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+++ presentation
Operator: Good day and welcome to the Dexia Earnings Release First Quarter 2010 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Pierre Mariani, CEO. Please go ahead, sir.

Pierre Mariani: Okay. Good evening, everybody. Welcome to this conference call. And I have the pleasure to present the first quarter results of Dexia. The first quarter has been a strange one with very good -- better than we expected in terms of net profit, very strong improvement of the liquidity situation of the group, increase of the solvency. But the release of these results is of course at a crucial moment for the financial service economy in a very troubled market. So I will try to explain how we reached these results and give you some update on where we stand today.

Well, we look at the statement of income for 2010, for the first quarter, we have a net income of EUR216 million, an increase of 7% compared to the fourth quarter. And I think it's even more in terms of pre-tax income because we have an extraordinary fiscal charge at the tax level in the first quarter. But this result was the result of, first of all, an increase of income, still very good cost control, which decrease by 4% compared to the first quarter of 2009, but also a very significant reduction in the cost of risk and particularly in the core businesses of the group -- in all the core businesses of the group.

The reporting of the group of course, as I told you when I presented the results of the European Commission on one side and also the full-year result, we had to build the legacy portfolio management division, who is -- which regroups completely the portfolio in runoff and some runoff PWB commitments, but also the financial portfolio -- financial product portfolio.

The assets of the legacy portfolio management division remain not only on the balance sheet but also embedded in the various structures and subsidiaries of the group. But we had to define clear rules of funding allocation between the core and the legacy division, allowing first of all a better monitoring of the group, funding structure for both divisions but also giving some comfort to the European Commission that state-guaranteed funding would benefit to the legacy division and would not be passed to Dexia core activities.

The legacy portfolio division creates changes in the reporting. The core division includes the public and wholesale banking activities, the retail and commercial banking activities, the asset management and services, and also the group center reporting. And the legacy division regroups the group's portfolios.

The legacy division includes two series of activities. The first one is the runoff public and wholesale banking commitments, mainly international commitments, with a EUR16 billion -- EUR18 billion, sorry, commitments in terms of outstanding loans and EUR25 billion outstanding off-balance sheet commitments, mainly SBPAs in the United States.

So group center in runoff is a combination of the portfolio in runoff of EUR134 billion at the end of 2009 and the financial products portfolio, which amounts to EUR11 billion. So the legacy division is a legacy division with EUR162 billion of assets and EUR24 billion of off-balance sheet commitments.

We have defined very clear funding allocation guidelines. First of all, the core division will be funded exactly with the target funding structure agreed with the European Commission for 2014. We mean that we'll have a very limited, with no allocation of state-guaranteed funding, support to this division and a very limited transformation and short-term allocation of funding to this division.

The long-term funding legacy division in fact will have and will benefit from the 100% of the state-guaranteed funding and also other funding allocation proportionally to the underlying assets, which are in this division. The main conclusion of this funding allocation shows clearly that there will be a very low impact of transformation results and treasury results on the performance of the core division in the future.

In terms of balance sheet, at the end of March 2010, the core division has EUR432 billion of assets, including of course the subsidiaries that will have to be divested according to the agreement with the European Commission, Dexia Crediop, Dexia Sabadell, and Dexia Banka Slovensko, and in the legacy division, the bond portfolio, the PWB commitments, and the financial portfolio commitments that amount to EUR156 billion, slightly reduced of course because of the sale during the first quarter of 2010.

We have also allocated costs to this division. And the idea is just to say that of course the cost allocated to the legacy division amounts to EUR124 million. And they are the costs related to the portfolio management to PWB activity in runoff and also all the costs related to the financial product portfolio in the US.

Whether we try to split the first quarter results between the two divisions, the pre-tax income of the core division compared to the fourth quarter shows an increase of 18% to EUR202 million pre-tax. And the legacy division has a very significant increase compared to the first quarter of 2009 with EUR123 million of pre-tax income compared to EUR79 million pre-tax income in the fourth quarter. And we'll come back later to the explanation of these variations.

When we come now to the core division analysis in terms of revenues, we had a very quite nice evolution in terms of retail and commercial banking with an increase of 4.4% compared to the fourth quarter of 2009. Public and wholesale banking are stable compared to the fourth quarter. Asset management and services are down 18% because we had an extraordinary item in the fourth quarter account with write-backs on insurance impairments of EUR51 million in the fourth quarter of 2009. And the group center had negative income but very stable at EUR28 million.

Costs are still under very strict control, stable for retail and commercial banking notwithstanding the negative impact of exchange rates on Turkish lira but also with the impact of the expansion of the network in Turkey. The public and wholesale banking costs are down 5% quarter-to-quarter. Asset management and services down 1% quarter-to-quarter. Then the group center down 26% mainly because we had very limited restructuring costs in the first quarter just linked to the closure of the DBB branch in the UK.

In terms of cost of risk, I think it's one of the major evolution of the group during the first quarter. We have a very sharp decrease of the cost of risk in the main businesses. The cost of risk for retail and commercial banking is down from EUR100 million in the fourth quarter to EUR71 million in the first quarter. It means that costs of risk are down in Belgium from 23% to 14% but also and mainly in Turkey from 331 basis points to 245 basis points in the first quarter of 2010. The cost of risk in the public and wholesale banking activities remain at a very low level.

The result of this evolution is of course a very strong, a very sharp growth of the retail and commercial banking results with an increase of 48% quarter-to-quarter. Public and wholesale banking pre-tax income is up 28.8%. Asset management and services is down because of the extraordinary write-back of impairments in insurance. And group center is stable with a slight decrease of the negative results of the group center in the first quarter of 2010.

In terms of legacy portfolio management division, revenues are up. They are impacted because there was a very negative credit value adjustment in the fourth quarter of 2009, which explains the variation because just on CVA, the variation between the two quarters is EUR18 million. They reflect the impact of the deleverage in the first quarter of 2010 with an impact of EUR46.5 million.

The revenues are reporting also the capital gains in the fourth quarter linked to the sale of Credit du Nord and in the first quarter with the sale at very good conditions of Assured Guarantee shares. And of course, the cost of risk remains slightly at the same level just because of course we, as I said before, we tried to recycle the capital gains into better increased provisioning of our financial product portfolio in the fourth quarter of 2009 and in the first quarter of 2010.

These results of the core activities are linked of course to very good performance in terms of commercial performance. Deposits in Belgium and Luxemburg are up 3% quarter-to-quarter and 9% year-on-year. We had a very good level of production in terms of insurance activity. Loans also are up 3% compared to the first quarter of 2009. We are still in the process of deployment of the new distribution model in Belgium with already 180 outlets completely refurbished and opened under the new concept and with also a very good level of production in Luxemburg.

The good performance was also in Turkey. I think the commercial performance of Turkey is pretty good and pretty solid, 130,000 new customers in the first quarter. Deposits are up 7% quarter-to-quarter and 22% year-on-year. I think it's very important because you know that we are committed to decrease the funding of the Turkish subsidiary by the group.

And it leads to an additional improvement on our loan-to-deposit ratio, which reached 124% at the end of the first quarter compared to 146% by the end of 2008. We are also deploying new branches of course with a limited, a slower pace for the first months. But we have now 450 branches opened after 50 openings in the second half of 2009.

The P&L of the retail and commercial banking division is pretty good. The revenues reached EUR711 million. And they are supported by a positive contribution of Belgium and Turkey. Costs are down. And the increase we have observed compared to last year was mainly due to the development costs in Turkey and the adverse Turkish lira-euro rate. We have also a decrease of cost of risk, down 28%. That leads to an increase of the pre-tax income of 49% compared to the fourth quarter of 2009 at EUR169 million.

In terms of activities, PWB production has reached EUR2.2 billion, mainly in Belgium and France, it's a higher volume compared to last year but still, it's very limited activity in the first quarter, as traditionally observed because the main production activity is observed in the fourth quarter of the year.

I think it's interesting to see that the commitments are slightly down. Deposits are up 7% compared to the fourth quarter of 2009 and 2% year-on-year. And we had obtained of course a very good reward in terms of project finance activities but also sustained activity and profitable activity in Belgium in the corporate area.

The revenues are stable compared to the fourth quarter. And it's the only significant one because year-on-year, I told you that we had allocated funding to be in the target financing structure for the entire core business. That was not the case in the fourth quarter because we didn't have at the time, in the fourth quarter of 2009, because we didn't have at the time enough long-term funding to respect such a financing structure. It means that the first quarter of 2009 benefited from revenues both on the SBPA side but also, in the United States, from this transformation impact.

Costs remained under control, down 5% quarter-to-quarter. And cost of risk remains at a very low level. So we had a very good performance compared to the fourth quarter. Net pre-tax income is up 29%. And for the future, of course, the evolution of the income will not be affected by a change in the financing structure as it was like in 2009.

In terms of asset management and services, assets under management are up 16% for the asset management business, mainly on the institutional customer side. And we have observed also in the fourth quarter an improvement in the product mix supported by an increase of alternative and equity funds.

On insurance, we are now up in terms of gross written premium production 38% year-on-year boosted by life insurance in Luxemburg and in Belgium retail network. In terms of activities in the investor services, all the elements in terms of activities are up, 40% for the assets under administration, 48% for the assets under custody compared to last year. But of course, profitability remains challenging because a part of this is not realized on the profit made on the float. And with very low interest rates, it has a very limited impact.

In terms of results, as I told you, asset management had pre-tax income of EUR17 million. Insurance -- it's strongly decreasing compared to the fourth quarter. But there are of course up compared to the first quarter of 2009 because we had at that time very important losses on the equity portfolio of Dexia Insurance Belgium. And in terms of investment services, pre-tax income is EUR11 million. Costs are up due also to the integration of the acquisition of the custody business in Italy. And revenues are up 10% quarter-on-quarter and 11% year-on-year.

When we come to the legacy division, bond portfolio is down. I think it's down EUR6.2 billion in the first quarter due to sales of course and also amortization. But these decreases are offset by an FX effect because we have a significant part of this portfolio which is dollar denominated. The portfolio was still at the end of the first quarter 96% investment grade with stable ratings. And the stock of impairment was constant. And the average life of the portfolio was 11 years with no significant change.

For the financial product portfolio, the portfolio is down EUR400 million due to sales but also impairments and amortization with very limited rating migration. And what we see of the last mortgage index publications show first signs of improvement on the RMBS risk quality in the US. And we have accounted in the first quarter US$131 million of specific additional impairments. A large part of it was linked to the deterioration of AMBAC credit enhancement following the announcement by this company of the decision to split the company in two different activities.

And we had at the end of the quarter US$2.1 billion of cumulative impairments made, excluding the cash losses. And the cash losses which come through the P&L until then are US$265 million compared to US$174 million at the end of December 2009. So it's completely in line with what we were expecting in terms of progressive realization of these cash losses over time.

In the meantime, we have of course, as we were committed to deleverage the portfolio and made a significant amount of sales. At the end of the first quarter, the sales were EUR5.8 billion with a P&L impact of EUR46 million pre-tax. I think it's interesting to mention that we have sold pretty different categories of assets. 37% are rated AAA. 29% of the assets sold are AA, 25% A, and 9% BBB and below. And only 43% of these bonds were non-repo and non-ECB eligible and with an average maturity of 4.6 years, which shows that we not only selling short-term assets but sometimes very long-term ones.

The rythm deleverage has accelerated in April. And to date, we have sold EUR9.9 billion of assets compared to EUR15 billion of objectives -- as the target for 2010 -- with a very limited impact on the P&L and because (at the end) to date we have only EUR47.9 million pre-tax losses compared to EUR46 million at the end of the first quarter.

On top of that, we had also reduced our PWB commitments compared to the end of 2008, where they amounted to EUR57 billion. They are now only EUR40 billion, which means a reduction of 30% year-on-year. And very interestingly, we have not only reduced the loan portfolio from EUR23 billion to EUR17 billion, but also the off-balance sheet commitments and especially the SBPA, which has of course not the direct impact of the balance sheet reduction but which reduces considerably the liquidity risk assumed by the group in the US.

In terms of conclusion, I think it's interesting to see that in terms of balance sheet, balance sheet is down 7.5% compared to the first quarter of 2009, up EUR10 billion compared to the end of 2009 for two reasons. The first reason is of course the impact of the currency impact, Turkish lira, Canadian dollar, Japanese yen, and the US dollar, but also with the impact of an evolution of the interest rates, which had an impact on the valuation of our derivative portfolio, both on the asset side and on the liability side.

During this first quarter and also during the following months, we had a very strong improvement of the liquidity profile of the group. I think it's very interesting to see that during the first quarter, our short-term funding need was down EUR20 billion compared to the end of 2009. We've had also a very strong improvement of the short-term funding mix. The short-term guaranteed funding is down EUR16 billion compared to the end of 2009 and was at the end of the first quarter only EUR7 billion.

And you know that we'll have to exit from this short-term funding guaranteed scheme by the end of May. We had also lengthened considerably the unsecured unguaranteed funding. And we had also a very strong contraction of all central bank funding versus the end of 2009. And the central bank funding was reduced by more than EUR17 billion during the quarter. And the decrease was also observed in the recent period of time.

We had also a very active presence in the market during the first months of 2010. We have issued to date more than 80% of our 2010 medium and long-term funding program. And the remaining part is only on covered bonds side. And we have also already issued EUR7.7 billion more than the production of the first quarter in 2010. So we think really that we are not constrained to go back to the market soon if we maintain the same level of production as in the first quarter. So we consider that we are now close to our overall 2010 funding program.

In terms of guarantees, of course we have commitments to the European Commission. All the criteria are going in the right direction. And of course, we just mentioned there the target for the 2010 year and also the 2014 target we have signed with European Commission.

In terms of evolution of the AFS reserve, the AFS reserve is slightly increasing at the end of the first quarter due to two different sets of evolutions. The first one is of course the reduction of this reserve link to the decrease of the portfolio. But on the other side, we had two negative impacts. The first one was, of course, the impact of the exchange rates. And the second one was the impact of the spread widening on sovereigns already observed at the end of the first quarter.

In terms of solvency, the risk-weighted assets are slightly decreasing compared to the end of 2009. Once again, it's a result of the decrease of the portfolio on one side and the adverse FX impact on the other side. And the tier 1 ratio is still increasing also because it goes from 12.3% to 12.5%. And the core tier 1 ratio is going up from 11.3% to 11.5%. It's still an increase of close to 170 basis points compared to the situation where we stand at the beginning of 2009.

So that's for the presentation. And I'm sure that we will have a lot of additional questions and specifically on our exposure on Greece. So I prefer to anticipate these questions and give you already the answer. That's the best way to make questions and answers. So we had, as we discussed in our press release, an exposure of EUR3.7 billion to sovereign debt in our banking subsidiaries and an exposure of EUR1.2 billion in the insurance subsidiaries.

Of course, it's not exactly the same kind of exposure because part of this exposure will be shared by the policy holders. But the overall exposure is EUR1.2 billion in the insurance companies. And we have of course very limited exposure to the rest of the Greece activities. We have no local presence. And we had financed mainly project finance activities increase with sponsors who are not Greek counterparts. That's all. And I'm ready to answer your questions.

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Operator: Thank you, Mr. Mariani. (Operator Instructions). Our first question comes from Omar Fall from UBS. Go ahead.

Omar Fall: Hi there. Just looking at slide 11, can you just talk us through firstly how much of the EUR72 billion at the legacy division is central bank funding, please? And then secondly, interbank markets have seized up again with an uptick in Libor. So can you just talk us through your funding and deleveraging efforts in the last couple of weeks just so we get a feeling of how you can react in your new form to this kind of event?

Secondly, why are you taking an impairment on Ambac now? I know credit spreads gapped out in the quarter. But they're still well below their peaks of last year. And I haven't seen this at other players when they've done all their providing beforehand. What can we expect going forward? And can you just give us the notional you have left to Ambac, please?

And then finally, just very simplistically in terms of earnings, it seems you're managing the net income line to stay around the EUR200 million mark by playing with capital gains and impairments on FP. As such, what kind of guidance can you give us for the rest of the year? Should we expect this kind of run rate around the EUR200 million mark? And that's it. Thank you.

Pierre Mariani: Okay. I didn't get your first question, so --

Omar Fall: Sure. So if you look at slide 11, can you talk us through how much of the EUR72 billion in LPM is central bank funding, the EUR72 billion in short-term repo and short-term unsecured unguaranteed?

Pierre Mariani: So --

Omar Fall: And if you talk us through your funding efforts and deleveraging in the last couple of weeks.

Pierre Mariani: Yes, so I think in terms of central bank funding, overall central bank funding at the end of the first quarter was around EUR30 billion. And the rest was mainly the repo activities or unsecured short-term funding. So that's the first one.

Ambac notional exposure, why we decided to down -- because there was just a downgrade. And the decision of splitting the company in two different companies led us to adjust our level of provisioning because a part of the assets were embedded in the financial product portfolio and wrapped by Ambac. So we considered that on that portfolio we have a slightly increased risk. And that's why we built a provision of USD98 million on Ambac on the financial product portfolio.

But I must say that this decision -- because we had an overall exposure of US$3.8 billion to Ambac, more than half of it, US$1.6 billion was mainly to public exposure, US$1 billion to ABS, and US$1.2 billion to corporate and project finance.

So the provision on the portfolio in fact improved. And the split of the company deteriorated and led us to an additional provision on the financial portfolio.

But I consider that the residual exposure is in a much better shape after the split of the company. And most of the riskier assets were on the good insurance company of Ambac.

In terms of interbank market and funding during last weeks, I think it's clearly a situation where of course we were very happy to have mostly completed our funding activities up to two weeks ago, let's say because we closed even very good private deals on the funding side, even more than ten days ago. Of course, we have seen an evolution on interbank markets at the end of last week. (…)

Omar Fall: Sure.

Pierre Mariani: Of course, we transferred the eligible assets to New York. We were not reliant on the Fed because we had sufficient reserves in the market in our balance sheet to fund ourselves through repo or unguaranteed funding. But it's true that at the end of last week, we've seen a shortening on the unsecured market and deals on the funding side mainly concentrated on secured funding deals. And that's why I'm very happy to have still a lot of assets which are not pledged for the time being and of course gives us a lot of comfort in the present situation.

In terms of deleveraging, we were able to sell assets until Thursday last week. And we made significant sales even Thursday last week. Of course, Friday was a bit more challenging. Yesterday was the reverse. And we have seen very strange phenomena on the repo on the Greek debt of course because I suppose a lot of people were short in the market. But I think things are coming back in a very satisfactory mood. And of course, all of the reestablishment of the swap facility between the Fed and the central bank helped to settle the market in terms of dollar funding.

Omar Fall: Great. Thank you. And the question on earnings, please?

Pierre Mariani: I'm not managing the results. But I always repeated since during the last few quarters that every time we would have capital gains, it would recycle these capital gains or in securing and making additional provisions on our portfolios on one side or accelerating the deleveraging. We were happy to be able to accelerate the deleveraging during the last few weeks without having to use capital gains. So it was the right time to make additional provisions on the financial product portfolio.

And it's not a guidance for the rest of the year. I told you that I was quite pessimistic. I was not among the people that said at the time that the crisis was over. And what we are seeing today gives us some more caution, not on the P&L side but of course on the evolution of the financial market as a whole.

Omar Fall: Thank you.

Pierre Mariani: No guidance.

Operator: Our next question comes from Jean-Pierre Lambert from KBW. Please go ahead.

Jean-Pierre Lambert: Yes, good evening.

Pierre Mariani: Good evening.

Jean-Pierre Lambert: I have a first question. Thanks for the new disclosure. And it allows us to see that on an annualized basis if you used core units, you come to something on a normalized taxation base to something like EUR565 million, which is about EUR0.3 per share. And I was wondering if you could indicate if you, I mean, you feel that this could become under pressure as you increase your funding outside of the central bank. And perhaps if you could indicate, because I don't think we saw the net interest income numbers. Are these under pressure as you change your funding mix? So that's the first question.

The second question relates to Belgium because we have an indication of revenue growth quarter-on-quarter of 4%. But on the other hand, DenizBank had a very good performance. So does that mean that Belgium saw a decline on revenue quarter-on-quarter? And the last question is, you have a reduction in the cost base. But if you clean up for the restructuring costs in the fourth quarter, do we really have a reduction in cost? Thank you very much.

Pierre Mariani: So three questions, on the annualized base, we will not have additional pressure on the core businesses because all the core businesses are already funded with 11% short-term funding, which is the 2014 target for the overall group. So I think in terms of evolution for the core businesses, it will be neutralized by -- with no impact on an additional change in the funding structure of the core business.

Jean-Pierre Lambert: Thank [you].

Pierre Mariani: And that was not the case compared to the first quarter, specifically in the PWB area because at the time, we didn't have enough long-term funding to respect this 11% target, even for the core businesses. That's why the revenues are -- seems under pressure first quarter of 2009 compared to the first quarter 2010 for the PWB business because we are now in the funding -- we are able to allocate enough long-term funding to all the core businesses. So Belgium -- so overall revenues are up of course in terms of banking activities. We, of course, Deniz had a very good performance. And revenues in Belgium are --

Philippe Rucheton: Minus 1%

Pierre Mariani: Minus 1%, so stable quarter-to-quarter.

Jean-Pierre Lambert: Quarter-to-quarter.

Pierre Mariani: Yes, stable, 1% down.

Philippe Rucheton: Volumes, volumes were up and margins were down.

Pierre Mariani: Yes, it was just a decrease of margins and increase of volumes.

Jean-Pierre Lambert: Great. Thank you.

Pierre Mariani: So cost reduction, of course, we have the restructuring costs mainly in the central assets piece of the core businesses. There will be cost reduction to come of course compared to last year. It's not completely visible in the first quarter also because you know that in 2009 we had very strong bonus provision reversals in the first and second quarter. And I also said that the reduction mainly was very important in 2009, more than EUR360 million. That was nearly two years of objective. And I expect for 2010 costs to be stable or slightly down overall compared to last year.

Jean-Pierre Lambert: Great. Thank you very much.

Operator: Our next question comes from Pierre Flabbee from Kepler. Please go ahead.

Pierre Flabbee: Good afternoon or good evening rather. I have a question which is related to the new segment. Could you explain especially what has been the mechanic regarding retail banking, which has deprived the core business segment from part of the revenue you had on the previous segment? And more generally speaking, how can we imagine the evolution of the core treasury revenue with the development of the deleveraging? And in the meantime, could we have an idea of the sort of platform of revenues which legacy division is about to produce, notwithstanding of course impairment and provision, let's say, for the basis for this year for instance?

Pierre Mariani: I'll give the floor to Philippe Rucheton, who will be able to explain the funding rules of the legacy division and maybe some more details if you want to have this information.

Philippe Rucheton: Yes, well, so I think that the results of the treasury that we call CLM is right now allocated between the core division and the legacy just pro rata the usage of short-term unsecured funding because the basic idea is to say that the treasury makes profits when they are moving cash around. And so it's directly linked to the level of short-term funding that they have.

So this means that for the time being, we have since, as Pierre has mentioned, we have the core division which has already use a structure of funding, which is in line with the EU requirements. It means that for the time being the legacy division is more leveraged so has more treasury. So it receives a significant part of the profit of the treasury.

When we are going to further down, when the legacy division is going to reduce its importance, when as well the legacy division will be with more and more of long-term funding, it means that the share of the treasury, which is going to be allocated to the legacy division is going to go down, i.e. will receive a share which will be lower.

But globally, the treasury will also realizes less profit. So when you say what is going to be the result for the year, the remaining part of the year, already globally the treasury for Q1 has done a very good job. But for sure, it's less than, for example, the Q1 2009, which was absolutely tremendous. But further down, of course, it will depend on the yield curve. But it's clear that the treasury will have less revenues and so the part allocated to legacy will be reduced.

So when you speak about the RCB decline, I'm not sure I completely follow you. This new allocation has not much impacted the results of the business lines as such. It's a difference with the central assets but not with the business line as such.

Pierre Flabbee: Okay. May I just ask a follow up to be sure I understand you correctly? It means that we could not have a complete transfer from the part which is allocated for treasury income, which is allocated to the legacy. There will not be a possible complete transfer. But could there still be an improvement relative to the current level of the core division treasury, assuming the yield curve will remain unchanged, let's say, in two year's time? Could it be higher than it is today?

Philippe Rucheton: Normally, well, of course, treasury, there can be some good days and bad days. But normally, it should be roughly stable because since the 11% -- because the structure of funding of this core division is 11% short-term, 89% so-called long-term under the EC definition.

So it means that it will follow more or less the size of the balance sheet of the core division. And the size of the balance sheet of the core division will not grow much because as we said before, the core division, for example, you have even Crediop and Sabadell. So the size of the balance sheet of the core division is not supposed to grow but also to be reduced.

So I don't think we can expect to have a significant improvement, as you say, assuming a yield curve's stable or the same as today. I don't think we can assume that there will be a significant development of the treasury profits allocated to core division in the future.

Pierre Flabbee: Okay. That's very helpful. Thank you very much.

Pierre Mariani: I just going to add that if a few among you have questions about the way the legacy division and the core division has been built, of course, the Investor Relation team is ready to answer your questions. And it's quite a complex scheme. So I understand that you could have questions about that.

Operator: Our next question comes from Andrew Coombs from Citi. Please go ahead.

Andrew Coombs: Good evening. I have three questions, please. Just after you've been kind enough to provide the guarantee charge taken through the P&L in prior quarters, I was wondering if you could please do that again and also how that's been split and allocated between the LPM and also the corporate center in PWB divisions in the core business.

Secondly, can you please just elaborate on the losses in the one-off bond portfolio in April? So I think that you said that you sold a further EUR4.1 billion in April. And yet if you compare the pre-tax loss numbers you've given of EUR47.9 million versus EUR46 million in the first quarter, those seems to suggest a very small P&L loss in April. And that's in slide 31. I'm just wondering why the loss is so small there versus the first quarter.

And just finally, can you please also provide just for completeness the exposure to Portugal, Ireland, and Spanish sovereign, please, and just also clarify where's the accounting classification on the EUR3.7 billion Greece exposure? Is it in loans and receivables, AFS, or so forth? Thank you.

Pierre Mariani: So on the guarantee charge, it's 115 million in the first quarter. So it's entirely in the legacy division. And I'm sorry if we didn't provide the information. But we'll of course take that into account for the future and provide you with the theory of that.

It shows I think a decrease compared to previous quarters. Of course, that's normal because the outstandings were down. And a decrease will continue over time for the short-term funding. But of course, because we have issued more than EUR20 billion of long-term guaranteed funding, we still have a very significant amount. But you can be sure that at the end of June when we'll exit the long-term guarantee, we'll be able to calculate the charge of the guarantee for the remaining time in the next four years.

Andrew Coombs: That EUR110 million, is that the charge on the funding, just purely on the funding? Or is that the asset guarantee charge as well?

Philippe Rucheton: Guaranteed charge.

Pierre Mariani: No, it's guaranteed charge.

Andrew Coombs: Across the board, so on the funding and on the FP asset?

Pierre Mariani: So on the loss on the bond portfolio, it's true that we have been able to sell assets with a very minimal loss. It's also for many reasons some categories of assets have rallied in the market. And we were able to sell some assets with capital gains. That offsetted the losses on some other categories of assets. I can talk about, for example, Japanese loan to local authorities and student loans from the US, for example, we are able to sell very significant amounts with very minimal losses.

Pierre Mariani: In terms of the Greek exposure, it's mainly bonds to sovereign bonds. And it's very interesting also to say we have no exposure of maybe EUR10 million of exposures through CDS to the Greek sovereign. So it's mainly straightforward Greek sovereign bonds.

Andrew Coombs: And that's all accrual accounted, is it, rather than mark-to-market?

Pierre Mariani: It's of course included. The eventual difference in value is of course reflected in the AFS reserve.

Andrew Coombs: In the AFS. Okay. And sorry, and what was the exposure to Portugal and Spain, please, as well?

Pierre Mariani: We didn't disclose the split of our other sovereign exposures.

Andrew Coombs: And just -- sorry to carry on. One final point, could you possibly discuss the evolution of the AFS reserve through April and also more recent developments in May in that case as well, please? Thank you.

Pierre Mariani: Of course, what we have seen in recent markets shows a very high level of full volatility in the market. And even from a day to another or from Friday to today, I think they compared to everything we have seen spread changing not only on the sovereign side but the net impact on the assets reserve as of today is close to EUR600 million negative.

Andrew Coombs: That's very helpful. Thank you very much.

Operator: Our next question comes from Brice Vandamme from Deutsche Bank. Please go ahead.

Brice Vandamme: Hi. Good evening. Actually, most of my questions have already been answered. Sorry, excuse me. Nevertheless, could you just update us on the process of your divestments to know if you're already starting or not to look for acquirers?

Pierre Mariani: First of all, we were committed to sell a number of assets in 2010. And we have sold large stake in FSA-Assured Guaranty in the first quarter at a very good price compared to the present value I must say. But we have also closed in the first days of May, the sale of Dexia Epargne Pension. It was already a commitment. And the closing was supposed to intervene before the end of June. And we are in the process of also selling some smaller commitments we are committed to, the divestment of AdInfo is an ongoing process. And so I think we are fully in line with the commitments we have taken for 2010 and for the time being, that's all.

Brice Vandamme: And so nothing for the time being on the big I would say divestments, Crediop, Banka Slovensko, and Dexia Sabadell?

Pierre Mariani: Crediop will have to be divested before the end of October 2012, and Dexia and Sabadell before the end of 2013.

Brice Vandamme: Which leaves some time obviously. Just one follow-up question on the disposal of Dexia Epargne Pension, do you have an estimate or could you give us the capital gain you denoted?

Pierre Mariani: No, it's too early to do that because we are just in the process of closing the accounts, yes, closing the accounts, post-closing. And it will be released in the second quarter. But it's a few tenths of millions of capital gains.

Brice Vandamme: Thank you.

Operator: Our next question comes from Francesca Tondi from JPMorgan. Please go ahead.

Francesca Tondi: Hi. Good evening. I also have just a few questions. Going back to slide 11, when you showed the split of asset and funding of core, non-core business, you seem to have a look at only equity to the core business. What would the allocation of equity would be in your non-core business? How would you split the equity?

Can you figure a situation where now that you effectively have put something into a separate area -- I don't know whether eventually can it go into a separate legal entity, this non-core business, given the government backing? Do you think there's any situation where you could envisage where you can actually spin off that LPM division or not?

I wanted to go back a little bit to your funding and your funding structure because looking at your funding up to April and comparing to what you had done in February, I mean, mostly what you've done is really using up the long-term guarantee to issue more long-term guarantee funding in a much significant way than in respect to other two forms of funding.

Now that guarantee expires in June. How confident are you that whatever is your funding you can actually do without the guarantee because the majority, especially after February, has been done on the guaranteed side?

And a couple of just detailed questions on the numbers, your NPLs or your impaired loans are gone up 14% quarter-on-quarter. I mean, the absolute number is not large. But what is driving it? And the last question on the numbers, can you give us a little bit more color on the reason for your increase in revenues quarter-on-quarter? You just said Belgium is flat. On Turkey, how much is currency effect? And also, can you give us a feel whether it's net interest income or commission or trading?

But in general, in fact, I would have a request. Could we have a little bit more granularity on your income at group level and divisional level perhaps going forward? That would be very helpful. Thank you very much.

Pierre Mariani: I think it's late. But you still have a lot of questions. But you are one hour earlier

Francesca Tondi: You're right. I'm at an advantage.

Pierre Mariani: The right -- the beauty of being in London.

Francesca Tondi: Not in the morning.

Pierre Mariani: So on the speed of assets and funding the core.

Francesca Tondi: Yes.

Pierre Mariani: Of course, the allocation of equity to division is defined by the European Commission. But it's not a contribution in terms of funding. But to calculate, it's one of the targets of the European Commission with 12.5% of equity theoretically allocated to that division. And as an overall target for the group of a minimum of 10.6% core tier 1 ratio.

The second question -- sorry, it was --?

Francesca Tondi: On funding, you've done a lot of government guaranteed, especially in the last two months.

Pierre Mariani: For two reasons, the first reason is that was true also in the first quarter. I was not worried in advance. But I had really, as a first and a primary target to be as quickly as possible with the level of long-term funding appropriate to cover the entire year. And of course because there's long-term funding, guaranteed funding was terminating at the end of June, we had no other choice than concentrating the funding in the first parts of the year.

Everybody was speaking at the beginning of the year of a huge presence in the market of all institutions and with eventually the competition of the states to fund their own deficits. And so that's why we decided to put a very strong emphasis in rising as much funds as possible in the first part of the year. And that objective is, of course, now reached. And I'm very happy to have that, have done that. And we already put a lot of pressure in the market with the Dexia name with EUR20.5 billion of assets in terms of obligations solely in the market, bonds solely in the market. So it's really a very intense pressure on the Dexia name.

So we had more time for the covered bonds. But we issued EUR7.7 billion, which is not small in terms of issuance. And of course, it's also linked to the situation of the level of production. And we have to generate assets to put in the covered bond pools. And that's what we have done in the first quarter, transferring also assets that were eligible to these covered bond pools. And that leaves room for the second part of the year to issue some additional bonds or through DMA or through DKD. But we are not under pressure to issue unguaranteed long-term funding or to issue additional covered bond if the situation worsened in the coming weeks.

Francesca Tondi: So effectively, they remain in my calculations EUR7 billion, EUR7.5 billion of funding that you still have remaining for the rest of the year, you can even do with covered bonds.

Pierre Mariani: Exactly. That will be only covered bonds.

Francesca Tondi: Okay. That's quite clear. And we sort of -- yes.

Pierre Mariani: We have done of course a lot of issuance of long-term funding in the retail networks.

Francesca Tondi: And also with unsecured, you can actually fund through the retail network. Okay.

Pierre Mariani: Of course.

Francesca Tondi: And then on NPLs and retail, please?

Pierre Mariani: Yes, on NPLs, part of the increase is linked to the provisioning on the financial product portfolio. And when you have an outstanding of EUR5.3 billion in impaired loans, you have EUR2.2 billion of financial products, you have close to EUR1 billion for Lehman and Icelandic banks and Washington Mutuals that were loans impaired in the second part of 2008, at the end of 2008. We have EUR540 million in Deniz. And the rest is very limited.

Francesca Tondi: And the increase in the first quarter versus the end of the year, which I think is just around EUR1 billion, is that due to the financial portfolio?

Pierre Mariani: Yes, it's linked to the financial portfolio of course because when you have new impairments, you can have even a limited loss. But the --

Francesca Tondi: Yes, they get classified.

Pierre Mariani: Exactly. They get classified. And that's the same thing for the projects where we had made provisions in the first quarter and in the fourth quarter on some projects with limited loss expectation, so very limited provisioning level but with significant amounts.

Francesca Tondi: Thank you. And the last question was the revenue trend in retail quarter-on-quarter. What were the main reasons for the improvement in terms of trading or interest income or the currency effect in Turkey?

Pierre Mariani: No, I think clearly there is a currency effect in Turkey of course. But the main revenues were stable quarter-on-quarter in Belgium with a double effect decrease in margins and increase in volumes. And in Turkey, all the categories of revenues were up very significantly, up 13% --

Philippe Rucheton: In Euros.

Pierre Mariani: In Euros.

Pierre Mariani: So 4% change quarter-to-quarter, excluding the currency effect.

Francesca Tondi: And okay. And in Belgium, net interest income stable and commission stable effectively all across lines.

Pierre Mariani: Yes, yes.

Francesca Tondi: At some point if you can start another finalize a division, if you can start giving us for the core divisions some element of income breakdown, it would be really useful to analyze that, especially your core business.

Pierre Mariani: Okay. It's not a commitment. But I note your request.

Francesca Tondi: Thank you very much.

Operator: Our next question comes from Max Le Gouvello from Morgan Stanley. Please go ahead.

Max Le Gouvello: Good evening. I would have some follow-up question regarding Belgium on the back of the questions from JPMorgan. On the cost of risk, one of your competitors has mentioned that on Q1 the cost of risk was extremely low in Belgium. Will you use this low level as a run rate?

Second point, regarding the new branches, the 180, what is your target in terms of all moving your -- if I remember it was something close to 900 branches. All are going to move on the new format. Or how is it going to be managed and on which timetable?

And last point regarding the public finance, can you give us a little bit of update? We know that the Q1 is really one of the lowest -- the lowest quarter of the year in terms of origination. What is your instinct of the development from the two core markets, France and Belgium? Thanks.

Pierre Mariani: So cost of risk, it's true that one of our competitors say that the cost of risk was extremely low or quasi-zero. But unfortunately, we didn't have the chance to make purchase accounting in Dexia in Belgium. So I think we have some risk, even if the risk is extremely low in the first quarter compared even to 14 basis points, so extremely, extremely low. And it's true that we are not observing change from that point of view in the last week.

Also, I'm still a bit worried because I've seen still the number of companies going bankrupt is still very high. So I hope this very low level will last. But I think we have gone through the worst in terms of the first trends of the macroeconomic crisis. Of course, the main question remains not only for Belgium but for the entire European economy. I don't know what will be the consequence of the tightening of the budgetary policies or the fiscal policies all over Europe in the coming months or years.

Max Le Gouvello: Okay. Regarding --

Pierre Mariani: The new branch, I think we had planned to refurbish 350 branches. And we had already made 180 branches to the new format. So it will last for an additional 18 months or so.

Max Le Gouvello: Okay. Regarding the 3% loan increase in Belgium, can you -- I have not been able to find in your table -- sorry if it's disclosed -- the breakdown between mortgages, SMEs, and the last corporate, please.

Philippe Rucheton: (inaudible) appendixes of the presentation.

Pierre Mariani: Yes, go to the appendixes. And you will have the split.

Max Le Gouvello: Okay. Then after that, regarding --

Pierre Mariani: Yes, on the public finance side, I think it's still very low in terms of origination. We don't see a particular development. We have the same kind of market share in Belgium as we had before and same kind of market share in France. What we have seen in France is, in terms of competition, two elements. The first one is a complete withdrawal of the traditional banks, Societe Generale and even Credit Agricole and BNP from the market. I think that was expected. And it happened.

And still another crazy bidder in the market still remaining very active, it's Caisses d’Epargne, who is still providing 25 years funding at 30 basis points. And it's true that we can't compete at this level.

Max Le Gouvello: Okay. In terms of tax rate, you have been a little bit higher this quarter at 27%, when you used to be more in the range of the 20s. Do we need to say that there is a specific element and normalized in the range of 20% to 22% over the year?

Pierre Mariani: Not necessarily because I think it's -- we have taken very cautious attitude to neutralize the deferred tax assets that were generated by the losses in the US and in other subsidiaries. And of course, it could change over time. So it's not really significant.

Max Le Gouvello: And lastly, regarding the Portugal and Spain, would you quantify your exposure on Greece as abnormally higher or in line with your usual exposure?

Pierre Mariani: I don't know if it's abnormally or normally.

Max Le Gouvello: Because it's 7% of your sovereign exposure of the total that you have in your balance sheet.

Pierre Mariani: Yes, it's much higher than the rest.

Max Le Gouvello: Okay. Thanks.

Pierre Mariani: But in Spain, it's different. We are a local bank.

Max Le Gouvello: Yes.

Pierre Mariani: Okay.

Max Le Gouvello: Yes. Thanks.

Operator: Our next question comes from Britta Schmidt from Autonomous Research. Please go ahead.

Britta Schmidt: Yes, hi. Good evening. Just a few questions left, one clarification, I might've missed it. But could you perhaps give us the treasury revenue number that you booked in this quarter and maybe also splitted over the core and the legacy division? Then secondly, on the FP portfolio, I think you were recently a little bit more hesitant, seeing potential further impairments to come throughout the year if some of the interest reset dates are reached. Is that something that you still stick to? Or can you give us an update there?

And then lastly, on the legacy bond portfolio and again coming back to the question of Spain and Italy, I would assume that that part is not in the legacy portfolio but that it's still in the core division. Maybe you can just tell us whether that is true. And more of a philosophical question, do you see any sort of indirect impact, other than seeing spreads of course performing a little bit better from the ECB bond purchase program that has been announced? Is there any area where you would say that if something were Dexia that it's for the benefit of Dexia? Maybe you can give us a couple of thoughts on that.

Pierre Mariani: So the treasury revenue, I'm checking. But I think it's around EUR18 million for the quarter. And it's split -- the main part is on the legacy division. I think it's 70% on the legacy division and 30% in the core portfolio. But I am checking the figures. And I will give you the answer in a few --

Britta Schmidt: Yes.

Pierre Mariani: -- seconds if you allow me. On the financial product portfolio, I think the further impairments, it's not linked on the risk on this portfolio but to accounting issues. And it's still a pending issue. So we could have some additional impairments. But we will continue to use the potential capital gains to cover that risk, at least to cover part of this risk. But it's nothing new about that.

On the legacy bond portfolio, some of the bonds are in the legacy division. But some of the bonds are also in the portfolio of the ALM core division because they are part of the instruments of managing the liquidity of the group. Or they were part of the liquidity management of the group.

The impact of stopping covered bonds purchase, we don't see a risk from that point of view. I think what we are seeing in the market is a huge demand on covered bonds in Germany on the Pfanbriefe because we have a very particular phenomenon with a lot of previous issues of covered bonds who are amortized this year and with a very limited generation of assets in the covered bond pools due to the reduction of the production of new loans in Germany.

So we are still seeing a pretty active situation there. So we were not dependent on ECB to finance our covered bonds. I don't even know if they bought some of our programs, maybe EUR50 million or so, but not very much on that. So we are not dependent from that point of view.

Philippe Rucheton: Just to come back to the revenues for Q1 for the treasury globally, revenues are EUR18 million out of which 60% are allocated to legacy.

Pierre Mariani: Sorry, I said 70%.

Britta Schmidt: Okay. And maybe just a follow up on the -- do you see any sort of impact in terms of just the liquidity that the ECB is wanting to provide on the sovereign bond side? Is that something where you could be indirectly beneficially impacted? Or is it something that's kind of outside --?

Pierre Mariani: Of course, I think it's a very wise -- I must say that when you analyze the package that was provided by and negotiated by the states during the weekend, it's really appropriate to the kind of risk we were seeing in the market at the end of last week and mainly on two aspects. The first one was, of course, linked to the liquidity in dollar. And I think the swap between the two central banks of course helps from that point of view. The second one is of course the decision to acquire bonds in the secondary market.

I think, first of all, it could be helpful for the states because if some few people are ready to buy bonds or to sell bonds with a loss, it will certainly reduce the overall exposures of the states if they are able to buyback their debt as Portugal state, for example. But also, it's globally positive for the market because one of the big questions was whether there was a price and liquidity in this market. And of course, having a buyer, even if the central bank doesn't buy a lot of bonds, it had a positive impact vis-a-vis the investors giving backstop in the market and saying to the market that there will be an ultimate liquidity provided on the euro-denominated sovereign bonds.

Britta Schmidt: So have you already felt some sort of improvement since the announcement?

Pierre Mariani: Of course, we've seen a very strong reduction in the spread on every compartment on at least yesterday. Today, a slight increase in the spreads in the CDS on some of the countries. But the improvement was huge yesterday.

Britta Schmidt: Okay. Thanks.

Operator: Our final question is a follow up from Omar Fall from UBS. Please go ahead.

Omar Fall: Hi. Just two questions, please, firstly, what's the split of RWAs between the core division and the legacy division, please? And then secondly, if you could just bear with me, but as a hypothetical forecast exercise, given how hard it is to forecast the earnings, if we ignore the legacy division and roughly assume that you need something like EUR15 billion of equity if you knew well to support the core business, that takes you to about 4% equity to assets, which seems to be the go-to number.

At 10% ROE on that, which I guess one would consider to be a minimum sort of EUR1.5 billion. I mean, that's very far away from what the core division is producing now in terms of earnings. And I guess the core business now can't be that far away from what one would call normalized, given how low the cost of risk is. I know that right now your priority is not profitability as such and is the group's restructuring. But what am I missing in that kind of view? Thanks.

Pierre Mariani: I think in terms of weighted assets, we have the EUR53 billion of weighted risk to the legacy division.

Omar Fall: Great.

Pierre Mariani: So around EUR90 billion to the core division. I think in terms of allocated equity, I think you are certainly overestimating the amount of equity to be allocated to the core division.

Omar Fall: Right. Why is that actually?

Pierre Mariani: Because even if you take a 9% of risk-weighted assets, it leads to EUR8 billion of allocated equity to the core division.

Omar Fall: Okay. Fair enough. I guess I'm just assuming that with Basel III emphasis on leverage ratios.

Pierre Mariani: Well, the leverage ratio in the core division, it's not the case. And I wonder with the leverage ratio with Basel III which kind of assets you will have to put in your liquidity buffer because, if even sovereign risks are questioned, I think it would be difficult to find assets that will be put into the liquidity buffers. But that's a philosophical question.

Omar Fall: Okay. Great. Thank you.

Pierre Mariani: Thank you very much. I thank you very much for all your questions. And the next appointment will be at the beginning of August for the release of our second quarter. Thank you very much.

Operator: Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.