Dexia SA Strong States Support for Dexia's Restructuring Plan
Conference Call - Final

Dexia

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PIERRE MARIANI, CEO, Dexia SA: Good morning, everybody. So we had last night -- yesterday a very long Board, and took a number of decisions in the framework of the global restructuring plan that has been discussed in the last few weeks between the Group, the regulators and the states of France, Belgium and Luxemburg, in order to take a number of very structural decisions to respond to the worsening of the sovereign debt crisis and the pressure that it caused on the funding of the Bank.

The Board of Directors has received an offer from the Belgian state to buy back the share -- 100% of the shares in Dexia Bank Belgium. The Board has analyzed this proposal and has accepted it, considering that it was in the best interests of the Group and also a necessary measure in order to meet the situation of Dexia Bank Belgium and protect the franchise, the value and the customers of the Bank.

The Board has accepted this transaction that -- where the price is EUR4b. That covers the Bank, the insurance company in Belgium and all the subsidiaries except the stake in Dexia Asset Management that will be kept by the Board at the end of the process. The Belgian state will buy the entire bank with all the balance sheet and its present exposure, including EUR20b of assets of the legacy division.

The impact of this transaction on the Group will be of course very significant. It's an impact of EUR155b on the balance sheet of the Group. It is also a reduction of EUR42b of the risk-weighted assets. And an estimation of the loss that will be of course at this stage not definitive but that will be observed at closing and accounted for in the third quarter results of the Group is around EUR3.8b, and there will be a simultaneous decrease of the AFS reserve of EUR2.2b.

This transaction means also a significant reduction of the exposure of the Group to the peripheral economies, and it will translate in a reduction of EUR14b of short-term funding requirement. It will improve the solvency of the Group by more than 200 basis points and also reduce the negative division by more than EUR18b.

Of course, this decision is a positive one also for the Bank, because it will probably help Dexia Bank Belgium to recover quite quickly from the tense week we experienced during the last few days, in line with, let's say, the public or non-public and unofficial rumors and communication that troubled the market during the entire week last week.

This decision is the first step of a more global plan that will lead to the disposal of most of the commercial franchises of the Group. This process will need certainly a significant period of time. We are not in a hurry to sell, because in the meantime, in order to implement the various phases of this restructuring plan, the Group will benefit from significant support from Belgium, France and Luxemburg.

In the meantime, the three states have reactivated the guarantee scheme very close to the one existing in 2008 and '09, except on two significant points. The first one is the duration of the guarantee period, 10 years, and also the possibility to issue long-term debt of up to 10 years.

This guarantee scheme will be, I hope, implemented quite rapidly, because it will not need any parliamentary approval in Belgium, only a Royal Decree. A Decree by the Grand Duke in Luxemburg and the French government is committed to use -- to make a special law in the coming days, or next week at the latest.
The precise schemes and features of the guarantees are -- will be included in the document that has to be negotiated with the state but that will be very close to the one existing in 2008, in terms of scope and nature of funding guaranteed. And the guarantee will be granted to Dexia SA and DCL, Dexia Credit Local, France.

This guarantee will be divided between the states, 60.5% Belgium, 36.5% France and 3% Luxemburg, which are the same proportions as the 2008 and 2009 guarantee.

The third element announced by the Board yesterday is a mandate given to the CEO to enter in negotiations with Caisse des Depots et Consignations and Banque Postale, to conclude an agreement about the financing of local authorities in France, including the backing of Dexia Municipal Agency by Caisse des Depots et Consignations.

This backing will certainly strengthen the support granted by the state -- by the Caisse des Depots et Consignations and allow this covered bond [recurrent] to be able to issue in the future more easily than it is today in the Dexia Group.

For Dexia, this sale or this backing will reduce, once the agreement will be concluded, the short-term funding needs of the Group by almost EUR10b. And we hope to be able to conclude this transaction in a few weeks.

And finally, the Board has also confirmed negotiations on an exclusive basis with a view of the disposal of Dexia Banque Internationale in Luxemburg to a Group of institutional investors, with the participation of the state of Luxemburg as a shareholder in the Bank. And a binding offer will certainly be submitted after the end of this two-week exclusivity.

All these elements are the main components of the decision approved by the Board. Of course, some of them need to be translated into a deal that will be analyzed and decided by future Board meetings in the coming weeks. But all these ones are only steps in the implementation of this more global restructuring plan, leading to an orderly resolution of the Group.

Here are what I would like to say as an introduction, and of course we are ready to answer your questions.

Questions and Answers

OPERATOR: Thank you, sir. (Operator Instructions). Mr. Mariani, we are currently registering people who are asking questions through the phone. Do you maybe have in the meantime questions in the room?

PIERRE MARIANI: No.

OPERATOR: Okay. So I will already open the first line, from someone calling from Goldman Sachs in the UK. Your line is open.

JEAN-FRANCOIS NEUEZ, ANALYST, GOLDMAN SACHS: Hi. This is Jean-Francois Neuze from Goldman Sachs. I just have a few quick questions, if I may, Mr. Mariani. The first question is would you be able to, let's say, explain a little bit what's changed over the last few weeks that prompted, in a sense, this reaction? Is this like a shortage of eligible collateral at ECB, or just the realization that maybe the deepening of the crisis led to maybe this situation, I think, for too long? Just so that we can get some color.

My second question would be you said that the asset management is not included in the payment of the sale of DBB. Could you please explicit exactly what is in the scope of that sale and -- like insurance or anything else, so that we can get a sense of (multiple speakers)?

PIERRE MARIANI: Please excuse me. Could we have one question after one another, because I think it will definitely help because we have the question on the screens and we'll try to address all of them, please?

JEAN-FRANCOIS NEUEZ: All right. So the first question was just on what happened, essentially.

PIERRE MARIANI: What happened and what led to this situation. First of all, undoubtedly we assisted into a worsening of market conditions during the last few weeks. I will just mention a few elements about this worsening. The first was the [ECAPs] and the incapacity of the European governments to lead to a clear solution and outcome of the sovereign crisis. There are increasing doubts on Greek recovery plans. It's not about that we are exposed to that. Of course, we have outstandings, but we have also the capacity to absorb such a shock. But uncertainty killed the market sentiment during the last few weeks.

On top of that, we had the downgrade of Italy on September 20 by Standard & Poor's, Moody's on October 6 of three notches, which of course seems to reflect some incapacity to understand what was happening, because
Three notches in one downgrade is clearly something that shows that they had missed something previously. Spain has also been downgraded. So that's clearly the extension and worsening of Eurozone crisis.

Second, we -- in this strange period since the beginning of August, we have observed a very strong decrease of interest rates, reflecting worsening macroeconomic prospects. And clearly, you know the sensitivity of the liquidity needs of the Group to the evolution of interest rates, and especially to the decrease of interest rates. So we had a huge increase of the collateral needs on the derivative portfolio since the beginning of August. And on top of that, since the beginning of June -- of May, of course, more than EUR10m.

Third, we have observed also a worsening of bank refinancing conditions. (Inaudible) are closed for -- have been closed to new issuance on unsecured debt, of course, but also very limited long-term funding. Even if our needs were covered for this year, we have seen the spreads increasing on banks and French, Belgian banks from 150 basis points to 230 on a five-year CDS.

And of course all these elements have an increased pressure on Dexia. And we were already under credit watch. We've been under credit watch since May until the beginning of July. Of course, this first step of the crisis led to a loss of unsecured funding, especially in the US. And even if the short-term rating were concerned, the short-term -- the funding in the US didn't come back because of the sovereign crisis acting in -- and the doubt over Europe and Eurozone at the beginning of August.

We don't have a problem with dollar funding, just because we've sold a financial product and taken a number of measures in May to cover our position in dollars. We are still long today in dollars. But that's an element.

The second one is of course the increased cash collateral resulting of the short-term funding of a decrease of interest rates. And in the last weeks or so, following the fact that Moody's was putting the Group under review, using some information they were provided on the plan of the evolution of the Group structure, notwithstanding these measures and the granting of other potential discussions of the state guarantees, they decided to downgrade us on Monday. S&P followed on October 6. And clearly this had a negative impact on our short-term funding.

On top of that, the uncontrolled rumors coming from government level during the week about potential disposal, about potential intervention of the state, about the eventual takeover of the Belgian bank by the Belgian state, led to a situation where we were put in a very tense liquidity position after the suspension of the stock price for the stock by the market regulator on last Thursday.

So I think it's clearly a change that was decided because we were convinced that it was, in the present Eurozone environment, becoming more and more difficult to finance and to be in a position to, let's say, carry over time the important portfolio. So we were ready to take measures, but unfortunately the last week turmoil and action by rating agencies once again translated into a self-fulfilling prophecy and led to a very tense situation on the liquidity front, requesting from us -- pushing us to request an intervention in terms of guarantee and accelerating the existing plans about asset disposals and, let's say, isolation of the legacy portfolios from the active commercial franchises.

JEAN-FRANCOIS NEUEZ: Okay.

PIERRE MARIANI: The answer is a bit long, but I think it's worth, of course, of explanations.

PHILIPPE RUCHETON, CFO, Dexia SA: Maybe I can take the -- Philippe Rucheton speaking, CFO. I can take the second part of your question, which was about we said that we put aside the asset management subsidiary. And so you were asking what is remaining. Of course, what is sold to the Belgian state is the -- but for this stake in Dexia Asset Management, the whole Dexia Bank Belgium Group, which includes, of course, the Dexia Bank Belgium as such, its subsidiaries which are in Belgium active, such as the leasing and so forth. It's also one of its major subsidiaries, which is DIB, the insurance business, with itself its own subsidiaries, such as Life & Pensions in Dexia Group, or Dexit.

So that's the whole Group of Dexia Bank Belgium. The only carve-out is about the stake in Dexia Asset Management.

JEAN-FRANCOIS NEUEZ: Okay. And my last question was -- my, sorry, two last questions were -- the first thing is I didn't manage to reconcile the EUR3.8b loss with the 200bps uplift in solvency, because obviously EUR42b of risk-weighted assets with EUR3.8b of loss, I suppose there's got to be some deduction, cancellation or goodwill, or something like that?
PHILIPPE RUCHETON: No, it's pure arithmetics. You're perfectly right that on one hand this Group, DBB, accounts for something like [EUR7b] as the carrying value is (inaudible) account. And since we sell it for EUR4b, that triggers immediately the loss of EUR3.8b. On the other hand, the drop of EUR42b weighted assets out of the amount that we have today, you do the maths and you arrive roughly to this number.

JEAN-FRANCOIS NEUEZ: Okay. Then it's a total capital solvency that you're talking about when it's 200bps, I presume, as opposed to core tier one?

PHILIPPE RUCHETON: (Multiple speakers) tier one ratio, core tier one, yes.

JEAN-FRANCOIS NEUEZ: And then my last question is what is the end game for the remaining structure which shareholders -- the listed identity that shareholders are participating into today, in terms of scope, perimeter, lifetime and so on?

PIERRE MARIANI: So, in terms of shareholder, the shareholders will remain the actual shareholder base. And the future -- the end of game, it will depend on the assets we are able to sell. Once -- 'til they are not sold, they are an integral part of the Group. It's true not only for the Asset Management, RBC Dexia, BIL, etc., but also for the existing franchises in Spain, Italy and Germany. And we'll check whether we are able to sell part of these assets. Of course, we know that we have a lot of interest for some of them. Some of them -- other ones are very difficult to sell in the present environment, especially when I think about, of course, Crediop and Sabadell, which is not a surprise.

Sorry. Excuse me. And so -- but the most likely perimeter for a certain number of time will be certainly part of the legacy division. But you know the amounts we will be able to sell and continue to deleverage, (technical difficulty) still a provision for deleveraging that should be used to accelerate the reduction of the legacy division, but also the assets that couldn't be sold. And in the short term it will definitely be at least Crediop, Sabadell and DKD in Germany.

JEAN-FRANCOIS NEUEZ: Okay. Thank you so much.

OPERATOR: And the next question comes from Omar Fall from UBS.

OMAR FALL, ANALYST, UBS: Hello. Hi. Good morning. This is Omar Fall from UBS. I have three questions, please. I'll just take them in order. If someone was being cynical, they would say the only reason to keep Dexia listed in this reverse bad bank process would be so as not to crystallize losses on the legacy asset portfolio which would happen in the case of a sale or a transfer. Is this unfair, because it's difficult to see any value in Dexia's listed equity after all these transactions and the ones to come, if you end up selling Deniz and RBC, that JV? Can you make a comment on that, please?

PIERRE MARIANI: Yes, I'm not cynical.

OMAR FALL: Okay. Fair enough. Okay. Second question, coming back to the why did this happen point, if it's liquidity and funding, there are plenty of banks across Europe that are shut out of interbank markets and reliant on ECB funding, and you have plenty of unencumbered assets that you could pledge. So why was this route chosen? Is it because of Dexia's specific role in funding municipalities and the governments didn't want to compromise that?

PIERRE MARIANI: No. I think this route was followed also because we knew that, going forward, it would become, in a sovereign crisis environment, more and more difficult to fund the legacy portfolio, definitely.

OMAR FALL: Okay. Great. And last one would be, just looking at all your sovereign portfolio, will that remain in the listed vehicle?

PIERRE MARIANI: I think part of the sovereign portfolio has left -- will leave the perimeter of the Group, because part of it was in the insurance company and Dexia Bank Belgium. So the entire portfolio will be transferred at that time. I could give you a sense of what will leave the Group. It will be around EUR8b -- EUR8.4b of exposures to Greece for EUR1.5b, Ireland EUR3.58b, Italy EUR5.3b, Portugal EUR300m and Spain EUR955m. It doesn't cover only the sovereign, but also a number of, let's say, guaranteed schemes or bonds guaranteed by the state.

OMAR FALL: Understood.

PIERRE MARIANI: It's a significant reduction of the exposure, especially to the peripheral countries, sorry.
OMAR FALL: Absolutely. Sorry, could you tell us what is remaining within the Group within Greece, Portugal and Ireland, just to be exact?

PIERRE MARIANI: Yes. On Greece, we had at the end of August EUR3.9b of total exposure. So I think it remains -- so the difference between EUR3.9b and EUR1.5b, so EUR2.4b to Greece. Nothing on Ireland. Of course, a significant exposure in Italy, because we have the Italian bank Crediop, but it's a reduction from EUR21.5b to EUR16b. The exposure to Portugal will be reduced from EUR2.5b to EUR2.1b. And Spain, it will be reduced from EUR1.6b to EUR700m, close to EUR700m -- slightly under EUR700m.

OMAR FALL: Fantastic, thanks. That's very useful. Last question for me would be have you discussed or is there any soft commitment if you needed a capital injection at the Dexia listed -- the remaining Dexia listed entity? Do you have any plans for that being initiated by the governments some way down the line?

PIERRE MARIANI: Our estimation today, even after (inaudible) of 60% on Greece, shows that the Group doesn't need any capital increase.

OMAR FALL: Fantastic. Thank you.

OPERATOR: And our next question comes from Albert Ploegh from ING.

ALBERT PLOEGH, ANALYST, ING: Yes. Good morning, gentlemen. Three questions from my side. The first one is on the remaining assets in the bad bank, whatever qualification you want to give it. If you can share some thoughts on what the amount of risk-weighted assets will be once the Luxemburg and the French activities are basically sold off, and what kind of core tier one capital and ratio you're aiming for on that capital, because basically to me it will basically be some kind of a run-off bank. Do you have any idea on the timeline of the whole run-off?

And also, in addition to the prior question, you did mention you do not expect a capital injection if there will be a 60% default or impairment on Greece, but what happens if in the end there will be negative equity in the listed entity? Will that then be filled, the gap, by the governments? Can you share some thoughts on that?

The second question is in the process on the negotiations that's now going on, will there be any AGM approval required or can it be done by the Board alone or by the governments?

And the third question is on holding Kommunal, which clearly has with the current share price negative equity. And to my understanding, Dexia provided some EUR700m to EUR1b in loans to that entity, which basically need to be impaired, in my view. I guess that will also hit then the remaining equity in the capitalization of the listed entity. Can you give some thoughts on that? Thank you.

PIERRE MARIANI: Yes. A few remarks, first of all. I don't share two words you pronounced, first of all bad bank and second run-off bank. We are not building a bad bank. I remind you the characteristic of the assets. Until now, all the assets not sold are still in the perimeter, but even after the sale of the most likely assets to be sold we'll be left with a portfolio whose rating is still between -- around A minus rating. I think we -- I don't have probably the precise, but more than -- before the sale of DBB it was 92% of the investment grade bonds. So I think there is no problem.

You remember that we have sold all the elements of sub-prime portfolios between the end of May and the end of July. So I think it's not a bad bank, and the rest are not also a run-off bank. We have three banks that are still active, which are of course the DKD, Crediop and Sabadell. And even with the backing of the Dexia Municipal Agency by the Caisse des Depots et Consignations, we'll still be involved in the French municipality business in the future.

Of course, according payment that will have to be the -- to have to be, of course, discussed with the future agreement with Caisse des Depots and Banque Postale, but we still have a significant outstanding on there that needs to be managed. And so we'll have new business that we've done on a number of customers. So we are still active in this business, even if the refinancing vehicle will be backed by the Caisse des Depots et Consignations.

To second element, second of your questions, we don't need AGM approval. All these decisions and disposals could be decided by the Board.

And the holding Kommunal, the Group after the sale of DBB will have no exposure to the holding Kommunal.

ALBERT PLOEGH: Okay. Maybe one question, to come back on the future strategy of the listed entity, but it seems still difficult for me to see what really future is left because is this not the idea of managing the legacy
assets as good as possible to create any shareholder value, if possible, but in the end it will be some kind of a run-down scenario, I guess.

PIERRE MARIANI: Let's be clear. Let's be clear. We are at the first stage of the implementation of this plan, or second step, let's say. The first step was the disposal of the financial product portfolio. The second is the sale of DBB. The third will be the negotiation of the agreement, and the fourth the outcome of the potential deal on Dexia Banque Internationale of Luxemburg. So we are -- let's say we are fully -- we have some time to do that. We are really busy in implementing all these decisions as quickly as possible, and the rest will follow in due time.

ALBERT PLOEGH: Okay. Okay. Thank you.

OPERATOR: The next question is from Mr. Matthias de Wit from Petercam.

MATTHIAS DE WIT, ANALYST, PETERCAM: Yes. Good morning. One question remaining from my part. I just wondered whether you've got any idea yet what will happen with the subordinated debt holders, whether there will be any burden sharing or whether there has been any agreement made so far. Thank you.

PIERRE MARIANI: Of course, all the decisions we have exposed will be submitted to the European Commission that certainly will have a say on all these elements. For the time being, the various subordinated loans stay where they were previously. We have some in Dexia Bank Belgium, other ones in Dexia Credit Local, and of course the existing one at BIL level.

MATTHIAS DE WIT: Okay. Thank you.

OPERATOR: And we now move to Morgan Stanley, and I will open the line of Mr. Lee Street.

LEE STREET, ANALYST, MORGAN STANLEY: Hello. Good morning. Two questions left from my side. Just on the guarantee, will that just be for new issued instruments going forward, or will it cover bonds that are currently outstanding? Could you just clarify that?

PIERRE MARIANI: Of course, for -- in the existing -- in the previous scheme, only new issues were covered. And there are still some adjustments being discussed presently, to see whether it's still the case or not, but we'll try to deliver you the information as quickly as possible.

LEE STREET: Okay. And the second question I have for you relates to -- just there was lots of questions on the future business model, going forward. If you're able to achieve all of the disposals you want, are you still required to sell Dexia Crediop and Sabadell? So I'm just thinking, looking ahead, will we just be thinking about the listed entity as being a French municipal business, a German business and effectively the run-off portfolio, or should I be thinking about other things as well?

PIERRE MARIANI: You know I think all these elements will have to be discussed again at the state level between the states and the European Commission. But obviously we have taken some other additional measures that clearly could be seen as meeting the potential requirements of the European Commission, but all these elements will have to be discussed. But even if we have the will to sell them, in the present environment it's very difficult to sell an entity which has a very significant funding need, financing local authorities in peripheral economies of Europe. So I think it's certainly not -- these are not certainly the most easy assets to sell.

LEE STREET: Okay. Thank you very much.

OPERATOR: And the next question is from Benoit Petrarque from Kepler.

BENOIT PETRARQUE, ANALYST, KEPLER: Yes. Good morning. Benoit Petrarque. A couple of questions from my side. The first one is on the remaining [PPB] business. A large part was funded by the retail bank, and I was wondering if you have made special arrangements with the Belgian state regarding the funding of the PPB, whether they will keep funding the remaining PPB business or Dexia has some?

Then, the second question is on the legacy P&L. Do you have an idea how will the P&L look like going forward, taking into account the guarantee fee?

And also, do you have an idea of the amount of IFS loss you have unrealized at the end of Q3?

Then, the last question is on the RBC joint venture. Is that actually falling under the Dexia Luxemburg? And are you also planning there to do a carve-out, like you are doing with the asset manager? Thanks.
PIERRE MARIANI: On the last question, of course, if we sell the activity of BIL in Luxemburg, it will be without the stake in *Dexia* Asset Management and without the stake in RBC *Dexia*.

For the rest, for the question related to the 3Q results, we will have an appointment probably on November 8. And we are still in the quiet period, as we mentioned, about that. And clearly we are not yet at the final stage of the process, and we have a certain delay and period of time to get there.

BENOIT PETRARQUE: Just on that point, I cannot imagine that you have not discussed with certain shareholders of *Dexia* SA, like the state, the valuation at the end of Q3. They have been buying a business, so they should be aware of what is the situation in terms of unrealized losses, right?

PIERRE MARIANI: They have a clear view of what are the assets and the situation of the Bank, and that's reflected in the price.

BENOIT PETRARQUE: And on the funding of PPB?

PIERRE MARIANI: No, the funding of PPB, I will just try also to -- let's say try to explain again of what is the funding of the public finance business. In Belgium, you have EUR10b of deposits and EUR30b of loans to the public authorities. It means that *Dexia* Bank Belgium, when you combine the deposits of the retail franchise plus the loan to the local authorities cooperate and public banking has no excess liquidity to transfer to France. And when you look at the business in France, it's mainly financed through *Dexia* Municipal Agency that covers more than 80% of the financing of the local authorities.

And in *Dexia* Municipal Agency you have EUR77b of assets, of which EUR35b are non-French assets, loans or bonds to local authorities, European local authorities, and 65%. So I think the vue common, as we would say in France, and [nonsense] which says that funding is channeled to finance the local authorities from Belgian deposits to France is not reflecting the reality of the Group -- of the previous Group.

BENOIT PETRARQUE: Great. Thanks.

OPERATOR: And the next question comes from Giovanni Carriere from Autonomous.

GIOVANNI CARRIERE, ANALYST, AUTONOMOUS RESEARCH: Yes. Hi. Good morning. A couple of questions. After the disposal you announced today and the additional planned ones, what's going to be the residual notional value of interest rate derivatives within the Group, the ones that have generated the increased collateral demand, please?

PHILIPPE RUCHETON: Well, in terms of collateral, right now we are around EUR43b. And out of the EUR43b, I think we have EUR25b which are within the DCI Group and the remaining being within [half] of the DCI Group, i.e. mostly DBB and BIL, and I think it's a bit more than EUR12b for DBB as such, knowing that there is nearly none in Turkey and none in the other places. So this gives you roughly the split, knowing that in -- the swaps were a bit longer in the DCL environment than in the DBB and DIB.

GIOVANNI CARRIERE: Okay. Thank you. And the other question would be how did you come up with the EUR4b valuation for the sale? And why did you choose to go down this route, as opposed to just demerging DBB and assigning shares to the current shareholders pro rata?

PHILIPPE RUCHETON: Okay. So first I will take the points the other way round. First, the demerging would have been a way to transfer some value -- God knows how much -- to the existing shareholders. But it means that the states will have guaranteed an entity under-capitalized. Don't forget that we had, just before, a few questions about do you think the capitalization of the remaining part of the Group will be sufficient. And we said that we consider at the very minute that the level of capitalization should be okay for the remaining part of the Bank. If you take out of this the capital of -- the equity of DBB, then you have definitely an under-capitalized institution.

Now, regarding the EUR4b, it's something which has been negotiated between the states. And at the end of the process, I think here the very top management was involved. And it's something which has been, as you have seen, in the press release. We had the experts, independent experts, giving us an opinion about this. It's not yet formalized by (inaudible), but they said that from their first vision they felt *Dexia*'s value was something which was in the range of the fair value of such an institution.

GIOVANNI CARRIERE: Okay. Thank you.

OPERATOR: And the next question is from Jean-Luc Lepreux from Societe Generale.
JEAN-LUC LEPREUX, ANALYST, SOCIETE GENERALE: Yes. Good morning. I have a question regarding the negotiation with CDC and Postale Banque in relation to the financing of local authorities in France. And I was wondering what it would entail for Dexia Credit Local. Would it be spun off between a new public finance bank, or whether the bondholders and the existing assets will remain within Dexia Credit Local? Thank you.

PIERRE MARIANI: You will see that at the end of the process of negotiation. But clearly, in terms of assets, the project is to lead to, let's say, a sale or at least support to Dexia Municipal Agency given by Caisse des Depots to Dexia. And clearly that would -- if it's a controlling stake, of course the balance sheet will be transferred and sold to the controlling shareholder. If it's not a controlling stake, it will be more a kind of support provided by the Caisse des Depots.

PHILIPPE RUCHETON: Anyway, it's clear that the assets which are right now in Dexia Credit Local as a company, the bonds which have been issued by Dexia Credit Local, will remain. There was never any question of transferring part of the assets of DCL or the bonds of DCL to any kind of new entity. They are where they are, and they are going to stay there.

JEAN-LUC LEPREUX: And what about the origination capacity, that is the staff (multiple speakers)?

PIERRE MARIANI: You will see when the agreement will be signed. So we are still negotiating it, and it will be approved by the Board when an agreement will be reached in the coming weeks.

JEAN-LUC LEPREUX: Thank you.

OPERATOR: The next question is from Thibault Nardin from Morgan Stanley.

THIBAULT NARDIN, ANALYST, MORGAN STANLEY: Yes. Hello. Good morning, everyone. Just a couple of questions. The first one is just about the deleveraging strategy going forward, because clearly you might raise a lot of cash coming from the sale of some of your good assets to either the Belgian government or some external entities. So my question is what are you going to do with this excess cash? Is it going to be used for some kind of very aggressive deleveraging, or might have -- could (inaudible) be left with some cash at the end of the deleveraging period?

And the second question is actually whether you believe that after taking into account the cost of the guarantee, whether you expect the entity to be profitable. Thank you very much.

PHILIPPE RUCHETON: In terms of deleveraging strategy, when you think about cash, I know it's -- in cash, I can tell you that even with the proceeds of the sale of DBB and so forth, the remaining Group will still be with a significant amount of need for liquidity. And in terms of profitability or capital, since for DBB we are doing this EUR3.8b losses, I don't think that we have -- even if we said that we find that the new entity would be correctly capitalized, it doesn't mean that we have so much room for accelerated deleveraging furthermore.

We will see what is possible. We will see going, with the disposal of other entities, if it creates some extra capital. But if -- and then we might go further for deleveraging, but for the time being it's not because of the cash that we get the EUR4b. Once again, the remaining cash need for the Group is going to remain quite significant.

So, as Pierre Mariani was saying, I remind you that we had EUR1.8b of provisions that we have posted at the end of June for deleveraging. We'll see to which extent we need to keep it, or once we do if we consider that we have yet a deleveraging program to run, which is the most likely.

Now is the cost of guarantee. I have to say something, that at the very minute we don't know exactly what the cost of guarantee will be. We know that it's going to be compliant with the EU standards, but we don't know exactly. And in terms of profitability, it depends -- it will depend a bit about exactly how this new entity will be structured for the portfolios that will be put in the entity, which kind of value is going to be assessed. But it means that, for me, the remaining entity should be at best something like balanced.

THIBAULT NARDIN: Okay. Thank you.

PIERRE MARIANI: Yes. And I would like to add something. From a deleveraging policy point of view, the sale of DBB could be considered as a massive deleveraging. First of all, the legacy division of EUR20b, but also we've sold part of the ALM portfolio, which was (inaudible). No, it's EUR25b total.

PHILIPPE RUCHETON: EUR25b total.
PIERRE MARIANI: So it's a deleverage of EUR25b bonds, some of them -- EUR20b of them being included in the legacy portfolio and EUR5b of them being reflected in assets of the core business, but it's more the ALM portfolios of the Bank. So, in terms of massive deleveraging, we could consider that we were at the end of August around EUR25b; we are now at EUR50b.

THIBAULT NARDIN: Thank you very much.

OPERATOR: And the next question comes from Jean-Pierre Lambert from KBW in London.

JEAN-PIERRE LAMBERT, ANALYST, KBW: Yes. Good morning to you. The first question is perhaps difficult to answer, is what's your guess of -- or your estimate of the net asset value per share after the sale of diverse operations, including Denizbank and BIL and DBB and the municipal finance business? I know this is still under discussion, but for investors it's important to have an idea of what's the leftover NAV per share.

PIERRE MARIANI: We need, for that, to have sold these entities, which is not done for the time being.

JEAN-PIERRE LAMBERT: Very good. And then, a similar question on the bad bank or residual asset size. There have been -- you indicated that government circles have been leaking information. They have been very prolific in this respect, so we've seen a very wide range of numbers. What would be the size of the total assets post -- and risk-weighted assets post the various sales, in your estimate?

PHILIPPE RUCHETON: I guess it's a bit the same answer. We'll see when we have sold them, but it's something that we don't -- we cannot really completely assess right now.

JEAN-PIERRE LAMBERT: Very good. Thank you very much.

OPERATOR: And the next question comes from Franz Rudolf from Unicredit Bank.

FRANZRUDOLF, ANALYST, UNICREDIT BANK: Yes. Hello. Good morning. Just a clarification on the covered bondbusiness. Does the guarantee in any case extend also to the covered bond issuing entities of the subsidiaries of Dexia Credit Local, the DexMA and the Dexia Kommunalbank Deutschland? And --

PIERRE MARIANI: Certainly not.

FRANZRUDOLF: No, okay. Is there any change in ownership structure planned for those two covered bond issuing entities?

PHILIPPE RUCHETON: We'll see. Depending on the -- it's clear that the entities will be -- they are triple A rated. And if there are any possibilities to issue a bond, it will -- we will take this opportunity. And it can be structured, it can be straight, but definitely we are open to all these kind of issues.

FRANZRUDOLF: Okay. And it's my understanding that none of the underlying covered bond collateral is being part of any asset transfer within the Group. Is that correct?

PHILIPPE RUCHETON: I'm not sure I fully get your point. In all these structures, because they are -- particularly Dexia Municipal Agency, the swap counterparts are covered by the privilege, as we say, by the pledge. So it means that Dexia Municipal Agency doesn't post any collateral. So there is no transfer of collateral. If it's a pool, it's something which is living. So for sure we have in and outs regarding the pool, but there is no significant movement which is right now envisaged.

FRANZRUDOLF: Okay. Thank you.

PHILIPPE RUCHETON: No transfer, no.

OPERATOR: And we have another question from Unicredit Bank. I will open the line of Emmanuel Issman.

EMMANUELISSMAN, ANALYST, UNICREDIT BANK: Yes. Good morning. Do you have any insight of what will happen to the foreign subsidiaries, so Italian, German and Spanish, specifically the old issues, so senior unsecured? They weren't guaranteed in the past by the parent company. Will they benefit from any sort of guarantee in the future?

PHILIPPE RUCHETON: I don't think they will, and it's something which is clearly not in the scope of what could be guaranteed. And as you have seen in the -- the issuers of the notes and so forth which are going to be granted
EMMANUEL ISSMAN: All right. Thank you.

OPERATOR: Your next question is from [Emanuel Veit] from [IFO].

EMANUEL VEIT, ANALYST, IFO: Hi. Good morning. Dexia SA will receive quite a lot of proceeds, if you carry on your plan between DBB, Dexia BIL, etc. How do you plan to allocate those proceeds? And more specifically, would you consider that with the exit of some assets from Dexia Credit Local via the French public sector assets, would Dexia Credit Local could contemplate a recapitalization or something of this sort?

PHILIPPE RUCHETON: Okay. Well, as I said, if you look at that I would say more from a consolidated perspective, the proceeds will of course be something which will slightly reduce the cash needs of this Group. But on the other hand, in terms of equity position, it's not a significant improvement. Maybe in ratio, as far as tier one ratio is concerned, it can have a positive influence. But in terms of cash, in terms of amount, it's not that significant. We -- after EUR3.8b of losses with the sale of DBB, the remaining equity position is strong once again in terms of ratios, but in terms of absolute numbers we need to see this.

This is true for consolidated. Now, how is it going to be allocated or is it going to be kept at DSA? At any point in time, would we need to recapitalize DCL, that's something which can be managed. I would say it's not -- from a financial perspective, not something which is significant anyway. As you know, Dexia SA has no rating. DCL has a rating, and we do whatever -- and it has to -- we try to protect as much as we can DCL's rating. DCL does have its new -- at least the new bond issues and contracts guaranteed by the state.

On the equity position, you know that DCL, being a French institution, is subject to the French accounting principles, i.e. the locum, i.e. the negative mark to market is immediately taken into account in the position. And this is the reason why we had to do a capital increase last year, and that for sure it's likely that, particularly if we have to do something with the Greek bonds, we might contemplate a further increase of the capital of DCL soon.

EMANUEL VEIT: And just a follow-up. In the end game, basically, it seems that most of the risk, legacy assets and other public finance assets will be left with DCL, right? At the same time, the guarantees from the three governments will be provided to DCL mostly, if I'm not wrong. So would you have any -- did you have any requirement from the governments to precisely -- I don't know whether, for absence of a better word, to allocate the proceeds of various disposals and re-inject them into Dexia Credit Local, because that would be the best protection they would get on their guarantees?

PHILIPPE RUCHETON: No, the answer is -- no, by the way, don't go too far in creating a kind of split between the risk approach of DSA and risk approach of DCL. Once you go through the Group, at the top you have Dexia SA and just under you have DCL and its own subsidiaries, some of them active, some of them not active. You cannot distinguish between the risk of DSA and DCL. And it's not -- anyway DSA, Dexia SA, is right now not so much leveraged and has no reason to be leveraged in the future. So there is no reason to have any difference of the two.

And the way you put the point, it doesn't -- as far as I understand, doesn't -- it's not the way states are looking at it. And I'd say I don't -- for me, I don't make any difference. And if we have to recapitalize this year, which will be the only significant subsidiary of Dexia SA, it's a wash; it's a non-event.

EMANUEL VEIT: Thank you.

OPERATOR: The next question is from [Paul Clay] from AIG.

PAUL CLAY, ANALYST, AIG: Hi. Can you please confirm what is the remuneration fee for the guarantee that's been placed on liabilities, if it's the same as what was in place in 2008 or has it been updated?

PHILIPPE RUCHETON: The fee is yet under discussion, so I don't think it will be the same as the one which was under the 2008 scheme. It's likely that there will be an upfront fee for commitment, a commitment fee and then a fee based on the usage of the guarantee. The calibration of these is yet under discussion. The point which was made by the states is the fact they have to be in line with the EU standards. And so, once again, it should be seen and determined in the very next few days.

PAUL CLAY: Okay. Thanks. And I just have one other question. It regards the sale or the potential sale of Dexia to the CDC and the Banque Postale. Can you please confirm who is the parent bank that would allow for
substitution of assets into the cover pool, if that was needed? And obviously that was Dexia Credit Local in the past.

PIERRE MARIANI: Yes. Well, here you are back to the point -- I guess you are mostly back to the point which was raised before and why we already answered, i.e. what is going to be the origination body for the new. And so we said let's see where the negotiation will lead. And of course, as soon as the negotiations are done, you will of course be informed.

PAUL CLAY: Okay. Thanks.

PHILIPPE RUCHETON: Okay. So maybe, if you don't mind, I see it's 12.05; we might take a last question and then I think we'll have to say that we will at the latest resume a call on November 9, around the Q3 results, even if I have to say the Q3 results will be slightly publicated, as you can imagine, because we will have to take into account some of the consequences of the decisions of these days. So if there is a last question, Pierre Mariani and myself would be happy to take it.

OPERATOR: Okay, sir. So today's last question comes from BNP Paribas. I will open the line of Ivan Zubo.

IVAN ZUBO, ANALYST, EXANE BNP PARIBAS: Yes. Good morning. Just a quick question about your subordinated debt. Given the current depressed price levels, would you consider liability management? And are you in any way prevented by the EC from doing so these days?

PHILIPPE RUCHETON: Okay. So, in terms of liability management, first of all, I think the EC will see it as a burden-sharing thing, so I don't want to speak for them, but I'd say it will not be a big issue for them. On the other hand, as far as regulators are concerned, I'm afraid that they will be more concerned by the fact that at this point in time we are -- even if liability management creates tier one, it destroys a bit of the full capital. And I do believe that regulators will not be enthusiastic with the idea that we will reduce our global equity position.

IVAN ZUBO: Great. Thank you.

PHILIPPE RUCHETON: Okay. So thank you so much. And as I said, I guess that we will have -- hold another call in just one month now, in the month of November. And of course, if in the meantime there is anything new, significant (technical difficulty) enough, we will of course comply with the usual regulations and immediately do a press release.

PIERRE MARIANI: Thank you very much.

OPERATOR: Thank you, gentlemen. Ladies and gentlemen, this concludes today's conference call. Thank you all for attending.

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