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Dexia Board Said to Meet as Sovereign Debt Crisis Curbs Funding

By Fabio Benedetti-Valentini and John Martens - Oct 3, 2011

The board of [Dexia SA \(DEXB\)](#), Belgium's biggest lender, is meeting to discuss options including a possible breakup after [Europe's](#) debt crisis reduced its funding, a person with knowledge of the talks said.

Dexia, which finances municipalities in France and Belgium, may split off its French business partly under the oversight of state-owned Banque Postale SA, said the person, who declined to be identified because the matter is confidential. The discussions are complex because Dexia is based in Brussels and Paris, and has both governments as shareholders. An announcement may come as soon as tonight, the person said.

"Dexia is an extremely complicated file," said Benoit Petrarque, an Amsterdam-based analyst at Kepler Capital Markets with a "hold" rating on the shares. "The fact that two countries are involved, both under pressure from rating agencies, makes it even more difficult. We are not in 2008 anymore, when you could just inject multibillions of cash."

Dexia has struggled to obtain short-term funding, especially in dollars, as investors grew concerned it would have to write down the value of its sovereign debt holdings after [Greece](#) sought a second bailout. Chief Executive Officer Pierre Mariani has sought to reduce the need for funding as Europe's sovereign-debt crisis spreads to Italy and Greek bondholders take losses on their holdings.

"Until the start of the summer, Dexia was on track with its deleveraging," said Christophe Nijdam, an analyst at AlphaValue in Paris. "But the focus has shifted again on its sovereign exposure because of the effects of Greece's second bailout on refinancing conditions."

Stock Drops

The stock dropped 10 percent in Brussels trading as speculation grew that the bank would seek a second bailout. The shares fell 15 cents to 1.30 euros, cutting Dexia's market value to about 2.5 billion euros (\$3.4 billion).

Dexia received a 6 billion-euro bailout from [Belgium](#), France and its largest shareholders in September 2008 following Lehman Brothers Holdings Inc.'s collapse.

The board will weigh options including setting up a so-called bad bank, the Financial Times reported today, without saying where it got the information. Funding for French local governments would be provided in partnership with Banque Postale and the Caisse des Depots et Consignations, a French government fund, the newspaper reported. The bank's remaining operations would be sold to bolster capital, the FT said.

Dexia posted a 4 billion-euro loss for the second quarter, the biggest in its history, after writing down the value of its Greek debt.

Moody's Review

Moody's Investors Service put Dexia's three main operating units on review for a downgrade on concern the lender was struggling to fund itself.

"Dexia has experienced further tightening in its access to market funding," Moody's said in a statement. "Dexia's collateral postings have increased due to substantial market volatility."

Dexia emerged from the 1996 merger of Credit Local de [France](#) and Credit Communal de Belgique SA, the biggest municipal lenders in their respective countries. Unlike Credit Local de France, which relied exclusively on wholesale funding for its lending, the Belgian lender also operated a retail bank in Belgium and a private bank in Luxembourg.

In September 2008, France and Belgium led the first rescue of Dexia, buying a combined 3 billion euros of stock. The bank's existing shareholders, which include Caisse des Depots et Consignations and Belgium's Holding Communal SA, provided an additional 3 billion euros.

Less than a month later, Dexia also obtained as much as 150 billion euros of debt guarantees from France, Belgium and Luxembourg, of which it tapped a maximum of about 96 billion euros in May 2009. The bank stopped issuing government-backed debt in June 2010. It still had 29 billion euros outstanding at the end of last month.

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