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France and Belgium to Guarantee Dexia

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Jock Fistic/Bloomberg News
Didier Reynders of Belgium, in Luxembourg on Tuesday for a meeting of European finance ministers.

PARIS — France and Belgium moved on Tuesday to shore up Dexia as fears increased that the bank's exposure to Greek sovereign debt could lead to its collapse.

Following a 30 percent drop in the bank's shares over two days, the governments said they were ready to back Dexia's finances again, three years after bailing out the firm. François Baroin, the French finance minister, and Didier Reynders, his Belgian counterpart, acted on fears that the problems at Dexia might lead to contagion elsewhere in the financial system and raise additional doubts about other European lenders.

“As part of the restructuring of Dexia, the Belgian and French states, working in conjunction with the central banks, will take all necessary measures to ensure the safety of depositors and creditors,” the governments said in a joint statement. “To this end, they undertake to extend their guarantee to funds raised by Dexia.”

Dexia, which received a joint bailout of 6.4 billion euros (\$8.4 billion) in 2008, had just received a clean bill of health on July 15 after the European Banking Authority's latest round of stress tests.

But the company's shares fell 10 percent on Monday on news that Greece would not meet its deficit reduction targets this year and that **Moody's Investors Service** had put the bank's main operating businesses on review for downgrade. The stock continued its slide on Tuesday, falling as much as 32 percent, before recovering somewhat after the announcement by the French and Belgian governments, which own substantial

stakes in Dexia. A smaller share is held by Luxembourg.

Dexia held 3.8 billion euros of Greek sovereign bonds at the end of June and had a credit risk exposure to the country of 4.8 billion euros, Reuters reported. The financial firm said it had reduced its balance sheet to 518 billion euros at the end of June, from 651 billion euros at the end of 2008.

Dexia appeared to be heading for a break-up, with Mr. Reynders telling Belgian television that the soured assets would be hived off. The Dexia board

Yves Herman/Reuters
Dexia's headquarters in Brussels. The French and Belgian governments own substantial stakes in the bank.

held an emergency meeting on Monday and into Tuesday morning; local news reports suggested that the bank was considering selling some of its profitable assets and creating a bad bank to house its more troubled assets.

“We have to put all of the dangerous parts outside of the bank,” Reuters cited Mr. Reynders as telling RTL television. “It is here where the state guarantee will come into play, it’s what we call a ‘bad bank’, and then give the customers the guarantee, whether they are depositors or customers asking for credit.”

After its board meeting, Dexia said in a statement that Pierre Mariani, its chief executive, had been asked to prepare “necessary measures” to solve its “structural problems.” Dexia insisted that it remains fully solvent, with a Tier 1 capital ratio of 11.4 percent, compared with 10.6 percent at the end of 2008.

The bank’s state shareholders “have confirmed their will to support Dexia Group, so that it can implement the various measures in an orderly manner and under the best conditions,” it added in the statement. Mr. Reynders said the best way to help the banks was to resolve the sovereign debt crisis that has engulfed the Greek government.

Dexia, which employs more than 35,000 people, has a substantial business in lending to local governments, particularly in France. It also has more than eight million corporate and retail customers in Belgium, Luxembourg and Turkey.

David Jolly reported from Paris, and Stephen Castle from Luxembourg.

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