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# Transaction Update: Dexia Municipal Agency (Obligations Foncières)

## Obligations Foncières Backed By Public-Sector Assets

**Surveillance Credit Analyst:**
Andrew O'Neill, London (44) 20-7176-3578; andrew_oneill@standardandpoors.com

**Secondary Contact:**
Nicolas Malaterre, Paris (33) 1-4420-7324; nicolas_malaterre@standardandpoors.com

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## Ratings Detail

| Class | Credit rating* | Outstanding amount as of March 31, 2011 (bil. €) |
|---|---|---|
| French legislation-enabled public-sector covered bonds ("obligations foncières") | AAA/Stable | 62.4 |

*Standard & Poor's rating addresses timely interest and ultimate payment of principal on the final maturity date.

| Standard & Poor's Five-Step Covered Bond Rating Process As Of March 31, 2011 | |
|---|---|
| Step 1: Calculation and classification of the asset-liability mismatch | |
| Asset-liability mismatch (ALMM) (%) | Low=5.92 |
| Duration of assets (years) | 7.15 |
| Duration of liabilities (years) | 5.62 |
| Step 2: Program categorization | |
| Category | 1 |
| Step 3: The maximum potential covered bond rating | |
| The maximum potential rating uplift (notches) | 7 |
| Distance between ICR and maximum potential rating (notches) | 5 |
| Step 4: Cash flow and market value analysis | |
| Weighted-average rating of assets in cover pool | BBB |
| Scenario default rate (SDR) (%) | 20.22 |
| Stressed refinancing spread assumed for asset sales (bps) | 229 |
| Target credit enhancement (%) | 14.79 |
| Available credit enhancement (%) | 23.08 |
| Step 5: The covered bond rating | |
| Rating | AAA |
| Outlook | Stable |

ICR—Issuer credit rating.

| Program Participants As Of March 31, 2011 | |
|---|---|
| Issuer | Dexia Municipal Agency |
| Originators | Dexia Crédit Local and other entities of the Dexia Group |
| Dealers | Barclays Capital, BNP Paribas, Commerzbank AG, Credit Suisse, Deutsche Bank AG, Dexia Capital Markets, Goldman Sachs International, J.P. Morgan, Morgan Stanley, NATIXIS, Nomura International PLC, Société Générale Corporate & Investment Banking, The Royal Bank of Scotland, UBS Investment Bank, and UniCredit Bank AG |
| Servicer | Dexia Crédit Local |
| Trustee ("contrôleur spécifique") | FIDUS and Groupement d'Expertise de France |
| Swap providers | Dexia Group entities: 22%* Entities not related to the Dexia Group: 78% (this comprises 25 separate financial institutions) |

| Program Participants As Of March 31, 2011 (cont.) | |
|---|---|
| Listing authority and stock exchange | Luxembourg Stock Exchange and/or Euronext Paris or as otherwise specified in the relevant pricing supplement |
| *Calculated on the basis of swap notional amounts, excluding basis risk hedges swapping EURIBOR for EONIA on both asset and liability cash flows. These swaps are all with Dexia Group entities. EURIBOR—Euro Interbank Offered Rate. EONIA—European Overnight Index Average. | |

| Key Features Of The Cover Pool As Of March 31, 2011 | |
|---|---|
| Collateral description | A wide variety of exposures to public-sector entities. Exposures are either direct or transferred through guaranteed or standalone securitizations. |
| Country of origin | France (65.1%), Belgium (9.7%), Italy (9.7%) |
| Current balance of the cover pool (bil. €) | 78.0 |
| Concentration per top 20 borrowers* | Top 20 borrowers form 31.20% of the pool and the largest individual exposure is 5.36% |

*These figures are based on aggregated balances of securitizations used to transfer public-sector assets and also include substitute assets.

## Rating And Outlook

This transaction update follows our review of Dexia Municipal Agency's (Dexia M.A.) public-sector covered bonds. We have affirmed our 'AAA' credit ratings on these public-sector covered bonds. The outlook is stable.

As of March 31, 2011, the available credit enhancement of 23.08% exceeded the target credit enhancement. We have therefore assigned our maximum rating of 'AAA' on the bank's public-sector covered bonds. This represents five notches of uplift above Dexia Crédit Local's (DCL; A/Negative/A-1) issuer credit rating (ICR). On July 7, 2011, we affirmed our long- and short-term counterparty ratings on DCL (see "Related Criteria And Research").

We based our stable outlook on the fact that seven notches of uplift above DCL's ICR are available, whereas currently the 'AAA' rating could be maintained with only five notches of uplift. Consequently, a downgrade of the ICR by up to two notches, or a change in the asset-liability mismatch (ALMM) classification, would not automatically result in a downgrade of the covered bonds. We also believe that the issuer has the ability and willingness to manage the covered bonds at the highest achievable uplift.

## Program Update

Dexia M.A. issues "obligations foncières" backed by a pool of public-sector exposures, via a €75 billion senior secured medium-term note (MTN) program and an A$5 billion senior secured MTN program. Dexia M.A. also established a new $10 billion U.S. senior secured MTN program in February 2011. There are also bond issues outside of these programs.

Under French covered bond law, all covered bonds benefit from a "privilège", meaning that bondholders have preferred creditor status and the right to be paid prior to other creditors. All covered bonds rank pari passu with each other.

Since our last transaction update published in December 2008, notable developments in Dexia M.A.'s covered bond program have included:

- An increase in indirect public-sector exposure through transactions or loans secured by public-sector assets (and

in particular secured loans to other Dexia Group entities).
- An increase in exposure to Belgian public-sector entities.
- Active funding management aimed at extending the liability maturity profile, as well as reducing maturity mismatches and maturity concentration in a single period. For example, Dexia M.A. undertook a voluntary debt exchange operation in September 2010, aimed at extending shorter maturities to five or 10 years.
- Relatively low issuance activity, partly reflecting difficult access to the market since the start of the financial crisis, but also a reduction in new business targets, and reduced refinancing needs due to the prior issuance of longer-dated covered bonds. Issuance of "obligations foncières" totaled €7.6 billion in 2010 and €8.0 billion in 2009, compared with €12.1 billion in 2006 and €15.3 billion in 2007.
- The establishment of a U.S. MTN program in February 2011.
- The publication of an updated European MTN prospectus in April 2011.

In addition, the French covered bond law has been updated in October 2010 and February 2011, resulting in the following key changes:

- An increase in the minimum regulatory level of overcollateralization to 2% from 0%;
- A new requirement for the cover pool to be able to cover 180 days of liquidity needs;
- The right of the issuer to retain, subscribe to, or repurchase its own issuances; and
- An increase in the regulatory disclosure requirements, providing more information on asset performance.

## Strengths, Concerns, And Mitigating Factors

### Strengths

- Rating stability: We have based our rating on the covered bonds on an uplift above the ICR on DCL, to which Dexia M.A. is core. In our view, the French covered bond legal framework allows us to categorize the covered bond program in Category "1" of our ALMM risk analysis. In combination with our ALMM classification of "Low", this allows a potential elevation of up to seven notches above the ICR, whereas only five notches are currently needed to maintain the 'AAA' rating. Accordingly, a downgrade of the ICR by two notches, or a change in the ALMM classification, would not automatically result in a downgrade of the covered bonds.
- Credit quality: In our opinion, the credit quality of the underlying pool of public-sector assets is strong as collateral typically consists of exposures to Western European local authorities, which typically have a low-risk financial profile. The weighted-average rating of 'BBB' and the top 20 obligor concentration of 31.20% are in line with those we typically see in French public-sector cover pools. We expect the Dexia M.A.'s cover pool's composition to remain stable, and thus asset quality to remain strong.
- Diversification: The pool is well diversified by country and borrower type. Western European public-sector exposure continues to form most of the collateral and Dexia M.A. has decreased exposure from other regions such as Central and Eastern Europe.
- Overcollateralization continues to be commensurate with a 'AAA' rating as of the latest asset and cash flow information provided on March 31, 2011, with available credit enhancement of 23.08%, compared with a 'AAA' target credit enhancement level of 14.79%.
- ALMM management: Dexia M.A. actively manages funding to remain within our "Low" ALMM category. Dexia M.A.'s voluntary debt exchange operation to extend the duration of liabilities in September 2010 reflected this active management approach. As of March 31, 2011, the ALMM measure was 5.92%.
- Strategic importance: Public-sector business and funding through covered bond issuance has strategic importance

for the Dexia Group, reflected in the issuer's ability to maintain overcollateralization levels that are commensurate with a 'AAA' rating, and to actively manage the ALMM risk within our "Low" ALMM category.
- Legal framework: In our view, the French covered bond legislation provides a strong legal basis.

### Concerns and mitigating factors

- Structural risk and concentration: The collateral portfolio has had increasing exposure to transactions or loans which themselves are collateralized by public-sector exposure. Dexia uses these transactions to refinance public-sector lending outside France through "obligation foncière" issuance. Dexia Bank Belgium and Dexia Crediop SpA in Italy typically originated the assets underlying these transactions. Our legal analysis of these structures suggests that in particular, some cross-jurisdictional risks relating to preferred and timely access to the underlying public-sector collateral outside France have to date not been stress-tested in practice. Substitute assets in the cover pool also include covered bonds issued by Dexia Lettre de Gage Banque S.A. in Luxembourg, and Dexia Sabadell S.A. in Spain. In our view, there is consequently a concentrated exposure to the credit risk of the Dexia S.A. Group. We factor this concentration risk into our credit analysis and therefore into our target credit enhancement level.
- Possible change in credit quality: The dynamic nature of the cover pool may result in a change in the composition and credit quality of the cover pool assets over time. Even if the eligibility criteria of French covered bond law are met, Dexia M.A. can in principle include other eligible but lower-credit-quality assets. We understand, however, that the issuer does not intend to materially change the pool's composition, which should avoid any rapid deterioration of credit quality.
- Limited excess spread: Due to the high credit quality of the underlying public-sector assets, the cover pool typically exhibits lower spreads than would typically be seen in mortgage cover pools. We factor the interest cash flows generated by the cover pool assets into our cash flow analysis, and therefore into our target credit enhancement level.
- Market risk: Strictly adhering to the guidelines of the French legal covered bond framework may result in currency and interest rate mismatches between the cover pool assets and the covered bonds, leading to levels of market risk that, in the absence of additional mitigating factors, may not be commensurate with the target rating. Dexia M.A. has entered into derivative agreements to mitigate the impact of market risks. These agreements have been typically consistent with our successive counterparty criteria for covered bonds (see "Related Criteria And Research").
- Counterparty risk: The counterparty may default under a derivative agreement, which could result in levels of market risk that may not be commensurate with the current rating. The diversification of counterparties mitigates counterparty risk. As of March 31, 2011, we noted derivative agreements in place with 25 different financial institutions outside of the Dexia Group. In terms of nominal amounts of swap exposures, 22% of swaps are with Dexia Group entities, and the five largest counterparty exposures outside of the Dexia Group represent approximately 35%.
- Liquidity risk: Limited secondary market liquidity for some cover assets could lead to a reliance on alternative liquidity in times of stress. However, we note that under the French covered bond legislation, the issuer has been established as a Société de Crédit Foncier (SCF; special-purpose bank), which is a financial institution in its own right. As such, the issuer would continue to have access to central bank liquidity if the parent bank defaults. In addition, in our view, the vast majority of assets included in the cover pool are eligible for European Central Bank (ECB) repo transactions.
- Overcollateralization: The level of overcollateralization available continues to be commensurate with our 'AAA'

rating and exceeds the level required by French covered bond law (i.e., by law, assets must represent more than 102% of liabilities on a nominal basis). Investors cannot rely on a legally binding commitment to provide more overcollateralization than required by law, nor any legal obligation or commitment to always maintain the current rating. There is a risk that overcollateralization could therefore, at the management's discretion, decline to the sole regulatory minimum, which may not always be sufficient to support the currently assigned rating. However, we consider that the issuer intends to maintain overcollateralization that is commensurate with the current rating, which mitigates this risk. We also understand that there are free eligible assets within the Dexia Group, which could be added to the cover pool to maintain or increase overcollateralization.

## Credit Analysis

Our credit analysis of the cover pool includes an exposure review of underlying assets to estimate the credit risk of each individual exposure. Together with correlation assumptions between the assets and recoveries, we generate a default probability for the target rating using Standard & Poor's CDO Evaluator. We then use the derived default probability as input for the cash flow analysis. As of March 31, 2011, the resulting scenario default rate (SDR) for Dexia M.A.'s cover pool was 20.22% (see appendix).

The probability of default (SDR), the stressed expected principal and interest recoveries from defaults, the timing of these recoveries, and potential servicing costs represent our key cash flow simulation parameters derived from the credit analysis.

## Cash Flow Analysis

We evaluate a pool of covered bonds on a cash flow basis to determine whether, under conditions of severe economic stress, the cash flow generated by the assets would be sufficient to meet the debt service payments due on the liabilities in a timely manner. The aim of the cash flow analysis is to assess the pools for:

- Credit risk as described above;
- Market risk in the form of interest rate and currency risk;
- ALMM as a result of cash flow mismatches between assets and liabilities in terms of maturity and market value risk in case the program has to liquidate, i.e., sell the assets;
- Prepayment risks and servicing costs; and
- An appropriate stress-testing of these risks using Standard & Poor's Covered Bond Monitor (CBM, see appendix).

In our 'AAA' scenario, we assume the insolvency of Dexia M.A. and look to the cover pool assets to redeem existing covered bonds. We base the cash flow analysis on the assumption of a static pool—i.e., no active pool management or new issues other than servicing the liabilities as they come due. This assumption stems in turn from our central rating assumption, where the issuer is insolvent and the pool is managed until it has fully amortized.

The aim of the cash flow analysis is to stress the cover pool for credit risk, market risk in the form of interest and currency risk, and liquidity risk as a result of cash flow excesses or deficits. If there is an excess, we assume that the administrator of the cover pool is able to reinvest the proceeds in a conservative manner. However, if there is a liquidity deficit, we conclude that the cover pool has recourse to liquidity by selling assets. Where a stressed asset sale is required to cover an ALMM cash flow shortfall, we model the market value risk in terms of a "spread shock".

We calculate the net present value of the projected cash flows of the assets using a discount rate, which we base on the pool-specific asset spreads over the relevant funding rates. We determine each pool's individual spread shock by sorting the cover pool assets into the spread buckets as defined in §60 of our Dec. 16, 2009 criteria ("Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds"). As of March 31, 2011, the spread shock we used when discounting Dexia M.A.'s public-sector cover pool was 230 basis points (bps).

**Table 1**

| Main Cash Flow Inputs | |
|---|---|
| Probability of default (SDR) (%) | 20.43 |
| Interest rates | Simulated interest rate curves between 0% and 12% |
| Servicing costs (%) | 0.10 |
| Spread shock (bps) | 229 |

The cash flow analysis determines the target credit enhancement level commensurate with the program's maximum potential rating in a five-step process.

## Rating Rationale

We have reviewed the asset and cash flow information provided as of March 31, 2011 and have applied our five-step approach for rating covered bonds, as outlined below (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

### Step 1: Calculation and classification of the asset-liability mismatch

To determine the maximum potential rating uplift for a covered bond program over the issuing bank's ICR, we first need to calculate the ALMM.

Here, we consider mismatches in the timing of the asset and liability cash flows, where we multiply mismatches that occur far in the future with a scaling factor that decreases over time. In our opinion, programs that are exposed to large funding needs within the next 12 months are typically riskier than those with mismatches throughout the tenor of the covered bonds. Generally, we assume no prepayments in the ALMM calculation for public-sector covered bonds.

We categorize ALMM risk according to table 2.

**Table 2**

**ALMM Classifications And Maximum Potential Uplift Ranges**

| ALMM risk | ALMM percentage (%) | Maximum potential number of notches uplift |
|---|---|---|
| Zero | N/A | Unrestricted |
| Low | 0 <= 15 | 5 to 7 |
| Moderate | 15 <= 30 | 4 to 6 |
| High | > 30 | 3 to 5 |
| N/A—Not applicable. | | |

Dexia M.A.'s public-sector covered bonds currently have an ALMM percentage of 5.92%, which results in an ALMM risk classification of "Low".

### Step 2: Program categorization

In this step, we categorize programs based on their ability to obtain third-party liquidity or sell assets to fund any mismatch if the issuing bank fails. We categorize French "obligations foncières" programs in Category "1".

We believe that the "obligations foncières" market is of high systemic importance in France and that the range of funding options and the strength of funding sources for issuers are flexible, without restrictions, and well established. In our view, if the parent bank becomes insolvent, the SCF can create liquidity and benefit the covered bondholders not only by selling assets, but also by accessing central bank funding and entering into new loans, as well as new derivative and repurchase agreements.

Dexia M.A.'s public-sector covered bonds are "obligations foncières" issued out of France. The SCF's set-up and the asset composition of the cover pool are similar to other French public-sector covered bonds. We can therefore categorize the program in Category "1".

### Step 3: The maximum potential covered bond rating

The ratings on Dexia M.A.'s covered bonds factor in the ICR on Dexia Crédit Local (A/Negative/A-1), to which Dexia M.A. is core. We use this ICR to uplift the ratings on the covered bonds.

We assess the maximum potential covered bond rating by combining the ALMM risk and the program categorization (see table 3).

**Table 3**

**Maximum Potential Ratings Uplift From The Issuer's ICR**

By number of notches

| ALMM risk | Category | | |
|---|---|---|---|
| | 1 | 2 | 3 |
| Zero | Unrestricted | Unrestricted | Unrestricted |
| Low | 7 | 6 | 5 |
| Moderate | 6 | 5 | 4 |
| High | 5 | 4 | 3 |

Dexia M.A.'s public-sector covered bonds can therefore achieve a maximum potential ratings uplift above the ICR of seven notches.

### Step 4: Cash flow and market value analysis

In step 4, we analyze the cash flows by taking into account credit risks, structural risks, and ALMM risk.

In order to calculate the target credit enhancement, we usually stress the cash flows for credit defaults and recoveries, trustee and servicer expenses, interest and currency exposures, and stressed refinancing spreads.

By applying these stresses to Dexia M.A.'s covered bonds using Standard & Poor's Covered Bond Monitor, we are of the opinion that a target credit enhancement of 14.79% is sufficient to achieve the highest potential uplift.

### Step 5: The covered bond program rating

In this last step, we assign the rating to a covered bond program by assessing whether the available credit enhancement is at least equal to the target credit enhancement that is commensurate with the target rating.

As of March 31, 2011, the available credit enhancement of 23.08% exceeded the target credit enhancement. We have therefore assigned our maximum rating of 'AAA' on the bank's public-sector covered bonds. This represents five notches of uplift above DCL's ICR of A/Negative/A-1.

We based our stable outlook on the fact that seven notches of uplift above DCL's ICR are available, whereas currently the 'AAA' rating could be maintained with only five notches of uplift. Consequently, a downgrade of the ICR by up to two notches, or a change in the ALMM classification would not automatically result in a downgrade of the covered bonds. We also believe that the issuer has the ability and willingness to manage the covered bonds at the highest achievable uplift.

## Cover Pool At The Date Of The Program Report

We have based our credit analysis on cover pool information as of March 31, 2011. On Dec. 22, 2008, we published our previous transaction update on Dexia M.A.'s public-sector covered bonds. We based this analysis on cover pool data as of June 30, 2008. Table 4 shows the evolution of the cover pool since that date.

**Table 4**

**Evolution Of The Cover Pool Since June 30, 2008**

| | June 30, 2008 | March 31, 2011 |
|---|---|---|
| Total volume of assets (bil. €) | 73.4 | 78.0 |
| Concentration in top 20 obligors (%) | 24.0 | 31.2 |
| Concentration in largest obligor (%) | 6.8 | 5.4 |
| Loans in arrears by over 90 days (%) | 0.01 | 0.01 |
| **Breakdown of asset transfers by means of securitization** | | |
| DSFB-4 standalone securitization of Belgian public-sector assets (%) | 0.0 | 5.4 |
| Securitizations of Belgian public-sector assets guaranteed by DBB (%) | 4.5 | 3.6 |
| Securitizations of Italian public-sector assets guaranteed by DCC (%) | 6.8 | 4.6 |
| Secured loan to Dexia Kommunalkredit AG backed by CEE public-sector exposures (%) | 2.4 | 0.0 |
| Total securitizations guaranteed by Dexia entities (%) | 13.7 | 8.2 |
| Total assets transferred by securitization (%) | 13.7 | 13.7 |
| **Breakdown of substitute collateral** | | |
| Dexia Sabadell Cédulas Territoriales (%) | 3.5 | 3.8 |
| Dexia Lettres de Gage (%) | 3.5 | 2.4 |
| Total covered bonds held as substitute collateral (%) | 7.0 | 6.2 |
| Unsecured exposure to Dexia Crédit Local (%) | 0.0 | 1.3 |
| **Total substitute collateral (%)** | **7.0** | **7.5** |
| **Concentration of Dexia credit risk (%)** | **13.7** | **9.5** |
| Duration of assets (%) | 6.7 | 7.2 |
| Duration of liabilities (%) | 4.7 | 5.6 |
| Duration gap (years) (%) | 2.1 | 1.6 |

Dexia M.A.'s assets are still primarily French (65.1% as of March 31, 2011) and comprise loans to local authorities, public institutions, and private companies involved in the public housing sector, which are fully guaranteed by local authorities. Belgium is the key source of new assets, with Belgian exposure increasing from 6.4% as of June 30, 2008 to 9.7% as of March 31, 2011. We assess the cover pool's country risk in our credit analysis by factoring in the relevant sovereign ratings (rather than the Transfer & Convertibility [T&C] assessment) in our calculation of the SDR. The target credit enhancement for a 'AAA' rating therefore reflects sovereign default risk for countries where the sovereign is rated below 'AAA' (see §41 of our criteria article "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on April 8, 2011).

In our view, the country risk of Dexia M.A.'s pool is low as the vast majority of its assets are located in highly-rated Western European countries. As of March 31, 2011, there was no exposure to assets located in Ireland and exposures to assets located in Greece and Portugal represented 0.5% and 0.1% of total assets in the cover pool, respectively. Charts 1a and 1b show the evolution of the geographic split of the cover pool.

**Chart 1a**

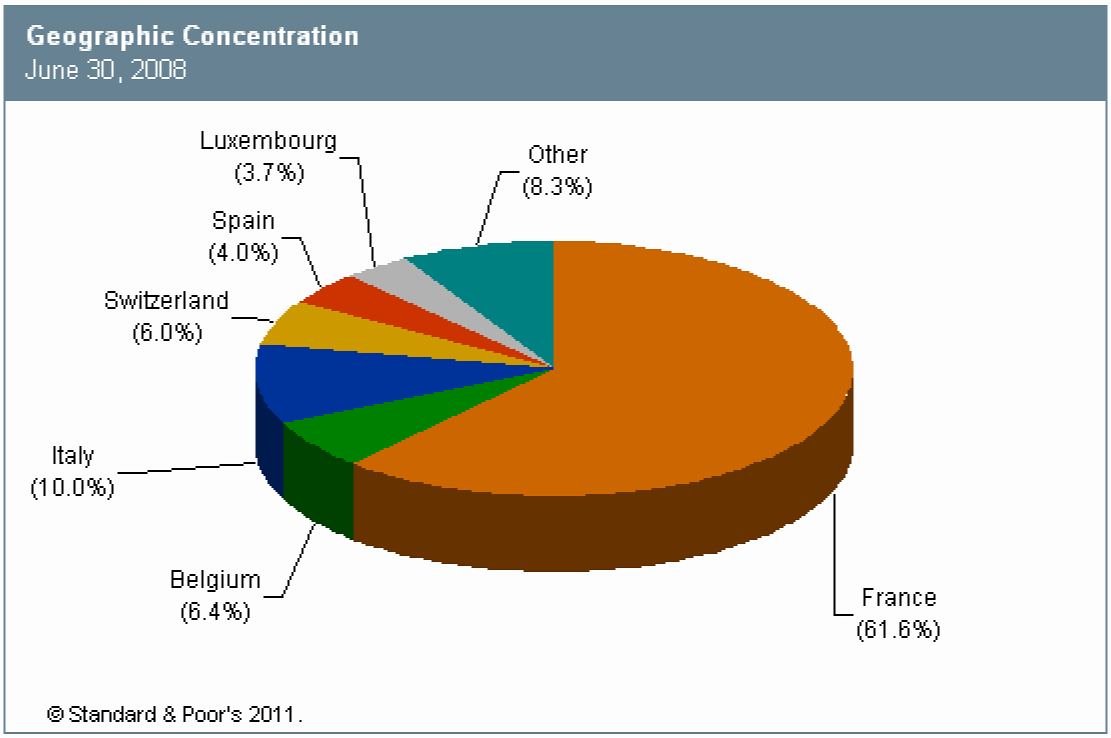
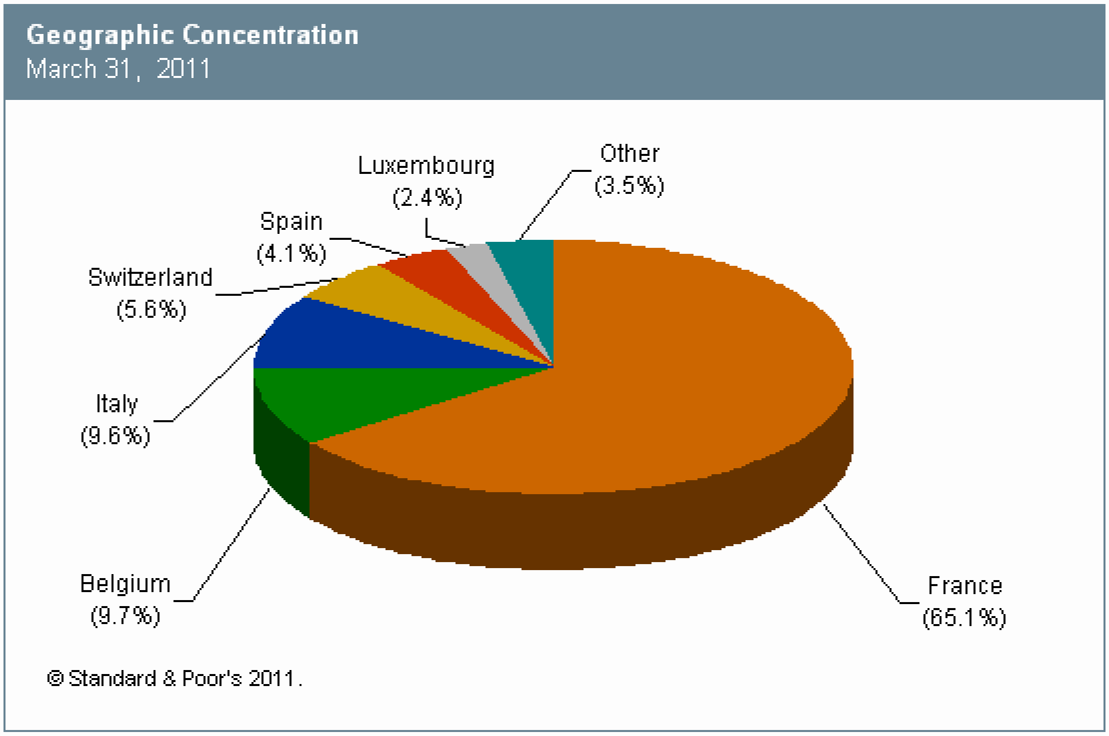


**Chart 1b**




In addition to refinancing Paris-based DCL, Dexia M.A. refinances other Dexia Group entities, including Dexia Bank Belgium S.A. (DBB), Italian Dexia Crediop SpA, Luxemburgish Dexia LdG Banque S.A., and Spanish Dexia Sabadell S.A. These refinancing transactions account for 20.1% of the total cover pool (13.7% of securitizations of public-sector assets and 7.4% of covered bonds and certificates of deposit held as substitute collateral). The refinancing is mostly done through securitizing the public-sector assets locally, and using the securitization transaction as collateral backing the "obligations foncières". We have undertaken a legal analysis of those structures, but note that in particular some cross-jurisdictional concerns relating to preferred and timely access to the underlying public-sector collateral outside France have to date not been stress-tested in practice.

Charts 2a and 2b show the breakdown of the pool in terms of direct exposures to local authorities, and exposures transferred through securitizations.

**Chart 2a**

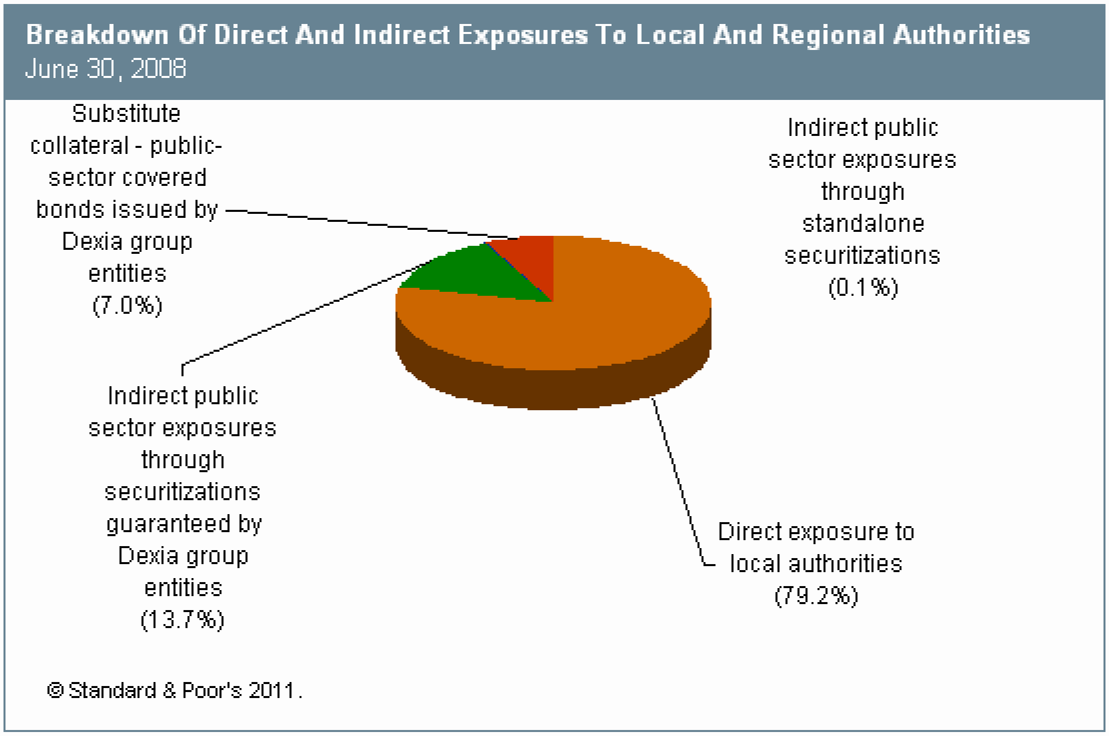
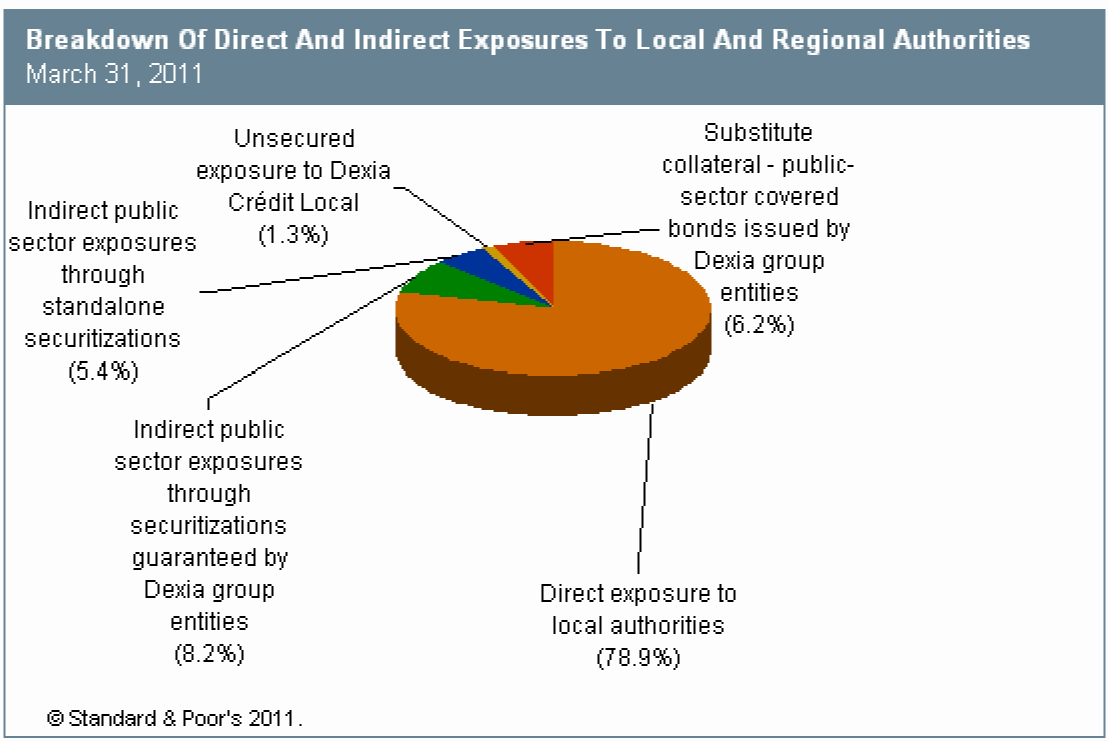



**Chart 2b**



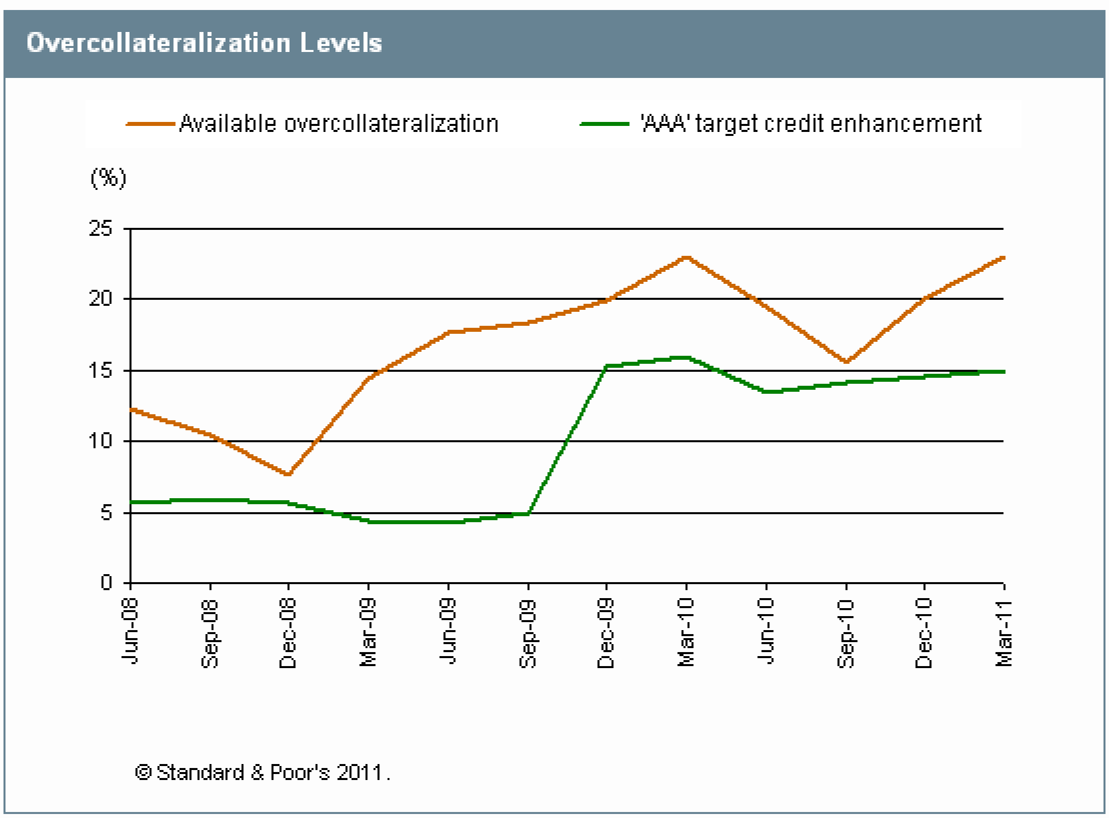
Securitizations of loans to public-sector entities located in Belgium and Italy, respectively, refinance DBB and Dexia Crediop SpA. Previously, Dexia entities (DBB and Dexia Crediop) guaranteed all securitizations, however, the growth in Belgian assets has resulted from a new standalone transaction, Dexia Secured Funding Belgium 4 (DSFB-4).

The proportion of securitizations carrying guarantees from Dexia entities (and hence representing Dexia credit risk) decreased to 8.2% as of March 31, 2011 from 13.7% as of June 30, 2008. This has resulted in a drop in the total concentration in Dexia credit risk to 9.5% (including a short-term unsecured exposure to DCL) from 13.7% over the same period. We do not expect future asset additions to include further securitizations guaranteed by Dexia entities. As such, the concentration in Dexia credit risk should continue to decrease, in our view.

The performance of the pool has been stable from June 30, 2008 to March 31, 2011, with 90-day arrears as a proportion of total loans remaining at around 1 bp. In our opinion, this highlights the low-risk profile of loans to Western European public-sector entities.

Overcollateralization has increased to 23.08% at March 31, 2011, from 12.31% at June 30, 2008. Chart 3 shows the evolution of overcollateralization over the period. Following the implementation of our methodology for assessing ALMM risk in covered bonds in December 2009 (see "Related Criteria And Research"), 'AAA' target credit enhancement levels have risen. We note that Dexia M.A. has maintained its overcollateralization at a level, which is commensurate with our 'AAA' target credit enhancement level following the implementation of this methodology. The increase in overcollateralization throughout 2009 also reflects the limited issuance activity at the time due to market conditions.

**Chart 3**



Dexia M.A. actively manages ALMM risk in order to remain in our "Low" ALMM category. In particular, Dexia M.A. undertook a debt exchange operation in September 2010, with the aim of lengthening its maturity profile, where it issued a €1.25 billion five-year bond and a €750 million 10-year bond. In total, approximately €860 million of these proceeds resulted from the voluntary exchange of shorter-dated bonds.

Chart 4a shows the amortization profiles of assets and liabilities, as modeled from March 31, 2011, using Standard & Poor's Covered Bond Monitor. Chart 4b highlights a concentration of maturities between 2015 and 2017.

**Chart 4a**

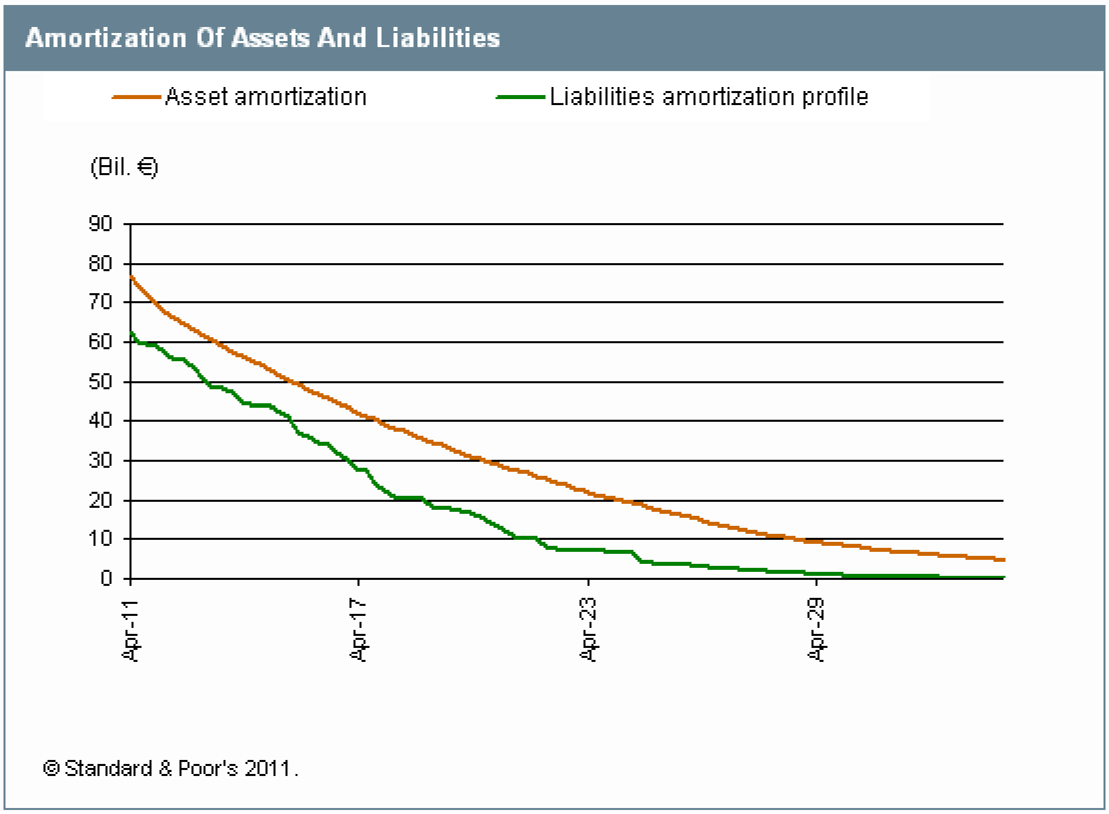


**Chart 4b**

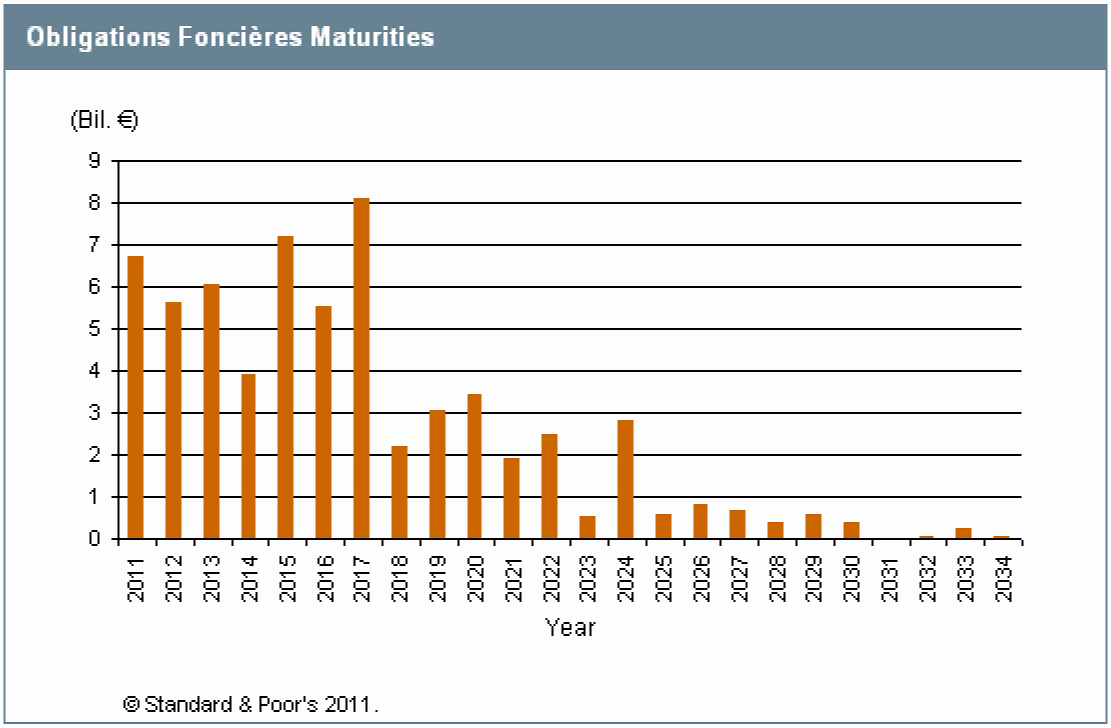
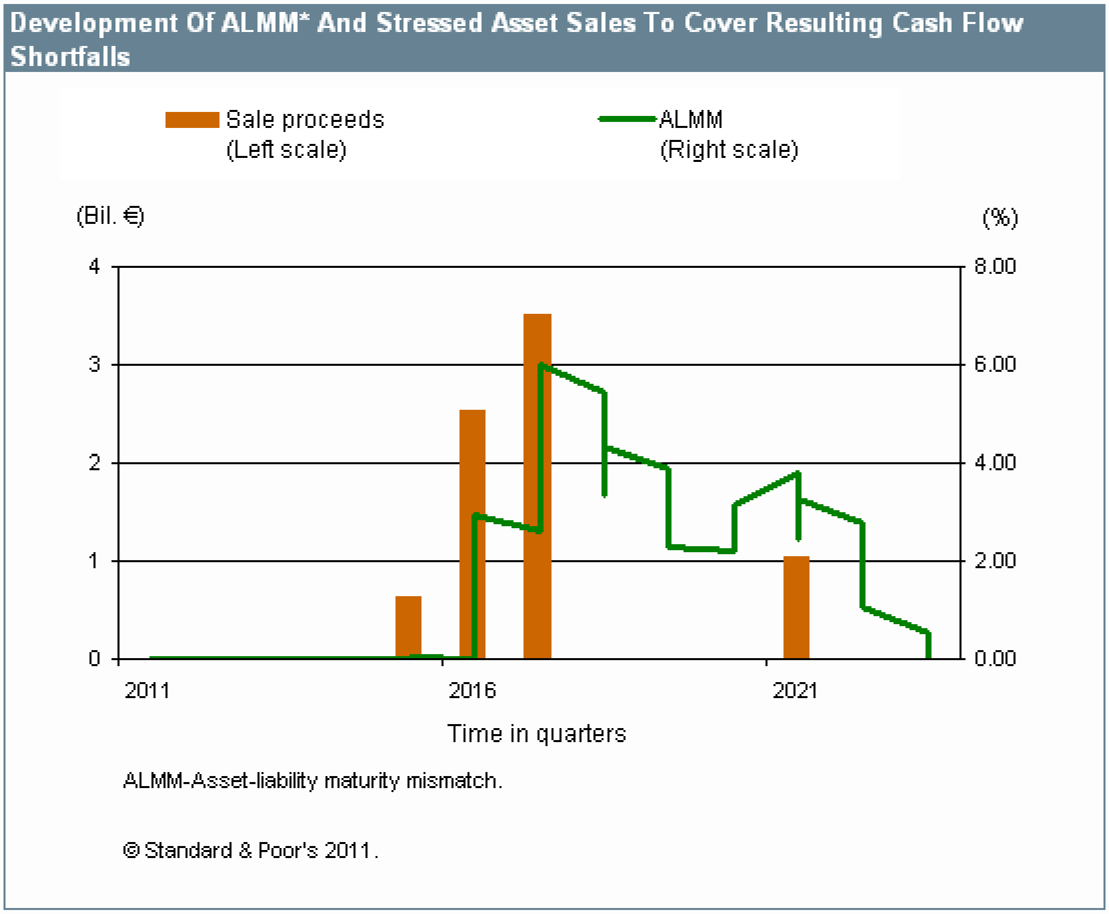



Chart 5 shows the development of ALMM risk, as well as the asset sales required to cover ALMM-related shortfalls in a simulated 'AAA' stress environment. We assume conservatively that in this stressed environment, regular liquidity sources such as central bank funding or repurchase agreements may not be readily accessible, and thus that the cover pool manager will need to sell assets to cover all shortfalls.

**Chart 5**




The peak ALMM measure of 5.92% at the end of 2017 reflects the concentration of maturities between 2015 and 2017. Although the ALMM measure remains in our "Low" category, it is above that for other French public-sector covered bonds. In our stressed simulations maturity mismatches trigger an asset sale of nearly €3.5 billion to cover the maturities in 2017. In addition, earlier maturity mismatches also trigger smaller asset sales. These asset sales deprive the cover pool of the ongoing benefit of the assets sold. In our view, this is the main reason why Dexia M.A.'s target credit enhancement is at the high end for French public-sector covered bonds, although the credit quality of the cover pool is comparable.

On Aug. 5, 2010, we published an "Advance Notice Of Proposed Criteria Change" regarding our credit analysis of public-sector assets in covered bonds (see "Related Criteria And Research"). An update to our criteria may affect our analysis of Dexia M.A.'s covered bonds.

## Market Risk And Hedging Structure

As of March 31, 2011, Dexia M.A. had entered into hedges to hedge interest and principal payments received on the assets, and interest and principal payments due on the liabilities. Indeed, there are mismatches between the interest rates and currencies received on the cover pool assets and those paid on the covered bonds. On a post-swap basis, all payments received on the assets and all payments made on the liabilities are floating-rate and euro-denominated.

As a first step, all payments are swapped against the Euro interbank offered rate (EURIBOR) until maturity. As a second step, EURIBOR flows are swapped against the European overnight index average (EONIA) over a sliding period of two years, in order to eliminate any risk generated by differences in fixing dates. Since the inception of the SCF, hedging agreements have typically been consistent with our successive criteria and updates for derivative counterparties participating in covered bonds (see "Related Criteria And Research").

Dexia M.A. has a diversified portfolio of swap counterparties. As of March 31, 2011, we noted hedging agreements in place with Dexia Group entities and 25 different financial institutions separate from the Dexia Group. Excluding fixing swaps, 22% of swaps (calculated on the basis of total notional amounts) were with counterparties belonging to the Dexia Group, and 78% were with separate financial institutions. DCL is the counterparty in all fixing swaps swapping EURIBOR for EONIA.

Table 5 shows the breakdowns between interest rate and currency swaps, and between swaps with Dexia entities and external counterparties.

**Table 5**

**Breakdown Of Existing Swaps**

| | Notional amount (€ bil.) | Swaps with Dexia Group entities (% of notional) | Swaps with other counterparties (% of notional) |
|---|---|---|---|
| Fixing swaps (EURIBOR against EONIA) | 132.6 | 100.0 | 0.0 |
| Interest rate swaps | 97.1 | 20.8 | 79.2 |
| Currency swaps | 16.7 | 29.3 | 70.7 |
| **Total long-term swaps** | 113.9 | 22.0 | 78.0 |

EURIBOR—Euro Interbank Offered Rate. EONIA—European Overnight Index Average.

On March 23, 2011, we published a Request For Comment regarding our treatment of counterparty risk in covered bonds (see "Related Criteria And Research"). An update to our counterparty criteria may affect our analysis of Dexia M.A.'s covered bonds.

## Overview Of The Issuer

Dexia M.A. is a limited liability company, incorporated under French company law, with headquarters in Paris. It is also an SCF, providing long-term financing for the funding of local authorities' capital expenditures. As an SCF, Dexia M.A. is regulated as a credit institution and operates under the control and supervision of the Prudential Control Authority (Autorité de Contrôle Prudentiel; ACP). It is also subject to detailed reporting requirements on its assets.

Dexia M.A. is wholly owned by DCL, one of the three main operating banks of the Dexia Group. We view Dexia M.A. as highly dependent and closely integrated within its parent. Dexia M.A. issues "obligations foncières" on behalf of DCL to fund local authority lending.

Dexia M.A. plays a key role within the Dexia Group, thanks to its ability to competitively tap capital markets. In a market such as local authority lending—characterized by very low commercial margins throughout Europe—Dexia M.A. undoubtedly improves DCL's competitive position in its traditional business line and exploits Dexia's brand name and customer base. An executive board controlled by a supervisory board, both belonging to the Dexia

Group, manages Dexia M.A.

An SCF's activities are restricted to the origination and purchase of certain assets in the European Economic Area, Switzerland, the U.S., Japan, and Canada, including loans to or securities issued by states or local authorities or loans that are guaranteed by those states or local authorities. In addition, the cover pool can include asset-backed securities (ABS) if at least 90% of the underlying assets would themselves be directly eligible and if those securities fulfill minimum rating requirements. By law, an independent specific controller verifies the eligibility of assets and also calculates the quarterly regulatory overcollateralization level.

To finance its activity, the SCF may issue covered bonds secured by these assets and borrow funds through unsecured transactions. Dexia M.A.'s sole debt that does not benefit from the privilege granted by the law is a current account opened with DCL.

## Ongoing Surveillance

We maintain regular surveillance on Dexia M.A.'s covered bonds until the notes mature or are otherwise retired. We analyze regular reports detailing the quality and performance of the underlying collateral, monitor supporting ratings, and make regular contact with the issuer to assess whether servicing standards are maintained and that any material changes in the issuer's operations are communicated and reviewed. Within our surveillance analysis we assess:

- The cover pool's composition, which may change as a result of asset transfers or substitutions,
- The cash flow structure, and
- Overcollateralization levels.

Reports received from the issuer include the following data:

- Loan-by-loan cover pool exposures, which include details such as names, amounts, maturities, and other relevant data,
- Liquidity information, and
- Cash flow information for each currency.

## Appendix

### Scenario default rate

The SDR is the gross level of asset defaults that we expect covered bonds to be able to withstand at a given rating level consistent with our rating criteria (see "Credit Rating Model: CDO Evaluator 5.1," published on Aug. 16, 2010).

### Standard & Poor's CDO Evaluator

CDO Evaluator is an integral part of our methodology for the rating and surveillance of public-sector covered bonds. Using a Monte Carlo methodology, it evaluates the credit quality of a collateral pool, taking into consideration the ICR, size, domicile, and maturity of each asset, and the correlation between each pair of assets. The credit quality of the collateral pool is presented in terms of a probability distribution for potential default rates. From this distribution, CDO Evaluator derives a set of SDRs that identify, for each credit rating, the maximum level of collateral pool defaults a covered bond should be able to withstand without defaulting.

### Standard & Poor's Covered Bond Monitor (CBM)

CBM is a Monte Carlo model, which simulates approximately 100,000 different economic scenarios, or more if required, to establish an accurate default distribution. Each scenario produces a different path for interest rates and exchange rates for each currency included in the issuer's cover pool. Using these input parameters, we compute a corresponding set of cash flows to determine whether, under these stressed assumptions, the pool exhibits sufficient strength to pass the target rating eligibility test. The average maturity of outstanding covered bonds defines the target rating default probability against which the cash flows are benchmarked. If the respective cover pool cash flows exhibit fewer defaults than accepted under the threshold, the cover pool passes the rating eligibility test from a quantitative point of view.

### Time to recovery

We have categorized Dexia M.A.'s cover pool and have assigned asset- and country-specific assumptions for the time we believe is needed to work out individual assets. The time to recovery represents the weighted-average time to recover or restructure the respective public-sector assets following a default.

### Weighted-average maturity

The weighted-average maturity of the assets/liabilities of legislation-enabled covered bonds takes into account all scheduled amortizations of the assets/liabilities.

### Weighted-average rating

The weighted-average rating of a portfolio is its weighted-average credit quality. It is computed as the credit rating that would have a probability of default and maturity that best approximates the portfolio's weighted-average maturity and expected portfolio default rate. The latter is the weighted-average default rate of the portfolio, based on the asset default rates specified in Standard & Poor's default table, which, in turn, are based on historical default rates that we have compiled. The weighted-average rating reflects the actual remaining life of the assets, rather than some fixed hypothetical remaining life. The use of the latter would increasingly distort the default probabilities of the portfolio as the actual average remaining life shortened over time.

Please note that in our credit analysis, we separate borrowers into rated and unrated borrowers. We stress nonrated assets more severely as we do not regularly monitor their credit quality.

## Related Criteria And Research

- Dexia Core Banks Affirmed At 'A/A-1' As Asset Sale Acceleration, High Capital Mitigate Greece Exposure; Outlook Negative, July 7, 2011
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, April 8, 2011
- Request For Comment: Covered Bonds Counterparty And Supporting Methodology And Assumptions, March 23, 2011
- Global Covered Bond Characteristics And Rating Summary, March 23, 2011
- Covered Bonds—A Primer On The Top Five Global Jurisdictions, March 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Dexia S.A., Dec. 9, 2010
- Credit Rating Model: CDO Evaluator 5.1, Aug. 16, 2010
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010

- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Transaction Update: Dexia Municipal Agency (Covered Bond), Dec. 22, 2008
- Methodology And Assumptions: Applying The Derivative Counterparty Framework To Covered Bonds, Feb. 26, 2008
- Public Finance System Overview: French Local And Regional Governments, Oct. 5, 2007
- All Covered Bonds Are Not Created Equal, Sept. 13, 2007
- Covered Bond Monitor: Technical Note, Feb. 14, 2006
- Surviving Stress Scenarios: Assessing Asset Quality of Public Sector Covered Bond Collateral, Sept. 30, 2003

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

**Additional Contact:**
Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com

**Additional Contact:**
Covered Bonds Surveillance; CoveredBondSurveillance@standardandpoors.com