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Operator: Good morning, ladies and gentlemen, and welcome to the Dexia 2009 third-quarter results conference call, hosted by Pierre Mariani, Chief Executive Officer of Dexia. My name is Phil and I'll be your coordinator for today's conference. Throughout the presentation, you will be on listen-only. However, at the end of the call, there will be the opportunity to ask questions. (Operator Instructions). I will now hand you over to Pierre Mariani, Chief Executive Officer of Dexia, to begin today's conference call. Sir, please go ahead.

Pierre Mariani: Okay. Thank you. Good morning, everybody. I am happy to welcome you for this third-quarter meeting -- results meeting.

I would like to make a short introduction and underline the highlights of the third quarter, and Philippe Rucheton, the CFO of the Group, will be there to make a more detailed presentation. And of course we are there with Stefaan Decraene, the Head of Retail Banking activities, and Claude Piret, Chief Risk Officer of the Group, to answer your questions, if any, at the end of the presentation.

We today are therefore this -- third-quarter results, sorry, and I am happy to report, of course, a positive result for the third quarter in a row. And I think this result and the analysis of the financial situation of the Group, as well as the liquidity position of the Group, reflects the magnitude of the efforts accomplished during the last year or so.

The third-quarter result was positive, of EUR274m, after EUR49m of restructuring costs that we have taken into account in the quarter, compared to a net loss of EUR1.5b last year on the nine months of 2009. The total profit for the Group was EUR808m, compared to a net loss of EUR723m last year. So it's a return to profitability and the result for the quarter is exactly in the range I was mentioning a few weeks ago, when I made a public presentation of the Group.

The interesting fact of the quarter is of course that not only the Group is profitable, but there is also an underlying increase of the results of the business lines of the Group, and that's very positive. Last year, same period, all the businesses were experiencing losses and total losses amounted to EUR216m. It's this year a net profit in the third quarter of EUR316m. That's very positive and very encouraging, when we look at our business results.

The second very important element, in my view, is clearly the significant improvement in the Group's liquidity. We had of course significant access this quarter to unsecured long-term funding. We had also renewed access in the short-term unsecured unguaranteed funding, a strong decrease of short-term guaranteed funding, and also we've been able to accelerate our bond deleveraging with more than EUR13b bonds and loans sold totally in the nine first months of 2009.

And all these elements are clearly contributing to the rebalancing of our balance sheet, of course at a cost, and we knew that correcting the imbalances would have a cost for the Company. But the results are there and I still -- we believe that when we look at the dynamic liquidity gap of the Group, we have now met 75% of our two-year objective in terms of reduction of this liquidity gap. And that's very encouraging in our capacity to exit from the State guarantee.

The third element that should be highlighted is clearly the reduction of the negative AFS reserve by EUR2.3b in the third quarter. And still the Group has a very strong solvency, with an increase of 0.5% of core Tier 1 and Tier 1 during the third quarter of 2009.

Going into a bit more detailed aspects, of course I would like to emphasize mainly the comparisons of the result and the level of the evolution of revenues on one side, but also on the costs on the other side, with very strong reductions of our expenses, down 10% year-on-year excluding FSA and restructuring charges.

And a very lost cost of risk, for two reasons. First reason is that of course, as you probably all remember, we have made a huge amount of provision, taking into account the fact that in the previous quarter we had exceptional results and so we built a non-allocated reserve in terms of provision for a significant amount in the second quarter. And in the third quarter, we have benefited also of a reversal of impairments made previously on Lehman assets and on Icelandic Banks.

As I was telling you, the aggregate profitability of core businesses increases, showing of course a very moderate cost of risk, I will insist on that in a minute, but also in the progressive recovery of all the compartments of our core businesses, and more particularly in the asset management and services pieces.

On the revenues, the revenues are up nine months, compared to nine months last year, of course, but down from the second quarter. I just remember and recall that in the second quarter we had exceptional positive results linked to, first of all, the closing of Assured Guaranty and we booked a profit on that, and also on the exceptional sales on assets.

On the other side, the third quarter is reflecting the cost, of course, of the sale of the portfolio, the losses we experienced in the third quarter linked to the asset sales, the decrease of the treasury. And you also probably remember that in the first two quarters of 2009 the revenues were also benefiting from a high rate liquidity line we granted in the US and that were drawn in the fourth quarter.

The good news is that of course the global commitments have been reduced by EUR10b, that the draws of each line are now very minimal and back to a pre-crisis level, with a strong impact on our liquidity position but of course with a negative shock, or impact on our revenues, which is reflected in the difference between third quarter and second quarter.

In terms of reduction of cost, we are on track and more than on track. Even excluding the restructuring charge, costs are down EUR244m compared to the nine months last year, so down 10%, with very significant efforts on PWB, 9%, financial market activities 21% reduction, asset management 13% reduction, contributing strongly to the improvement of the profitability of the Group and partially mitigating the decline on the revenue side.

Of course, we know that even if the objective for the year was EUR200m, so we are more than on track with that. But there is a part of this cost reduction that will not be replicated in the future, because of course it's linked to the very significant efforts in a reduction of the bonus payments in 2008 that will not be reflected in the future.

As far as the cost of risk is concerned, I think three elements should be underlined. The first one is that we didn't have any particularly shock, in the quarter. We have also made significant collective impairments in the second quarter 2009. And the cost of risk of the underlying businesses is very low. It's still under 5 basis points on average commitments for the public finance piece of our activities and 75% of average loans on our retail activities. So very moderate cost of risk and the one-off impact of the reversal of impairments on Icelandic Banks and Lehman collaterals, mainly.

All the impact of the measures taken by the Group is clearly the fact that we had been able to reduce our bond portfolio. You know that we had EUR158b of bonds in this run-off portfolio. It's been reduced by EUR19b at the end of September, with at the end of September EUR11.3b net bond sales, of which close to EUR4.7b in the third quarter. The impact is of course minimal, compared to the amount of the portfolio, but still had an impact of EUR70m in the nine months of 2009 and EUR43m in the third quarter before tax.

And I think it's also interesting to note that this reduction, 49% of the bonds sold are non repo, non ECB eligible, so really contributed effectively to the balance sheet, with an average maturity of 4.5 years. And it's a key element of the restructuring of the balance sheet.

We've been able to reduce also the exposure and the loans in PWB non-core markets. We have sold a limited amount of loans. And the liquidity lines outstanding have decreased by EUR10b and the impact of all these measures is EUR35m for the nine first months of 2009.

The third element that should be emphasized is clearly the improvement of the Group's liquidity. We have been, first of all, able to raise more than EUR44b of long-term funds. It's interesting to show that we didn't make any guaranteed issue on this compartment of the market since May. It means that now 49% of our long-term funding is non-guaranteed, mainly through the issuance of covered bonds, also through the issuance of unsecured long and medium-term debt. And that explains why progressively we are exiting this State guarantee. Of course, the renewal of the State guarantee will not have any impact on long-term compartments in the beginning of next year, because even if it's been approved by the government, it still has to be approved by the Parliament, in Luxembourg and France, to be enforced, and that will not happen before January 1 next year.

Improvement of Group liquidity, it's also true on the short-term maturities. First of all, the short-term funding has decreased and we've been able to improve also significantly the short-term liquidity profile of the Group. We have now recovered the repo funding level that were existing pre-crisis. We have also, since the middle of the summer, a renewed access to unsecured unguaranteed short-term funding. And we've been allowed by the States to reduce our exposure on the guaranteed and to have direct access to un-guaranteed funding.

It has, of course, an impact on the cost of the guarantee and also an impact on the level of our guaranteed outstandings. It's visible that since the peak that was reached at the end of May 2009, we've been able to reduce very significantly the use of the guarantee. It's now under EUR61b. And it will be reduced quite aggressively between now and the beginning of next year, in order to be able to reduce globally the use of the guarantee and reflecting a renewed access to un-guaranteed funding. It means that I am very confident for the time being that we will be able to exit from the State guarantee before the end of October next year.

As far as the guarantee is concerned, we have been granted a renewal of the guarantee till end of October. And during the discussion with the European Commission, it's been renewed till the end of February. It's not

a new situation because we were on the periodic six-month renewal since the beginning of October last year, so it doesn't change anything to the way we have access to the market.

In terms of activities, I think it is interesting to mention that of course we have decided last year to reduce significantly the level of our loan production, and to refocus the production on our core markets. But it's true also that due to very aggressive competition, particularly on the French market, due to the will of most of the banking industry in France to respect the objectives of loan growth determined by the government, the French banks are not very reasonable in terms of a pricing policy on this compartment of the activity, which is the only one which is still active in terms of growth. And we have decided not to participate to this price war on the French market.

The revenues are decreasing, but because of course we have been reducing our commitments by 7%, and there is also an increase of our funding costs. So it's part of the restructuring plan we are implementing: of course the reduction of our presence internationally, and of course a reduction also of the imbalances in the balance sheet.

In terms of retail, the performance has been pretty good this quarter. There is a new increase in the deposits in Belgium and Turkey, mainly. The performance in Turkey has been really outstanding during 2009. For the third quarter in a row, we are exceeding our targets and having very good results. On the other side, the loan-to-deposit ratio has improved. It's now 124% compared to 146%. And the number of retail customers is also improving very significantly.

As the entire retail and commercial banking business is concerned, there is an increase in the profits. And the swing in the profit compared to last year is very significant, with a profit of EUR125m compared to a loss of EUR126m on the third quarter of 2008. But also the profitability on nine months has doubled compared to last year, and it's particularly linked this quarter to the improvement of the business in the asset management and services area.

All the businesses are becoming positive. Even on nine months, there is still a lot that will be hopefully compensated in the fourth quarter. And I think all the businesses will be profitable together on a whole-year basis for 2009. It's true for asset management, where the business of course has experienced the positive impact of the improvement of the equity markets, with a 24% quarterly rise in revenues, and also with the continued effort in strict cost control that led to a 13% cost reduction compared to the first 9 months of last year.

As far as insurance, there is of course a rebound in net income compared to the losses experienced in the first part of the year and also a strong focus on costs.

And as far as our joint venture with Royal Bank of Canada is concerned, in the investor services business, there is a strong increase in the asset value and also a very strict risk control that led to an improvement of the profitability of this business in the third quarter.

The AFS reserve has also decreased. The negative AFS reserve decreased by EUR4.7b. So it led to a very significant improvement. I just remember a few figures to you. It was close to EUR13b negative at the end of March. It's now negative of EUR7.2b, of which part of the reserve is frozen. So I think it's a very positive evolution, of course not linked to direct action except in terms of evolution of the portfolio, but mainly linked to improvement in market condition and spreads tightening, particularly on Sovereign, on banks and covered bonds.

The result of this evolution; a reduction of the balance sheet, an improvement of the profitability, led to first of all, a further decrease of risk-weighted assets that are now EUR145b, compared to EUR153b at the end of 2008, and to a very solid solvency situation, with a Tier 1 of 11.8% and a core Tier 1 of 10.8% at the end of the third quarter of 2009.

You all know that we are currently discussing the restructuring plan with the European Commission. During this period, we've accepted to act and to respect a few commitments, as no payments of dividends to the Group's external shareholders before the end of February, no payments of discretionary coupons on Tier 1 and upper Tier 2, and also not to make any acquisition in businesses where we were controlling entirely our operating companies.

It's clear that now we are entering a period where there is a strong commitment to the States and Dexia, and a strong will on the European Commission side, to be able to close this file in the best possible timeframe. I can't be more specific on that area.

But clearly I would like to just remind you of the magnitude of the efforts we have accomplished. And our restructuring plan already includes a significant reduction of our perimeter activities, both on balance sheet activities and non-balance sheet activities. Just the fact that we are planning to put into run-off a large part of the bond portfolio on one side, exiting from many countries that represent more than EUR60b of assets in the public finance business, exiting also from Kreditkommunal Austria last fall, for close to EUR50b of balance sheet.

So, all these aspects led to already a significant reduction of our balance sheet but also, more significantly, in my view, taking into account the fact that the FSA business was not a balance sheet reflected business, we have reduced our overall credit risk exposure by more than 55% already. So I think it gives a very solid platform to discuss with the European Commission in the coming weeks.

That's what I want to say about the main highlights. And I don't know whether you want to go through the more detailed presentation that Philippe Rucheton could make, or if you want to maybe ask some questions. Maybe, Philippe, I give you the floor for a bit more detail on the aspects you would like to emphasize.

Philippe Rucheton: Thank you. So, yes, what I propose is to flip through the slides quickly. The slide number 21 shows a bit more detail about the income and expenses and shows the impact of the crisis.

As you can see, and fortunately, the impact of the crisis is getting smaller and smaller and it's only EUR6m on the net income this third quarter. Globally, you can see that the revenues are down 22% year-on-year, due to a lower contribution of the public and wholesale banking at the Group center. We will elaborate more about this a bit later. Cost of risk, which is back very low on the average loans in this quarter, as was already mentioned.

So slide 22 shows what is the pattern of the quarter-by-quarter evolution of the revenues, expenses, and shows the impact of the crisis. So you can see that there is a drop in the revenues, which is mostly due to the Group center for the Q3. Expenses are under control. We have EUR39m of restructuring charges that we have posted in Q3, compared to EUR16m in the second quarter. The net income is at EUR269m, before crisis.

The AFS reserve has improved. If we can split the bond portfolio between two parts, the part without the financial products and the financial products. Excluding the financial products, the overall volume of the portfolio is down by EUR10b, thanks to EUR5b of sales, EUR2b of amortizing and exchange rate effect. The average life is 10.8 years. Since we do not invest, you can imagine that this average life is going slightly down, of course.

The portfolio is still 97% investment grade. There was some migration, but without crossing the border of the BBB rating. And the stock of impairments is EUR872m at the end of September. We have EUR6b which are protected by negative basis trade, with highly rated counterparts.

As far as the financial products portfolio is concerned, in this case we don't sell any of the bonds because they are all guaranteed by the State. We had only 1% of this portfolio, which has moved downwards to the non-investment grade category in Q3, it's a bit linked with the additional impairments in Q3 of EUR21m. I remind you that we have a global amount of \$2b of impairments at the end of September 2009 that you can compare to the cash losses up to now of \$74m, even if for sure, since this \$74m is just an aggregate, it cannot go down, it will only go up.

By business line, here you can see that the revenues are, even excluding crisis, now quite consistent between the public/wholesale banking, retail and AMS, the Group center being slightly negative. We are back with the EUR316m of profitability of the core businesses in Q3.

Public and wholesale banking, the revenues for the third quarter are down by 8%, compared to the last quarter. That's, as was mentioned before, mostly linked to the reduction of the draws of the SBPAs in the US and some movement of the CVAs, the credit value adjustments, that we have on swaps with clients or States.

And of course the cost of funding is slightly moving up, because since we are now reducing the maturity mismatch, it means that we have a more long-term borrowings, the cost of which being slightly higher than the cost of the short-term funding that was the traditional way of financing of Dexia Group. The good news is the fact that, in core markets, the margins on new loans offset the cost of funding. The cost of risk is low, as was traditionally in this segment.

You can see that the reduction of long-term commitments is mostly linked to the other markets. It means that even if we don't reduce much in the core markets, we have a significant impact on the non-core, and these non-core commitments dropped from EUR91b to EUR75b. It's linked, once again, to the SBPAs, where we reached \$52b at the top and we are now at \$35b of balance sheet commitments. And by nature, public finance is about at the level it used to be.

Loan production, I'd say it's quite low. It's EUR2.8b. I think that Pierre already said that, particularly in France, the reasons are mostly contractual, because of the behaviors of some of the other actors. The good news is the deposits are going up on this market.

Retail and commercial banking, things are going well. It's true in Belgium. It's true in Turkey particularly. The costs are down and the provisions are back to a more reasonable level. Don't forget that last quarter we posted significant collective provisions, particularly in Turkey. So right now we have here a level of risk which is, I would say, back to something which is more reasonable.

Customer deposits are going up. The loans are flat. It's clear that the focus of the Group these days about liquidity, leads to stronger commercial action on the deposit side than on the loan side. And this is particularly true in Turkey, where the loan-to-deposit ratio has been significantly gone down. It is now at 124%, which is in line with what we wanted. We want even to go further down. So it means that here we have a good commercial performance.

Asset management and services is back to profitability. 2008 was very difficult. The beginning of 2009 was still a bit difficult. But Q3 shows a significant improvement in the three branches, i.e. asset management, insurance and investor services.

Asset management, you can see that the net income excluding crisis is now back to something like EUR16m, which is more consistent with the level that we used to have before crisis. The insurance net income I have to say has been a bit improved by a one-off tax benefit of some consolidation that we were allowed to do in Luxemburg, and investor services improves thanks to the increase of the assets under administration.

So here you can see that the EUR83b of assets under management that we have now, for most of it the movement has been thanks to market effect, the net cash being a balance between a reduction by the retail, the network and an increase on the institutional market.

Insurance premiums are down. That's also because, as I said, the focus these days is to push the deposit collection in the network. And this is done with a less strong effort on the insurance business.

Assets under administration, we have increased the number of transfer agents by 10% year-on-year and 3% over the quarter. And we have, as you may have noticed, acquired -- or the joint venture has acquired the UBI Banca's depository business on September 28.

One of the main points is about the negative contribution and the drop of revenues of the Group center. I think we need to go a bit more into details on this particular slide. It's showing that it's coming from different items. One, of course, if I try to compare Q3 and Q2, it's a fact that in Q2 we had the capital gain or rather the diminution of the expected capital loss, thanks to the closing of the FSA/Assured transaction. It was more than EUR100m.

We have also the treasury revenues, which are down by EUR100m versus the second quarter. The short-term yield curve has flattened. Our global need of short-term liquidity has reduced. And so it means that definitely the treasury has been reduced and we are reducing the value at risk. So, all these factors are pushing down the profitability of treasury. Of course, in this treasury we have the positive impact, which was the one-off of the reversal of the provisions on Icelandic banks and on Lehman.

Don't forget that in this Group center we also put all the business around the run-off portfolio and also the capital losses that we have when we sell loans. So we have EUR43m of losses on bond sales this quarter and EUR18m of loss on the loans, which is a total of EUR61m, which is EUR20m, EUR25m more than what we had in Q2. We have also an impact of EUR20m of drop of the own credit risk. Everything has pushed down the profitability of Q3. If on top of that you put the EUR40m of gains on bond portfolio in Turkey, but which is less than what we had in Q2, where we had EUR 20m more than that.

And finally, we have also posted in the Group center the EUR39m of restructuring charge, which can be compared to the EUR16m that we had in the previous quarter.

So, when you look at the Group center globally, you can see that the crisis impact is now nearly zero and that we have the drop of the revenues of the treasury, which is very explicit on the top left picture, after levels in Q4 2008 and Q1 2009, which were obviously not sustainable.

The conclusion here, I might give it -- I give back the microphone to Pierre.

Pierre Mariani: Yes. The conclusion I think is nothing new, but I think all these results and the improvement of the balance sheet situation show that the restructuring plan is on track. The results are being delivered. And it's been even accelerated in terms of balance sheet restructuring and improvement on our liquidity position during the third quarter.

It's clear that now we are very confident in our capacity to exit from the State guarantee before the end of October 2010. And I think, of course, the strong reduction of the perimeter of the Group has of course, and obviously, an impact on the overall profitability. We are now we are close, on the long run, to the normative profitability of the Group. Even if we have all to remind that of course we will have -- as long as the profitability and the situation of the Group is improving, to take out of the balance sheet and into the P&L the own credit risk that progressively, over the next quarters also, will have to be reported in our P&L account.

Thank you very much.

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Pierre Mariani: Do you have questions?

Operator: Thank you. (Operator Instructions). The first question comes through from the line of Francesca Tondi of JP Morgan. Your question, please.

Francesca Tondi: Hi, good morning. I have two or three questions, if that's okay. Going back to the available for sale reserve, could you give us an indication of what the reserve would look like at the end of September if you actually were to do the mark-to-market also on the frozen part of the reserve, which I am sure would be reduced as well? I don't know whether you can disclose that.

And could you also disclose what was the available for sale reserve attached to the bonds that you have sold, in case you've sold bonds that actually were again in loans receivables with the frozen reserve?

One point that I actually wanted to clarify with regard to the financial product portfolio and what you determine as the cash losses so far. Can you explain again where the cash losses are coming from? So, is this just payments that have been missed on that portfolio?

And lastly, with regard to the liquidity guarantee, it's obvious that the amount of funding with that guarantee is declining. And at the same time, you mentioned that you will exit entirely from the scheme from October 2010. Does that mean that you will continue to issue some of the funding with the guarantee until then? Or do you think it's actually possible to see that you actually stop adding funding with a guarantee well before then, if you can give us some visibility?

And lastly, on the timing on the EU, I didn't quite understand. Do you have a view on what the timeframe could be for the EU approval at this stage? Thank you very much.

Pierre Mariani: Okay. Lots of questions. The answer to your first question is that we will not disclose now the comparison. It will be reflected in our full-year accounts. But I can tell you that on the frozen part of the AFS it's been reduced, it's been amortized, but I don't know even if we made the full explanation and combination of information on that part. Probably the reduction is not as important as in the other parts of the businesses. So I think clearly the amount, in my view, should not be very significantly different from what it is at the end of the quarter.

The AFS reserve attached to the bonds sold is less than EUR100m.

On the cash losses, of course they are coming just from payments missed, so it's really cash losses on the FP portfolio.

Francesca Tondi: So, for example, on a loan that is amortizing, it's only for the amounts that were due for payment and have not been paid, but not the entire amount of the loan?

Pierre Mariani: No, no. It's only the payments missed and it's cumulative. Of course it's a cumulative impact that will have it all over the years, so this will last for a long period of time.

On the State guarantee, of course our last issuance was in May and we didn't issue any long-term State guarantee for one clear reason, that it was limited to October 2011 duration. And we have already EUR22.5b debt maturing at this date, so we didn't want to issue any further amount of additional amount to this duration. And so we expect to issue long-term guaranteed debt at the moment where the renewal will be in force. But because we need Parliamentary approval in France and Luxembourg, it will not be possible between now and the beginning of 2010. So our program will begin again probably somewhere at some point in January.

Francesca Tondi: And do you anticipate to use the guarantee on those long-term issuance, or not really any longer, on the new issuance?

Pierre Mariani: On the new issuance, it will depend on a few elements, first of all the level of spread. On short-term guarantees it's clear that today it's cheaper for us to issue non-guaranteed debt than short-term guaranteed debt. And on long term we are now very close to the point where long-term unguaranteed debt, unsecured debt, and long-term guaranteed debt are close in terms of spread, very close.

Francesca Tondi: Yes.

Pierre Mariani: One element. And the second element is of course a problem of depth of the market. Clearly, it will depend on our capacity to tap the unguaranteed debt at the best cost. So it will be a balance between the two.

Francesca Tondi: Thank you. Very clear.

Pierre Mariani: Timing on EU negotiation, you know when the negotiation begins not when they will finish precisely. Clearly, to avoid any spread of rumors, etc., that is a bit difficult to handle on a day-to-day basis, both internally and externally, I would clearly state again that our commitment, as well as the governments commitment and also the Commission commitment, is really to be able to complete this negotiation as quickly as possible. And so that's the level of commitment we have.

Of course this needs some negotiation. And even when we will have reached an agreement, it's possible it will need some time to formalize that into a decision. That could take some additional weeks. But clearly we are of course handling as quickly and as smoothly as possible, while defending quite firmly our shareholders' interests.

Francesca Tondi: Very good. Thank you very much. That's clear. Can I just ask one clarification with regard to the cash losses on the financial portfolio assets? If the cash losses obviously only refer to missed payment, can you give us an indication, if the missed payment on the pool of loans that have been missed, if we are to consider the whole loan balance of those loans missing the initial payments, will the balance of those loans be covered by the \$2b reserve that you have?

Pierre Mariani: Well, of course, we are still in a position where the effective cash losses, is USD73m. Our estimation of economic losses on the portfolio is still in a range of USD1.3b and the level of provision is still 2b. So I think we are pretty well covered in terms of economic losses.

On accounting losses, it could be a bit different if there is a change in the accounting rules provided by the IASB. But still from the economic point of view, we are still very well protected in this area.

Francesca Tondi: Perfect. That's exactly what I wanted clarification on. You really are doing a good job. Thank you so much.

Operator: Thank you. The next question comes through from the line of Brice Vandamme of Deutsche Bank. Your question, please.

Brice Vandamme: Hi, good morning. I just have one question, which is related to the activity in public and wholesale banking. The level of new production remains quite low, compared to what it was in the past, and I understand the fact that you're focusing on your core markets. Nevertheless, what I'm interested in is in the long term, I guess that if this production does not pick up to the level it was before the restructuring, it means also that the revenue line will continue to shrink. What, in your view, should be a kind of run rate post-adjustment and post- shrinking of this loan book, of the revenue line in this activity?

Pierre Mariani: No, we have different components in this portfolio. The first one is of course the fact that we have a large amount of the portfolio, more than EUR60b that are in run-off. It's all the activities in countries where we have decided to stop completely the activity, like Japan, etc., etc. So it's a EUR60b portfolio.

On the other side, I think the reduction in the production is mainly observed in the French market. It's clearly, as an overall principle, of course a choice, because I think we said that the model has to change and to be less balance sheet consuming. It's true in the strictly public finance business, but it's also true for the project finance business, where more and more when I look at the deals we have made recently, we reduced the final stake in the deals we are arranging. So it's clearly a choice of being less balance sheet consuming.

We are facing in France a very particular situation. As you probably all know, there is a very firm objective of growth of the outstanding and the loans to the economy given to the main retail banks active in France. And because the demand of corporate loans and the demand of retail loans is very weak, a lot of banks are seeking in the municipal market and are bidding at levels that are not reasonable today. I could give you some examples of bids where 20-year loans were proposed by a few banks at 40 basis points.

At this level, I always said that the market share was not an objective but profitability was an objective, and we are not participating in this war. Hopefully it will disappear at the end of the year, but clearly we won't participate and we will not originate loss-making business. So I think, in terms of perimeter, of course we are still in the process of reflecting in the business the increase of the cost of funding. In terms of cost of guarantee, it will probably stabilize. But I think we are not very different from what could be the profitability of the business.

As I said, for the entire Group, 2010 will be in this area probably more challenging, even more challenging than this year. But clearly we are now close to a level that represents the run rate on the long term, once we have completely rebalanced the balance sheet.

Brice Vandamme: Are you talking about the revenue line, when you are talking about current run rate?

Pierre Mariani: Current run rate.

Brice Vandamme: Okay. Just one follow-up question, on this business in France. We saw recently in French newspapers the fact that you are entering negotiation with a French local authority to try to restructure with them their lending, which are seen as toxic in France. Do you anticipate a P&L impact going forward from that?

Pierre Mariani: No. It's very fashionable today, first of all, to talk of any loan you would not like to repay as toxic, so.

Brice Vandamme: I agree.

Pierre Mariani: That's the first point. And it's not something specific to us, but that is affecting all the entire industry, French and non-French banks. So I said that we were of course prepared to discuss, and we are always prepared to discuss with our customers. But contracts are contracts and this is the limit of the discussion. So I always stated that we were ready to help the customers that would like to reduce their exposure to the volatility in their debt, and that we could do that without additional margins that used to be practiced in the past. But I don't expect until now any major P&L impact.

Maybe it could happen in the next weeks or so, if I believe what I see and what I read in the press, but we are not sued yet by any collectivity. And it's a very particular situation, clearly linked to the difficulties of some local authorities in a context where they see on one side their revenues going down, on the other side

their expenses, particularly in the social benefits that are distributed to the population, increasing sharply due to the tough economic environment. So we are handling these discussions.

I also announced that we would review all our procedures and we have mandated a group of very senior people. One, the Chairman of the Commission de Surveillance de la Caisse de Depots, the former French regulator, and a member of the Cour des Comptes to review our procedures and be sure that we are handling all this situation properly.

Brice Vandamme: Thank you.

Operator: Thank you. The next question comes through from the line of Jean-Pierre Lambert of KBW. Your question, please.

Jean-Pierre Lambert: Yes, good morning. Jean-Pierre Lambert from KBW. I would like to come back to the public and wholesale finance business, if you could provide some information on the breakdown of the profitability between public, project and corporate, or alternatively if you could give margins on these businesses. That's the first question, so that we have a feel for what's the contribution of public finance compared to project and corporate.

The second one is what is the impact of the cost of funding increase, if you could give some quantification, because that's apparently affecting the result in the third quarter? Thank you very much.

Pierre Mariani: I give the floor to Philippe Rucheton.

Philippe Rucheton: Thank you. So I don't think we disclose so much the profitability, the split between public, project and corporate. But you can imagine, of course, that the project finance is by far the place where we have the largest spreads. Yes, and close to 300 basis points very commonly.

The cost of funding of public and wholesale banking is on one hand the cost of the covered bonds, for the part of the business which is financed through covered bonds. And for the remaining part, it's charged of the overall cost of funding that we have, which is at the same time the spread that we pay but also the cost of guarantee.

So when you look at the document - I am flipping through the pages -- you have explicitly how much -- you have the State guarantee fee, which is flat at EUR40m, because actually the cost of the guarantee allocated to PWB has been flat. But you have also an increase of the normal cost of funding, which if I remember well is close to EUR10m.

[...]

Jean-Pierre Lambert: I see. And that's before tax?

Philippe Rucheton: Yes.

Jean-Pierre Lambert: Okay. Very good. But then, if I can come back to the issue of the spread, if you want, between project and public finance. So, clearly project finance helps the business. You still intend to continue in that direction and that activity. I see there is much less demand, much less origination. I presume it's on the demand side, not on your side. Am I correct?

Pierre Mariani: of course, maybe it's a bit more difficult to analyze this situation, but we have seen a pretty significant number of projects. And I think it's clearly a segment when in the future we could see a significant growth, because of course large stakeholders are not as active as they were previously. And you

have a lot of projects, new projects coming up, both in the energy area, the transportation area, and clearly we have been able to close very significant deals in the last quarter.

Clearly, our position will change also because we are in a stronger position to negotiate the structure of these deals. We have also been able to close these deals with a much lower part of the final stake, as I was mentioning before. And it gives results not only from a pure, let's say, outstanding point of view, but also we have been able in the recent months to get a significant chunk of the business from the capital market area. And we have really had a lot of fees in terms of reflecting our leading position in the arranging teams and pools of banks.

So I think it's a change in the business model. It improves, clearly, the profitability of the business. And once again, as in other areas of business, we are trying to diversify the sources of revenues and try to be less dependent on the balance sheet of the Group. And I don't have precisely the figure, but I think since the beginning of the year, on the biggest deals we have taken, our final stake represents less than 10% of overall lending business. So it's quite a significant improvement in the redefinition of the business model in this area.

Jean-Pierre Lambert: Just a final clarification. Regarding project finance, your target is the core markets, strictly speaking, France, Belgium and Iberia. Or is it broader in Europe?

Pierre Mariani: No, it's broader.

Jean-Pierre Lambert: Very good. Thank you very much.

[...]

Operator: Thank you. The next question comes through from the line of Pierre Flabbee of Kepler. Your question, please.

Pierre Flabbee: Good morning. I have a couple of questions. First, would it be possible to have a figure on the margins on the nine-month production in public finance, and what this margin would become when the guarantee cost on funding is removed?

And I have a second question, which is regarding now the bond portfolio. We see an increase in the cost of reducing the size of the portfolio compared to previous quarter. To what extent can we imagine some sort of run rate there? Or can you be supported in this process as much as you have been in recent quarters by the reduction in spreads?

Pierre Mariani: The margin of the nine-month production is not completely related to the cost of guarantee. A part of the cost of the guarantee is allocated to the public finance business but the big chunk of the cost of the guarantee is allocated to the portfolio and to the run-off portfolio. And so that's the first element.

Second element, it's reflecting the respective proportion of the assets in the loan portfolio and the assets in the bond portfolio. Second element, of course the cost of funding of PWB depends deeply on the covered bonds cost. And so we have seen there a very positive evolution during the last quarter or so, with the last issuance we made at 38 basis points, compared to 90 basis points at the beginning of the second quarter, it's a very significant improvement.

And third, the cost of the guarantee, even if it disappears, will not have necessarily a huge impact on our cost of funding. And when I compare for the time being the cost of funding including guarantee and the cost of funding without State guarantee, it's very close. So it's very important that we are able in the future to manage the evolution and to see if we are observing on the long-term funding side the same evolution

we have seen on the short-term funding side, where now it's of course cheaper to borrow without State guarantee than to borrow with State guarantee.

Pierre Flabbee: Okay. But my question was rather to try to understand all these elements taken into account, how the production margin for this year compares to the margin you have on the outstandings on the stock. Is it lower, significantly lower?

Pierre Mariani: Higher. Much higher. The spreads are higher. The commercial margin, it depends on the market. It's much higher in Spain. It's higher in Belgium on the new production, higher in France too, but on very limited volumes in France.

So I think, globally, there is a strong improvement in margins, even after funding costs, particularly when you take into consideration the present situation and the present cost of funding on the covered bonds market. And clearly the priority of the Group is now to be sure that when we produce a AAA eligible asset, we are not only producing them in the different subsidiaries, but also we are actively managing centralization of this portfolio in covered bond structures. That's the point.

Second question you had was the run rate of the contributions of the run-off portfolio. The losses we experienced, were slightly higher. It depends of course on the kind of assets we are selling. So I think it's not necessarily a trend that will be also in the future. But clearly we have considerably accelerated the portfolio. It's more expensive to sell loans than to sell bonds, and that's observable in the figures we mentioned.

But we are also in a position – when we take the decision – that the level of loss we are ready to accept depends not only on the amount but also on the level of risk we have on these bonds. And among all the sales we've made, there is also a de-risking aspect for us which is interesting, and also a funding aspect, because of course it's different to sell central bank eligible assets and central bank non-eligible assets. So I think it's clear that, in this case, the cost for us of carrying over this portfolio is higher and we could be ready to accept the higher level of losses.

Pierre Flabbee: Okay. Thank you for those answers. If I may just ask a quick question, on the last sentence of your conclusion you mentioned that you would have to take the consequences of the own credit cost of Dexia, and I'm not sure to understand exactly what it refers to.

Pierre Mariani: A positive own credit risk has been booked last year at the top of the crisis. It represents all, globally, more than EUR350m. It's clear that we have already reduced the amount of own credit risk accounted for in our portfolio during the the first nine months of 2009, to reflect the improvement of the rating of the Company. If there is a further improvement of our situation, of course over the coming quarters, and it could take a certain period, I'm not able to quantify it, but we'll have to take this own credit risk back in our P&L.

Pierre Flabbee: What would be the amount to run still?

Pierre Mariani: Well, it would depend on the evolution of the spreads of Dexia and there are different sources of funding.

Pierre Flabbee: Okay. Thank you very much.

Operator: Thank you. The next question comes through from the line of Sabrina Blanc of Societe Generale. Your question, please.

Sabrina Blanc: Good morning. I have two questions. Concerning the treasury performance this quarter, is it possible to have a sort of guidance or to have an idea of what could happen in the next quarter concerning this segment, and also concerning the capital gains that you made on the bonds coming from Turkey?

And the other question that I have is concerning the European Union. You said that it's not possible to give a timing. Nevertheless, you had already some discussion about some potential disposal. Have you changed your mind concerning what you have said previously, or could we have more color concerning this point? Thank you very much.

Pierre Mariani: Three elements in your questions. The first one, the guidance on the revenues in next quarter on treasury, it will certainly continue to go down, yes, to go down less than in the first quarter of 2009, because of course we had very exceptional revenues due to the level of spread, level of imbalances in our balance sheet. So we are reducing the gap. We are reducing also our profit on the treasury side, which is logical. We have also reduced the exceptional results that were linked to the SBPA results. So there are a lot of factors that push the revenue down on the treasury side.

Second question, capital gain on Turkish bond portfolio, it's very difficult to give any guidance on the future revenues on this portfolio. It will depend, of course, on the evolution of the interest rate policy, driven by a central bank decision in Turkey.

Third point, disposals of European Union, I have no additional comment to make on this item.

Sabrina Blanc: Just a follow-up concerning the bond portfolio in Turkey. Could we have the size of the portfolio?

Pierre Mariani: EUR1.5b.

Sabrina Blanc: Thank you.

Operator: Thank you. The next question comes through from the line of Britta Schmidt of Autonomous Research. Your question, please.

[...]

Britta Schmidt: Okay. One of your competitors has shown small numbers, but despite that an increase in infrastructure non-performing loans or non-performing loans coming from the corporate finance side. I was just interested whether you see any stresses in that sort of market. That would be my first question.

The second question is on IAS39. I think when we discussed this last time you said that potential benefits from a reclassification, certainly on the available for sale side, could potentially be offset by booking some other items on your balance sheet actually at fair value for profit and loss. I was just wondering whether the recent publications on the update on IAS39 has changed your view on that, or whether you can give any guidance on that.

And my third question will be: can you give us any indication of what your exposure is to Ambac that you have in your monoline hedged assets. I would assume it's probably now shifted to the lower rated monoline classes. If you can give any numbers there, that would be helpful, and also tell us whether any of that exposure will be in the FP portfolio or not.

Pierre Mariani: Many questions on that. On NPL increase in the infrastructure, we don't see major issues. We had a few minor size issues, but we had recapitalization by the sponsors, and I don't see any huge problems in this area coming.

Second, potential benefit, I'm sorry but we had the Board yesterday and I was not able to check the last update of the IAS39 proposal, but I don't think there is a lot of improvement compared to what was proposed initially. I'm not sure that it will meet the expectation of the governments on the European side expressed through the G20, so I think probably the story is not yet final from this point of view.

On Ambac, we have EUR4b exposure, EUR1b of ABS and the rest is really more on the public finance side. And if there is a default of Ambac, all our expected losses are already covered by the provisions we've passed. So nothing is coming back from that point of view.

But I'll give you an answer to a question you did not ask. Probably you all noticed that Moody's released their ratings on FSA, which is of course our main counterpart. And the good news is that they confirmed the rating on Assured Municipality, which is the former FSA on which we have the biggest level of exposure. So that's good news for the level of protection we have on our credit enhanced portfolio.

Britta Schmidt: Okay. Thank you.

Operator: Thank you. The next question comes through from the line of Lee Street of Morgan Stanley. Your question, please.

Lee Street: Hello. Good morning to you. For your debt investors, I was just wondering if you could give any color, given the different outcomes for optional coupons on ING and Lloyds, what your expectations are of how long optional coupons may be switched off for Dexia.

And secondly, given the secondary trading levels of your Tier 1 securities and the liability management schemes we've seen from the likes of KBC and Lloyds, are you able to give any comments about any considerations you've had there?

Philippe Rucheton: Okay. The question was not fully understandable, but I guess that you were talking about what we are going to do about the coupons on our hybrid securities. It's very clear that what we had to do is, under the pressure of the European Commission, we had to accept not to pay any dividend on the Tier 1 issues, and also not to exercise calls or to pay coupons on upper Tier 2s. We tried to discuss with the European Commission about the fact that the coupons on upper Tier 2s are cumulative, so it's not really something which is a burden sharing, as I would say. Nevertheless, they have requested us not to pay the coupons on the upper Tier 2.

So how long is it going to last? I think it will be, of course, part of the final decision of the European Commission. What I can say is the fact that up to the issues, whereas the coupons is more naturally for one or the other reason which is linked to the documentation, so it's not all the upper Tier 2s where the coupon is going to be passed, until the final decision of the European Commission, we will have to pass the coupons on the Tier 1 and on some of the upper Tier 2 where the coupon is so-called discretionary or optional.

Lee Street: Okay. And sorry, to the second question, to be clear, I was just saying that given that your Tier 1 securities in the secondary market are trading around the late forties, around 50 cents on the dollar, and obviously we've seen a lot of liability management schemes from the likes of KBC and Lloyds with their recent exchange, are you able to give any comments on any considerations you've had towards doing similar types of scheme?

Philippe Rucheton: Of course it's something that we must contemplate, knowing that for us one of the main points will be the beginning of 2010, when the State guarantee will be fully stabilized in terms of legislative approval to be present on the market for our government guaranteed bond issues. As far as these liability management measures, I think it's second to this main target, which is to be active on the bond market as soon as we can early 2010.

Lee Street: Okay. Thank you very much.

Operator: Thank you. The next question comes through from the line of Christophe Ricetti of Natixis. Your question, please.

Christophe Ricetti: Good morning. I have two questions. The first one, coming back to the production at PWB, and in France you've already made several comments and especially on the competition, is it possible to know from which quarter we've seen that kind of competition rising? It was in the Q2 or in the Q3?

And more generally, on the production question, the production in the core markets is not that brilliant also in Belgium. Can we have an update of what are your expectations for the H2 and for the 2010 year as a whole?

And, second question, which is a quick one, are you still in a position of proposing a dividend for your ordinary shareholders? Thank you.

Pierre Mariani: Yes. We've seen the competition rising., The demand has been very low during the first half of the year, as I was telling previously. And so the decrease in margin has been observed since September. I was joking, saying that each meeting at the Elysee Palace was translated in a 10 basis point decrease of the margins on loans. You obviously observed that more globally on the French market, when you open the newspaper every day you see every day good news and advertising campaigns, saying that the banks are ready to distribute much cash.

So there is a strong competition on the level to be granted to the customers, huge competition on the margins, so I wonder what will be the profitability of this activity for the banks that are ready to once again grant loans at 20-year duration and 40 basis points over Euribor. So it's difficult in this environment to say what will be the production.

Once again, we are not completely dependent on the short-term production and we have been managing very aggressively both the level of liquidity gap and the level of production. The impact on the revenues is minimal. And so, after that, the early 2010 is not really a problem because you know that it's a very cyclical activity. And so we'll see all over 2010 what will be the level of competition that hopefully will be more reasonable.

As far as the dividends are concerned, you have seen that we have a dividend ban until the end of February 2010, so you should not expect any decision before that. But hopefully the results are pretty solid. And I remember that the Group is in a very different situation from other bailed-out groups, first of all because we have the profitability and the recurrent profit and significant profit in 2009. Second, our shareholders, our traditional and historical shareholders, have strongly participated in the capital increase. That is not the case of most of the competitors.

And the combination of the two puts us in a very different position as far as the dividend ban is concerned vis-a-vis the European Commission. That will be the point that we will discuss, of course, globally with the European Union while discussing the restructuring plan. And of course we don't have any Tier 1 issues and we have pretty solid issues that would theoretically allow us to be in a position to pay a dividend.

Christophe Ricetti: Thank you.

Operator: Thank you. The next question comes through from the line of Jaap Meijer of Evolution. Your question, please.

Jaap Meijer: Hello. Jaap Meijer from Evolution in London. Just coming back at your public finance business, what does it then gross up in terms of lending margins and liability spreads you have to pay? Do you think

you still have, let's say, a 50 basis points margin? I think that's what you need, basically, to have a return on equity of, let's say, lower to mid teens. Is that what you're aiming for? Let's say 100 basis points, your assets, you lose 50 basis points on the liabilities, you make still 50. Is that about right?

Philippe Rucheton: I don't think that we need 50 basis points of margin for a mid teens return on equity. It's different for sure if you speak about purely public financing or project financing. But when you look at the cost of risk of the public financing, you can imagine that the equity which is needed, even under Basel II or even on an economic basis, in front of this kind of business is very limited.

So the main issue is about the fact that for the funding we have. In this kind of business, we have one leg which is the spread on the loan that we can have with the local authorities. And on the other hand, we have the cost of funding. So the main driver will be, and is, the average cost of funding that we can put in front of it.

But when you see the speed with which the spreads are moving on the covered bond market, the way they have been shrinking during the last few months, the fact that we can address through our three vehicles, I mean Dexia Municipal Agency, DKD, and even maybe you notice that we have been able to open -- for the first time, we had an issue through our Luxembourg unit, which is Dexia Lettres de Gages, for EUR500m. But each of them have different kind of eligibility for the assets and we can achieve different kind of spreads. So we need a very small spread, but the cost of funding is definitely something which is the main issue in order to achieve any kind of return on equity.

Jaap Meijer: Yes, that's exactly why I ask. But you still make, let's say -- of course you look at asset spreads over Euribor, but that's not really the relevant one because you have to compare that with the costs of your liabilities. So what is then the net margin, netted with your spreads and your liabilities, that you make on the new origination? Is that back to 50 basis points or is that actually lower or even negative?

Philippe Rucheton: I think there was a slide where we said that the new production is more than covering the cost of funding.

Jaap Meijer: Okay.

Philippe Rucheton: We explained in our slide that, for example, the last increase of covered bonds that we made was at mid swap +38 basis points. Okay. But this was a seven year, if I remember well. It means that of course now you can imagine that on public and wholesale banking, on public banking, that's what Pierre was saying, sometimes the market is pricing something like 20 years at 40 basis points. For sure we don't want to be, and we don't even bid for this. Now, what we produce these days is more than 100 basis points, but that's an average. And these are not assets which are fully eligible for this kind of covered bond, such as DMA.

But what I can tell you is definitely: the production that we record today is more than covering the cost of funding and delivering the appropriate return on equity. Now, of course this is done on a marginal basis and we will need to renew the portfolio. But as we said, there is such inertia of the huge loan portfolio that the fact that during one or two quarters the production is low doesn't jeopardize the overall pattern of revenues for the PWB business on the long run.

Jaap Meijer: So what is your return on capital, or return on equity, let's say, if you allocate 10% for this business, which is probably what you need over risk-weighted assets?

Philippe Rucheton: We don't manage this business on the basis of a target of return on equity based on the cost of funding, which is definitely something which is not stabilized.

Jaap Meijer: Okay. So meaning you don't make yet the returns, I guess, on the capital. Another question. How is your funding profile going to look like going forward? How much is coming from covered bonds, how much is from unsecured bonds and how much, let's say, from wholesale short-term unsecured funding sources, let's say MTNs, etc.? Is this composition going to look very different or --?

Philippe Rucheton: I think that we disclosed the breakdown as of September 30, with the amount of covered bonds that we had issued, what is the level of unsecured funding. Well, you can imagine that we will have a significant amount of medium-term bonds that we would like to issue next year in all segments of the market. But I don't think that we have yet disclosed accurate numbers about what we want to achieve, knowing that for sure.

But the first month of the year will be deeply focused on the issue of government granted medium-term bonds with a limit of four years, since, as you know, the new government guarantee has been granted with a four-year maturity, moving four years. So that's something that we are going to do in next year.

Jaap Meijer: Okay. Thank you.

Operator: Thank you. The next question comes through from the line of Maxence Le Gouvello of Morgan Stanley. Your question, please.

Maxence Le Gouvello: Good morning, everyone. Two questions, the first one regarding the public finance in France. We know that we are just ahead of the regional election and usually it's quite low in terms of loan demand. Do you expect a pick up just after that and usually how long does it take before the public authorities are calling for more loans after the election?

Second point is regarding asset management and custody. When you have taken the lead of the Group last year, you were quite skeptical about the asset management division and then you changed your mind saying that it will be part of the core activities of the Group. We have seen some other European banks to go for the other way. Can you elaborate a little bit more about your views on why you believe that Dexia Asset Management has the right size, right scale, and also on the custody business, as we can see that the top line performance is suffering a lot due to a low interest rate and also some of your competitors are speaking about consolidation on that side?

Pierre Mariani: Okay. A pick up in PWB, you know 2009 is already a year where we were post election and usually it is pre election that reflects a pick up in the expenses. To be in the best position, I should say on one side on the budget situation with the low payment on interest on debt on one side and an increase in investment programs. So I don't know whether there is a relation at the region level from that point of view and I don't see any correlation between election cycle and I don't expect any pick up or link to the regional election.

What is true is that the local authorities have taken a lot of commitments to be able to be in a position to benefit from the reimbursement of the Fond de Compensation de la TVA, and so it will probably at some point translate into new projects on the ground.

Maxence Le Gouvello: Okay.

Pierre Mariani: That's the first element. Second, AMS, I was not skeptical. I was just reflecting the magnitude of the losses we have experienced in various components of this business. So it was true on the interest side. I just remember you that we have experienced EUR700m loss in the fourth quarter, on top of that the EUR200m provision in the first quarter of this period on the insurance business, so it's something very significant.

Second, on the rest, of course it's a business that's usually deeply impacted by market conditions. And that's why, globally, as far as all this area of business was concerned, I said publicly that it was not the right timing to be able to look and to consider any disposals in this area. And when you look at the evolution of the performance of the various businesses, I think this position is pretty good.

Why do I consider that Dexia Asset Management is important? I'll just repeat once again the answer I gave to that question. The first point is that, first of all, the profitability of the asset management business is not entirely reflected in the DAM results, because DAM is selling its products through the retail network and that's clearly a point when the split between the remuneration of the network and its manager is important to consider.

Second, Dexia is managing the insurance assets at a very low price. There are a lot of relationships and cross-selling activities between DAM and investor services. The overall profitability is double than what is reflected directly in DAM accounts.

Why do I consider that this situation is stable? First of all, when you look at the cost compared to the size of income on one side and the cost of DAM compared to the assets under management, we have very, very low costs compared to the average of the industry. I think we are in the range of 15 basis points, compared to 25 basis points for the entire industry. So we are not yet close to what, for example, huge amounts like Crédit Agricole are experiencing, but not very far from that.

So it's not a question of profitability or a size problem or scale problem compared to the level of our costs. Second, we have done a huge effort in terms of restructuring the cost base of DAM Asset Management. I told you that the costs were down 13% to where they were last year. So not only the cost-income but the breakeven point in this business. And we are seeing a nice increase in the profitability regularly, thanks to the recovery in the assets.

And last point, it seems also important to underline that this business has very strong competences in first of all, socially responsible investments, and also on the more dynamic, let's say, alternative investments, and that's also something quite interesting for us.

So does it mean that there will be no continuation of what's happening in the industry? Certainly not, but not for the time being. Clearly, we have to improve the standalone business of DAM and they are doing a very good job, improving the institutional distribution. And clearly there will be, because of the improvement of the liquidity situation, of course, probably a new emphasis put on the network and the distribution of both asset management and insurance products in the near future.

Investor services: we will take part in the sector consolidation. We have taken a very modest part in the consolidation of the sector, because you've probably noticed that we were the buyer of the UBI custody business in Italy. That's a new presence in this market. So it means that when there are good opportunities that fit perfectly to our product range and geographical scope, there will be, through Dexia Investor Services, certainly a position where there is some room for participating to this game.

Clearly, even from a European Commission point of view, RBC Dexia is in a different position. You know that it's a joint venture and the acquisition ban doesn't concern the structure of the businesses where we are not fully in control. Of course it means that we have to inform the Commission, but it's not covered by the acquisition ban we had till the end of February.

[...]

Maxence Le Gouvello: Is there a specific diary in terms of your joint venture between Royal Bank of Canada and yourself, in terms of renegotiation of the deal or whatever?

Pierre Mariani: No, nothing particular.

Maxence Le Gouvello: Okay. Well, many thanks for your detailed answer.

Operator: Thank you. The next question comes through from the line of Jean-Pierre Lambert of KBW. Your question, please.

Jean-Pierre Lambert: Yes, hello. Just a follow-up question. The covered bond market's improving in terms of funding costs, but what kind of contingency do you need to avoid a situation of a failure of the market, and what kind of backup can you develop, should this market close again? Thank you very much.

Pierre Mariani: You know the real backup on covered bonds is really to slash the production. There is no other choice to be made. It's the only market where it's possible to raise really long-term funding and not to put ourselves in a huge transformation risk. That's, of course, one condition of this market.

I always repeat it, that the public finance could not exist without or an active covered bond market or some kind of guarantee schemes, and that's not specific to Dexia. When you look at the market and the level of competition, quote/unquote, on this market, you see in most of these markets local monopolies, very often State guaranteed, and we are in a position to be active in a different way. I think the covered bond is important in terms of liquidity and it's important also because it guarantees the local authorities to have access to very cheap funding because they are AAA rated structures, and so that provides very cheap funding.

So it's a global balance, but I think there is a strong demand on this kind of product. A lot of covered bonds are maturing in the portfolio for institutional investors, particularly in Germany, and there has been a very strong level of demand and we expect this demand to remain strong.

And what is interesting also is that when you look at the market, of course the decision taken by the Central Bank to reopen this market and to announce that they were ready to buy assets was instrumental, but the liquidity has not been provided by the Central Bank. Immediately after the announcement, the market reopened and the level of intervention of the Central Bank on this market has been very minimal. I have in mind something around EUR12b or something like that. Total amount of covered bonds bought by Central banks-- so it's very minimal, compared even to the commitment of the Central Bank that was announced at EUR16b of potential acquisitions of covered bonds.

Jean-Pierre Lambert: That's great. Thank you very much.

Operator: Thank you. The next question comes through from the line of Guillaume Tiberghien of Credit Suisse. Your question, please.

Guillaume Tiberghien: Yes, hi. Good morning. Guillaume Tiberghien from Credit Suisse. The question I have is with regard to the corporate center. I'm really at pain to try and assess what sort of run rate of revenues we should build in our forecast for 2010 and '11. Should we put a negative number? Should we put something close to zero? Should we put something relatively quite positive? Could you help us in that respect?

And the second point is more a sort of request for next quarter, but at the moment KBC and Dexia's stories are quite complicated and it would be really, really helpful to us if one of you could do in the morning and the other one in the evening or at separate days, because it's really, really difficult for us to absorb the amount of information and deliver something that's quite consistent. Thank you very much.

Pierre Mariani: I'm really sorry for the inconvenience. It was not entirely anticipated that way. First of all, we are trying to make the business more simple, so this will help with you in the future.

Guillaume Tiberghien: Thanks.

Pierre Mariani: But we are trying to look at it, but it's a bit complicated because we have on one side the French banks that are also releasing their own results. We have KBC to take into account. But we will try to coordinate maybe better the job. But you know every Group has its own constraints in terms of financial information.

As far as the corporate center is concerned, clearly the corporate center mainly reflects the run-off activities, so that has no reason to be positive in the long run, or slightly -- let's say the carry is close to zero or slightly positive. But there will be the impact of the sale of the portfolio. So the level of losses will depend, of course, on the evolution of spreads of the portfolio, but you could anticipate that clearly we are committed to decrease the portfolio and that the more we can sell the better we will be, the happier we will be in the future. It's part of the commitment to reduce the balance sheet, so it's clearly something that you can expect to continue over the next two years, at least.

So, on the treasury side, of course there is a positive result from the treasury. That will not be as high as it was in the past, for obvious reasons. First of all, because we have reduced all the CLM activities quite significantly. So overall profitability of the corporate center should be, let's say, or close to zero, or negative, so between zero and negative at least for the next two years, seen from now.

Guillaume Tiberghien: Thank you very much.

Operator: Thank you. (Operator Instructions).

Pierre Mariani: Okay. So I propose to end the meeting, if there is no other questions. Maybe a last one?

Operator: We do have one last question coming through from the line of Omar Fall of UBS. Your question, please.

Omar Fall: Hi, can you hear me?

Pierre Mariani: Yes.

Omar Fall: Hi. Just you've made a very clear explanation of the benefits of keeping the Group intact and what you've already done to comply with the EU restructuring review. At the same time, given the radical measures that have been imposed on some of your peers, can you help us to think about what would be the worst-case scenarios from your discussions, in terms of the outcome from your discussions with the EU? In particular, however much I guess you would fight it, is some of the talk about a separation of public finance and retail in any way realistic, in your view? Thanks.

Pierre Mariani: Clearly we are not expecting a worst-case scenario. Why? Because, as I told you first of all, all the measures we have already taken lead to a strict balance sheet reduction of more than 30% already. Second, part of the activities are not only balance sheet related, and that was the case for FSA, for example, and we have lots of other businesses that are not really balance sheet consuming.

So I think the best criteria to measure the present level of efforts we have announced in our restructuring plan and all the decisions taken lead to a reduction of our credit risk equivalent of more than 55%. So 30% balance sheet reduction, 55% reduction in our credit risk exposure, that reflects let's say the future impact of profitability. So we are already in the magnitude of efforts that touch some other Groups. And so there could be some adjustments, and certainly negotiation is negotiation, but I think that these elements are just facts, plus points.

Second, we are not also in a position exactly comparable to competitors, other Groups bailed out by the government. If you took the major restructurings, HRE, Commerzbank, RBS, etc., these Groups don't expect to recover any positive results before the end of 2011 or '13 or '14, and so it's not exactly the same kind of elements. And part of these Groups were hit by risk or asset quality problems and solvency issues. We were hit by a liquidity crisis specifically linked, and mainly linked, to the existence of a very big portfolio.

So I think the kind of measures that have to be taken are more focused on liquidity measures, speed of recovery in the balance sheet structure, restoration of the liquidity position of the Group, more than from an asset point of view *stricto sensu*.

Omar Fall: Okay. Great. Thanks.

Operator: Thank you. We have no further questions coming through, so I'll hand back over to Mr. Mariani to conclude today's call.

Pierre Mariani: I thank you very much for attending this meeting. I will try next time not to be too close to the ones of other banks and KBC. And I think next meeting will certainly be in February, when we will release our full-year results for 2009. Thank you very much.