Dexia Municipal Agency

Covered Bonds / France

Closing Date

November 2008

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1. RATINGS

Series	Amount	Expected Maturity	Final Maturity	Rating
EMTN 358D	€150 million	N/A	22 November 2010	**Aaa**

The ratings address the expected loss posed to investors. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

2. SUMMARY

Moody's has assigned a long-term rating of **Aaa** to the € 150 million *Obligations Foncières* due on the 22nd of November 2010 (the **"Covered Bonds**" or "***Obligations Foncières***") issued by Dexia Municipal Agency (the "**Issuer**") under the terms of a €75 billion euro medium term note programme for the issuance of *Obligations Foncières* (the "**Programme**") established by it.

The *Obligations Foncières* investors will benefit from:

1. The credit strength of Dexia Credit Local (the "**Sponsor Bank"**, rated **A1; Prime-1**). Moody's believes that the structure of the Programme enables the Issuer to benefit from the credit strength of the Sponsor Bank whose involvement in and commitment to the Programme are evidenced by the several roles and functions carried out by it in the context of such Programme;
2. A "**Cover Pool"** including only public sector exposures that are eligible to be refinanced through *Obligations Foncières* issued in accordance with the French Monetary and Financial Code, L.515-13 *et seq.* (the "**Law**");
3. The Law and the regulatory framework applicable to Covered Bonds; and
4. 5% minimum contractual nominal over-collateralisation.

As is the case with other covered bonds, Moody's considers the credit strength of the transaction to be linked to that of certain parties - in particular the Sponsor Bank. Should such credit strength deteriorate, all other things being equal, the rating of the *Obligations Foncières* is likely to come under pressure.

STRUCTURE SUMMARY

Issuer:	Dexia Municipal Agency (not rated)
Sponsor Bank:	Dexia Credit Local S.A. (rated **A1**/**P-1)**
Structure Type:	Covered Bonds/ *Obligations Foncières*
Issued under Covered Bond Law:	Yes
Applicable Covered Bond Law:	French law on *Obligations Foncières*
Main Seller/Originator:	Dexia Credit Local and other entities within the Dexia Group
Main Servicer:	Dexia Credit Local
Intra-group Swap Provider:	6%assets side; 16% liabilities side
Monitoring of Cover Pool:	Fidus
Trustees:	N/A
Timely Payment Indicator:	Probable-High

COVERED BONDS SUMMARY

Total amount of Covered Bonds outstanding:	Euro Equivalent 61,355bn
Total amount of covered bond issuance:	Euro 150m
Currency of the Covered Bonds:	Euro 100%;
Extended Refinance Period:	No
Principal Payment Type:	Bullet
Interest Rate Type:	Fix [XXX%]; Floating [XXX%]; Structured 37%

COLLATERAL SUMMARY

Size of Cover Pool:	EUR 68.149 m
Main Collateral Type in Cover Pool:	Public sector exposure
Main Asset Location:	France (63%); Italy (9.5%); Switzerland (6.1%) and Belgium (5.6%)
Loans Count:	72,375
Currency:	EUR 90.3%
Concentration of 10 Biggest Borrowers:	19.6%
WA Remaining Term:	17.7 years[1]
Interest Rate Type:	Fix (36.2%) and floating (63.8%)
Current Over Collateralisation (nominal basis):	13.50%
Current Over Collateralisation (NPV basis):	NA
"Committed" Over Collateralisation:	5% on nominal basis
Collateral Score:	3.8%
Further Details:	See Appendix 1
Pool Cut-off Date:	31/12/2008

[1] WA Remaining Term: i) is the weighted average of the remaining term across all the loans weighted according to the loan balance; ii) is not intended to measure the WA life of the assets in the cover pool which is currently 9.15 years; and iii) is determined not taking into account the substitute assets.

3. STRENGTHS AND WEAKNESSES WITH MITIGANTS

Strengths

- **Sponsor Bank**: Investors will benefit from the credit strength of the Sponsor Bank mainly due to the following:
  - Pursuant to the French banking regulations and in order to obtain the banking licence, the Sponsor Bank has committed itself towards the *Comité des Etablissements de Crédit et des Entreprises d'Investissement* (the "CECEI", which is a committee of the French Banking Authority) to ensure the liquidity and solvability of the Issuer.
  - The Issuer will benefit from a "**Committed Overdraft Facility**" pursuant to which the Sponsor Bank shall make available to the Issuer any amount it may need in order to achieve its corporate object.
- **Credit quality of the Cover Pool:** The holders of the Covered Bonds will have the benefit of the support provided by the Cover Pool which will only include public sector exposures. The credit quality of the Cover Pool is reflected in its collateral score of 3.8%.
- **Over-collateralisation:** The Issuer is contractually obliged to maintain a minimum amount of over-collateralisation of 5%. The rating assigned by Moody's to the Covered Bonds take into account the over-collateralisation in excess of the 5% committed over-collateralisation.
- **Market risk:** The assets included in the cover pool are denominated in different currencies and have different coupon structures. Interest rate risk and currency risk is hedged pursuant to the terms of the Programme hedging strategy. The Issuer intends to limit the exposure to market risk to a maximum of 3% of the shareholders equity (the "**Market Risk Permitted Exposure"**).
- **Refinancing risk:** The following features are favorably regarded by Moody's.
  - The majority (currently approximately 72%) of the assets included in the Cover Pool are eligible for liquidity operations with the *Banque de France*.
  - As the Issuer is entitled to participate in the liquidity operations of the *Banque de France* the likelihood of a portfolio sale appears relatively remote.
  - The Issuer intends to maintain the duration gaps between the Covered Bonds and the Cover Pool below the 3 years threshold (the "**Permitted Maturity Gap"**).
- **Set-off:** French public sector borrowers are prevented by law from holding deposits with commercial banks. With reference to borrowers other than the French borrowers the following should be noted: i) the loans are transferred from the Sponsor Bank to the Issuer, hence the exposure to any set-off risk which is crystallized at the time of such assignment; ii) the Issuer is not a deposit taking institution.
- **Legal framework:** A number of provisions set out in the Law are regarded favorably by Moody's. These include, but are not limited to, the following:
  - *Assets Eligibility Criteria.* Only assets that satisfy certain eligibility criteria can be included in the Cover Pool. The Sponsor Bank and the Specific Controller will ensure that only eligible assets are transferred to the Issuer.
  - *Segregation*. Moody's understands that in the event of the insolvency of the Sponsor Bank the Cover Pool will not be included in the insolvency estate of such Sponsor Bank. Furthermore, the holders of the Covered Bonds and the swap counterparties will be paid - out of the cash flows deriving from such Cover Pool - in priority to the other creditors of the Issuer (if any).
- *Supervision.* The Issuer is supervised by the *Commission Bancaire*. Furthermore, the appointment of a Specific Controller is required. Moody's understands that the Specific Controller will supervise that the Law and any other right or obligation relating to the Issuer are complied with. Any breach detected by the Specific Controller will be reported to the *Commission Bancaire.*

Weaknesses with Mitigants

– **Sponsor Bank:** As with most covered bonds, until Sponsor Bank Default the Sponsor Bank and the Issuer have the ability to materially change the nature of the Programme (referred to as substitution risk). For example, new types of assets may be added to the Cover Pool and other assets may be released from the Cover Pool, new Covered Bonds issued with varying promises and new hedging arrangements entered into. These changes could impact the credit quality of the Cover Pool, refinancing risk and market risks. **Mitigant:** 1) the rating of the Sponsor Bank (**A1**), 2) the Law restricts the inclusion of assets in the Cover Pool to those assets that satisfy the relevant eligibility criteria set out therein and 3) the Issuer intends to acquire public sector exposures only.

– **Credit quality of the Cover Pool:**

- The Cover Pool displays some borrower and geographical concentration. **Mitigants:** 1) 63.3% of the portfolio consists of exposures against French public sector entities; 2) The largest exposure consists of Italian public sector assets backed securitization notes. Such exposure accounts for 6% of the Cover Pool. However, the pool backing the Italian public sector backed securitization notes is granular. The 30 largest obligors account for approximately 28% of the Cover Pool; 3) Moody's collateral score takes into account the impact of concentrations.
- As with most covered bonds in Europe, there are few restrictions on the future composition of the Cover Pool, hence substitution risk exists. **Mitigants**: 1) the quality of the Cover Pool over time will be protected by, among others, the requirements of the Law, which sets out rules detailing which assets qualify as ordinary cover assets; 2) The Issuer intends to continue to include in the Cover Pool only public sector exposures eligible under the Law.

– **Refinancing risk:** The following should be noted:

- *General.* As with most covered bonds, for timely payment following Sponsor Bank Default, Covered Bond holders would have to rely solely on proceeds being raised through the sale of, or borrowing against, assets in the Cover Pool. In particular, refinancing and liquidity may be needed as a result of the mismatches between the collections under the Cover Pool and the liabilities under the Covered Bonds. The maturity of the Covered Bonds is not capable of being extended. An extendable maturity would allow for an improvement in the sales value of any Cover Pool assets that are sold or temporarily transferred in order to meet payments of interest or principal on the Covered Bonds. **Mitigants:** 1) See Refinancing risk under "Strengths" above.
- *The non binding nature of the Permitted Maturity Gap.* While the relevant restrictions were implemented since the Programme was established, there is no assurance that such restrictions will continue to be applied in the future
- *Structured Coupons*. In the event of the termination of the swap arrangements, the structured nature of the coupons of certain assets may – in certain circumstances - materially affect the recovery value of such assets.

– **Set-off:** The following should be considered.

- Contractual set-off is not excluded from the loans included in the cover pool; ii) there is no provision requiring the Sponsor Bank to exclude from the Cover Pool assets in respect of which set-off has not been contractually excluded.
- Legal set-off is not excluded by the Law. **Mitigant:** 1) Please see strengths above; 2) the risk appears very remote in respect of the public sector bonds included in the Cover Pool.

– **Over-collateralisation:** The following should be considered.

- While the Issuer is committed to maintain a minimum amount of over-collateralisation of 5%, the breach of such commitment would not *per se* prevent the Issuer from issuing further Covered Bonds.
- The rating of the Covered Bonds relies on overcollateralisation in excess of the committed 5%. There is no certainty that such additional over-collateralisation will be maintained.

– **Legal framework:**

- *Time subordination*: Following Sponsor Bank Default the Issuer could be subject to bankruptcy proceedings. The Law provides that under such circumstances the Covered Bonds will mature at their respective contractual maturity. This means that later-maturing Covered Bonds are subject to time subordination. Principal cash collections, in fact, may be used on a first-come-first-served basis, to pay earlier-maturing Covered Bonds prior to later-maturing Covered Bonds. This could lead to over-collateralisation being eroded away before any payments are made to later maturing Covered Bonds. **Mitigant**: 1) the amount of committed over-collateralisation which the Issuer is committed to maintain over time; 2) due to the nature of the corporate object of the Issuer, the provisions of the Law and other structural features of the Programme, the likelihood of such bankruptcy proceedings being commenced against the Issuer appears relatively remote.
- **Market risk: Approximately 16% of the assets and 37%** of the liabilities have structured coupons. The vast majority of such coupons are characterized by either a barrier linked to an interest index or a spread between two CMS rates. Such features may reduce the likelihood of finding a replacement swap counterparty and, if un-hedged, may materially adversely affect the value of the Cover Pool. The non binding nature of the Market Risk Permitted Exposure. While the relevant restrictions were implemented since the Programme was established, there is no assurance that such restrictions will continue to be applied in the future. In some cases the swap counterparty is a member of the Dexia Group. **Mitigants:** 1) the contractual provisions included in the swap agreements designed to reduce the termination events under the swap; 2) Moody's model assumes that the swap arrangements may terminate upon the default of the Sponsor Bank; and 3) the Issuer intends to limit internal hedging to 1/3 of the aggregate notional amount of all swaps.
- **Commingling risk:** There is no trigger for the re-direction of the payments due by the borrowers at the Sponsor Bank default. Accordingly, it is likely that the underlying borrowers will not be required to redirect payments to the Issuer. In the event that such redirection of payments is not effected, collections will continue to be received by the Sponsor Bank. There are no eligibility criteria and replacement triggers applicable to the collection account bank. **Mitigant:** 1) the Issuer intends to continue to earmark the collections stemming from the assets included in the Cover Pool.
- **Independence of directors**: Specific circumstances may trigger conflict of interests, especially during the period immediately prior to the bankruptcy of the Sponsor Bank. **Mitigant**: the independence of the Specific Controller and its key role in ensuring that the Issuer satisfies the assets eligibility criteria and the coverage ratios provided for in the Law.

4. TRANSACTION SUMMARY

True sale transfer of the Cover Pool.

Proceeds from the issuance of Covered Bonds will be used to pay the purchase price for the Cover Pool which is transferred to the Issuer on a true sale basis.

Sponsor Bank as cash manager

In its capacity as cash manager the Sponsor bank will receive payments from the borrowers and will re-direct such payments to the Issuer.

Contractually committed over-collateralisation: 105%.

The Issuer is contractually obliged to maintain a minimum amount of over-collateralisation of at least 5%. However, the breach of such over-collateralisation requirement would not prevent the Issuer from issuing further *Obligations Foncières* or other instruments benefiting from the *privilege*.

5. STRUCTURAL AND LEGAL ASPECTS

Committed Overdraft Facility

The Sponsor Bank has recently amended the terms of the overdraft facility which it makes available to the Issuer. Moody's understands that pursuant to the terms of the re-structured over-draft facility the Sponsor Bank is committed to advance to the Issuer any amount it may require in order to achieve its corporate object.

5.1 Legal Framework

Sociétés de crédit foncier are regulated financing vehicles, holding specific types of assets as security for the obligations foncières.

Sociétés de crédit foncier (SCFs) are licensed credit institutions. They may grant or acquire either secured loans or exposures to public sector entities or other eligible securities (see below) and issue covered bonds ("*obligations foncières*") or incur other forms of borrowings in order to finance these assets. Article L.515-13 of the French Monetary and Financial Code (*Code monétaire et financier*), allows *sociétés de crédit foncier* to issue ordinary bonds or raise funds which do not benefit from the *privilège*.

Privileged liabilities are covered by at least the same value of collateral assets.

As a matter of law *Sociétés de crédit foncier* must at all times maintain a cover ratio between their assets and their "privileged" liabilities (in particular, Covered Bonds) of at least 100% on a nominal basis. The Law does not require any over-collateralisation or cover test based on net present value (NPV) calculations.

SCFs are under the supervision of a Specific Controller.

Sociétés de crédit foncier must appoint a Specific Controller (*contrôleur spécifique*) with the approval of the Banking Authority whose task is to ensure that the cover test is complied with. In particular, the Specific Controller must certify that the cover ratio is satisfied in connection with (i) new Covered Bond issues and (ii) any other issue also benefiting from the *privilège* whose amount is greater than €500 million. The Specific Controller must verify the quality of the assets, the process of yearly revaluation and the quality of the asset liability management.

Hedging agreements also benefit from the privilege.

For bonds to qualify as *obligations foncières* and for other resources to benefit from the *privilège*, the documentation relating thereto must explicitly refer to such *privilège*. All derivative transactions (and all amounts due thereunder) entered into by a *Sociétés de crédit foncier* for the purpose of hedging *obligations foncières* and or other financial resources and assets benefiting from the *privilège* will also benefit from such *privilège*.

The sums resulting from the eligible receivables, replacement receivables and from derivative transactions, together with deposits made by *sociétés de crédit foncier* with other credit institutions, are allocated in priority to the payment of any sums due in relation to the *Obligations Foncières* and any other liability benefiting from the *privilège*.

No consolidation in bankruptcy.

A *société de crédit foncier* should not be consolidated in the bankruptcy of its parent.

Derogations from the general law on insolvency, in particular (i) no acceleration and prior ranking of the privileged liabilities and (ii) acts by the SCFs are not subject to any suspect period.

The Law provides for a regime which derogates in many ways from the French legal provisions relating to insolvency proceedings. In particular, in the event of a safeguard procedure (*procédure de sauvegarde*), judicial reorganisation (*redressement judiciaire*) or liquidation (*liquidation judiciaire*) of a *société de crédit foncier*, all claims benefiting from the *privilège*, including interest thereon, must be paid on their due dates and in preference to all other claims, whether or not secured or statutorily preferred and, until payment in full of all such preferred claims, no other creditors may take any action against the assets of the *société de crédit foncier*.

In addition, certain transactions entered into during the suspect period cannot be nullified in the case of transactions or acts entered into by *sociétés de crédit foncier* provided that such transactions and acts are made in accordance with their legal exclusive purpose.

This ensures the insolvency remoteness of the Covered Bonds in relation to the Sponsor Bank. However, the *société de credit foncier* may under certain circumstances also become insolvent.

While the Issuer will purchase public sector assets that are eligible under the terms of the Law, typically a *Sociétés de crédit foncier* may acquire the following types of assets:

- Exposures to public entities such as central administrative bodies, central banks, public institutions, territorial authorities or groups thereof located in a state which is a member of the European Economic Area (EEA) USA, Switzerland, Japan, Canada, Australia, New Zealand or other public exposures or exposures fully guaranteed by public entities that are risk weighted as exposure to central government, central bank or institutions and which benefit from the credit-quality step 1 as determined by an external rating agency recognised by the Banking Commission in accordance with Article L. 511-44.
- Loans secured by a first-ranking mortgage or other real estate security interests that are equivalent to a first-ranking mortgage or loans that are guaranteed by a credit institution or an insurance company that does not belong to the same group as the Issuer. The Law provides that the mortgage-backed loans cannot exceed a threshold of 60%. of the property's value, except under certain conditions (not applicable to the Issuer which is only funding public sector exposures)..
- Units or notes (other than subordinated units or subordinated notes) issued by a *Fonds Commun de Créances*, which are French securitisation vehicles, or other similar vehicles governed by the laws of a Member State of the EC or EEA extended to United States, Canada, Switzerland, Australia, New-Zeland and Japan concerning only public sector exposures vehicles, the assets of which shall comprise at least 90% of secured loans or exposures to public entities or other receivables benefiting from the same level of guarantees; and
- Mortgage promissory notes (*billets à ordre hypothécaires*) (not applicable to the Issuer which is only funding public sector exposures).

5.2 The Issuer

The Issuer is a regulated société de crédit foncier.

The Issuer – fully owned by the Sponsor Bank - was established in 1999. It is a credit institution, licensed as a financial company with the status of *société de crédit foncier*.

The Issuer is a bankruptcy-remote subsidiary of the Sponsor Bank.

The Issuer is the refinancing platform for the public finance activities of the Dexia group.. It should be noted that the Issuer has no employees and is managed and supported by Dexia Credit Local. Moody's understands that pursuant to the terms of a committed overdraft facility, Dexia Credit Local shall make available to the Issuer all funds that are deemed to be necessary for the Issuer to comply with its corporate object and discharge it obligations

Issuer's corporate object is defined in the Law.

While the Law expressly defines the corporate object of the issuers of *obligations foncières* the Issuer has elected to further restrict its corporate object. The Issuer's purpose is:

- to grant or acquire secured loans and exposure to public sector entities and securities referred to in Articles L.515-14 to L.515-17 of the French Monetary and Financial Code (*Code monétaire et financier*); and
- in order to finance such categories of loans, exposures or securities, to issue *obligations foncières* benefiting from the *privilège* provided for in Article L.515-19 of the French Monetary and Financial Code (*code monétaire et financier*) and to obtain other resources, which are expressly subject to the same *privilège*.

The Specific Controller verifies key financial aspects of the activities of the Issuer, in particular the extent of the collateral for the Covered Bonds. He is independent from both the Issuer and the Sponsor Bank.

The Specific Controller ensures that the Issuer complies with the *Code monétaire et financier* (in particular, verifying the quality and the eligibility of the assets and the coverage ratio). He also monitors the balance between the Issuer's assets and liabilities in terms of rates and maturity (cash flow adequacy) and notifies the board of directors of the Issuer and the *Commission Bancaire* if such balance is considered to be unsatisfactory. The Specific Controller attends all shareholders meetings and, on his request, may be heard by the Board of Directors.

No employees.

The Issuer has no employees.

6. MOODY'S RATING METHODOLOGY

Moody's covered bond rating methodology special report (Moody's Rating Approach to European Covered Bond dated 13 June 2005) details the approach used for rating covered bond transactions. The main idea is that until Sponsor Bank Default (as this term is defined in Moody's methodology), the Covered Bonds obligations are sufficiently supported by the Issuer. Following Sponsor Bank Default, the Programme will rely solely on the quality of the Cover Pool, including the swaps to the extent that these have survived. The impact of the credit strength of the Sponsor Bank and the quality of the Cover Pool are analysed below.

6.1 Credit strength of the Sponsor Bank

The Sponsor Bank is rated A1;Prime-1

The Covered Bonds are full recourse to the Issuer. The Issuer is not rated. However, Covered Bond holders will benefit from the Sponsor Bank's support to the Issuer by virtue of the Committed Overdraft Facility, which will enable the Issuer to meet its obligations should, prior to the default of such Sponsor Bank, the cash flows from the Cover Pool be insufficient. The Committed Overdraft Facility and other supports provided by the Sponsor Bank have enabled Moody's to use the Sponsor Bank's senior unsecured rating as the reference point for the TPI. The Sponsor Bank is rated **A1/Prime-1** For more information on the fundamental credit quality of the Sponsor Bank, please see the latest Moody's bank credit report on the Sponsor Bank available on www.moodys.com.

6.2 Quality of the Collateral

The Cover Pool assets at a glance

The loans composing the Cover Pool are public-sector exposures only.

The Cover Pool will solely comprise of public sector exposures.

As of 31/12/2008, the nominal amount of the Cover Pool was bn 68.1Euro equivalent.

A number of swap counterparties have recently been downgraded. As a result some of such swap counterparties have posted cash pursuant to the terms of the relevant CSA. The issuer has replaced such cash with deposit certificates issued by the Sponsor Bank and benefiting from the Dexia guarantee scheme.

A detailed overview of the Cover Pool assets is provided under *Appendix 1*.

The quality of the Cover Pool assets is reflected in the Collateral Score. Moody's has calculated a Collateral Score of 3.8% for this Programme.

6.3 Refinancing the Cover Pool

Covered Bonds will benefit from restrictions deriving from the voluntary Permitted Maturity Gap

Following Sponsor Bank Default, where the "natural" amortisation of the Cover Pool assets alone cannot be relied on to repay principal, Moody's assumes that funds must be raised against the Cover Pool at a discount if covered bondholders are to receive timely principal payment. After a Sponsor Bank Default the market value of these assets may be subject to substantial volatility. Examples of the stressed refinance margins used by Moody's for different types of prime quality assets are published in Moody's Rating Approach (see Related Research below). Please note that such refinancing margins were increased as per press release dated 29 February 2008 (available on www.moodys.com).

Aspects specific to this programme that are refinancing positive include:

- Insolvency proceedings against the Issuer will not trigger any acceleration of the Covered Bonds.
- Public-sector assets are in general terms a more liquid type of collateral, which should improve the sale value of the Cover Pool. Public-sector collateral (repo-eligible) is expected to trade at lower refinancing margins than other asset classes.
- The ability of the Issuer (or its bankruptcy administrator) to sell or transfer the cover assets. However, it should be noted that due to the ability of the Issuer to participate in the liquidity operations of the *Banque de France* the likelihood of an assets sale taking place appears relatively remote.
- Please see TPI positives.

Aspects specific to this programme that are refinancing negative include:

- The Covered Bonds have a bullet maturity and will not benefit from an extendable maturity.
- The amortization profile of the assets does not match the payment profile of the Covered Bonds.
- During the entire life of the loan, an administrator of the Cover Pool is unlikely to be able to change the rate charged to the underlying borrowers.
- The quite long weighted average life of the Cover Pool assets, namely [7.8] years.
- The market risk exposure which may materialize as a result of the termination of the swaps in respect of the assets with structured coupons may materially adversely affect the value of the Cover Pool at refinancing.
- Please see TPI negatives.

6.4 Market Risk

As with the majority of European covered bonds, there is potential for market risk. For example, following Sponsor Bank Default, covered bondholders may be exposed to interest risk, which could arise from the different payment promises and durations made on the Cover Pool and the Covered Bonds or currency mismatches. Following Sponsor Bank Default, the Moody's Covered Bond Model looks separately at the impact of increasing and decreasing interest rates on the expected loss of the Covered Bonds, taking the path of interest rates that leads to the worst result.

Currency mismatches are expected to be hedged through the Programme hedging strategy.

Hedging arrangements will be in place from inception.

Aspects specific to this Programme that are market risk positive include:

- The swap arrangements contain a rating based swap counterparty replacement trigger.
- The committed over-collateralisation mitigates market risks.
- The majority of the hedging agreements relating to structured exposures are entered into with external swap counterparties.

Aspects specific to this Programme that are market risk negative include:

- The failure to pay as a termination event is subject to a 3 days grace period only.
- It is possible that a replacement for the swap counterparty is not found. Should this be the case, investors may become exposed to market risk if the over-collateralisation proves to be insufficient to absorb the negative impact of any adverse rate movement (which may be material).
- In some cases the swap counterparty is a member of the Dexia Group.
- The Sponsor Bank Default may impair the Issuer ability to comply with its obligations under the swap. Accordingly, the Sponsor Bank Default could potentially result in the swap arrangements being terminated.
- The structured nature of the coupons of certain assets included in the Cover Pool, may reduce the likelihood of the swap counterparty being successfully replaced.

In the case of insolvency of the Sponsor Bank, Moody's believe that the ability of the Issuer to manage the Cover Pool and comply with its contractual obligations may be adversely affected.

7. LINKAGE AND RATING SENSITIVITY

The rating of the Covered Bonds is linked to the strength of the Sponsor Bank.

All covered bonds ratings are linked to the relevant sponsor bank's rating.

Moody's covered bond ratings are primarily determined by the expected loss posed to investors. However, these ratings may also be constrained by the issue of "linkage" to the underlying sponsor bank, i.e. the risk of a late payment of either interest or principal on the covered bond following sponsor bank default.

As a result the covered bonds will come under increasing rating stress as the sponsor bank's credit strength deteriorates. Reasons for this include:

Refinancing risk: Following sponsor bank default, if principal receipts from collections of the cover pool are not sufficient to meet the principal payment on a covered bond, funds may need to be raised against the cover pool. However, the fact that the Issuer has defaulted may negatively impact the ability to raise funds against the cover pool.

The exposure of the programme to the choices of the Sponsor Bank and the Issuer. In the context of this transaction for example, prior to Sponsor Bank Default, the Sponsor Bank may add new assets to the Cover Pool or ask the Issuer to issue further Covered Bonds; in addition the Issuer can enter into new hedging arrangements and issue bonds or other debt instruments. Each of these actions could negatively impact the value of the Cover Pool.

More generally, by the incorporation of the strength of the sponsor bank in the Moody's rating method.

As a result of this linkage, the probability of default of the Covered Bonds may be higher than expected for Aaa-rated senior unsecured debt. However, Moody's primary rating target is the expected loss, which also takes into account severity of loss, which in this case is consistent with a Aaa rating.

The probability of default on the Covered Bonds may diverge from what is expected for a Aaa senior unsecured debt instrument; however, Moody's primary rating target is expected loss.

The TPI determines the maximum rating a covered bond programme can achieve.

Moody's Timely Payment Indicators ("TPIs") (see Moody's report "Timely Payment in Covered Bonds following Sponsor Bank Default" dated 13 March 2008) assess the likelihood that a timely payment will be made to covered bondholders following Sponsor Bank Default. Accordingly, the TPI determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable amount of over-collateralisation.

Aspects specific to this programme that are TPI positive include:

- The legal framework which guarantees that an insolvency of the Issuer will not accelerate payments under the Covered Bonds.
- The relatively low-risk nature of the Cover Pool assets would facilitate a sale of such assets.
- The entitlement of the Issuer to enter into liquidity operations with the *Banque de France*.
- The Permitted Maturity Gap.
- The Market Risk Permitted Exposure.
- The majority of the hedging agreements in respect of the assets with structured coupons are entered into between the Issuer and swap counterparties outside the Dexia Group.

Aspects specific to this programme that are TPI negative include:

- In some cases hedging is provided by a swap counterparty internal to the Dexia Group. There is no assurance that - if necessary - the Issuer will be able to enter into hedging arrangements with a swap counterparty external to the Dexia Group.
- The maturity date of the Covered Bonds cannot be extended.
- No significant mitigants to the commingling risk.
- Assets with structured coupons could prove less liquid than assets with plain vanilla coupons.
- The Market Risk Permitted Exposure and the Permitted maturity Gap are implemented on a voluntary basis only. While the relevant restrictions were implemented since the Programme was established, there is no assurance that such restrictions will continue to be applied in the future.

8. ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Moody's has analysed the origination process in connection with the public sector assets. The Issuer is not expected to acquire assets other than public sector exposures. However, should non public sector assets be included in the Cover Pool, Moody's will review the relevant origination process.

9. MONITORING

Moody's will monitor the Programme on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing the assets on an ongoing basis. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

10. RELATED RESEARCH

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

Rating Methodology

- Moody's Rating Approach to European Covered Bonds, June 2005 (SF57011)

Special Report

- European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 (SF66418)
- Timely Payment in Covered Bonds following Sponsor Bank default, March 2008 (SF109992)
- Assessing Swaps as Hedges in the Covered Bond Market, 2008 (SF142765)

Bank Credit Analysis

- Dexia Credit Local, March 2008 (SF107945)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

VII. COVER POOL INFORMATION - PUBLIC SECTOR ASSETS

Overview	
Collateral Score :	3.8%
Asset balance :	68,149,232,753.16
WA Remaining Term (in months) :	212
Number of borrowers :	23,009
Number of loans :	72,375
Exposure to the 10 largest borrowers :	19.6%
Average exposure to borrowers :	2,961,851.13

(*) n/d : information not disclosed by Issuer

Specific Loan and Borrower characteristics	
Repo eligible loans :	68.2%
Percentage of fixed rate loans :	36.2%
Percentage of bullet loans/ bonds :	4.4%
Loans in non-domestic currency :	9.7%
Performance	
Loans in arrears (≥ 2months - < 6months) :	n/d
Loans in arrears (≥ 6months - < 12months) :	n/d
Loans in arrears (> 12months) :	n/d
Loans in a foreclosure procedure :	n/d

Chart A:
Borrower Type

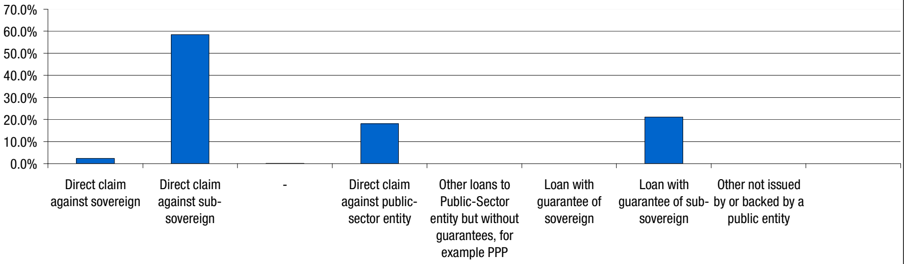


Chart B:
Asset Types in Cover Pool

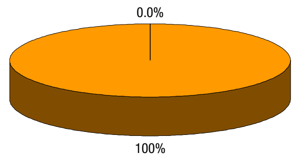


Chart C:
Borrower Concentration

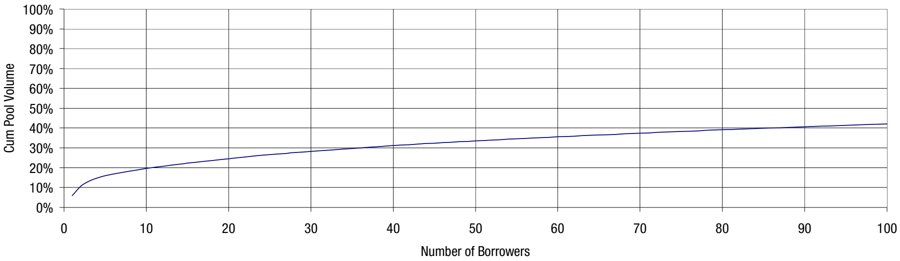


Chart D:
Location of Asset in Cover Pool

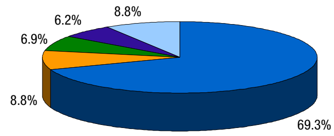
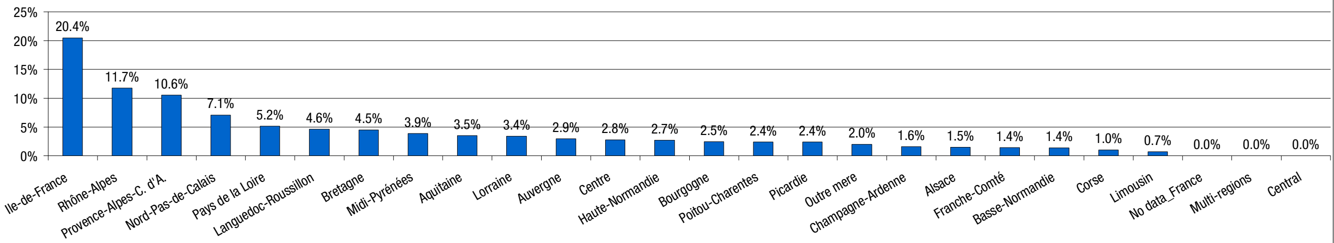


Chart E:
Main Country Regional Distribution



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