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Conference Call Transcript

DEXB.BR - Dexia Agreement Reached with the European Commission on Restructuring Plan Conference Call

Event Date/Time: Feb. 08. 2010 / 4:30AM ET

THOMSON REUTERS

CORPORATE PARTICIPANTS

Pierre Mariani
Dexia - CEO

CONFERENCE CALL PARTICIPANTS

Jean-Pierre Lambert
KBW - Analyst

Pierre Flabbee
Kepler - Analyst

Andrew Coombs
Citi - Analyst

Jaap Meijer
Evolution - Analyst

Francesca Tondi
JP Morgan - Analyst

Maxence Le Gouvello
Morgan Stanley - Analyst

Brice Vandamme
Deutsche Bank - Analyst

Sabrina Blanc
Societe Generale - Analyst

Britta Schmidt
Autonomous Research - Analyst

Albert Ploegh
ING - Analyst

Guillaume Tiberghien
Credit Suisse - Analyst

Damien Regent
UBS - Analyst

Omar Fall
UBS - Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the analyst and investor call for Dexia. My name is Louise. I'll be the 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'm now handing you over to Mr. Pierre Mariani, CEO of Dexia, to begin.

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

Good morning, everybody. I'm happy to be with you today to comment the content of the agreement we've reached on Friday with the European Commission, about the restructuring plan we submitted to the Commission a year ago.

A few important figures, in my view, should be mentioned. The first one is clearly that we've reached with them an agreement because we share a common understanding of the reasons of Dexia's imbalances that led to the crisis in November 2008. We know that this liquidity crisis came from the development far from core markets, in markets where we didn't have relevant commercial franchise, nor funding, and also because we were heavily depending on wholesale debt market and excessive leverage.

You know that over time, between 2006 and 2008, a huge bond portfolio has been built as part of the public finance activity or liquidity management. We were reliant for the financing of this portfolio on the wholesale funding market, with a significant liquidity mismatch and duration mismatch that led to an excessive part and proportion of short-term funding.

The third element was, of course, the high exposure to the US market through FSA and through the insured portfolio of ABS on one side, but also local communities on the other side.

The second element is that we've been able also to reach an agreement because we have delivered, in 2009, all the orientations of the transformation plan we designed in the fall of 2008. First of all, because we gave priority to the core client franchise and we put in place the ways and means to lead to a very significant deleverage of the balance sheet.

Of course, we have decided and announced that we would close a certain number of PWB international positions and that we would reduce the production in this business line. The production, finally, with the final figures of 2009, has reached only EUR12b compared to EUR52b in 2008. We've also sold our stake in Credit du Nord, signed an agreement with BNP Paribas on Dexia Epargne Pension. We've also been able to sell more than EUR16.5b of bonds. And when we look at the total deleveraging of the balance sheet, our balance sheet has decreased by EUR70b, i.e. 11% of the balance sheet compared to the end of 2008.

On the other side, I think the commercial performance of the network has been very good in deposit collection, with more than EUR8b net deposits collected in 2009. A very good delivery of our core businesses' performance, and all of them have been back to profitability since 2Q 2009. And we have also, in the meantime, decided to completely launch a new approach on our retail network in Belgium. And we launched an investment program of more than EUR350m, to put in place not only a complete refurbishment of our branches but also to implement a new distribution model in Belgium.

Second element of the transformation plan was the improvement of the risk profile. We have of course sold FSA and contained the risk on the Financial Products Portfolio. We have sold Kommunalkredit Austria at the end of 2008. We have stopped the proprietary trading activities and divided by two the VaR limits on the remaining trading operations.

And we have also - that's one of the best achievements, of course, most important achievements - reduced our short-term funding need by EUR80b compared to the end of 2008. And the Group also lengthened the maturity of its debt, with more than EUR46b of long-term funds raised in 2009. Half of it was guaranteed debt, of course, but half of it was also non-guaranteed debt through covered bonds and unsecured funding.

And finally, the third element was to try to cope with the decrease of the revenue by a strong cost-reduction effort. We have reduced our costs by more than EUR350m, and that was more than we expected in 2009. And it means also that we are able today to confirm our ability to reach the EUR60m (sic – read EUR600m) cost-saving plan we have designed in 2008.

The second element is of course that we will describe precisely what is the content of the deleveraging program. I think it's very important to understand that it's largely in line with what we expected and what we decided on our own. Before -- between 2008 and 2009, we have reduced by more than EUR70b our balance sheet. When -- of course, we are looking forward to seeing what will happen.

We have decided to classify the portfolio, the run-off portfolio, in a Legacy Portfolio Management Division, with a reinforced governance. The amount of the assets classified in this division is EUR162b at the end of 2009, coming from EUR191b at the end of 2008, with three main components. The first one is of course the bond portfolio in run-off. The second one are the financial products. And the third one are non-core public loans in countries where we have decided to stop the activity.

The interesting element is when we look at our capacity to deleverage and to implement this deleveraging, we have done in one year more than the third of the global reduction effort the European Commission asked us to do. And this is true on mainly all the components of this portfolio, on the sales of bonds and decrease of the bond portfolio in run-off, but also on the loans and on the financial products, of course, on a different pace. That's important because it gives us some comfort about the constraints that weighs on this element.

These Legacy Division assets are composed with low-risk activities or assets covered with the existing State Guarantee Scheme. The first one is -- the first component is non-core public loans. You have on the slide the average -- the split of these activities and these loans between different countries. It's of course a 26% average risk weight, so it's mainly composed with loans to local authorities and public satellites and Australian project finance.

The second element is the Financial Products Portfolio, which is now a portfolio of EUR11b of assets. It's covered by a State Guarantee Scheme, 75% of the portfolio benefit from State Guarantee. And Dexia covers the first loss of $4.5b, and above that the State will cover losses and are entitled to receive ordinary shares or non-voting profit shares. Nothing new about that. Dexia solvency is also fully protected against further FP losses, whatever the evolution of the portfolio could be, either coming from effective losses or also coming from accounting losses.

The third element is the bond portfolio in run-off. It's still 97% investment grade, with a good stability of ratings since the worst of the crisis. And the existing provision on this portfolio are largely limited to the ones that were booked in 3Q 2008 on Lehman and Icelandic bank exposures.

We have also decided to allocate a clear funding structure to the Legacy assets. We have been asked to allocate to the financing of this portfolio all State Guaranteed funding, long-term funding will represent 30% of the total liabilities. And we still have on this portfolio a huge available Repo capacity, and that explains why short-term funding on these categories of assets will still represent 30% of the total.

So, the core businesses on the other side will be mostly funded through covered bonds and stable deposits. And the presentation of the Group revised financial reporting, separating Core and Legacy Divisions, will be fully presented with the looking back and all the 2009 accounts in this format somewhere when we will present the first-quarter 2010 results.

The third element is of course the recognition of the European Commission of our ability to deliver cost reductions. Our EUR600m target has been confirmed and we are committed to implement these measures. When compared to the 2008 basis, the total costs were EUR4b and slightly over EUR100m. We'll reach, at the end of 2009, EUR3.5b costs, and that means that we have an additional EUR250m saving to implement. And I'm very confident in our capacity to deliver on that front because all these additional savings are already identified and will be implemented over 2010 and 2011, i.e. one year before the target determined by the Commission.

On top of the measures we already launched in 2008, the European Commission asked us some additional measures that are mainly composed by additional sales of activities and restrictions on dividends. The first one is of course the sale of activities. We've already sold a number of businesses in 2008 and 2009. That's, just for the record, Kommunalkredit Austria, FSA, Credit du Nord, Dexia Epargne Pension. And we have agreed also to divest Crediop, Sabadell and Dexia Banka Slovensko.

All our main target was clearly to be able to reach an agreement with the European Commission to obtain that additional measure would be part of the solution rather than part of the problem. So we have pushed very hard during these negotiations to concentrate the efforts on structures where we have huge and strong financing needs, as is the case for Crediop and Sabadell. And it's clear that the amount of deleveraging and the sale of these activities will certainly help us to reduce more rapidly than we expected the short-term financing needs of the Group.

The second element is of course a series of restrictions on dividends, hybrids and acquisitions for the next two years. Dexia is committed to -- not to make any acquisition of financial institutions except with the agreement of the Commission in a number of circumstances.

Dexia is also prevented to pay dividends on common equity share, conditioned to Tier 1 requirements commitments. We also pleaded to be able to pay dividends during this period, which is a normal ban of behavioral commitment that usually is imposed on restructured banks, considering the particular situation of our Group where our core shareholders have made a huge effort to share a large part of the recapitalization that was made in the fall of 2008. That's why the Commission accepted that we could pay some dividends in this supposedly banned period between 2010 and 2011.

The third element is that Dexia will pay coupons on its subordinated debt instruments only if they are mandatory. And we are also committed not to call them during this period and not to exercise any call before the end of 2011.

I must add on top of that that of course all these commitments imply also that we have accepted to maintain a high level of equity within the Group, around the level we've reached at the end of the third quarter, decreasing slightly over time, when of course the Legacy portfolio will be reduced also in the same time. We accepted that for many reasons. One of it is of course that we are in a position where we have to come back to learn to live without the State Guarantees. And I think it was necessary to maintain this high level of equity during this period.

All this process, all these commitments will be monitored by the Commission. And we have agreed to report every six months on the progress of the implementation of these different measures.

Looking forward, I think it's important to see that the profile of the risk will change a lot, first of all because there will be a significant decrease and improvement of our funding structure. First of all, based on the decrease of short-term funding in 2009, clearly we have decreased the short-term funding need in 2009 very aggressively, by more than EUR80b, with various means.

The first one was a lengthening of maturity profile of the Group debt, with EUR46b medium and long-term debt raised in 2009. As I told you, deposit net collection of more than EUR8b. A very active deleverage on the portfolio in run-off, decreased by 15% with minimal losses. And also, decreasing the PWB new production, EUR11b (sic – read EUR12b) new commitments in 2009.

The beginning of 2010 confirms exactly the same kind of trends and evolution. We've been able to raise EUR8b of State Guaranteed debt to date, with an average maturity of 3.2 years, at a cost of Euribor three months plus 26 basis points, excluding State Guarantees. But also we've been able to raise EUR2.4b covered bonds since the beginning of the year, just to stabilize the evolution of our funding. And also we could consider that after one month we've put in place already more than a third of our global medium-term funding program for 2010.

The second element is a decrease of the use of State Guarantee. At the peak, in May, we reached EUR95b. We are now at EUR53b and there is now in place a plan to exit from the State Guarantee before the end of June 2010. We have already exited from contracts below one month. We'll exit from all the short-term State Guaranteed by the end of May and no new issues of guaranteed debt by the end of June.

On the slide 20, you can see the evolution of the outstanding of guaranteed debt that we are planning to issue by the end of June 2010.

Looking forward, we have taken the commitment to pursue the improvement of our funding structure. There is a rapid decrease of Central Bank funding. We were at Base 100 at the end of 2008. We are now at 47%, so halved compared to the end of 2008. And also commitments with the improvement of our funding structure are in line - strong reduction of short-term guaranteed funding; strong reduction of Central Bank repos; an increase of long-term funding, particularly through deposit and covered bonds; and also an improved weighted average life of our liabilities, going forward.

Clearly the balance sheet will be refocused over time, before the end of the plan. The Core PWB yearly production will remain in the range of EUR15b to EUR18b. That will help us to fund, clearly, this production through covered bonds. We have also an expected decrease of Core Division balance sheet, mostly related to the reduction of ALM and Treasury assets that will not be needed any more due to the reduction of the size of the balance sheet. And of course the Legacy Division will be reduced quite strongly.

And once again, for the entire balance sheet, as for the Legacy Division, we have already reached at the end of 2009 one-third of the six-year total target. That gives us some comfort on our ability to deliver, over time, the additional deleveraging effort.

As I told you, we will report on the execution of the restructuring plan. We will be submitting to the European Commission every six months, and that's quite usual in these matters.

At the end of the story, we'll have corrected most of the imbalances in the funding structure, first of all because we'll have reduced significantly the reliance on short-term funding. A large part of the Group funding base will be based on stable and/or long-term resources, through covered bonds with of course, our three issuers. And we are, in this matter, among the very few to offer pure pools of public collateral.

And we are also planning to use and unsecured long-term DCL and DBB funding, and also to increase the size of our deposit base in RCB and PWB, which is very significant because all these elements of course are related and are mentioned in the commitments we have taken with the European Commission in terms of a decrease of short-term funding, increase of our average duration of the debt and also increase of the proportion of our balance sheet funded through covered bonds and deposits.

We clearly have a very strong solvency ratio, 11.8% Tier 1 ratio and 10.8% Core Tier 1 ratio at the end of the third quarter of 2009. We have also committed to condition the dividend distribution to a conservative approach in this matter, on the Core Tier 1 ratio, just to be able once again to face any consequence of the volatility of the markets.

Dexia, at the end of the restructuring plan, will be refocused on its historical franchise with an increased weight of retail activities. When we tried to design what will be the split of the revenues of the Group on the Core Divisions, clearly most of the revenues will come from retail. And of course, with the strong development of retail in Turkey, and the overall retail activities will represent 60% of the overall revenue base, 20% will come from PWB activities and 20% from AMS businesses.

It doesn't mean that in terms of profit the split will be the same because of course the cost/income ratio is higher in businesses like Retail Banking activities. But still it's a shift that will come from a situation where, today and yesterday, a large part of the activities was not coming from banking activities or related businesses, but from just pure transformation revenues coming from our short-term funding transformation revenues.

I think it's interesting also to see what are our plans in our main activities. On Retail and Commercial Banking in Belgium and Luxembourg, we have leading position with profitability improvement potential on the cost side but also on the revenue side. In Belgium, we have initiatives to align cost/income ratio with competitors and to implement new distribution model as quickly as possible.

In Retail Banking and Commercial Banking in Turkey, we have a disciplined loan growth strategy and prudent risk management. We are also committed to put in place a full funding autonomy of DenizBank by the mid 2011. And we have also in place ambition network development and customer acquisition. We've been able to deliver these measures and this performance through a difficult period in 2008 and 2009, and we hope to be able to continue in this matter.

Third one, on Public and Wholesale Banking, it's clear that it's a refocus on the historical customer base. And with a full-fledged banking relationship in Belgium and a local sector expertise in France, we will have a development on selected market offering good growth opportunities. But clearly the priority is clearly to concentrate on our historical markets in this matter and put an end to an expansion strategy that led to the crisis of 2008.

Future development will be in line and constrained by the Group funding conditions and value-creation criteria. It means that in this area one of our commitments is clearly to implement and to deliver a profitable business and it's obvious that we'll not make any loss-making loans in this area, so that will be also a point that will be monitored under the control of the European Commission.

In Asset Management and Services, clearly our hope is to come back to the level of profitability we had pre-crisis. We have in Investor Services a good potential to grow the valuable joint venture we have with RBC Dexia. Insurance, there is clearly a focus on costs and on optimization of the platforms. And in Asset Management, clearly the scope is to deliver synergies with the Group and maintain the very strong cost control that has been achieved in 2009.

After the transformation plan, of course the core businesses will move towards a very robust ROE and we will provide on all these matters details when we'll present the entire businesses in the first quarter of 2010. I think what is important is also to mention, as I told you, that we will introduce a partition between Legacy and Core Divisions and review all the detailed strategies on each core businesses during the second quarter of 2010.

I think it's important to emphasize that this decision is very important for the Group. It puts an end to an uncertainty period where, when I look back to all the press analyses and analysts' reports, we've seen the perimeter of the Group changing every morning, with a lot of assumptions of what could be the perimeter today. You will have now a clear vision of what the Group is, also a clear vision on our capacity to deliver on our commitments, as we did in 2009.

And I must mention that of course I don't give any preview on the results. We have an appointment on February 25 to comment the 2009 results. But clearly, Dexia in 2009 has been able to come back to profitability, design strategic plans for its main businesses, and also to reduce very aggressively our short-term funding need, to be able to exit from the State Guarantee. And the next important step for us will be to be able to do that.

I think I'll give the last word to Neelie Kroes, that said publicly Friday night that Dexia was now able to live on its own, and it was not only viable but was also able to live without state guarantees. And with its new perimeter, that confirms the plans we have put in place since 2008, I'm very confident on our capacity to come back to a more normal funding structure, to a profitable business and to a strong development story for our core businesses.

Thank you very much.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions). Our first question today comes from the line of Jean-Pierre Lambert from KBW. Please go ahead.

Jean-Pierre Lambert - *KBW - Analyst*

Yes, good morning to you. I have three questions. The first one is related to the robust ROE you're mentioning in slide 27. Can you indicate the kind of leverage ratio which is expected through this restructuring agreement? I have an impression of a leverage ratio of 20, but I may be wrong. Do you have the capacity to reduce your capital through extra dividends or buybacks at some point, in certain conditions? And what kind of solvency target do you have in terms of Core Tier 1 ratio? That's the first question.

Second question is what is your average duration of funding at the end of 2009? And what is your target average duration of funding, for wholesale funding I mean, for public finance and wholesale finance?

And the third question is you indicated that you will be very disciplined in terms of margin. And is there some effect of disintermediation you could envisage for some of your large customers, large cities, for example? Thank you very much.

Pierre Mariani - *Dexia - CEO*

So of course we are committed to maintain a minimum level of Tier 1 ratio, but clearly this minimum over time is really compatible with an excess equity that will be generated by the activity on one side and by the deleverage of the portfolio. So it's true that over time we will create over this minimum a large amount of excess capital. But I can tell you that it will not be the case before the end of 2011 just because we are also committed to deleverage very aggressively the portfolio with an objective of sale of the portfolio of EUR15b a year. And clearly, if there is a choice to be made, we will try to accelerate the deleverage of the portfolio.

So it's true that we are generating excess capital but we are generating also excess capital with the present accounting and prudential rules. So we also need to see what will be the final outcome of the future regulation of the Basel Committee. But clearly the Group -- as I told you before, it's not something new in my mouth, in my words, it's clear that the deleverage of the portfolio, the decrease of the Legacy Division will certainly generate a lot of excess equity at the Group level.

So, related to that, is the solvency target. You can consider that we will be between the level reached -- between 10% and the level reached at the end of the third quarter of 2009, so coming from 10.8% and slightly decreasing.

On the average duration of funding, the target is clearly to increase it before the end of 2014. The objective is to increase it by one year before now and the end of 2014, with two efforts. The first one is the decrease of the short-term funding part. And the second one is to increase the long-term funding through covered bonds, through stable deposits, and that will lead to an increase of the duration.

Is there a risk of disintermediation of Dexia with large customers? You know that certain numbers of local entities are already accessing directly the market. It's true in France, it's true also in Belgium, for the regions. But we consider that the risk is quite limited. We are able to also play a role in this matter. We advised the region of Wallone in the Flemish region in 2009 to issue long-term bonds. In France it's limited to a very small number of public entities, mainly big cities like Paris, Lyon and some regions. There is still the project of creating a vehicle that could access directly to the market.

When I look at the conditions on the markets for the entities that try to tap directly the financial markets, I think we are in a position to offer better conditions to these institutions. I have in mind the example of the region Pays de Loire in 2009 that was able to issue a bond of around EUR100m and the price was 120 basis points, so plus the fees, etc., etc. So I think it's certainly a way for them to access directly the market, but on the other side the risk is limited and we could face this kind of competition.

Jean-Pierre Lambert - *KBW - Analyst*

Thank you very much. Can I just come back on the average duration? What is the current state of the duration of your funding in terms of years or months?

Pierre Mariani - *Dexia - CEO*

You will have the figures when we release the 2009 results.

Jean-Pierre Lambert - ***KBW - Analyst***

Thank you very much.

Operator

Thank you. Your next question today comes from the line of Pierre Flabbee from Kepler. Please go ahead.

Pierre Flabbee - ***Kepler - Analyst***

Good morning. I've seen in some press reports that you indicated 2010 would be a more difficult year in terms of earnings relative to 2009. Could you give us some flavor of what would be at stake, I would say, in underlying income, not taking into account the legacy assets but regarding the different businesses and especially the trends in margin in public finance? Could you quantify it a bit, what could be lost compared to 2009 basis?

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

I didn't say anything more than what I said before in my public comments on the outcome of 2010. I always said that 2010 would be a bit more challenging than 2009, for many reasons. The first one is that of course the transformation or high transformation revenues coming from the treasury, and mainly from the mismatch in duration, of course will be lower than in 2009. When joking I said that in 2009 we were not punished for our sins, but in 2010 of course virtue will have a price. And the price of virtue is of course the disappearing revenues coming from the positive carry on the portfolio.

And that's true because of course, when you remember the targets I mentioned at the end of 2008, we were planning a reduction of our short-term funding needs of EUR100b over two years. And we have reduced it by EUR80b in one year. So it has a consequence on the 2010 results.

Second element, of course we we have an objective of reduction on the bond portfolio. We've been able in January to sell an additional 1-point-something billion bond portfolio. It has a cost and this cost will be again quite significant. It's difficult to know it by now but I'm still planning and thinking that there will be a significant cost of this deleveraging in 2010 and in 2011.

And third element, the cost of the State Guarantees will be a full-year cost this year and partially compensated by the decrease of the outstanding -- the average outstanding of the State Guarantees, but it will bear on the 2010 results. That's not something new. That's something I announced and commented already in the past. And that's an element.

The third one is not related to the activities or to the financial impact of the decision or of cost of risk, etc., but it's related also to the accounting of the losses on the Financial Product Portfolio. You know that there is still a discrepancy between the IFRS rules and the US GAAP rules, and it could have also some consequences on the accounts.

I was not among the bank CEOs that said that the crisis was over when I commented the third-quarter results. I'm still convinced that 2010 is not an easy year because the cost of risk and the overall activity remains challenging. But when I see the commercial performance of the various businesses, I'm confident that the core businesses are delivering properly on the cost side. They are delivering properly on the activity side in terms of loans, in terms of deposit collection, in terms of sales, of asset management. And so I'm sure that the core activities will compensate partially the negative impact that we are seeing on the elements I was mentioning before. So it's a challenging year, but 2009 was also a challenging year and we were able in this challenging environment to deliver a correct performance.

Pierre Flabbee - ***Kepler - Analyst***

Okay. Thank you very much.

Operator

Thank you. Your next question comes from the line of Andrew Coombs from Citi. Please go ahead.

Andrew Coombs - *Citi - Analyst*

Yes, good morning. Two questions, if I may. Just firstly, with regard to the divestments, can I just ask why Sabadell is taking place in 2013 when the others are 2012?

And also, have you spoken to the other stakeholders with regard to Dexia Sabadell and Crediop and what their stance is?

And secondly, can you just confirm what exactly is included within the definition of short-term funding? I think you said EUR174b at end '09 and EUR260b at end '08. Thank you very much.

Pierre Mariani - *Dexia - CEO*

as you know, the divestments, when you negotiate the schedule of the divestments, you don't concentrate all of them on a certain date. So there is no particular reason why Sabadell is in 2013 and Crediop 2012. It's all just to be in a position to implement this program over time.

Short-term funding is short-term funding under one year. It's funding under one year. So it's clearly mostly all the repos, all the operation with central banks, bi-party repos or tri-party repos, certificates of deposit, commercial paper, inter-banking deposits, etc., etc., and other wholesale short-term financing.

Andrew Coombs - *Citi - Analyst*

And just with regard to tying up the number, presumably we can establish this through the -- so, for example, if you look in the annual accounts in note 12.4, I think you have the interest rate repricing risk by looking at your maturity. And presumably the numbers derived in your presentation are or should be the same as those. I assume that's where it's derived from.

Pierre Mariani - *Dexia - CEO*

I'm sorry. I didn't get anything of what you were saying because of the line.

Andrew Coombs - *Citi - Analyst*

I apologize. Just with regard to the short-term funding, I just wanted to make sure that within your annual accounts you provide the residual maturity breakdown, I think there is on demand, more than three months money, and so forth. And presumably we should just be looking at everything, therefore, within the first three categories, i.e. everything that is less than one year falls under your definition of short-term funding.

Pierre Mariani - *Dexia - CEO*

Yes, it's exactly the kind of information you have in the annual report.

Andrew Coombs - *Citi - Analyst*

Right, okay. And sorry, and just finally with regard to the other stakeholders in Dexia Crediop and Sabadell, can you just say have you had discussions with them and what their stance and position is? Thank you.

Pierre Mariani - *Dexia - CEO*

Yes, we informed them of the decision of the European Commission but we are not committed to sell to them.

Andrew Coombs - ***Citi - Analyst***

Right, okay. Thank you very much.

Operator

Thank you. Your next question today comes from the line of Jaap Meijer from Evolution. Please go ahead.

Jaap Meijer - ***Evolution - Analyst***

Hi, Jaap Meijer from Evolution. Under the restructuring plan by 2012/2013, how does your liquidity coverage ratio look like and your net stable funding ratio? Is that already in line with the new Basel requirements, in your view?

And you talked about excess capital, but that would be more under Basel II. Basel III might be much more strict with respect to the AFS losses and related to that the deferred tax assets. So do you think that your Core Tier 1 will be looking fine under Basel III as well, under the restructuring plan?

And finally, are there any restrictions on the selling price for your divestures? For example, KBC doesn't have to sell below one times book. Is that also applicable to you?

And if you can't avoid a disposal loss because there might be no buyers, is it also an option to run it down in terms of that respect to Crediop and Sabadell? Thanks.

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

Yes. When you will be able to provide me what are the definitive liquidity rules and the capital calculation rules under Basel III, please let me know, I will be able to provide the figures for you.

And in terms of restriction of selling price, of course we have exactly the same kind of flexibility. It means that the dates that are determined, I mean 2011, 2013, etc., is if we are able to sell over one time book value. If we are not able to sell over this amount, we have additional flexibility and time to make the sale. And at the end of the process, if we are not able to sell, somebody could be entitled to sell on our behalf. So it's very comparable to what has been decided for other banks, like KBC or some other banks.

Jaap Meijer - ***Evolution - Analyst***

Yes. But let's assume Basel gets accepted as it is now, because we know the annexes, we know how to calculate things. So have you done any preliminary things on the net stable funding ratio by the end of 2012/'13? Presumably so. And your capital ratios, as well.

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

But you know there is a QIS going on and the entire industry is discussing the rules. So there is no way that I will give you what could be the consequences because we know that Basel III will not be accepted as is. There will be also accounting rule changes, probably with the implementation of IFRS9, that could have a huge impact on the calculation of the ratios.

Jaap Meijer - ***Evolution - Analyst***

Yes. Final question.

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

You have two different sets of rules that could change and that are related to each other.

Jaap Meijer - ***Evolution - Analyst***

Yes, I agree, I agree. How much, by the way, do you plan to raise through deposits and how much issuance do you plan to have through covered bonds in the next few years? And what does it mean for your -- it's probably going to raise those deposits in Belgium. What does that mean for the competitive landscape over there, in your view?

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

I think the covered bonds and deposits will represent really a very huge proportion of the overall funding. I think at the end of the story it should represent more than 55% of the entire funding of the Company.

And the competitive landscape in Belgium is clearly aggressive. A lot of institutions have restrictions on their ability to face this competition. I think when we reached the agreement with the Commission it was clear that their intention was also to help us to cope with the competition, not putting too much pressure on the way we could react to the competition. And I am very happy on that. And clearly what we see also is that of course there is competition for deposits, but I think our overall funding needs will decrease also very sharply. And so I think the rebalancing of the balance sheet is also coming, and the funding structure is not only coming from additional issuance, etc., but also coming from the decrease of the overall balance sheet.

And in covered bonds what we have tried to design is clearly that we had a lot of different structures. You know that we have of course DMA, which was refinancing mainly the French assets. And we have also kept and we were very keen on keeping DKD in Germany because it gives us access to the funding, the Pfandbriefe market, and that's a very deep market; that's a very cheap market. And so I think keeping the activity in Germany is absolutely key for us and it's a very nice element of our funding strategy.

Jaap Meijer - ***Evolution - Analyst***

Okay. Thank you very much.

Operator

Thank you. Your next question today comes from the line of Francesca Tondi from JP Morgan. Please go ahead.

Francesca Tondi - ***JP Morgan - Analyst***

Hello. Good morning. I also have a few questions. I'd like to start with a clarification, if it's possible. When I last discussed with you the breakdown of your public finance between the core markets and what you defined the non-core markets, and working on your indication of loan commitment rather than actual balance sheet, the core markets of Belgium, France, Italy, Iberia were EUR190b and the other were about worth EUR75b. Now, I understand that's not just loans, it's also commitment, but how does that reconcile to the EUR17b -- EUR16b, EUR17b you've just mentioned in your presentation? Are there other markets in between - in the names there I have not seen Germany, UK - that was explaining the difference?

And on the back of the EC requirement, then, have you actually changed a little bit the definition of core and non-core? So are you revising your position in UK and Germany?

Also, given the sale of Crediop and Sabadell, does that mean that Italy and Spain will be deemphasized or you'll do them on balance sheet? If you can explain a little bit how that works.

Also, at the beginning of last year you were also discussing a funding gap, not just a funding structure but a funding gap, that at the time was about EUR120b, which you had greatly reduced by the summer. Can you please give us an update on where you were at the end of the year and actually how you calculate the gap versus the asset and liability breakdown that you've just given us?

As a last point, what should be looking your cost of risk for 2010 and how do you see your cost of risk evolving, especially for your public finance business? I'd love to talk more about the profitability of your public finance business, how it's profitable or how much is hurting in terms of profitability your run-off portfolio. Is there anything that you can tell us before we actually come to your 2010 Investor Day, just to how to look at profitability at this point? Thank you very much.

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

I thought you had only a few questions.

Francesca Tondi - ***JP Morgan - Analyst***

I took advantage.

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

It's like waiting in the hairdresser, you know, just a few minutes. So we have a breakdown, then. Yes, talking about core markets in public and wholesale banking, clearly Spain and Italy were core markets and we are forced to divest from these markets, and clearly they are becoming to be sold and not core markets any more. And why is it so? It's so because also we decided that we would concentrate the sales of assets in areas where we don't have a proper local funding basis. And that's the case clearly for Spain and Italy, where we were heavily reliant on clearly the wholesale market or distributing or selling bonds through retail partners in Italy.

So that's the first element. The second one, on non-core markets, when we talked about non-core markets we talked also on activities in Eastern Europe, in Japan, in Australia, etc., and I think part of them are reflected in the EUR17b of loans. Of course, in these countries we have also a part of a large portfolio of bonds that are included in the bond portfolio Legacy Division. Do you understand?

Francesca Tondi - ***JP Morgan - Analyst***

Yes. But the bond portfolio was already allocated to your residual division and my understanding is that the loan commitment in public finance, which was in the PWB Division, was a total figure of EUR265b total, EUR190b core market, EUR75b non-core market. How do I reconcile that with the EUR17b that you're now mentioning?

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

We need to check the figures.

Francesca Tondi - ***JP Morgan - Analyst***

That's okay. Otherwise I'll follow up with IR.

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

I got it, I got it, sorry. Because on non-core we were putting UK and US.

Francesca Tondi - ***JP Morgan - Analyst***

Yes.

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

Okay? And so it was -- we were talking about commitments, not only of outstandings.

Francesca Tondi - ***JP Morgan - Analyst***

Yes.

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

The EUR17b are outstandings, so they are loans. But when you have also the liquidity line in the US, mainly the SBPAs, etc., you will get closer to the EUR75b because it takes not only the balance sheet but off-balance sheet commitments too.

Francesca Tondi - ***JP Morgan - Analyst***

Clear. But there's no shift in bringing back the UK and US as core markets as such?

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

No, but we are also putting into run-off all the SBPA lines in the US.

Francesca Tondi - ***JP Morgan - Analyst***

Yes. Thank you.

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

Okay?

Francesca Tondi - ***JP Morgan - Analyst***

Thank you.

Operator

Thank you. Your next question today --

Francesca Tondi - ***JP Morgan - Analyst***

I think I still had a couple of questions to be answered.

Operator

Sorry.

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

Yes. On the cost of risk expectation, in PWB we don't expect a very significant change in the public finance area. In the corporate area, no particular indication. But still we expect the cost of risk to be maintained stable in 2010, compared to where it was last year.

Francesca Tondi - ***JP Morgan - Analyst***

Great. And your funding gap, where are we now?

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

We are just EUR80b lower than where we were at the end of 2008.

Francesca Tondi - ***JP Morgan - Analyst***

So that has gone from EUR120b to EUR40b, then?

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

No, no. It was never EUR120b. I don't know (multiple speakers).

Francesca Tondi - ***JP Morgan - Analyst***

Okay.

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

No, no. We didn't disclose it at the time.

Francesca Tondi - ***JP Morgan - Analyst***

Okay.

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

And the future profitability, I think the PWB business is of course with positive margins compared to our funding needs. I think it's better to wait the indications ahead because, as I mentioned, the European Commission asked us to allocate all the guaranteed funding to the legacy portfolio. And so it changes, of course, the view on the profitability because we allocated, in the past, part of the cost of the guarantee to the public -- the core public finance activity. So we are working on the figures.

Francesca Tondi - ***JP Morgan - Analyst***

Okay. Thank you.

Operator

Thank you. Your next question today comes from the line of Maxence Le Gouvello from Morgan Stanley. Please go ahead.

Maxence Le Gouvello - ***Morgan Stanley - Analyst***

Yes. Good morning, everyone. I would like to have a little bit more detail regarding Crediop and Sabadell funding structure, if you can tell us what is the breakdown between the short-term and long-term funding. Is it going to help you a lot to do the switch?

Second question, have you received already some interest for those two assets or not?

And then, just to come back regarding the US and the UK and Germany development in PWB, for you what will be the right profile for those two countries for Dexia?

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

On Crediop and Sabadell, we will not give you the complete funding structure because we didn't disclose that.

Second, did we receive interest? You know it's been announced on Friday and we have until 2012 and 2013 to sell them. So no, we are not in a hurry to do so and that's just a fact.

On the UK, Germany, US, we don't have any intention to put high growth on this market. But you know in the US we have a balance sheet of more than 60b to manage. We have the Financial Products Portfolio. And clearly the main focus will be on managing the existing exposure without significant new developments on this market.

And UK, that's exactly the same thing. We have a portfolio which is mainly concentrated on local authorities and public housing. It will be clearly managed as a quasi run-off, rather than developments, just to see whether with some debt restructuring we could improve the revenue base in this market, but with new development.

In Germany, the scope is not clearly to develop it on the local authority market but more to use DKD as a funding vehicle, which has a key role to play because it allows us to tap the Pfandbrief market in Germany.

Maxence Le Gouvello - ***Morgan Stanley - Analyst***

Okay.

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

So don't see the US and UK as places where we will increase our exposures.

Maxence Le Gouvello - ***Morgan Stanley - Analyst***

Okay. And then, speaking about the dividends, you mentioned that your main shareholders, the State, will be preferred to receive. So do we need to believe that you are going to sell a scrip (read scriptural) dividend for the two coming years or it's still not yet decided?

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

No, I think it's not only the State that would hope to have dividends, but I think what we try to protect is clearly the fact that we would have the ability to provide a dividend to our shareholders. Because part of them, and I was more thinking of the historical shareholders of ARCO, Holding Communal in Belgium, are of course highly dependent on the revenues they are extracting from their stake in Dexia to finance their own activities.

So they took part in the recapitalization last year. And we were able to convince also the European Commission that we could keep the flexibility to give them a dividend. The plans for 2009 are not determined yet. I think we have a governance body, which are the Board, that will decide on the dividend policy when the Board will approve the results for 2009. And then the general meeting of our shareholders that will take place in May that will, of course, decide on this matter.

Maxence Le Gouvello - ***Morgan Stanley - Analyst***

Okay. Many thanks.

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

No decision yet.

Operator

Thank you. Your next question today comes from the line of Brice Vandamme from Deutsche Bank. Please go ahead.

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

Hi. Brice Vandamme from Deutsche Bank. I had actually two questions. The first one is related to the Financial Product Portfolio. And I just wanted to know, actually from your perspective, what is the likelihood of the first losses actually being above the EUR4.5b (sic – read $4.5b) threshold before a capital increase?

And my second question is actually that when you defined what was non-core and how you choose the activities you wanted to dispose of, you mentioned the fact that you selected countries where you had a high need for wholesale funding. And I was wondering, France is actually a country where you seem to have no deposits. Why, finally, haven't we seen a kind of split of the French activity because of this difficult funding position?

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

I don't see any chance to cross the $4.5b loss level on the Financial Products Portfolio, seen from today. So this is of course a caveat. I don't know what will be the situation in the coming years. But you know we are still projecting effective cash losses on this portfolio at a level that is significantly lower than the level of provision we have already made on this portfolio, which is $2b.

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

Okay.

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

So that's for the final cash losses. For accounting losses, as I told you also, it could be different because there are still discrepancies between the IFRS accounting rules and US GAAP accounting rules, and particularly in the treatment or the consequences of a default on the AFS reserve. And it will also probably change with the implementation of the IFRS9 rule that is under discussions by now.

On definition of non-core PWB, of course, as I told you, we define it as countries where we have a high need of funding. Why France is non-core I told you, because France is mainly financed through covered bonds. And that was not the case in many countries where we decided to classify in non-core, where the covered bonds didn't exist. That is the first element. And of course the Group is generating a significant amount of excess deposits, particularly in Belgium. And I think it makes sense to use part of these excess deposits also to finance a part of the French production. So, globally, I think I don't see any problem of funding of the activities in France because, of course, the level of production in France is highly compatible with the amount of covered bonds we are able to issue on the market.

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

And if I may just add one question, how are you holding your market shares in France, because we saw, if I'm not wrong, in the first nine months a significant fall in public sector funding in France? How is it at the end of the year?

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

We have not yet the final figures for 2009 for the entire market, but it's clear that market share is not any more a target. So we reduce our production quite significantly, for two reasons. First of all, increased competition due to the will of a certain number of French banking institutions to be able to meet their objectives of an increase of their loan portfolio, to obey the government's indications. And the second one I think probably will be around 20%.

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

Thank you very much.

Operator

Thank you. Your next question today comes from the line of Sabrina Blanc from Societe Generale. Please go ahead.

Sabrina Blanc - ***Societe Generale - Analyst***

Hello, good morning. But all my questions have been answered. Thank you very much.

Operator

Thank you. Your next question comes from the line of Britta Schmidt from Autonomous Research. Please go ahead.

Britta Schmidt - ***Autonomous Research - Analyst***

Yes, hi. I've got three questions, if I may. The first one is what is your funding plan for the rest of 2010, outside of the government guarantee? How much long-term debt do you intend to issue?

The second one is, in terms of the deleveraging of the legacy portfolio, I think you're targeting about EUR15b per annum. But can you give us a split as to how much of that is actually maturities and how much of that will be accelerating the deleveraging?

And maybe you can comment a little bit on how you see headwinds from the increases in sovereign spreads that we've seen. Maybe you can give us an update on the release (multiple speakers).

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

Sorry, could you repeat your questions, because I don't know whether you are in front of a microphone or telephone, but we didn't hear you very well, please?

Britta Schmidt - ***Autonomous Research - Analyst***

Is that better? Okay. The second question was, in terms of deleveraging the non-core portfolio, the EUR15b that you target per annum on average, how much of that actually comes from maturities versus sales?

And maybe you can give us a view as to how you see the increase in sovereign spreads affecting a potential increase in the speed of deleveraging. Maybe you can give us, as a guideline, the basis point value of some of the AFS assets or maybe the size of the sovereign CDS exposure as well.

And thirdly, because you mentioned it, obviously it still means that, Group funding-wise, the different units will be cross-financing each other. So it still means that the French business will probably be a little bit unmatched in terms of funding, shifting assets to the German business for

Pfandbriefe funding. Why did you decide to continue that sort of structure, that the legal entities basically rely on each other without being individually able to necessarily fund themselves appropriately?

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

I don't understand your last question because of course we are a Group. We are an integrated Group. And I think it's more or less the case for all the Groups. I don't see any Group where there is a full autonomy of each entity funding on its own with an independent funding policy. So I think it's just the reason why we are a Group.

Second element, the funding need for 2010: our plan is to raise in 2010 around EUR35b. EUR15b will be out of State Guarantee and that's it. On the targeted bond sale, of course the EUR15b doesn't include amortization of the portfolio.

And in terms of impact of market spread, when I look back to 2009, of course there has been an improvement in the spread. But when I look at the performance we've been able to achieve in 2009, we've sold EUR16.5b with a loss of EUR100m net, which is a very minimal loss compared to the magnitude of the sales. And when I look at what we have done since the beginning of the year, I don't see why we should not be able to replicate, even with a slightly higher cost, the performance of 2009.

Britta Schmidt - ***Autonomous Research - Analyst***

Okay. Maybe, can you then give us what the average annual amortization of that book will be, as per today?

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

I could give you the range in 2009. It's been EUR13b. In 2010, I don't have a figure in mind. It will depend also on the kind of bonds we sell, of course, but I think it's in the range of EUR10b.

Britta Schmidt - ***Autonomous Research - Analyst***

Okay. And maybe can you give us any indication of the size of any potential sovereign CDS exposure you have which is probably in there?

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

Yes, of course. You have the split of our portfolios in all the documents, where we give the amount of sovereign debt in our portfolios.

Britta Schmidt - ***Autonomous Research - Analyst***

Okay. Thanks.

Operator

Thank you. Your next question today comes from the line of Albert Ploegh from ING. Please go ahead.

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

Yes. Good morning, all. A few questions left. The first one is on the divestments. Is it possible to get the book value of the three assets to be disposed? That's the first one.

The second one is on the Public & Wholesale Banking Division, on future returns. Assuming you're going to allocate around 10% Core Tier 1 level against book, is it then still possible to make that good in terms of returns? So are you then still able to make a double-digit return or is that going to be single digits, to get some feeling there in terms of future returns? Thank you.

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

On the divestments, we don't give the book value of the assets.

And in terms of PWB, as I told you, sorry to repeat myself, but I don't give any indication of ROE target for the future.

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

Okay.

Operator

Thank you. Your next question today comes from the line of Guillaume Tiberghien from Credit Suisse. Please go ahead.

Guillaume Tiberghien - ***Credit Suisse - Analyst***

Yes, hi. It's Guillaume Tiberghien at Credit Suisse. I just wanted to know the amount of Greek government bonds you own in your portfolio. Thank you.

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

We didn't release the figure.

Guillaume Tiberghien - ***Credit Suisse - Analyst***

Are you going to do it at the results next week -- sorry, later in the month?

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

I didn't see any financial institution that gave the figure until now.

Guillaume Tiberghien - ***Credit Suisse - Analyst***

Okay. Thank you.

Operator

Thank you. Your next question today comes from the line of Jean-Pierre Lambert from KWB. Please go ahead.

Jean-Pierre Lambert - ***KBW - Analyst***

Yes. Thank you for giving me more time. I would like to ask you, if it's possible, to indicate -- I'm coming back to public and wholesale finance. What kind of margin expansion do you anticipate? Do you expect to increase your margin versus your cost of funding?

And also, if you could give an indication of your current cost of short-term funding and current cost of long-term funding. I know there's an issue of guarantee, but if you could give us a flavor.

And the final question. There was talk in some press in France, financial press, about discussions with the Banque Postale. Is there anything we should expect from that point of view? Thank you very much.

Pierre Mariani *- Dexia - CEO*

You know, I've read comments on the Banque Postale since I joined the Company 15 months ago and nothing happened. So it goes with the Banque Postale, as with the analysis of the potential consequences of the European Commission on the perimeter of the Group. It goes back and forth, and so there is nothing to comment about.

Jean-Pierre Lambert *- KBW - Analyst*

Thank you.

Pierre Mariani *- Dexia - CEO*

Cost of guarantee will depend, of course, on the final consequences in short-term funding, rythm of short-term funding decrease and level of issuance of long-term guaranteed debt in 2010. The cost of short-term funding is of course nothing to do with -- most of it is now done in market conditions, so much lower than the cost with short-term guaranteed funding.

And in PWB, you will see in the results of 2009 what kind of margins we have done on our business in 2009, with the present funding structure, and it will give you a flavor of the way the margin could change in the future.

Jean-Pierre Lambert *- KBW - Analyst*

Thank you very much.

Operator

Thank you. Your next question today comes from the line of Damien Regent from UBS. Please go ahead.

Damien Regent *- UBS - Analyst*

Yes, good morning. I'm trying, please, to better understand the rationale behind the dividend on hybrid restrictions. On the one hand you're profitable and you are allowed to pay dividends, if only in shares, which is great for shareholders. On the other hand, the Commission seems to ask you to suspend optional payments on sub debt. But surely you cannot suspend those payments on sub debt and then make dividend payments to your shareholders at the same time.

And I would add also to that that the Commission here took a different decision on sub debt for some of your peers in the Benelux. So I'm struggling to understand here how to reconcile those requirements or those rulings from the Commission and the ranking of the various instruments in your capital base. Can you help, please?

Pierre Mariani *- Dexia - CEO*

Yes. I'm not the best person to comment on the rationale of the European Commission in this matter. So I think, if you have questions, you should address them to the compensation -- to the competition direction, because I think it's clearly something that has to be analyzed in comparison with their overall policy on burden sharing between shareholders, bondholders and the company itself.

Damien Regent *- UBS - Analyst*

Right. So I guess my point here is that based on the bond prospectuses, for instance, it's likely to be difficult, if not impossible, legally to, at the same time, make a dividend payment to shareholders and yet not to pay bondholders first. Or it's --

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

No, no. We'll be clearly compliant with all the contract rules. Some of them include -- some of the contracts include dividend pushers; some of them don't. And of course the bondholders will be treated according to the product they subscribed and to the provisions of the contracts they are governed by.

Damien Regent - ***UBS - Analyst***

Thanks. Would the next step here -- final question. Would the next step be maybe to contemplate a buyback, let's say 20 or 30 points below par, so that your shareholders can make a gain and bondholders get a way out?

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

There is no decision about that.

Damien Regent - ***UBS - Analyst***

Okay. Thank you.

Operator

Thank you. Our final question today comes from the line of Omar Fall from UBS. Please go ahead.

Omar Fall - ***UBS - Analyst***

Hi there. I just wanted to go back to the outlook for cost of risk, please. Are there any recent concerns you have on the bond portfolio, , maybe on the ABS portion of it? Because, looking simplistically at the P&L, you had EUR100m of cost of risk in Q3, which is a pretty sharp reduction from the first half, given all the exceptionals, etc., you had in there. So if I roll that through, that level through into, say, 2010, wouldn't that be quite a large offset to all the negative elements of revenue decline that you've talked about?

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

Well, I think the best answer is to wait for the Q4 results. But you know the Q3 drop was a drop compared to the previous quarter, where we had capital gains and where we made additional free provisions in many areas due also to the level of capital gains we had in this quarter. But please wait for Q4.

Omar Fall - ***UBS - Analyst***

Okay. Great. Thank you.

Operator

Thank you. We have no further questions coming through, so I'll hand back to Mr. Mariani to wrap up today's call.

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

Okay. Thank you very much. And so the next appointment will be on February 25. Thank you very much.

Operator

Ladies and gentlemen, thank you for joining. You may now replace your handsets.