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PRESENTATION

Operator

Good afternoon and welcome to the Dexia Full Year and Q4 2008 results and Update on Transformation Plan. My name is Ina and I'll be your coordinator for today's conference. For the duration of the call you will be on listen-only, however, at the end of the call you'll have the opportunity to ask questions. (Operator Instructions)

I am now handing you over to Pierre Mariani, CEO of Dexia to begin today's conference.

Pierre Mariani - ***Dexia - CEO***

Good afternoon everybody. I am here to comment the 2008 results, and the fourth quarter of last year. I think an important thing is to show that these results, of course, are not good as expected. We didn't expect any good news from the fourth quarter considering that the crisis hit Dexia at the end of the third quarter and beginning of the fourth quarter.

The other comment I would like to make about 2008 is not only it was an unprecedented financial crisis, but also it revealed a few structural weaknesses of Dexia and its business model. Amongst its weaknesses, I would like to mention three of them, the first one was the development of an international activity of public finance activity without proper funding. The second one was related to the activity of financial trading and to the fact that Dexia over the last three years built a huge bond portfolio. The credit spread portfolio led, of course, to a mismatch in our balance sheet, and a strong imbalance that led to the liquidity crisis that hit the company at the beginning of the fourth quarter. The third weakness was related, of course, to the exposure to the US market through the monoline activity of FSA.

The consequence is, of course, a year in which we were hit by the global crisis. But we were hit also by a liquidity crisis that had to be resolved through the State guarantee that was granted to us in October 9 of last year. But also a situation in which our shareholders and the States of France, Belgium and Luxembourg have to recapitalize the company at the end of September.

To face these issues we have decided a strong transformation plan. And to address all these problems I will comment later on where we stand in terms of activity.

When we look today at what is Dexia, notwithstanding the high level of losses that were EUR3.3b for last year, I think we have a very strong Tier 1 position with 10.6% Tier 1 and 9.6% core Tier 1 ratio, after taking into account the full impact of the crisis and also the complete consequences of the sale of FSA.

The business model of Dexia going forward will concentrate on public and wholesale banking, which of course is a significant part of the business with a low cost/income ratio, and EUR2.5b of income; retail and commercial banking on the other side with EUR2.7b income of revenue; and a higher cost/income ratio with 89%.

But also a still very important portfolio that will be put into run-off. This portfolio has two characteristics, the first one is that the profile of this portfolio is very strong and solid, because 99% of the bond portfolio and 75% of the financial product activity of FSA that will be consolidated going forward, are investment grade. We have provisioned the portfolio mainly in the third quarter, through the losses experienced through the failure of Lehman on one hand, and big banks on the other hand. But also we have provisioned the financial products portfolio in order to be fully protected, and to take into account and protect the accounts going forward in 2009, we've decided to add to our initial estimate a EUR300m provision on the US RMBS portfolio.

We are fully on track on the closing of FSA Insurance sale. We expect the Board of FSA to approve next week the merger and the General Shareholder Meeting of Assured will be held on March 16. That will lead to hopefully the closing of the transaction at the end of the first quarter of 2009 or in the first days of the second quarter.

If I look at what are our key challenges today, I think clearly in the public and wholesale banking activities we have to refocus on markets where we have the funding, a true commercial franchise and the potential for profitable growth.

But we believe also that in this future perimeter and considering the resilience of the portfolio, we are in the position where we can wait until the reopening of long term funding markets.

We have also to grow an improve profitability of retail and commercial banking activities. We now are back on track in terms of deposit growth. We are now over the the level of deposits in Belgium which we had at the end of September, and we have experienced significant deposit growth in the first two months of 2009.

We know that we have to improve our relative cost position and decrease our cost/income ratio. But we know also that there is some potential to further develop the potential of our networks both in Belgium and in Turkey.

The third area of our challenges is, of course, to be able to reduce over time the size of the portfolio. It's not the best period to engage in such a deleveraging effort, because the spreads are still in a position that don't allow us to make a huge amount of sales without experiencing losses. And the secondary markets of most categories of assets are very narrow.

But we think that we will be able, over time, to manage this position and to carry the portfolio, taking opportunities to sell progressively parts of it in the market, and to decrease it more aggressively than on its the natural run-off pace.

The second point is that we have to improve our liquidity situation. Of course, short term we don't have any more critical issue under the umbrella of the State guarantees. We have been able also to raise a three year loan for an amount of EUR3b in early February.

But still we need to improve the situation and reduce our dependence to short term funding over time, both taking into account the reduction of the portfolio, and the possibility to tap some longer terms funds.

The transformation plan that we have built and announced to the market is addressing these key challenges. There is clearly a priority given to core client franchises, an improvement of the group risk profile, and the adaptation of the cost base.

The priority given to the core client franchises is already visible in the fourth quarter results. We have dramatically reduced the production, even if the outstandings are still, of course, staying at quite the same level in the fourth quarter compared to the previous quarter.

The production in the fourth quarter of 2007 was EUR30b. And the production in the fourth quarter of 2008 is only EUR8b, mostly concentrated on our core markets. When I look at the production last year it was EUR55b. And among this EUR55b only EUR8b was produced in the fourth quarter. The reduction comies before all from other markets, i.e. markets where we didn't have any funding base. In 2009 the landscape will change dramatically with the production being concentrated on our core markets, and a very strong decline in overall production that will help also to rebalance our dependency on long term funding.

Clearly there is a confirmation of the commercial franchise in Belgium, France, Luxembourg, Italy and Iberia. We will only keep platforms for funding purposes in Germany, Japan and Switzerland with no production, and with a significant reduction of activities in the UK and North America, with the discontinuity of all the activities of public and wholesale banking in the rest of the world.

Going forward therefore, in public and wholesale banking, the future the business will be concentrated on our core markets. And I would like to insist on the fact that on these core markets we are less dependent on the reopening of long term funding markets. Additionally, the Belgium part that represents around 46% of the entire theoretical future perimeter of public and wholesale banking has a very diversified revenue base with financing and lending representing only 42% of the overall revenues, vs. other revenues coming from deposits or other products sold to the public entities in Belgium.

I think we have the possibility to wait until the market reopens to finance our activities.

The second aspect of our transformation plan is clearly an improvement of the Group risk profile. We have taken already action to implement these measures in three areas. The first one is the FSA sale process. I repeat that we are still on track there. We have received the approval by the US antitrust end of January. We are now finalizing and expecting the final approval on the State guarantees on the financial product assets. All the accounting and potential impacts of the sale are recorded in our fourth quarter results.
More interestingly, Dexia Tier 1 ratio will be fully protected against the potential of further FP losses, after the expected finalization of the guarantee. We still expect that the closing will occur in the early part of the second quarter of 2009.

The second area of improvement is related to the liquidity situation. This liquidity situation is improving. And I repeat we have now, under the State guarantee, increased short term funding capacity. And we have been able to issue a first EUR3b public benchmark bond.
The deposits are now above pre-crisis level in Belgium and, of course, Turkey, where we are still experiencing a very strong growth. And there is a gradual improvement also on the US with a decrease of the draws of committed lines in this country.

The third aspect of the reduction of the risk profile is the reorganization of the trading activities. We have exited of all proprietary trading activities. We have divided by two all the value at risk limits for the remaining portfolio. We have centralized all the trading activities in Brussels, and will be centralizing all the management of the run-off portfolio in Dublin going forward.
When we look at the EUR 158b bond portfolio, 99% is investment grade with a huge concentration on AAA and AA ratings.
We have experienced some losses on this portfolio, but they were all related to Lehman and Icelandic banks.
I am really convinced, that even if the negative mark-to-market -- if mark to market really means something in a situation where the secondary market is very narrow – is high on this portfolio, that this portfolio should not experience losses going forward if there is no other Lehman catastrophe. I think all the States are taking the appropriate measure to avoid such another disruption in financial markets.

On the financial product portfolio 75% is investment grade. We have accumulated impairments of $1.5b at the end of third quarter and fourth quarter. We have decided to be on the safe side and due to the latest statistics on the US market, and in order to protect also our 2009 accounts, we have decided an additional impairment of EUR300m. In total we will have $2b accumulated impairment on this portfolio.

And I must put two considerations forward. The first one is that I feel very confident that we are far from hitting this State Guarantee threshold for the additional losses. The financial risk is very remote, due to the structure or the credit of this portfolio. This level of provision of USD2b should be compared to the actual cash losses which are only $12m at this stage.

One additional point is that all the impacts from the prudential consolidation of the financial portfolio are fully taken into account in the fourth quarter. It means that we have deducted - from a prudential point of view – all the remaining first loss from the Tier 1 ratio. Capital ratios are protected, whatever the level of the actual losses is in the future on Financial Products.

The third aspect of our transformation plan is an adaptation of the cost base. We have already released the objective for 2009. We have implemented and decided EUR200m cost savings that will lead to an amount of expenses equivalent to 2007.

But we are working now on further steps of cost improvements. We validate the overall objective of EUR600m cost reduction over the next two, three years, so from 2008 to 2011, with an additional EUR400m to be implemented next year and the year after.

The cost reduction and the impact on the FTE is in the process of being discussed with all our social partners. I am very confident on the capacity to gain an agreement from them and to lead the negotiations over the next few months.

Now maybe some highlights on the figures. I leave the floor to Philippe Rucheton to comment the 2008 results, and the fourth quarter results.

Philippe Rucheton - ***Dexia - CFO***

Thank you, Pierre. So, I am now on slide 15 of the presentation. And you can see, after the EUR700m of deficit at the end of September, the final result for the year is EUR3.3b loss. The difference between the two is coming from the sale of FSA Insurance, for EUR1.65b which is close to the EUR1.7b that we announced at the end of January. The dislocation of financial markets contributed for EUR1.5b (and this is here that we have the EUR300m additional provision or impairment that Pierre has mentioned). Then we have posted EUR181m of restructuring charge. During Q4 the State guarantees and also the scaling down of the portfolios had no material effect yet. The ratio is at 10.6%, and is no more exposed to FSA.

We took exceptional measures at the end of the year. The top management will not receive any bonus for 2008. Directors have accepted to reduce their compensation for 2009. Not only management and directors but also shareholders will contribute to efforts, since the Board has decided to propose that there will be no distribution of dividends for 2008, based on the fact that with a EUR3.3b loss it will be difficult to accept the fact that there will be a dividend paid for 2008.

We can go a bit more into details about the Group results, page 18. The deterioration of the US mortgage market and a more cautious approach led us to the booking of an additional collective impairment of EUR300m on the US RMBS portfolio. The total US RMBS portfolio is a bit above EUR6b of exposure - most of it being in the financial products of FSA, I would say between 95% and 100%. So actually the EUR300m was booked on the FSA Financial Products portfolio.

The financial crisis impact was at EUR5.9m for the full year, and EUR3.2b in Q4. FSA represented EUR3.2m in FY08 and we have now treated the first loss of FSA FP so as to completely put the ratios of the Group insensitive.

We have used, as was announced, the amendment of IAS 39, and we have reclassified EUR100b of assets. You will see later exactly how it has been done. There was a limited P&L impact. The major impact being the fact that the AFS reserve has now been increased by EUR1.3b, which would have been the negative increase of course, if we had not done this reclassification.

As you can see there is a note in at the bottom of page 18. Because FSA is a US company, and because of the split of the FSA between the part which is to be kept within Dexia and the part which is going to be taken over by Assured Dexia's accounts could not be audited. The 10-K of FSA is going to be disclosed on March 12, which means that the auditors of FSA are going to give a sign-off on the accounts at this time, and then the auditors of Dexia will do it as well. It's just a purely technical point.

As regards solvency, as we said, now we are protected. The core Tier 1 ratio is at 9.6% because we have no significant amount in hybrid Tier 1, most of it is real core Tier 1.

By business lines: good resiliency of PWB, stabilization of deposits in Belgium, assets under management have suffered. And the investment services have a good commercial performance, but disappointing financial results mostly because of a currency issue.

On page 21, this is the full year results in detail. You can see that if I take out the impact of the crisis, the net result would have been something like EUR2.5b, to be compared to EUR2.9b in 2007. It shows that if we put aside the financial crisis, the real underlying businesses are very valid and solid within the Dexia Group. The focus on the Q4 shows that we have the total amount of this nearly EUR2b crisis. It means that nearly 60% of the crisis effect has been recorded in Q4. In Q4 we would have had roughly a 20% decrease of the net income excluding crisis.

Now page 23, to go more into details about what we put into the "crisis impacts", i.e EUR2b regarding FSA and EUR1.1b for other items. FSA EUR2b, it's EUR1.65b for the sale of FSA Insurance. Of course, this includes not only the provision and the depreciation that we had to pass on the FSA equity but also, I would say, the collateral effects of the deconsolidation of FSA Insurance, which means that for example we have written down the deferred tax assets. We have reassessed the level of own credit risk and we have passed some additional reserves.

On the FSA financial products part, which we keep, the EUR339m that you can see as cost of risk is where is located the EUR300m of collective impairment on the US financial mortgage-backed securities. So this is the main issue which has driven to a negative contribution of FSA financial products for the last quarter.

Within other items of EUR1.1b net, the most important is about the impairments and losses in the insurance activities. Roughly speaking, in the insurance activities, the asset allocation was made with a 15% allocated to equities. And it's not a secret that equities have suffered a lot, which has led to a significant impairment in this equity portfolio. We had also some hybrid Tier 1 issued by banks in the CSP portfolio, which has contributed to this impairment of EUR500m. I have to say that this EUR500m is after the participation of the insured people for EUR115m.

We had also a bit of equities and Tier 1 instruments in other parts of the Group that are not insurance, which has led to the EUR173m impairments.

We had a collective impairment of EUR 176m. The major part of it is about the Spanish residential mortgage-backed securities for something like EUR112m.

Monolines, as you know we have two kinds. The monolines, we have the back-to-back of CDSs where we used to sell guarantees by CDS and being covered by CDSs provided by monolines. And here we have posted a credit value adjustment of EUR200m to take into account the downgrade of these monolines. We have here, been much further than what we have done in the previous quarters, by putting different scale and rate of defaults by monolines.

We have also other kind of coverage by monolines, by pure guarantees or financial guarantees. And this has led to impairments for EUR90m.

Within other value adjustment, there is nothing of real significance; it is the sum of a few items, which at the end gives a total of EUR127m.

Within “Other”, the bulk of the EUR134m is linked to the Madoff exposure. We had already communicated about the fact that the total loss was EUR122m (pretax). Actually it seems that the final loss is slightly lower. And about the EUR107m cost of risk, it's mostly the impairments on investment in funds since particularly Dexia Asset Management had invested its own equity into some funds, mostly alternative investment funds where they had to take some impairments.

So this is the breakdown of the EUR3.2b of crisis-related numbers for the Q4 of 2008.

I'll go quickly because I think that these slides have been already displayed for quite some time, so many you have already had time to look at them. In the slide 24, I would just highlight the beginning of the decline of the costs, which are going under EUR1b. And of course, it's a trend which should go even further down in 2009.

Cost of risk of Q4. Even without the crisis, it goes up to EUR208m. This is also because we have decided to post a collective impairment in Turkey, with no real evidence of increase of the risk. But in order to be on the safe side, we've considered it was a good decision to add this kind of impairment.

Now the reclassification of the EUR100b. It is, of course, EUR100b. It's a lot. It's much more than any of our competitors. Something to be noted is the fact that we have reclassified mostly up to EUR91b securities coming from the AFS portfolio and EUR7b from the Trading portfolio. So it means that for us, the P&L impact is not that much, we have avoided to record some negative mark-to-market on the Trading portfolio. Actually, taking into account some positive and negative impacts, it appears that on the P&L, the result is nearly nil. It's lower than EUR100m
But rather, the IAS39 impact is on the available for sale reserve. In terms of the AFS portfolio, the transfer has allowed us not to record an increase of the negative AFS reserve of EUR1.3b. I have to say that part of the AFS portfolio remaining is now valued with mark-to-market.

So it means that when you look at this slide number 27, we have a part of the AFS reserve, which is so-called frozen because assets have been transferred to loans and receivables, which are, as the amendment requests, securities which are absolutely illiquid. The part which is still in AFS is partially liquid, partially not that liquid. We have here used the possibility to value the AFS through a mark-to-model for, let's say, 40% of the total remaining portfolio of AFS.

Globally, the AFS reserve is going down by a bit more than EUR1b through spread widening for EUR2b and interest rate effect positive of EUR1b since these are fixed-rate securities. And of course, the drop of the interest rate has increased the value of these bonds.

Now as regards the hedges that we have, on the other hand, their value has gone down, which means that if you look at the global other comprehensive income, it has gone down globally by EUR2b over the quarter.

Pages 28 and 29: this is something which you have already seen before. It's the rating of our portfolios. You can see that, as was explained, out of FP it's a very strong portfolio with 99% of bonds being investment grade. FSA FP on page 29, these are the ratings as of the end of 2008. If we take into account the last downgrades which have occurred up to now, roughly 10% of the securities which were investment grade are now below investment grade. So it means that instead of 75%, we're now at 66% of above investment grade securities in the FP portfolio.

Solvency, slide 31: we have treated the Financial Products, in a way which is to multiply by 12.5 the part of the first loss, which has not already been taken into account in the P&L. This is the way regulators have proposed to us to treat this portfolio, which is a way that if it were a securitization, it would be done this way. So in this case, since the part which has not gone through P&L is already taken out, we can say that the ratio is fully un-sensitive now to the future of the FP. Or at least we think it can only be on the right side.

Tier 1 ratio, 10.6%, out of which 9.6% of core Tier 1. This doesn't take into account the convertible bonds, which are supposed to be subscribed by Luxembourg as announced on September 30, and which is still in negotiation.

I won't go too much through the analysis by business lines in order to leave time for questions. I will just say a few words about the note, which you can see at the bottom left of the slide number 34, regarding results by business line. Particularly for PWB, results were traditionally shown with a cost of funding Euribor minus 3 basis points. This maybe made sense during sometime in the good old days, but definitely it is something which is not realistic anymore.

In addition, PWB includes also the so-called PSP portfolio (Public Bond Portfolio) with the same assumption of refinancing cost which is Euribor minus 3 basis points. We are going to change this for next quarter. We will present you something showing the performance particularly of PWB, taking into account the real cost of liquidity which these days have, of course, significantly increased.

So I would suggest that we would you flip through the various business lines. If you have any particular questions, I think the best will be to ask questions at the end of the presentation. And so I will leave the microphone to Pierre for the conclusion.

Pierre Mariani *- Dexia - CEO*

I'd just like to give a few words of conclusion. I think these results are not good, obviously. I think we have taken a very conservative approach in provisioning most of the potential risk of our activities. We have increased the coverage of our monoline exposure. We have taken into consideration also a large part of the restructuring cost that will be linked to our cost-cutting program. We have also properly covered the level of potential losses on our RMBS portfolio. We have covered not only the depreciation effects of the stock market on our Insurance portfolio and Equity portfolio, but also we have taken provisions on banks' Tier 1 instruments. I think we have taken also a lot of provisions that will reflect the macroeconomic risk of 2009.

Indeed, when we look at the beginning of the year, we are probably in a macroeconomic environment that will lead to the worst recession in the last 30 years at least and a financial environment that remains very challenging, not only on the equity markets but also on the fixed income markets as a whole.

Among this difficult environment, I think we have an outstanding of quality, a very strong resilience of the revenues that all together will support the Public Finance business until the reopening of the long-term funding markets.

We have robust retail banking activities that have been able to demonstrate their resilience, even at the worst moment of the crisis. And the figures for the last two months of activity in 2009 show that both in Belgium and Turkey, we are not only recovering our position, but still quite developing very aggressively our deposit base.

The balance sheet structure will improve, based on the reduction of the production of course, but also the reduction of the portfolio when the market conditions will allow it. And we'll have experienced also some returns from this front. And we know also that the liquidity situation has been gradually improving, thanks to the State guarantees.

The strict cost control will definitely help us also to pace the cost of the State guarantees. And I'm very confident that based on all these element and notwithstanding the economic and financial situation, we'll be in a position to recover our profitability in 2009 if there is no major disruption on the market.

Thank you very much. We are now ready to answer your questions.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions). The first question is coming from the line of Christophe Ricetti from Natixis. Please go ahead.

Christophe Ricetti *- Natixis - Analyst*

Hi. Good afternoon, everyone. I have one question which is a bit general, and I apologize for this. I think you've been clear in explaining what is the geographic focus for the Public Finance division. But could you also give us details in terms of products you are going to sell to your clients and the impact of the profitability of the business line? Thank you.

Pierre Mariani *- Dexia - CEO*

I think, of course, the situation is very different by market. When you look at the structure of the revenues, 80% of the overall revenue on our portfolio is coming from lending or lending-related activities. You have here not only the strict public finance activity, but also the portfolio activities. So revenues were not very much made of commission, etc.

Going forward, I think we'll definitely simplify the product offering and I suppose you have in mind the role or the proportion that's going to be related to the structured activities and structured loans, and particularly in France.
But when you look at what is related to loans vs. what is related to other kinds of product, in the new French business, it's mainly lending with some additional revenues coming from this, let's say, financial markets-related activities.

On the Belgian market, which will represent more than 45% of the overall revenue base, the activity is very diversified because you have lending activities representing slightly over 40% of the revenue. And all the remaining part is related, of course, to the deposit gathering because you are in a position when you can gather all and manage all the treasury and cash management of the local entities and related entities in Belgium, which represent a big part of the revenue. And all the other categories of revenues, like insurance, like, for example again, asset management, etc., each represent another source.
So we'll have in the future perimeter, a very well-balanced portfolio, not completely dependent on long term funding on one side, and also with a very diversified, even if it's simple, revenue base.

Christophe Ricetti *- Natixis - Analyst*

Okay. Just to continue on this point, on your slide page number four, you are mentioning EUR2.5b income, excluding FSA for the Public and Wholesale Banking division. Is it a figure that we could return in our models, to work on in '09 or '10 going forward?

Pierre Mariani *- Dexia - CEO*

As we explained, we have tried to protect your long-term scenarios and long-term models. We didn't change anything to the structure and the way the figures and the accounts were presented in the past because you know that this figure includes the portfolios (the Public Spread portfolio of EUR83b).

And the second aspect is, of course, that the transfer price or the funding cost of these activities in the past was Euribor minus 3 basis points. And we consider that it's not reasonable anymore. And we have changed all the internal transfer pricing for the 2009 budget. Going forward, we will make sure that the long-term public finance activities will support effectively their real cost of funding, including the cost of the State guarantees.

So it's just a split of the revenue with, of course, the situation and the previous structure and cost of funding in 2008. And with the first quarter figures of 2009, we will give you the new assumptions and we'll re-treat the 2008 figure with the same kind of assumptions.

Christophe Ricetti - ***Natixis - Analyst***

Okay, thanks.

Operator

Thank you. Your next question is coming from the line of Albert Ploegh from ING. Albert, please go ahead.

Albert Ploegh - ***ING - Analyst***

Yes, good afternoon. I've got also a bit of a top-down question. If you look at the whole deleveraging process that is taking place, and if you look at your core shareholders' equity excluding the AFS reserve, which is still EUR17b, at what timeframe do you think you can again make the same return on equity, net of around 10% - to get some feeling of the underlying earnings going forward?

And the second question I had is on funding. If you look at it, “due to banks” line is around EUR200b, how much of that is now secured funding and how much is unsecured? And if you also look at, basically the Public Finance bonds, how much is that still unencumbered, to be used for ECB purposes or for funding? Or is it all already being used as collateral for ECB?

And the third question is on the IAS 39, the frozen AFS part of the EUR6.8b. Is it possible to get some feeling of how the annual amortization could look like? Thank you.

Philippe Rucheton - ***Dexia - CFO***

For the last -- the EUR6.8b of so-called frozen reserve is going to be amortized over the duration of the portfolio which has been transferred. Now we have a difference between the level of the securities and the values that we can assume for these securities. Knowing that by definition these securities are illiquid. So the value that we can confer is the value calculated through a model. So the EUR6.8b, it will go down over the next 5 or 10 years with the average of maybe five or six years.

Albert Ploegh - ***ING - Analyst***

Five or six years, okay.

Pierre Mariani - ***Dexia - CEO***

The deleveraging and the speed of the deleveraging will be certainly related to the possibility of selling part of this portfolio. I'm not very worried by the overall quality even if something bad could always happen, but we don't anticipate any major problems. The problem is, of course, the problem of the spread and the value of the portfolio and the liquidity of this market.

We have also to keep in mind that most of this portfolio is eligible to Central Banks. And we are able to use most of this portfolio as collateral to our liquidity or through repos or others to get some funding from the Central Bank, not only in Europe, of course, but also Japan, in Great Britain and in the United States. So it's true that some people in the past used to consider that this portfolio was a protection in terms of liquidity and that it was not a danger to have such a big portfolio because you had always the possibility to get some funding from the Central Banks or through repos.

I think the market of the repos is reopened today. We know that we are able to have access to unsecured funding today, thanks to the guarantees. We've been able to raise up to EUR40b on the unsecured funding during the last few weeks. We have used EUR75b of the global funding envelope under State guarantee, which is of course normal because it's a process in which we renew every day or every week or whatever the duration is the existing funding. And we replaced funds and non-guaranteed funding by a guaranteed funding. This was anticipated, of course. But we are pretty comfortable with the capacity to carry over time this portfolio and to sell it whenever the market conditions come back to a more normal situation.

When shall we be able to get to a normal return on equity?. I think we are working very aggressively to reassess this. When you'll be able to tell me when the crisis is over, I could maybe give a more specific and more precise answer.

Albert Ploegh - ***ING - Analyst***

Okay, I understand. And maybe one follow-up a bit on the normalized earnings, because if we look at the Treasury and Financial Markets line in the fourth quarter, ignoring the financial crisis, it's actually a very solid Q4 with returns of almost EUR500m. What happened there, for example, because I don't think we should model this going forward for '09? Can you hear me?

Pierre Mariani - ***Dexia - CEO***

No, I think it's clearly not, because you have a certain number of aspects. For example, you don't take into account the deleveraging and the decrease of some bond portfolio. And there is the natural amortization of the portfolio. You have also a different approach with less production, so it is a natural amortization. We are trying also to reduce the overall funding situation. And clearly there will be something that we don't account for in the fourth quarter because the cost was very limited, is the cost of the State guarantees and we say publicly because of the State guarantees could be still in the range of between EUR500m and EUR600m for 2009.

Albert Ploegh - ***ING - Analyst***

Yes, okay.

Philippe Rucheton - ***Dexia - CFO***

We can also expect maybe an increase of the cost of risk even if Dexia is not as sensitive as some of our competitors to the corporate risks, but nevertheless I think it would be reasonable to expect an increase of the cost of risk on the "other exposures" in the bond portfolio.

Albert Ploegh - ***ING - Analyst***

Yes, okay. Thank you very much.

Operator

Thank you. The next question is coming from the line of Britta Schmidt, Merrill Lynch. Britta, please go ahead.

Britta Schmidt - ***Merrill Lynch - Analyst***

Yes, hi. I've got a few questions. Just to pick up on the last point that you made, I think particularly in reference to the infrastructure portfolio, can you give us any sort of guidance on what the cost of risk could be?

Then secondly, a question with regards to the deposit business in Belgium, while you're under the State guarantee I think there is a certain limitation on how competitive you can be and you're saying that you've actually been quite successful in the fourth quarter. Do you think that this is any sort of limitation that we will see to your 2009 deposit business?

And the last question I have is just to clarify; you say you're going to delever the bond portfolio once markets come back but how open would you be to sell at least part of these portfolios perhaps at some losses just to basically make some progress on deleveraging?

Philippe Rucheton - ***Dexia - CFO***

I'm afraid the reception was not very clear, but I would like to make sure that we understand your question. First, you were speaking about the infrastructure portfolio?

Britta Schmidt - ***Merrill Lynch - Analyst***

Yes, because you said we should expect an increase in the cost of risk and I think probably an area where this will be perhaps a little bit more pronounced is the infrastructure business that you have within public finance. Can you give us any sort of guidance on what we could expect there? How many basis points would you consider in this environment to be expected?

Philippe Rucheton - ***Dexia - CFO***

From what I understand you are focusing on something that we call the Public Sector Portfolio, PSP. And for its funding we are not experiencing any real cost of risk, any actual impairment. Now the project finance business, it's for the time being it is the same. We are not experiencing any increase of our cost of risk.

When I was speaking about an increase it was more on the "normal banking business" (and it's true in Belgium, it's true in Turkey). When I'm speaking about France or when I am speaking about where you're doing banking dedicated to public entities, we are not expecting an increase of risks. It's on some other part of the bank that we can see a deterioration, even if for the time being there is nothing.

Deposits in Belgium, I understand that we have no specific limits of our deposits in Belgium and there is no particular issues. The only issue is the fact that the cost of this deposit is going a bit higher because we have some competitors who are proposing particularly on the Internet base deposits, which has driven up the cost of the deposit. But nevertheless, we are still with a significant part of our, for example the carnet de depot which is one of the bulk of the deposit base. We have still something like 80% of the global number of our deposit carnet de depot, which is still the traditional carnet de depot and only EUR4b or EUR5b are with Internet base with a limited EUR3.3b of Internet base carnet de depot with a thinner spread.

The last question was about the deleverage. Deleverage in 2009, this is what you were asking what would be the speed or the cost of deleveraging in 2009 of the portfolios? Did I understand correctly?

Britta Schmidt - ***Merrill Lynch - Analyst***

Yes, that's right. Basically would you be willing to also take some losses on the books in return for the positive impact, of course, on the leverage?

Philippe Rucheton - ***Dexia - CFO***

Yes. It's clear that when you see the negative OCI… it would be really costly for liquidity reasons to deleverage. We are pushing to deleverage to sell what we think makes sense to be sold when the price is not I would say out of the range, because if we have some securities which are with no problem for refinancing, with no risk issue we think that we have the capacity to hold this portfolio and it will be a destroyer of value to sell it right now.

Of course when we are speaking of some risk exposures where we consider that we are a bit concentrated, when we have some securities which cannot be refinanced through repo or with the central banks or when we have some currency which creates some issues because we have to go through foreign currency swaps or stuff like that then we are looking closely at the issues-- and this is something that we are actively doing.

You have seen in our documents that we have already sold EUR2.8b in the last quarter of 2008 and I can tell you that we are these days working with the investment banking part of Dexia in connection with investment banks to try to speed up the profit of also selling bonds and portfolios in the countries where we have said we wanted to reduce as quickly as possible our exposure, because we would like to be able to get out of there quicker and faster than the normal running off of the portfolio. And we know that it's a bit costly so we do it step by step where we think it makes sense for the Group and it doesn't destroy value.

Britta Schmidt - ***Merrill Lynch - Analyst***

Okay, thank you.

Operator

Thank you. The next question is coming from the line of Kiri Vijayarajah from Citigroup. Kiri, please go ahead.

Kiri Vijayarajah - ***Citigroup - Analyst***

Just on slide eight and you've got the '08 and '09 new production figures. I wondered if you could just tell us the relative ROE of your historic markets versus the other markets which you're hoping to retrench and exit? Thanks.

Philippe Rucheton - ***Dexia - CFO***

Could you -- because definitely we have some technical issues to understand the question. (inaudible) around the return strictly by business or the --?

Kiri Vijayarajah - ***Citigroup - Analyst***

Yes, really if you retrench to your core markets what's the ROE of that, of the core historic markets and the lower part of that bar on slide eight versus the ROE of -- well I guess they're higher margin but higher risk markets where you're going to be exiting?

Philippe Rucheton - ***Dexia - CFO***

Once again one of the issues is a bit what I said before in terms of when you want to have a return on equity calculated with the way which was used before, i.e. with the cost of funding of Euribor minus three, if we were keeping such a funding rate with the spreads which have widened in terms of what we can sell to the client, then we will be tremendously profitable.

Now the issue is the fact that what is the cost of funding? One thing to have in mind is that because our portfolio is so long, what we have mostly in our P&L for the next few years, will be a legacy. Whatever we do today has a very limited influence on our net interest margin for the future and the main driver will still be our average cost of funding.

On the gross revenue part we are just stuck with all the assets that we have right now on the balance sheet. But since we are refinanced mostly with short term it means that (and of course, don't tell me, I don't want to say that we are in interest rate risk because everything is swapped), but we are nevertheless with this cost of funding, the spread we are going to pay is the main driver of our profitability and the net interest income for the near future.

So the return on equity, when we are just limited to this core countries, we have no cost of risk and so if in your model you just change by 10 or 20 basis points the cost of funding you can move the return on equity, we'll have tremendous swings.

Kiri Vijayarajah - ***Citigroup - Analyst***

Okay.

Philippe Rucheton - ***Dexia - CFO***

And in this case for you it's more a kind of function of what might be the cost of funding of Dexia in the near future. This is the main question that you have to wonder if you want to have a model of profitability for this business.

Kiri Vijayarajah *- Citigroup - Analyst*

Okay.

Operator

Thank you. The next question is coming from the line of Ivan Lathouders from ESN. Please go ahead, Ivan.

Ivan Lathouders *- ESN - Analyst*

Hello, good afternoon. This is Ivan Lathouders. I have two short questions, if I may. The first one is the sale of the insurance activities of FSA. In your release you're saying that the loss you're taking in the fourth quarter is based on the share price of Assured Guaranty of $8.1. Could you tell us what that loss would be if we use the share price of yesterday, which is $4.98 per assured share?

And the second question is related to the possible State intervention for FSA FP. Could you quantify of the EUR3b that you have to take yourself what has already been used now and what not? Thank you.

Philippe Rucheton *- Dexia - CFO*

Okay, so first you're perfectly right that the EUR360m is based on the value of shares of $8. So that means that if it drops to $5 mechanically we have a 5 out of 8 difference that's -40% or a bit more than that. When we are going to really account for the sale at time of closing we are going to take, of course, the value of the share at that very day.

But I remind you that we have taken the share price at the time of the signing. At the end of the year it was $11. It went up to $14. Now it's down to $5. It goes up and down, but you're perfectly right that we have here an embedded value of the Assured share price at $8.

Ivan Lathouders *- ESN - Analyst*

Okay, and that 40% was applied to what amount? Could you repeat that please?

Philippe Rucheton *- Dexia - CFO*

Because for me $5, if I take $8, it's roughly a 40% drop.

Ivan Lathouders *- ESN - Analyst*

Okay.

Philippe Rucheton *- Dexia - CFO*

Now in terms of the FP, we have this $4.5b which is the cap of our risk on these FPs. We have already at the end of Q3 we had passed $1.5b or just slightly under $1.5b of impairments on this portfolio. We have additionally for the Q4 posted $50m or $70m of impairment and plus this EUR300m, i.e. $440m of additional impairment, which is collective impairment but which actually applies to securities which are in the balance sheet of the FP.

So we have already nearly $2b of taken into account in our P&L. So it means that the maximum (once again which we do not expect) additional P&L losses we could book is at this time is $2.5b. But once again this will have no impact on our Tier 1 ratio because this is already taken into account by the way as I explained before.

Ivan Lathouders - ***ESN - Analyst***

Okay, that is very clear. Thank you.

Operator

Thank you. The next question is coming from the line of Brice Vandamme, Deutsche Bank. Brice, please go ahead.

Brice Vandamme - ***Deutsche Bank - Analyst***

Hi, Brice Vandamme calling from Deutsche Bank. Most of the questions I had have been already answered actually, but perhaps just two questions. I read in the press this week that you had already consumed half of the guarantee given by the French, Belgium and Luxembourg state which initially was at EUR150b. Could you just tell us if it's right or not and if we can assume that you are still using it at the same speed, which means that you will be short of State guarantee in four months? So it's my first question.

A second question perhaps on the OCI reserves. So for a long time before this crisis you used some mark-to-market valuations on your different portfolios and it seems that now you are more using mark-to-model. My question is if you apply your current losses expectation on the portfolio, which are generating this negative OCI reserves do you have any idea of what is the potential recovery in the OCI reserves? Thanks.

Pierre Mariani - ***Dexia - CEO***

May I just give you an update? You can read every day on the site of the National Bank of Belgium the amount of guarantee used by Dexia. You know it's not because you have EUR75b short term funding that were used in four months that you will have four times EUR75b for the entire year, because four times would lead to EUR300b, which means 50% of our balance sheet. So I think the overall renewal of short term funding in the balance sheet was reached very aggressively. But it will not continue to increase because our balance sheet is not increasing. So don't worry it's not the global figure. It will not multiply by four and we'll stay way under the EUR150m ceiling of guarantee granted by the State.

Philippe Rucheton - ***Dexia - CFO***

So it's actually a substitution. Before October the funding was done of course without State guarantee. Now step by step every time there is something which goes to maturity or renewal of this interbank funding is done under the State guarantee. So what we expect is the fact we could reach in some weeks the maximum level that we have in mind, which is less than EUR100b, which by the way is a threshold where we have some measures that we have to look at with the States. So it's just natural. It doesn't mean that we are consuming too much. It's just the switch between something which was not under the cover of the shelter of the State guarantee and which enters into the guarantee.

And now about the question of the recovery if we were applying the mark-to-model to the AFS portfolio? First of all, we have part of the AFS which is still in mark-to-market.. I think we can expect something like EUR2b of difference between the mark-to-model applied to all the securities and the EUR11.9b of AFS reserves that we have right now in the accounts.

Philippe Rucheton - ***Dexia - CFO***

I hope I understand correctly that the question was if we are applying the mark-to-model to all the portfolio in AFS, showing what is the economic potential loss, how much do we see the difference will be, the recovery that we would have over the life of the portfolio?

Brice Vandamme - ***Deutsche Bank - Analyst***

Exactly. And actually the underlying question I would say was what is in your view on your feeling on the potential recoveries on these AFS reserves?

Philippe Rucheton *- Dexia - CFO*

As soon as we consider that the discounted cash flows are under the purchase price we have to go through the impairment. So for us the total of the AFS reserves is potentially something that we should get back.

Brice Vandamme *- Deutsche Bank - Analyst*

Thank you.

Operator

Thank you. The next question is coming from the line of Scander Bentchikou from Oddo. Please go ahead.

Scander Bentchikou *- Oddo Securities - Analyst*

Good afternoon, everybody. I have a couple of questions. The first one regards the three main portfolios. I was wondering could you clarify for instance regarding the muni portfolio or the CSP or the GIC, what part is in trading and what part is still available for sale? And why did you reclassify I would say only EUR100b and not more?

And then I have a second question regarding the breakdown of the OCI under water situation. Could you tell us what is the breakdown? I mean from where comes the loss from? Is it from the one-third CSP, one-third PSP, one third muni bond? Well, a kind of composition would be helpful.

And then I have a last question regarding what's your view in terms of growth or decline of risk-weighted assets for public finance in 2009? What should we expect, single digit, double? Thank you.

Philippe Rucheton *- Dexia - CFO*

So I mean the last question, it's not the easiest one, because it's very accurate and precise question. Why have not we reclassified more than that? We consider that we have transferred into loans and receivables only the securities which look real completely illiquid and where we think that it will be really difficult to accelerate and to speed up the process of deleveraging.

As you know it's not the same as in held to maturity. We can sell part of it and it's not a prohibition. But nevertheless we consider this is it might be the most difficult part to sell.

The state of the OCI, I have to say it's a bit complicated and this I would prefer, because I can have some guess but I don't have the information right now available on me. Part of it for sure is linked to the FP. And also it's part of the frozen AFS. So we will keep all your reference and we can send you the exact breakdown in order to answer to your question.

Risk-weighted assets. Actually, I'm not sure that we are going to have a significant drop in the risk-weighted assets because even if we are able to reduce the size of the portfolio we have different factors which might have another influence. Of course, first in Turkey and maybe in Belgium we might have an increase in corporate, or commercial lending risks. Second, since we are in the Basel II advanced methodology every downgrade notch we might have an increase in some RWA- this is the cyclical effect of the Basel II methodology.

Last but not least we have a sensitivity to the US dollar. Because of the FP, because of the US denominated part of our bond portfolio we have a sensitivity to the US dollar. Our total risk-weighted assets in euro might go up if (as it is the case these days) the euro is weakening towards the US dollar, which of course will have an influence on the ratio. And so once again, I would not bet on a decrease of the weighted assets for 2009.

For the time being the Tier 1 of Dexia is purely and simply in euro. We don't have any sub-debt or hybrid Tier 1 US dollar denominated.

Scander Bentchikou - ***Oddo Securities - Analyst***

Thank you. And on the breakdown of the three main portfolio between trading and available for sale, do we have available data? In trading we have EUR6b of CSP, EUR8b of muni bond, EUR8b of GIC the same thing for AFS, in order to --

Philippe Rucheton - ***Dexia - CFO***

I will not speak of GIC because it's on the liability side. All the FPs have been reclassified in loans and receivables.

Scander Bentchikou - ***Oddo Securities - Analyst***

Okay.

Philippe Rucheton - ***Dexia - CFO***

You have roughly the EUR12b, it's $17 or it's EUR12b in loans and receivables on behalf of the FPs including Global funding. You asked about the major portfolios, the CSP?

Scander Bentchikou - ***Oddo Securities - Analyst***

Yes.

Philippe Rucheton - ***Dexia - CFO***

CSP out of EUR75b you have EUR29b in loan and receivables, you have EUR44b in available for sale and the remaining being a bit in held to maturity or whatever. For the PSP which is EUR82b globally, you have EUR52b in loans and receivables. You have EUR17b in available for sale and the remainder is half again in held to maturity & others. So that's the major. After that you go into [units] which are very small.

Scander Bentchikou - ***Oddo Securities - Analyst***

Okay, and do we have to assume now today that the sensitivity of Dexia's AFS reserve to bond market spreads has reduced considerably?

Philippe Rucheton - ***Dexia - CFO***

Yes, that's right, because for sure everything which is in loans and receivables is no more sensitive to this spread variation.

Scander Bentchikou - ***Oddo Securities - Analyst***

Okay.

Philippe Rucheton - ***Dexia - CFO***

The part of AFS which is in mark-to-market is also in a way sensitive to spreads, because mark-to-model is something which takes into account somehow also the widening or shrinking of the spread.

Scander Bentchikou - ***Oddo Securities - Analyst***

Okay.

Philippe Rucheton - ***Dexia - CFO***

But not as much as if it were mark-to-market.

Scander Bentchikou - ***Oddo Securities - Analyst***

Okay. I have one more question, if I may? What was the level of restructuring charge that has been booked in front of the EUR600m cost cutting program? Has everything been booked already? Because I saw a figure, it was something in the range of minus EUR200m but it looked quite small compared to the size of targeted cost decrease of EUR600m?

Philippe Rucheton - ***Dexia - CFO***

Well, I don't have full scope of the benchmark available. I don't find actually it's that small to have EUR200m compared to EUR600m.

And I would say that for me the EUR181m plus some other provisions, it should be the bulk of what would be needed to achieve the costs cutting plans, at least the first tranche.

Scander Bentchikou - ***Oddo Securities - Analyst***

Okay, thank you.

Operator

Thank you. We have no further questions coming through, so I hand you back to Mr. Mariani for closing remarks.

Pierre Mariani - ***Dexia - CEO***

I thank you, all of you for joining this conference and make an appointment for the first quarter results in May. Thank you very much. Bye.

Operator

Thank you for joining today's conference. You may now replace your handset.