France and Belgium in joint effort to prevent the collapse of Dexia; EUROZONE CRISIS

City AM
BELGIAN lender **Dexia** lost a fifth of its market cap yesterday as France and Belgium said that they would take "all necessary measures" to stop the bank from collapsing.

It is not clear what that means for shareholders, but Luxembourg finance minister Luc Frieden yesterday insisted that the bank's subsidiary in that country is sound and will not be nationalised.

Investors are discussing the possibility that a joint government effort could split the lender into a "good" and "bad" bank and wind down the latter. The good/bad split is the key plank of most **resolution** plans that aim to wind up a failing bank, but markets expect **Dexia** to be saved rather than wound up.

If it is recapitalised, **Dexia** will be the first Eurozone bank to be bailed out due to its exposure to sovereign debt.

Yesterday **Dexia**, along with BNP Paribas and Société Générale, faced calls to write down their holdings of Greek debt further than the 21 per cent hit they have already taken.

Many other lenders have instead assumed a 50 per cent haircut on their Greek bonds. Bloomberg has estimated that a similar writedown by the three banks would generate a €3bn loss between them.

**Dexia** finally admitted that it has sought help from government on Monday night after its shares closed down 8.5 per cent. Moody's had warned that it could slash the bank's credit rating due to its increasing reliance on short-term funding, which is freezing up among Eurozone banks.

**Dexia** has been in the process of restructuring since being bailed out to the tune of €6.4bn in 2008 but said that the size of the noncore portfolio it is trying to sell has weighed on its balance sheet due to current low valuations.

UK chancellor George Osborne last night said that Eurozone governments "have not done enough to convince markets" that the crisis will be resolved.

"**Dexia** has got itself into trouble and there is a feedback loop between weak banks, weak sovereigns and whether those sovereigns can stand behind the banks," Osborne said.