulatory capital is completely protected from any further losses coming from this portfolio. So we feel pretty comfortable about that.

The second challenge we have to face, of course, is the size and the magnitude of the bond portfolio. This is of course related to our liquidity situation even if it is not funding. But we have embarked on plans to place our entire bond portfolio in run-off, stopping all proprietary trading activities, of course, and engaging a deleveraging policy from that point of view. The assets are down by €15 bn. We expect a natural amortisation of the bond portfolio of €17 bn this year. And, on top of that, we were able to sell €5 bn bonds at the end of Q1. We are now up to 8 bn bond sales as of mid-June. And we managed to sell these assets even in a very difficult rate environment without incurring significant losses. This is of course very positive and a significant step towards deleveraging. Because we consider that the quality of this portfolio is still very good: 99% of the bond portfolio is investment grade and we don't see any reason why we should engage a fire sale of these assets and incur losses when we consider that we don't have any significant credit risk on this portfolio. So we need time. Over time, with an improvement of the spread situation, we should be able to accelerate the pace of decrease of the bond portfolio.

We have also reduced the loan production. As I said before, loan production is now completely focused on the core markets. This will lead to a significant decrease in the overall production compared to previous years.

The third component, which is absolutely key, is of course improving the liquidity situation. At the peak of the crisis last October, when short-term funding needs were huge, we announced that our objective was to reduce by €100 bn the liquidity gap, so the short-term financing needs of the company. We consider today that we have achieved about 65% of this objective. It's not completely done but we did it through many different instruments.

The first one was to improve our access to short-term liquidity. Thanks to the State guarantees, that's done.

Second, we have issued more than €29 bn of funding (€27 bn was the figure at the end of last week) and we are of course preparing an issuance in the US.

The key factor, as I have said previously, was the reopening of the covered bond markets. The decision announced by the European Central Bank to launch a €60 bn programme of investments on the covered bond market has reopened this covered bond market quite significantly (not with the Central Bank directly but with investors). We have been able to use this opportunity to raise close to €3 bn of covered bonds during the first weeks following this announcement. We are now of course expecting to significantly reopen this market – which, of course, for us, is key. The long-term funding (covered bonds) is not guaranteed and the conditions we have been able to obtain on this market in terms of funding match the level of spread of our new production – which, of course, is a way of comforting Dexia's business model, where the question mark, even a few months ago was whether we would reopen this covered bond market at a level enabling us to lend to local entities. So it's very good news in terms of funding for us.

We have also been able to significantly increase our deposit base. The commercial activity in the retail networks, not only in Europe and Belgium, of course – has been very good. We recovered from the pre-crisis level at the end of December but now we have also been able to increase by more than €3.5 bn our level of new deposits in the retail network in Belgium. The situation in Turkey is also significantly improving, with a very good level of commercial activities. The level of performance of the Turkish network, during Q1 at least, even with an increase of the cost of risk, has been pretty good with a level of profitability which was the record in the history of the company.

So, in terms of funding, everything is not completely solved, and we will ask to the State a renewal the guarantees but our objective is clearly now to define a way and the term – probably at the end of 2010 – where we will be able to fund the company without any State guarantees. That's our objective and what we are working on. Of course, we cannot exclude any major market events creating turmoil but, clearly, this is the objective. I can tell you that we will ask the States in the coming weeks to allow us to raise unsecured funding. So we need State authorisation to come back to the market but we are now anticipating our return on the unsecured compartment of the market. Still with State guarantees, but offering investors a choice between guaranteed and non-guaranteed options. I think it's very important for us to prepare the transition to the phase where we will be able to find answers without the State guarantees.

I will not comment too much on Q1 results, it is already old stuff. But it was very important for us to come back and show that we were able to deliver positive results in Q1. We are €250 m positive, which is a big change compared to the situation before. All the businesses – in terms of public finance and retail – have pretty good performances. The big uncertainties over Q1 came from all the asset-gathering activities, because we had huge impairments on the insurance company (on the equity portfolio of the insurance company and the commercial performance was still lagging on asset management and private banking, of course, which is not a big surprise. Even the investor services of our joint venture with RBC Dexia was suffering from market conditions (in terms of volumes on the one side but also in terms of transaction prices, which is an essential part of the company's turnover).

Of course, it is too early to provide an outlook on Q2. But, as I have said at the end of Q1, thus far we have not seen any major negative developments.

Second, the market situation has certainly been better, entailing a positive impact on all the asset-gathering businesses. We have seen positive inflows on the asset-management business. Things are progressively recovering on the private banking side.

I am still very cautious of course but we are still on the trend that you saw in Q1. But Q2 is not yet over so I have to be very cautious from that point of view.

So these are positive elements. Of course, they are not entirely unexpected in terms of results because we have embarked the company on very significant efforts of cost-reduction. We saw results in Q1 but we are now working on the future cost-cutting programme. We still have a lot to do in 2010 and 2011. But, from that point of view, we are on track as regards cost reductions on our underlying business without new investments we could make in certain areas of our Group. But we are still in a position to reach our cost-cutting target.

So, overall, the news during Q2 has been pretty positive. But I still refuse to give any outlook for the full year. Markets are still very volatile. We know where our level of risk is and I am confident in the strength of the underlying business. I am also confident in our capacity to go ahead with a further improvement of our liquidity situation thanks to the long-term issuance volumes. In terms of medium-term funding, we will clearly favour the covered bond market because we have issued a significant amount of guaranteed debt up to 2011. So we don't want to create a cliff effect in terms of funding by end-2011. So, progressively, we need to be able to go ahead more on the covered bond market, to go and look for additional long-term funding matching our new commitments in terms of production.

Overall, in terms of solvency ratios, the situation is also pretty good. The core Tier 1 ratio is 9.8%. The overall Tier 1 ratio is more than 10.7%. We don't anticipate any further deterioration of this ratio. But we still have an exposure to the level of the US Dollar and currency exchange rates that could impact our Tier 1 ratio, and we are still observing a deterioration of the overall ratings due to the different assets we have and due to the macroeconomic situation. But we are still pretty solid in terms of Tier 1 and, I think, particularly the present macroeconomic environment, the Group's risk profile in terms of credit risk seems much more conservative than the rest of the industry. About 75% of our loan portfolio is 'lending' to public entities, where the level of risk was only 2 or 3 basis points during Q1 and we do not see any trend of deterioration from that point of view. So we are anticipating, even with a hiccup of the credit risk on corporate lending activities in Belgium, for example, and Turkey, a very moderate evolution of our cost of risk during the next quarter. Thank you very much. I'm ready to answer your questions.

Q&A

- 1) Good morning. Could you give us some indication on your cost of funding, distinguishing between the covered bond market today if you go on that market on your own, and what**

actually you are paying when you borrow money under the State guarantees? Just to have an idea of how far these markets are

On the covered bond market, it depends. The big public issues we have made were around 90 basis points. In fact, it's an average between a very low spread through DKD, our German vehicle, which, for an unknown reason maybe due to the German investor base and their appetite for these instruments, is around 70 basis points, and 120 basis points on DMA issues. So it's significantly lower than the one we've done under the long-term funding guarantee, where the average is most probably around 190 basis points including the cost of the State guarantee. So it's a significant decrease. But we are also seeing a reduction on the spread of the State guarantee. Excluding the cost of the guarantee, the spread was 90 basis points for the first public issue we made in February. Now it's around 45 basis points. So there has been a significant decrease of the level of spread of our guaranteed debt.

2) Could you give us some more information about the competitive landscape first of all on public finance generally speaking and then on wholesale in Belgium

As regards public finance, we have mainly been active in Belgium and France during Q1. But the overall level of activity has been very low. It's true for us but the overall market is very low. Our production in Q1 was only €2.4 bn compared to €6 bn last year. That gives you an idea of the level of the decrease. Our market share has gone down. We were at 23% in Q1 in France, and we're at 19% now. It's not that we have lost market share. It seems that, in Q1, local entities did not borrow a lot of money. We have been looking a quite a different picture in Q2. We have seen a lot of new tenders from local entities. But close to 50% of these tenders remain without concrete results as they refuse to borrow. I think this will probably change over the year, you know it is a very cyclical business, at least in France where borrowing needs are concentrated over the last quarter of the year and are strictly related to the budgeting process of the local entities. We have seen an increase of the spread everywhere. They were a bit reluctant to borrow at this level, expecting a further decrease of the spreads but at some point they will come and borrow the money to fund their budget. I think that will happen from July on. By the end of the year, I think demand should be significantly higher.

The picture in Belgium is pretty different. We still have about 80% of market share. But there is also a decrease in volumes.

In terms of competition, in France, as you know, the market is clearly divided among three players: Caisse d'Épargne, Crédit Agricole and Dexia (and sometimes Société Générale, for the biggest deals). We are seeing an increase in the margins everywhere. So we have not seen any significant changes in the competitive landscape. It's true, though, that we are no longer the leader in terms of low level of spreads. We are leading the market but, in terms of significantly increasing the spread. It's a market that, in my view, is very positive. We remain present in the lending activities for two or three reasons. First of all, spreads are improving and matching our lending conditions. There is still a very low level of risk, even if there is an underlying deterioration in the situation of the local entities, which is why they are very cautious about borrowing because their fiscal resources have been hit by the economic crisis. So the overall profitability is still there, and the capital need is there because there is a very low level of risk. So the business model per se is still valid. It's even better in Belgium

because lending is only 40% of the revenues we are extracting from local entities. 60% of the revenues are not necessarily related to pure lending as we are also doing cash management, insurance, leasing, etc for local entities. It is a much broader range of products. So the strategy is clear in this area. It is clearly trying to move when it is possible in France and it's not so easy because all the treasury of the local entities arrives through State accounts, but we are doing a lot of business not only with pure local entities (50%) but also with socializing entities (healthcare and other services) (50%), where we have much more flexibility in terms of product offering (managing savings and treasury, cash management, etc.). So we clearly intend to increase the part of the business not related to lending.

3) You didn't mention DenizBank in your presentation. Is that still a core business for Dexia?

Yes, I mentioned DenizBank saying that Q1 has been very good (the best ever). We are still in the process of opening branches. We are still in the process of increasing significantly the number of new customers. So it's a core business and we're keeping it, because it's a source of growth for the Group.

4) I have an additional question regarding your exposure to monolines. Is it possible to have an update on your direct exposure to monolines?

Our exposure has not changed a lot. We have an overall exposure of €53 bn on the entire industry, mainly through FSA (it was not just a subsidiary: it also wrapped a lot of the assets we had in the portfolio). The major stake of the portfolio is assured by FSA and Assured, around 35 bn. The rest is spread among all the other categories of monolines. More than 50% of the monoline-wrapped portfolio, are public assets (or have a very low level of underlying risk). Another 25% is corporate /project finance and the other 25% is Asset-Backed Securities. We consider that the overall level of risk on the underlying assets is pretty low. We have set aside more provisions for the monolines that are in the most difficult situations. We significantly increased the level of our CVA during Q3 2008, Q4 2008 and Q1 2009. And we have a general provision for our exposure on the underlying assets for the most risky part of the monolines.

Thank you very much. [Applause]