Dexia SA/NV
Place Rogier 11
1210 Brussels
RPM Brussels – n°0458.548.296

REPORT OF THE BOARD OF DIRECTORS

CROSS-BORDER MERGER BY ABSORPTION OF DEXIA FUNDING LUXEMBOURG S.A. BY DEXIA SA

- Article 772/8 of the Belgian Company Code -

1. INTRODUCTION

This report (hereinafter the "Report") was established by the Board of Directors of **Dexia SA**, a public limited liability company under Belgian law, having its registered seat at 11 Place Rogier, 1210 Brussels, Belgium, registered with the Register of Legal Entities of Brussels under number 0458.548.296 (hereinafter, the "Company") for submission to the general shareholders meeting of the Company of the proposal of the cross-border merger by absorption of **Dexia Funding Luxembourg S.A.**, a private limited liability company under Luxembourg law, having its registered seat at 42 rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg, registered with the Trade and Companies Register under number B120942 (hereinafter, "DFL" or the "Company being Acquired", and, with the Company, the "Merging Companies").

This Report has been prepared in accordance with Article 772/8 of the Belgian Company Code, which specifies that when a company contemplates a cross-border merger, the Board of Directors of the Belgian Merging Companies shall prepare a written and detailed report to the members, which provides an overview of the assets and liabilities of Company to be merged, and which explains and justifies, from a legal and economic perspective, the opportunity and the terms and conditions of the cross-border merger and the consequences of the cross-border merger for members, creditors and employees.

This Report (and the joint merger proposal - see Section 2 below) will be submitted to the extraordinary general shareholders meeting of the Company to be held in Brussels on, or around, May 9, 2012 or, if the required quorum is not reached at the first general shareholders meeting, on or around June 13, 2012 (hereinafter, the "EGM").

At the date of this Report, the Company holds all the shares of the Company being Acquired and the Company will hold all of these shares at the effective date of the merger.

2. PROPOSED TRANSACTION

The Board of Directors of the Company proposes a cross-border merger by absorption of the Company being Acquired with, and into, the Company within the meaning of

Directive 2005/56/EC of the European Parliament and of the Council of October 26, 2005 on cross border mergers of limited liability companies (the "Directive") and pursuant to Articles 676 *jo.* 772/1 to 772/14 of the Belgian Company Code (the "Company Code") and under the simplified procedure set forth in Articles 278 and following of the Luxembourg law of August 10, 1915 on commercial companies, as amended (the "Law on commercial companies") (hereinafter, the" Merger ").

Following the dissolution without liquidation, all the rights and obligations of the Company being Acquired will be transferred to the Company pursuant to Article 676 of the Company Code and Article 274 of the Law on commercial companies. The Company intends to continue the activities of the Company being Acquired, without any change to the activities of the Company or a connection to the existing permanent establishment in Luxembourg.

As part of the Merger, the Boards of Directors of the Merging Companies have agreed on a joint merger proposal (the "Merger Proposal", attached as Annex 1 hereto) which will be subject to the approval of the EGM. In accordance with Article 772/14 of the Company Code, the Merger will enter into effect on the date on which the notary public will acknowledge completion of the Merger upon request of the Merging Companies on presentation of certificates and other documents evidencing the Merger.

In accordance with Article 772/9, § 4 of the Company Code and Article 278 of the Law on commercial companies, no auditor's report or a report of an independent expert are required as all the shares of the Company being Acquired are held by the Company.

3. STATUS OF THE ASSETS AND LIABILITIES OF THE MERGING COMPANIES

An overview of the assets and liabilities of the Company as of December 31, 2011 is attached as Annex 2 hereto. An overview of the assets and liabilities of the Company being Acquired as of December 31, 2011 is attached as Annex 3 hereto.

The Merger will be based on (i) the annual accounts of the Company as of December 31, 2011, which have been approved by the Board of Directors of the Company during its meeting of March 20, 2012, which will be audited by Deloitte Auditors SC s.f.d SCRL prior to the EGM, and which will be submitted to the approval of the annual general shareholders meeting of the Company, and (ii) the annual accounts of the Company being Acquired, which have been approved by the Board of Directors of the Company being Acquired during its meeting of March 16, 2012, which will be audited by Deloitte Audit, société à responsibilité limitée, prior to the general shareholders meeting of the Company being Acquired, and which will be submitted to the approval of the general shareholder meeting of the Company being Acquired prior to the completion of the Merger.

The annual and (consolidated) accounts of the Company as of December 31, 2011, and the annual accounts of the Company being Acquired as of December 31, 2011,

will be made available to shareholders of the Company and of the Company being Acquired at the registered seat of each of the Merging Companies as from April 6, 2012. The annual accounts of the Company will be submitted to the approval of the annual general shareholders meeting of the Company prior to the effective date of the Merger in accordance with Article 772/14 of the Company Code.

After approval of the annual accounts of the Company and of the Company being Acquired, these annual accounts will be attached to, and will form an integrated part of, the documentation relating to the Merger.

4. LEGAL AND ECONOMIC ASPECTS OF THE MERGER

In accordance with Article 772/8 of the Company Code, the following information must be included in this Report:

4.1 Opportunity of the Merger explained and justified from a legal and economic perspective

The Board of Directors considers that the Dexia group will benefit from the proposed Merger for the following reasons:

(a) ***Background***

In 2006, the Company being Acquired issued fixed rate/floating rate perpetual non-cumulative guaranteed securities for an amount of EUR 500,000,000 (the "DFL Securities"), guaranteed by the Company under, and in accordance with, the terms and conditions of the prospectus dated October 31, 2006. The proceeds from the issuance of the DFL Securities were loaned to Dexia Banque Belgique SA/NV ("DBB", today "Belfius Banque & Assurances") in the framework of a deeply subordinated loan between the Company being Acquired, as creditor, and DBB, as debtor, creating *Tier 1* capital at DBB level (the "Subordinated Loan").

On October 20, 2011, the Company sold DBB to the Société Fédérale de Participations et d'Investissement/Federale Participatie en Investeringsmaatschappij. As part of this sale, DBB has agreed to launch a public tender offer on the DFL Securities (the "Offer") and reimburse the Subordinated Loan in an amount equal to the aggregate nominal value of the DFL Securities tendered in the Offer and acquired by DBB as a result of the Offer; and the Dexia group agreed to acquire from DBB the DFL Securities tendered in the Offer. Following this agreement, (i) the DBB Offer was held from February 20 to February 28, 2012 and (ii) on March 1, 2012, the Company acquired the DFL Securities tendered in the Offer, *i.e.*, 91.84% of the DFL Securities and the Dexia group exposure to DBB under the Subordinated Loan has been reduced by an amount equal to the aggregate nominal value of the acquired DFL Securities, *i.e.*, by EUR 459,212,000. The Subordinated Loan to DBB remains current for the balance, *i.e.*, EUR 40.788.000. Therefore, the Company holds currently 91.84% of the DFL

Securities and, following the Merger, the Company contemplates to cancel them.

(b) *Restructuring of the DFL Securities and simplification of the Dexia group structure*

The Board of Directors of each Merging Companies proposes to implement this Merger in order to simplify the structure of the DFL Securities. Following the Merger, the Company, which guarantees the DFL Securities, will be sole debtor of the DFL Securities.

The Merger also aims at a global simplification of the Dexia group structure. As a consequence of the Merger, management and administration fees of the Merging Companies should be reduced by approximately EUR 35,600 per year, compared to the current management and administration fees.

(c) *Tax implication*

As the DFL Securities are considered as capital from a Belgian tax perspective, interests paid by the Company to the investors will not be tax deductible. Conversely, the Subordinated Loan being considered as debt from a Belgian tax perspective, interest earned by the Company from DBB will be taxable in Belgium. However, considering the amount of tax losses available to the Company, no direct tax cost is foreseen.

4.2 Terms and conditions and procedural methods of the Merger explained and justified from a legal and economic perspective

(a) *Terms and conditions of the Merger*

The Merger constitutes a merger by absorption within the meaning of Articles 772/1 and following *juncto* 676, 1° of the Company Code. No new share will be issued by the Company in connection with the Merger. In accordance with Article 1.9 of the Merger Proposal, the transactions of the Company being Acquired will be treated for accounting purposes as being those of the Acquiring Company as from January 1, 2012, effective date of the Merger from an accounting perspective.

The conditions of the Merger are set forth in the Merger Proposal and have been established in accordance with Article 772/6 of the Company Code.

(b) *Procedural methods of the Merger*

The Merger is implemented in accordance with Articles 772/1 and following of the Company Code and Articles 278 and following of the Law on commercial companies.

In accordance with Article 772/11 of the Company Code, the Merger requires the approval of the EGM with a three quarters majority of votes. The shareholders present at the EGM must represent at least half of the share capital. If the required quorum is not reached at the first meeting, another meeting must be convened. Such meeting can validly deliberate and decide, regardless of the share of the share capital represented. The EGM will be held in Brussels on, or around, May 9, 2012 or, if the required quorum is not reached at the first general meeting on, or about, June 13, 2012.

In accordance with Articles 261 and 279 of the Law on commercial companies, the Merger Proposal is prepared and approved by the Board of Directors of the Company being Acquired, and, as it is a cross-border merger and all the shares of the Company being Acquired are held by the Company, the approval by the general shareholders meeting of the Company being Acquired is not required. The Merger Proposal must however be established by notarial deed before a notary public in Luxembourg, the Merging Companies being represented.

After approval of the Merger by the EGM and the Board of Directors of the Company being Acquired, and after adoption of the Merger Proposal by notarial deed before a notary public in Luxembourg, notaries public in Belgium and Luxembourg will issue certificates certifying the existence and legality of acts and formalities imposed to Merging Companies in accordance with Article 772/12 of the Company Code and Article 273 of the Law on commercial companies. In accordance with Articles 772/13 and 772/14, paragraph 1 of the Company Code, the Belgian notary public will control that the Merging Companies have approved the Merger Proposal in the same terms and will establish a deed recording the effective date of the Merger, making the Merger enforceable against third parties.

In accordance with Article 12 of the Directive, the effective date of the Merger is determined by the law of the Member State of the Company, *i.e.*, in this case, Belgian law. In accordance with Article 772/14 of the Company Code, the Merger will enter into effect on the date on which the notary public will acknowledge completion of the Merger upon request of the Merging Companies on presentation of certificates and other documents evidencing the Merger.

(c) *Tax treatment*

As the assets and liabilities of the Company being Acquired will be connected from a fiscal perspective directly to the Company and not to the existing permanent establishment in Luxembourg of the Company, the tax neutral regime for mergers will not apply. From a fiscal perspective, the Merger will be considered as a liquidation of the Company being Acquired resulting in the realization of the assets and liabilities of the Company being Acquired. Considering the absence of unrealized gains on assets of the Company being Acquired, the Merger should not result in taxation for the Company being Acquired or the Company.

4.3 Consequences of the Merger for members, creditors and employees explained and justified from a legal and economic perspective

(a) *Legal Consequences of the Merger*

From the effective date of the Merger, the Merger will have the legal consequences described in Article 682 of the Company Code and Article 274 of the Law on commercial companies. Following the dissolution without liquidation, all of the assets and liabilities of the Company being Acquired will be transferred to the Company pursuant to Article 676 of the Company Code. As a consequence of the Merger, the Company being Acquired will cease to exist and the shares of Company being Acquired held by the Company will be canceled.

Pursuant to Article I.1.3 of the Merger Proposal, the transactions of the Company being Acquired will be treated for accounting purposes as being those of the Company as from January 1, 2012, effective date of the Merger from an accounting perspective.

(b) *Consequences of the Merger for members*

As the Merger constitutes a simplified merger by absorption pursuant to Articles 772/1 and following *juncto* 676, 1 of the Company Code and as all shares of the Company being Acquired are held by the Company, no new share will be issued by the Company.

Upon the Merger taking effect, the participation in the Company being Acquired will be replaced on the balance sheet of the Company by the assets and liabilities of the Company being Acquired and a capital gain will be registered by the Company.

(c) *Consequences of the Merger for employees*

The Company being Acquired has no employee. The Merger will have no negative effect on employment in any of the Merging Companies and the

rights and obligations of the employees of the Company will change pursuant to the Merger.

(d) *Consequences of the Merger for creditors*

Upon the Merger taking effect, creditors of the Company being Acquired will become creditors of the Company, under the universal title of succession. The Board of Directors of the Company considers that the Merger will not endanger the payment of claims of any existing creditor of the Company being Acquired or the Company.

In accordance with Article 684 of the Company Code, no later than within two months from publication in the Belgian Official Gazette of the deeds establishing completion of the Merger, the creditors of the Company whose claim existed prior to such publication and is still outstanding, may request security interest, notwithstanding any contrary agreement. Article 268 of the Law on commercial companies provides that the creditors whose claim, still outstanding or not, existed prior to the date of publication of the Luxembourg notary public's certificate under Article 273 of the Law on commercial companies, may, within two months from such publication, request security interest if they can demonstrate credibly that the Merger constitutes a risk for the exercise of their rights and that the Company has not provided them with equivalent guarantees.

4.4 Methods used to determine the exchange ratio of the shares, importance of such methods, valuation derived from such method, difficulties that arose and proposed exchange ratio explained and justified from a legal and economic perspective

As the Merger constitutes a simplified merger by absorption within the meaning of Articles 772/1 and following *juncto* 676, 1° of the Company Code, no new share will be issued by the Company to the shareholders of the Company being Acquired in connection with the Merger and no exchange ratio will therefore be determined. This point is therefore not applicable.

5. RIGHT TO REVIEW THIS REPORT

In accordance with Article 772/8, paragraph 2 of the Company Code and Article 267 of the Law on commercial companies, this Report will be made available to members and representatives of employees of the Merging Companies for their review, at the latest one month before the date of the EGM for the Company and one month before the effective date of the Merger for the Company being Acquired, at the registered seat of each of the Merging Companies.

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Done at , on March 20, 2012.

For the Board of Directors,

Jean-Luc Dehaene	Pierre Mariani
Chairman of the Board of Directors	CEO

Annexes :

-- Joint Merger Proposal

-- Assets and liabilities of the Company as of December 31, 2011

-- Assets and liabilities of the Company being Acquired as of December 31, 2011