



## Conference Call Transcript

### Q3 2007 Natixis Earnings Conference Call

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#### Editor

(Audio begins in progress)

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#### **Andre-Jean Olivier - Natixis CFO**

(interpreted) Let me introduce myself first. I'm Mr. Olivier, CFO at Natixis and we met with the Head of the CIB area, and soon I will be with Pierre Servant, who is in charge of Asset Management at Natixis, and Pierre Jacob who is in charge of Investor Relations.

So, without any further ado, I'm going to begin by commenting on the major trend in the Natixis income statement as at September 30, 2007. The first point is the good resilience of our NBI versus first nine months of the previous year. Through the diversity of our businesses the next major trend is the strong deceleration in charges. We are focusing on adjusting our cost base without in any way undercutting our medium-term development plan.

The third notable point is that our increase in net income Group share is up 15% versus the first nine months of 2006. We maintain at end September a very solid financial structure with a Tier 1 ratio of 8.3%, and that's after allowing for the anticipated 50% deduction of CCI cooperative investment from Tier 1 capital. So, excluding that our Tier 1 ratio would be 10.4%.

And let me point out a major event which was announced by our two main shareholders a few days ago. This is that Natixis is pulling out of the credit enhancement business at Natixis, and this will be finalized by December 31 of this year. In this respect, let me point out that at end September there was an adjustment in the amount of EUR140 million in respect of the guarantees in credit default swap as per IFRS standard requirements. This adjustment seeks to reflect the credit default swaps market value, but in no way represents any actual losses on the portfolio of guarantees.

Now, I'd like to look at the main points in our income statement. And we are presenting this with plus the impact of market-to-model of the CIFG CDSs. And the first point which I just pointed out is that the CDS accounting adjustment has no fundamental accounting book significance. And second, is

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the certainty of Natixis's pulling out by disposal of CIFG. So I'm going to review the key figures without taking into account the effective CIFG CDSs.

So in the first nine months, as you can see on the slide, Natixis had 5% growth in revenues. Natixis recorded a very significant pullback in charges to 6%; we were up 12% at the end of H1. Gross operating income rose allowing Natixis to maintain its cost income ratio as the same level as at end 2006. The cost of risk remains extremely low and the underlying net income is up 3% after taking into account gains on restructuring booked in Q3 because of the disposal of the building along Rue St. Dominique in Paris, generating a gain of EUR231 million. And in addition, charges from our integration plan, the net income Group share was up 22%. And therefore the ROE after tax is 14.8% at the nine months, annualized.

If we look at net banking income for our divisions over the first nine months of 2007, NBI from the divisions, which you see here, illustrates the robustness of our model. Most of the divisions saw double digit growth, asset management up 17% over the first nine months of '06, and on a constant dollar basis it would be 23%. Private equity and private banking up 20%, continuing strong growth in this area. The services division was up 11%, and receivables management was up 9% with a positive contribution from growth in factoring.

In corporate and investment banking, growth in the financing and capital markets businesses, and we'll get back to that later, offset in part the impact of the crisis on securitization and prop trading operations.

Now let's look at the development in Q3 of '07 compared with Q3 of 2006. As you see, there's strong growth in the businesses, up 18% in asset management, up 16% in services. And the strong growth in those businesses made it possible to contain the pullback in NBI to 8%. As you know, cost control is a concern for management at Natixis. Strict discipline in cost control ever since Natixis was set up was seen in the figures for the first half of the year. And it's clear in the figures the cost control programs were vigorously pursued. In addition, the adjustment of variable compensation to performance contributes to the significant slowdown in our costs. Because on the left-hand part of the slide you see here in the third quarter.

So here we see growth [at the end of June] is what you see on the right of the slide.

Now let's look at the impact of the crisis in credit markets in the quarter. And this is concentrated first on CIB operations. This figure includes not only value adjustment, but it also affects our securitization of (technical difficulty). We have an adjustment in our portfolio of swaps for proprietary operations. The writeback of the items classified under items held for sale comes to EUR108 million. The cost of risk remains very low; there has been no worsening in faults or claims with our corporate customers. But we have nevertheless continued with a cautious provisioning policy, as you see through the steady level of our collective provisions.

Now for the capital structure, we have a very solid capital structure and this has sometimes been some friendly criticism. And this is in line with the first phase in Natixis' integration and this seems to be positive in the current turbulent times experienced by the banking industry. This capital structure was set up with limited use of hybrid Tier 1 capital although we did have a successful EUR750 million issue, on October 7, right after the RBS, and right after that issue we have significant potential for further issues.



Tight management of risk weighted assets, up 9%, allows us to have a Tier 1 ratio that is, factoring in the 50% deductibility of the CClIs, a Tier 1 ratio of 8.3% as to September 30.

Let's look at the net income from divisions, I'm not going to dwell on this. You'll be able to look at this for our main business areas. As you see, we have a diversification of contributions from our businesses and over the first nine months of 2007 this has allowed us to cushion the impact of the banking crisis on our CIB operations.

Now, let's turn to Corporate and Investment Banking, this business has obviously been affected by the crisis that broke this summer. The crisis weighed first upon proprietary operations with a EUR138 million adjustment in loss and value and top line reductions. It has an impact on securitization, EUR124 million including EUR64 million in lost income on securitization operations, and to a lesser extent it weighed on capital markets, especially credit operations in the amount of EUR42 million. That being the case, however, the main business in Corporate and Investment Banking was positive, we had good performance in the third quarter capital markets, had quarter-on-quarter growth -- I'm sorry, growth versus the equivalent quarter on year before of 15%. This is driven by corporate solutions and equity cash, and more generally this has been driven by growth in NBI from customer operations, which registered the increase in cross-selling for the combined sales from the components of the new Natixis Group. We also had strong growth in structured finance, 24% versus the third quarter of 2006 and, as you know, corporate financing and services in France and internationally benefited from Natixis's penetration in the upper tier of medium-size companies in France and internationally as well.

So, on this slide, you see that net banking income was down somewhat by 5% over the first nine months, a thorough reduction in charges for Corporate and Investment Banking and in total underlying net income for CIB in Q3 was EUR81 million, down 13%. This is compared to nine months in 2006 after the automatic run up in VaR over the summer, VaR fell after a downward adjustment in our trading positions.

Our exposure to the crisis in the credit market is limited, limited in the area of subprime lending, that's our direct exposure. The exposure to subprime loan originators has been brought down to zero, the portfolio of loan pending securitization at the end of September 2007 stood at EUR258 million. This is marking to market, this is 14% below par. Natixis incurs exposure with CDO or ABS collateralized in part by subprime loans. RMBS subprime in the amount of EUR887 million marked-to-market at end September 2007 and marked-down up to EUR106 million. CDO of ABS portfolio which includes an amount of EUR350 million, partly collateralized by subprime loans. This is written down as per marking-to-market requirement in the amount of EUR20 million.

Conduits started by Natixis come to EUR6 billion in assets. Less than 10% of that is subprime underlying, and as you see this is among the lowest for the major banks regarding conduits.

Regarding LBO finance, as you know, LBO finance is a natural complement to our corporate financing operations. We have good diversification, over some 300 names, and in virtually all of this we're in the senior portion, and none of them account for more than 50% of the value of a company. So, outstandings of EUR5.4 billion, and EUR400 million in the process of being syndicated.

Let's turn to asset management. We should note that in the third quarter of 2007, thanks to the diversification of our products, our geographical locations and distribution channels at Natixis, our businesses had positive net new money in the quarter.



Now, looking at assets under management we should make a distinction between Europe and the United States. In Europe, assets under management stood at EUR404 billion. In the third quarter there was a limited decrease in AuM because of outflows from two dynamic money market funds and a negative market effect in light of action in the industries over the summer.

Over nine months, assets under management are up 5% and net new money for the first nine months comes to EUR13 billion. If you look at the United States, assets under management came to EUR203 billion. In the third quarter we had very sustained net new money, and the same applies for the first nine months with assets under management up 15%, and net new money of close to \$24 billion of which 73% coming through the distribution platform.

The results, attest to the efficiency of the model based on multi-boutique organization with global distribution, at end September net banking income was up 18% versus the third quarter of 2006. This was driven both by the strong growth in assets under management and also high performance fees, in particular in real estate products. Gross operating income for nine months was up 7% and up 14% for the quarter. If you look at the nine month performance it should be pointed out that on a like-for-like basis and excluding exceptional items, the gross operating income would have been up 17%, and we would have had a 6% increase in the underlying net income over 9 months. Gross operating income rose not only in the United States but in Europe as well.

Private Equity and Private Banking, we had a fine performance here, even compared to a particularly brilliant quarter in the third quarter of 2006, we had a net banking income up 59% in the third quarter of 2007 over a comparable quarter a year before. The two components of this division had strong growth, plus 73% in Private Equity because of geographical diversification and also business diversification, as you can see in the pie charts on the slide, and Private Banking is also coming along nicely with growth in assets under management and growth in the banking income.

Turning to the Services Division, in the third quarter the Services Division enjoyed strong growth in business. The various chains in the value chain in finance are all pointing in the right direction. Life insurance outstandings are up 9%, consumer finance outstandings are also up in a very strong way with the increase in personal lending in the Caisses d'Epargne network.

Securities had improved profitability because of higher volumes and strict cost control. Outstandings at the end of September stood at EUR2.5 trillion and employee benefit planning was also up.

Now, for the Services Division overall, net banking income was up 11% over the nine months, an improvement in the cost/income ratio and that's a good signal for this business. And also improvements in gross operating income and underlying net income.

Receivables Management, as you know, includes four major businesses. Here they are listed as three; credit insurance, credit management and information and factoring revenues. For the Receivables Management division, NBI was up 9% with an increase in revenues in credit insurance a bit slower than what we saw in the previous half year, but there is very competitive market conditions there. We had a significant increase in credit management services, and factoring revenues increased with the business growing both in France and internationally.

The loss ratio is still at a low level, under 50%, and we see continued strategy of rolling out the full product offering in an international network with 70 countries.



If we look at the results included on an equity basis from the retail network, first, the contribution from the Banques Populaires Group. Accelerated growth despite less favorable market conditions in the French retail banking market. Here you see the indicative for net banking income on the combined financial statement, so you see on the chart, operational performance improved with gross operating income up 7% and an increase in the contribution of Banques Populaires to Natixis, a 9% increase. Looking at the contribution from Caisses d'Epargne, we see the same thing in terms of commercial banking; the indicators here are all in the right direction. The net banking income up 2%, stable gross operating income, the cost has been kept in check, and the contribution of EUR241 million to Natixis, down apparently, in book terms by 10%. But this is primarily due to the scheduling of dividend payments between CNCE and the parent company, and there is no structural action underway here.

Now, I would like to turn to CIFG now. First, I would like to point out the two main objectives of the operation. The first objective is to fully remove CIFG from the Natixis scope of business, and the second objective is to provide CIFG with the financial resources needed to maintain its AAA credit rating with the rating agencies.

The main terms of the operation, now, Groupe Banques Populaires and Groupe Caisse d'Epargne provide financial support to CIFG in the form of capital or quasi-capital in the region of \$1.5 billion.

And then the second step; as soon as the authorizations are received from the [competent] authorities in France and abroad, the sale by Natixis of its current residual stake in CIFG to the two groups, the two reference shareholders.

At the conclusion of these two items, CIFG will be held in full by Groupe Banques Populaires and Groupe Caisse d'Epargne, at par, and Natixis will no longer have any exposure to CIFG risk.

Now, the schedule and upcoming stages. In the next few weeks the continuation, this is currently underway and discussions with the rating agencies to determine the amount in terms of financial support to CIFG. At the end of those discussions, setting up the financial support to CIFG and after agreement from concerned authorities the final sale by Natixis of the stake in CIFG.

Now, for Natixis this means that Natixis in its consolidated accounts will include CIFG's result in the third quarter P&L, we discussed that, and in the fourth quarter 2007 Natixis will record the cost of the final sale of CIFG.

Now, just a few words to conclude. Despite what is clearly a more difficult environment, we believe that our results demonstrate the strength of our economic model based on diversified business lines and complementary client bases. These are the elements that were fundamental to the creation of Natixis, and Natixis has a very strong financial [structure] and is therefore prepared to deal with the challenging times ahead.

Thank you for your attention. My colleagues and I are ready to answer your questions, and the rule for this conference call is that we will be speaking in French and we also have simultaneous translation for those of you who are listening in English.



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