DEXIA SA/NV

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SPECIAL REPORT OF THE BOARD OF DIRECTORS

NET ASSETS BELOW A QUARTER OF THE SHARE CAPITAL
- Article 633 of the Belgian Company Code -

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1. INTRODUCTION

The net assets of Dexia SA ("DSA" or the "Company"), as set forth in the September 30, 2012 interim statutory financial statements approved on November 7, 2012, have, following losses, been reduced below EUR -2.685 billion, which is lower than a quarter of the share capital (being EUR 500 million).

In accordance with Article 633 of the Belgian Company Code (the "BCC"), the board of directors of the Company (the "Board") is required to convene a general meeting of shareholders of the Company in order for the shareholders to vote to continue the Company's activities or to liquidate it and the Board must draw up a report in which it must justify its proposal and, if this is to continue the Company's activities, the report must describe the measures that the Board will take in order to improve the financial condition of the Company.

For the reasons set forth hereafter, the Board proposes to the shareholders to vote in favor of the continuation of the Company's activities and not to liquidate the Company at the general meeting of shareholders of the Company that will be held on December 21, 2012. This report describes the losses incurred by DSA, their causes and justifies the proposal to continue the Company's activities.

2. CONTEXT – DETERIORATED CONDITION OF THE DEXIA GROUP

2.1 **Share capital increase of 2008 and States' guarantee**. In September 2008, the Dexia group was confronted with important liquidity problems, due, among others, to the increased difficulty in obtaining funding on the markets in the context of the global financial crisis following, among others, the Lehman Brothers bankruptcy. The fall in the share price, the downgrade of the rating and the losses incurred by the group meant that urgent measures were required to reinforce the solvency and liquidity of the group. On September 30, 2008, DSA decided to increase its share capital by an amount of EUR 6 billion, which was subscribed for by the Belgian and French authorities and the main historic reference shareholders of the group. The Belgian, French and Luxembourg States also granted a guarantee for a maximum amount of EUR 150 billion of the interbank and debt financings raised by Dexia Banque Belgique (now Belfius Banque et Assurances) ("DBB"), Dexia Crédit Local ("DCL") and Dexia Banque Internationale à Luxembourg (now Banque Internationale à Luxembourg) ("BIL"), in order to enable the group to cope with its liquidity problems.

These transactions were approved by the European Commission, under State aid rules, on February 26, 2010. However, the European Commission required, in consideration for the authorization of the aid granted, that the Dexia group implement an important restructuring plan in order to focus the group on its main operations and historic markets (the "2008 Restructuring Plan"). In the context of the 2008 Restructuring Plan, different undertakings were given by the Dexia group, including the strict limitation on dividend distributions by DSA and its subsidiaries, the sale of certain assets, the creation of a Legacy division and the reduction of its balance sheet.

2.2 **Crisis of 2011**. At the beginning of the summer of 2011, the deterioration of the sovereign debt crisis and, more generally, the worsening of the macroeconomic environment led to increased tension in respect of the group's liquidity, in spite of progress made in connection with the implementation of the 2008 Restructuring Plan (the short term funding needs having decreased between December 2008 and June 2011 from EUR 260 billion to EUR 96 billion) . Indeed, in spite of the measures put in place in connection therewith, the Dexia group was still confronted in 2011 with structural funding needs and was particularly vulnerable in terms of liquidity given the strong deterioration of market conditions. The difficulties of the Dexia group quickly got worse at the beginning of October 2011 following the warning by the rating agency Moody's that it would downgrade the bank financial strength ratings of its three main operational entities (DBB, DCL and BIL) given the significant liquidity needs of the Dexia group following the deterioration of market conditions. Following such warning of negative watch, Dexia's share price fell heavily (including a fall of 14% on October 3, 2011). Numerous withdrawals were made by DBB's clients meaning that that there was a risk of a run on the bank.

2.3 **Orderly Resolution Plan**. In this context, and in order to avoid a rapid deterioration of the Dexia group's liquidity situation and a snowball effect on the systemic risk, the Belgian, French and Luxembourg States supported the Dexia group by granting a guarantee in respect of certain funding raised by DSA and DCL. The guarantee was approved by the European Commission on December 21, 2011 on a temporary basis for a maximum amount of EUR 45 billion. On May 31, 2012, the European Commission decided to extend the temporary guarantees on a temporary basis, for funding raised by DSA or DCL until September 30, 2012 and to approve the increase in the ceiling on the amount in principal of the temporary guarantee to EUR 55 billion. On September 26, 2012, the temporary guarantee, was, again, extended with the approval of the European Commission for funding raised until January 31, 2013.

In accordance with undertakings given in the context of the approval of the temporary guarantee by the European Commission and in order to obtain a definitive approval, the Belgian, French and Luxembourg States filed an orderly resolution plan for the Dexia group on March 21 and 22, 2012 with the European Commission (the "Orderly Resolution Plan"). The Orderly Resolution Plan included the strategy of the Dexia group, a business plan and a presentation of the future of the group taking into account the sale of the operational entities. This plan was based on a certain number of fundamental structuring assumptions including:

- the granting by the Belgian, French and Luxembourg States of a liquidity guarantee for an amount of EUR 90 billion without any collateral posting obligations;

- a remuneration of the States' guarantee which would be sufficiently low in order to allow Dexia to generate a positive result or which would be allocated to a strengthening of Dexia's net assets;

- the support of key external parties in respect of the liquidity of the group, including the continued availability of the same favorable conditions and for very significant amounts of funding with the central banks that are currently offered to European banks;

- a slight recession in 2012 and 2013, followed by a progressive improvement from 2014, without any major negative events during that period; and

- the maintaining of the banking license of the entities of the Dexia group, and this, when necessary, in spite of the non compliance with certain regulatory liquidity ratios and maintaining the rating of DSA's and DCL's debt.

2.4 **Disposal of operational entities**. In order to deal with such deteriorated environment, and in accordance with the Orderly Resolution Plan, the Dexia group implemented, from October 2011, profound changes to its structure, including the sale of all its strategic operational entities, including DBB, BIL and DenizBank. Given the risks associated with the Dexia group's situation on DBB's commercial operations and considering the systemic nature of that company for the Belgian financial system, the Belgian State proposed on October 9, 2012 to purchase DSA's stake in DBB. The offer was approved by the Board and the sale of 100% of the shares in DBB to the *Société Fédérale de Participations et d'Investissement*, acting on behalf of the Belgian State, was finalized on October 20, 2011 for an amount of EUR 4 billion and resulted in the Dexia group booking a loss of EUR 4.2 billion. The price of the sales was primarily used by Dexia in order to proceed with the early repayment of loans granted by DBB to DSA and to DCL in accordance with the undertakings given by the Dexia group.

2.5 **2011 financial statements**. DSA's 2011 financial statements (on a stand-alone and consolidated basis) were drawn up in accordance with going concern accounting rules. This going concern assumption was supported by the business plan prepared in connection with the Orderly Resolution Plan and was based upon the same assumptions (described in item 2.3 above).

The non-occurrence of such assumptions was, however, a significant risk. DSA's 2011 annual report noted that if market anticipations did not materialize in connection with interest rates or if such rates remained at a very low level in the future, this would lead to a higher level than anticipated in the business plan of collateral having to be posted pursuant to covered derivatives and would significantly increase the funding needs of the group.

2.6 **2011 Results**. The financial crisis had a significant impact on the 2011 results of the Dexia group. The group suffered a consolidated net loss of EUR 11.6 billion during the 2011 financial year. This loss was due, essentially, to several non-recurring items which occurred during the year and were essentially linked to the sovereign debt crisis, on the one hand, and to losses realized on the sales, on the other. The loss on the sale of DBB amounted to EUR 4.2 billion and the expected loss on the sale of Dexia Municipal Agency to EUR 1 billion. The ongoing activities were also heavily impacted by the provisions on the Greek sovereign securities and related exposures, which amounted to EUR 3.4 billion, as well as the losses on asset disposals, including on the sale of guaranteed assets in the Financial Products portfolio, which amounted to EUR 2.6 billion. In addition, the share price plummeted during 2011, with a decrease of 88.5%, which was much higher than the decrease of the Belgian and French stock market indexes over the same period.

This net consolidated loss of EUR 11.6 billion was absorbed by the solid solvency of the Dexia group until June 2011; the common equity Tier 1 ratio of the group increased from 10.6 % at the end of December 2008 to 13.4 % at the end of March 2011. At the end of December 2011, the solvency ratios of the group stood at 7.6 % for the common equity Tier 1 ratio and 6.4 % for the Core Tier 1 ratio.

2.7 **Deterioration during Q1 2012 and interim financial statements at June 30, 2012**. The deterioration of the conditions on the markets continued during Q1 2012 due to ongoing sovereign debt tensions within the Eurozone. The economic situation also continued to worsen. The persistence of such tensions led to a loss of confidence by investors vis-à-vis banking counterparties and to an increase of the funding costs of the Dexia group, especially given the increase in the use of emergency liquidity from central banks. During Q2, 2012, the Dexia group also lost the benefit of the structural reduction on its balance sheet due to the increase in the amount of collateral to be posted with derivative counterparties.

The quarterly financial statements of DSA (on a standalone and consolidated basis) at June 30, 2012 were also drawn up on a going concern basis, again on the basis of the assumptions described in item 2.3 above. As stated in DSA's press release of August 3, 2012 (*1H 2012 Results and update on the progress of the group's resolution plan*), although the Board considered this scenario as the most probable, significant risks remained in connection with the non-occurrence of such assumptions.

2.8 **Results at June 30, 2012**. At June 30, 2012, the group net result showed a loss of EUR 1.166 billion including a EUR 1.085 billion loss in relation to the Dexia group's activities. The group's revenue suffered because of the impact of the increase in its funding costs from one quarter to another (EUR 370 million by comparison to Q1 2011) due to the use of the emergency liquidity assistance (ELA) credit lines, the use of funding guaranteed in the context of the temporary guarantee and the increase of collateralization posting obligations with Dexia group derivative counterparties. Finally, the losses in connection with the asset sales also impacted Q1 2012 income, the Dexia group having to book losses of EUR 283 million on the sale of EUR 3 billion worth of non-strategic securities and loans.

2.9 **Interim financial statements at September 30, 2012 and amended orderly resolution plan**. During Q3 2012, the Belgian, French and Luxembourg States and the European Commission actively continued discussions with a view to filing a revised orderly resolution plan for the Dexia group with the European Commission. These discussions led to amendments to various principles and assumptions of the business plan which had been a basis for the plan notified by the States to the European Commission on March 21 and 22, 2011. This revised orderly resolution plan and the financial simulations prepared to that effect now project funding costs resulting from the new requirements of the central banks that heavily impact DCL's prospects in terms of future profitability.

These negative prospects obliged the Board during its meeting held on November 7, 2012 to book an impairment for the full value of DSA's stake in DCL, as it was not possible to establish a value at the date at which the September 30, 2012 financial statements were drawn up given the uncertainty surrounding the impact of certain factors in the revised orderly resolution plan. This impairment in the value of DSA's stake in DCL is the reason for the loss suffered by DSA (see point 3 below).

3. LOSSES SUFFERED BY THE COMPANY AND CAUSES

3.1 **Losses**. The interim non-audited financial statements of DSA, on a standalone basis as of September 30, 2012, as approved by the Board on November 7, 2012, show negative net assets of EUR -2.685 billion.

3.2 **Causes of such losses**. Financial forecasts in the contexts of the revised orderly resolution plan forecast funding costs that heavily impact the earning prospects of the Dexia group, including DCL. This resulted from factors that have appeared recently, mainly the requirements of the central banks in terms of funding mix. Indeed, the initial forecasts prepared by the Dexia group included a preponderant use of eligible securities issued by DCL and subscribed by group entities to be posted as collateral with the central banks, allowing the group to refinance itself at the European Central Bank's Main Refinancing Operation rate ("MRO"). The cap imposed by the central banks, following the approval of the Orderly resolution Plan, on that type of funding has obliged the Dexia group to very profoundly adapt the funding plan underlying its initial business plan in order to include less dependency on funding from the central banks. During its orderly resolution, the group now expects to use greater proportions of short and medium term market funding such as guaranteed issuances by the Belgian, French and Luxembourg States and covered (repos) and other market funding which is far more expensive than funding at an MRO rate. These new funding assumptions will enable the orderly resolution plan to be consistent with the anticipation of a return to "normalized" market conditions implying changes to monetary policies during the Dexia group's resolution period.

This increase in the Dexia group's funding costs, the significance of the balance sheet to which they apply, and the resulting amendments to the orderly resolution plan, mean that the funding costs have a greater impact on the prospects of profitability for DCL than foreseen in previous forecasts made by the Dexia group, in particular in the context of the Orderly Resolution Plan and the financial statements 2011 and interim statements at June 30, 2012.

DSA's stake in DCL was valued at EUR 5 billion. This valuation was based on future positive cash flow forecasts for DCL which were, in turn, based upon the assumptions established by the Dexia group in the context of the Orderly Resolution Plan and in the 2011 financial statements and the June 30, 2012 interim financial statements and that are described in item 2.4 above. Given the increase in the Dexia group's funding costs, these assumptions will not materialize and the valuation of DCL at EUR 5 billion was no longer justified. DSA therefore had to book an impairment on the full value of its stake in DCL as it was not possible to establish a value at the date at which the September 30, 2012 financial statements were drawn up, given the uncertainty surrounding the impact of certain factors included in the revised orderly resolution plan.

4. APPLICABILITY OF ARTICLE 633 OF THE BCC

As stated under item 1 above, the net assets of DSA have been reduced below a quarter of the share capital, which amounts to EUR 500,000,000 at the date hereof. Article 633 of the BCC is therefore applicable. This Article states that

> *"If, following the occurrence of losses, the net assets are reduced to an amount below half the share capital, the general meeting must, unless the articles of association contain stricter provisions, be convened at the latest two months following the date at which the losses were identified or should*

have been identified pursuant to statutory rules or the articles of association, in order to vote, in accordance with the formalities applicable to the amendment of the articles of association, on the liquidation of the company and any other measures set forth in the agenda.

The board of directors justifies its proposals in a special report made available to the shareholders at the company's registered address 15 days prior to the general meeting. If the board of directors proposes to continue the company's activities, it sets forth the measures that it proposes to take in order to improve the financial condition of the company. This report is mentioned in the agenda. A copy can be obtained in accordance with Article 535. A copy is also sent without delay to persons having complied with all formalities to be admitted to the general meeting in the articles of association.

The absence of the report mentioned in the second indent leads to the nullity of the decision of the general meeting.

The same rules are applied if, following the occurrence of losses, the net assets are reduced below one quarter of the share capital, but in that case the liquidation of the company will occur if approved by a quarter of the votes cast at the meeting.

When the general meeting has not been convened in accordance with this article, any damages suffered by third parties is deemed, subject to proof of the contrary, to result from the absence of the convening notice."

In accordance with Article 633 of the BCC, the shareholders of DSA are invited to consider and vote upon the continuity of the activities or the liquidation of DSA at the extraordinary general meeting that will be held on December, 21, 2012. In order to be able to validly consider and vote upon this proposal, the shareholders present or represented at the extraordinary general meeting must represent at least half the share capital. If this quorum is not reached during the first general meeting, a second general meeting will be convened for January 7, 2013. No quorum is required for the second meeting, which can validly consider the proposals whatever the percentage of share capital represented.

As set forth in this report, the Board proposes and recommends that the activities of DSA be continued. If, however, the general meeting were to vote against the proposal to continue DSA's activities and to vote in favor of the liquidation of the Company, a new general meeting would be convened as soon as possible in order to vote upon the liquidation and the documents mentioned in Article 181 of the BCC, being a special report drawn up by the Board, a statement of the Companies' assets and liabilities and a report by the statutory auditor on the Company's statement of assets and liabilities, would be sent to the shareholders in accordance with applicable BCC rules.

5. PROPOSAL OF THE BOARD TO CONTINUE THE ACTIVITIES OF THE COMPANY AND PROPOSED MEASURES TO IMPROVE THE FINANCIAL CONDITION OF THE COMPANY

The Board believes that the liquidation of the Company would have negative consequences for its shareholders but also serious systemic consequences (see item 5.1) and therefore recommends that the activities of DSA be continued, subject to the implementation of the measures set forth hereafter (see item 5.2).

5.1 Negative consequences of a liquidation of DSA

5.1.1 *Destruction of the value of remaining assets.* A liquidation of DSA would be value destructive. It would imply that a liquidator (appointed by the general meeting and confirmed by the commercial court of Brussels) pay the debts of DSA and sell the remaining assets. Given the nature and illiquidity of such assets (primarily DSA's stake in DCL) such sales would, given the current market conditions, only be possible with important price reductions and would, as a result, lead to the crystallization of important share capital losses, which would be higher than the capitalization of DSA. The liquidation would lead to a negative result meaning that no distributions would be made to the shareholders.

5.1.2 *Losses for creditors and serious systemic consequences.* A liquidation of DSA would have serious systemic consequences. Indeed, a liquidation of DSA would jeopardize the entire Dexia group and, in particular DCL. Given that DCL has a receivable of EUR 1.6 billion vis-à-vis DSA and is the beneficiary of guarantees from DSA on EUR 1.942 worth of Greek securities (as of September 30, 2012), a liquidation of DSA would mean that DCL would need to book an impairment on the entire value of its receivable. DCL would then have insufficient net assets which would probably lead to its rating being downgraded to below investment grade, triggering Event of Default provisions included in certain agreements to which it is a party.

A default by the Dexia group would lead, via the cross default and acceleration provisions in the loans of certain entities of the group, mainly DCL, to its entire debt becoming due, in an amount of approximately EUR 386.5 billion at September 30, 2012, and the amounts due in connection with derivatives in a notional amount of approximately EUR 605 billion at September 30, 2012.

The unsecured creditors of the Dexia group, and primarily the creditors of DCL, would thus suffer significant losses in respect of the receivables against the group.

Such a default would jeopardize the stability of the whole European financial system. Indeed, a default of the Dexia group would lead to assets being frozen in the short term and would affect the liquidity of the markets, with a significant risk of a spillover effect to the rest of the Eurozone, given the size of the group's balance sheet, the significance of unsecured amounts outstanding, the volume of derivative agreements entered into by entities of the group and banking counterparties and the major impact of the sale by the entities of the group of their bonds portfolio on the financial markets following the depreciation of the value of the bonds portfolio on a mark to market basis.

A default by the Dexia group would also destabilize the sovereign debt markets including those of the Eurozone. Indeed, the Dexia group entities held a sovereign bond portfolio of EUR 20.049 billion at September 30, 2012. The liquidation of this portfolio would destabilize secondary markets, including those of several Eurozone countries (more than 70% of this sovereign bond portfolio being linked to States in the Eurozone). This would have a significant snowball effect on financial markets.

In addition, a default by the Dexia group would lead to a call on the guarantees granted by the Belgian, French and Luxembourg States on October 9, 2008 for certain funding raised by DCL, DBB et BIL, and on December 16, 2011 for certain funding issued by DSA and DCL. The total outstanding amounts guaranteed under the guarantee agreements of 2008 and 2011 amounted to EUR 73.4 billion on November 12, 2012.

5.1.3 *Employment consequences.* Finally a liquidation of DSA, and the resulting bankruptcy of DCL, would have a negative impact in terms of employment given that the Dexia group employed approximately 3,600 people in Belgium and France at June 30, 2012.

5.2 **Recommendation to pursue DSA's activities and proposed measures**.

5.2.1 With a view to stabilizing the financial situation of DSA and ensuring the continuity of its activities, the Board proposes to reconstitute the net assets of DSA by a share capital increase for an amount of EUR 5 billion reserved to the Belgian and French States in consideration for the issuance of preference shares giving them a preferential right equal to 8% of their subscription price *per annum* on any dividend distributions by DSA. The amount by which such dividends falls short of the 8% per annum rate would constitute a liquidation supplement. Upon a liquidation of DSA, the liquidation distributions would be allocated in priority to the holders of preference shares up to an amount per share equal to the subscription price paid for the share, increased by any such liquidation supplement and reduced by any amounts already repaid pursuant to a share capital reduction. The preferential rights of the preference shares therefore reflect the principle that the perspective of any dividends, share capital or liquidation proceeds reimbursements to existing shareholders is extremely limited.

5.2.2 These preferential rights, which are a condition to the recapitalization by the Belgian and French States, implement the principle, already announced by Dexia in the publication of its 2011 annual report and the press release of DSA dated August 3, 2012 (*1H 2012 Results and update on the progress of the group's resolution plan*), that any improvement of the financial condition of DSA will firstly and mainly benefit the guarantor States given the risk that they bear pursuant to the guarantees granted to the Dexia group. These preferential rights also implement the requirements of the European Commission in terms of burden sharing in accordance with State aid rules. Indeed, the European Commission indicated to the States that, in this case, it would only approve the definitive orderly resolution plan of the Dexia group if, in case of a recapitalization by the States, it included a full economic eviction of existing shareholders.

5.2.3 This share capital increase is described in detail in the special report of the Board dated as of the date hereof (*Share capital increase under the accounting par value with disapplication of the preferential subscription right*) that was drawn up in accordance with Articles 582, 596 and 598 of the BCC. This share capital increase will be subject to the approval of the shareholders at the extraordinary general meeting to be held on December 21, 2012 that will vote on the continuance of DSA's activities.

This share capital increase reserved to the States will allow DSA to increase its net assets to an amount above half its share capital, to satisfy all its contractual obligations vis-à-vis DCL and its subsidiaries and to proceed with a share capital increase of DCL for an amount of EUR 2 billion. These last two transactions are crucial to enable DCL to continue to comply with its stand alone net asset ratios. The share capital increase will also allow DSA and the Dexia group to continue to implement the orderly resolution of the group in accordance with the terms of the revised orderly resolution plan that will shortly be filed with the European Commission, and allow the run off of assets until their term, thus avoiding the negative consequences described under item 5.1 above. The amount of EUR 5.5 billion corresponds to the amount that the Board considers necessary in order for DSA to benefit, after the share capital increase in DCL and satisfaction of all its contractual obligations vis-à-vis DCL and its subsidiaries, from sufficient net assets and liquidity to cope with future changes to the economic and financial environment in which the Dexia group operates, to the extent that such changes are foreseeable at the date hereof. The amount of the share capital increase has therefore been determined in such a way as to allow the Dexia group to continue its orderly resolution subject to no significant deterioration of the credit risk occurring and subject to the markets evolving in accordance with current projections.

5.2.4 The Board notes that the recapitalization of DSA by the States is the only option for DSA to continue its activities and to avoid a liquidation and the serious consequences on stakeholder interests and the systemic consequences mentioned under item 5.1 above.

The Board notes, however, that the conditions imposed by the States and the European Commission in relation to the recapitalization of DSA by the States results in the implementation of the already accepted principle which has been communicated to the shareholders and to the markets in the 2011 annual report, according to which any future improvement in the financial condition of DSA must primarily benefit the States. Although these conditions do indeed crystallize a value close to zero and prospects for future profitability and value increases that are quasi inexistent for the existing shares, the Board believes that this inexistent value results from the actual situation of the group at the date hereof and not from the terms of the share capital increase which only crystallize such situation: since the net assets are negative and it is already agreed that any future profits will first benefit the States, the actual financial value of existing shares has already been reduced to zero (notwithstanding the current share price).

5.2.5 The Board must also, given the circumstances, take into account the interest of other stakeholders, including the group's creditors, the guarantor States and the personnel of DSA and its subsidiaries as well as the major systemic risks mentioned under item 5.1 above. It therefore considers that, in spite of the pecuniary consequences of the proposed share capital increase on the existing shareholders, and given it is the only solution that will allow for DSA's net assets to be strengthened and for it to continue its activities, and to avoid DCL's bankruptcy with the resulting extreme systemic risks mentioned above, the continuance of the Company's activities thanks to the recapitalization by the States is in compliance with the corporate benefit, which includes the interests of all stakeholders.

6. **CONCLUSION**

Given the negative consequences for the various stakeholders of DSA and the stability of the European financial system and the sovereign debt markets, that would result from a liquidation of DSA, the Board proposes that the shareholders vote in favor of continuing DSA's activities on the basis of the measures proposed by the Board, being a share capital increase of EUR 5.5 billion reserved to the States. This share capital increase will, subject to no significant deterioration of the credit risk and under normal conditions for the evolution of the markets in accordance with current forecasts, allow DSA's financial condition to continue to improve and the implementation of the orderly resolution plan.

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Done in Brussels on November 14, 2012.

For the Board,

Karel De Boeck	Robert de Metz
Chief Executive Officer	Chairman of the Board of Directors