

DEXIA SA/NV
5 Place du Champ de Mars, 1050 Brussels
RPM 458.548.296 (Brussels)
(the “**Company**”)

**SPECIAL REPORT OF THE BOARD OF DIRECTORS OF THE COMPANY IN
APPLICATION OF ARTICLE 560 OF THE COMPANIES CODE**

Dear Shareholders,

In the framework of the orderly resolution plan of the Company, approved by the European Commission dated 28 December 2012 and to comply with the requirements of the banking regulations, the Board of Directors of the Company has decided to convene an extraordinary shareholders’ meeting to be held on 17 November 2017 (or 7 December 2017 if a second meeting has to be convened when there is no quorum at the first meeting) for the purposes, in particular, of ruling on the weighted conversion of shares of category B into ordinary shares (corresponding to the current shares of category A) with the attribution of profit shares.

This proposal involves a change of the rights attached to the categories of shares, and this constitutes an amendment referred to in Article 560 of the Companies Code.

Consequently, in application of Article 560 (2) of the Companies Code, the Board of Directors of the Company has the honour of presenting this report to explain the object and to give a detailed justification of this proposal.

I. Context

1. On the date of this report, the Company’s share capital is represented by 1,948,984 ordinary shares of category A and 28,947,368 preference shares of category B. The preference shares of category B enjoy preferential rights (*cf. infra*, No 3). Moreover, the shares of category A are listed on Euronext Brussels, whilst the shares of category B are not listed.

2. The shares of category B were issued by the Company on 31 December 2012 in favour of the Belgian and French States (the “**States**”) on the occasion of a EUR 5.5 billion capital increase to which only the States subscribed by cash contribution immediately paid up. This capital increase fell within the broader framework of the Company’s resolution plan, also including major State guarantee mechanisms¹. This resolution plan was approved by the European Commission on 28 December 2012. Its aim was to avoid Dexia’s insolvency and immediate liquidation². Following the increase of the Company’s capital on 31 December 2012, the States became majority shareholders of the Company,

¹ Please refer to the annual report of Dexia of 2016, p.111-112.

² See the reports from the Board of Directors date 29 November 2012 respectively pursuant to article 633 of the Company code (capital requirement lower than ¼ of the registered share) and pursuant to articles 582.596 and 598 of the company code (this reports are available on Dexia website, Governance> Board of Directors> special reports).

in an amount of 50.02% (for the *Société Fédérale de Participations et d'Investissement* acting under a delegated mission of the Belgian State) and 44.40% (for the French State).

The preferential rights attached to the shares of category B are aimed in particular at meeting the “burden sharing” requirement imposed by the European Commission in its aforementioned decision dated 28 December 2012. Under this principle, any improvement of the Company’s financial situation must firstly and primarily benefit the guarantor and shareholder States.

The shares of category B thus enable the States (to the exclusion of historic shareholders) to collect any future profits in the event of the Company returning to better fortune and guarantee a full contribution from historic shareholders to the resolution effort, as required by the European Commission. The latter had in fact indicated to the States that it would only approve the Company resolution plan insofar as, in the case of recapitalisation of the Company by the States, it provided a complete economic eviction of the existing shareholders.

3 The preferential rights attached to the shares of category B grant the States a priority on the distribution of Company dividends and liquidation proceeds. These preferential rights are described in Article 4ter 2 of the Company’s articles of association, and may be summarised as follows:

- In the case of distribution by the Company of an (interim) dividend, the latter would be attributed as a matter of priority to the holders of shares of category B up to 8% of the subscription price (or 8% of EUR 5.5 billion, i.e. EUR 440 million per annum). Any balance would then be attributed (a) to the holders of ordinary shares in category A up to the amount per share distributed to the holders of shares of category B and (b) beyond that amount, to the holders of shares of category A and B, proportionally to the number of shares they hold. The amounts not paid to the holders of shares of category B by virtue of the annual preferential distribution of dividends are cumulative with the liquidation supplement. That liquidation supplement returns as a matter of priority to the holders of shares of category B.
- In the case of liquidation of the Company, liquidation distributions would be attributed as a matter of priority to the holders of shares of category B up to their subscription price, or EUR 5.5 billion, increased by the liquidation supplement and after deduction, as the case may be, of amounts already repaid by virtue of a capital reduction. Any balance would then be attributed in the following order: (a) to the holders of shares of category A, up to the amount represented by their right to repayment of capital associated with their shares of category A; (b) to the holders of shares of category A, up to an amount per share equal to the liquidation supplement paid per share of category B; and (c) to the holders of shares of category A and B, proportionally to the number of shares they hold³.
- In the case of a capital reduction with a view to clearing losses or to creating reserves, this would be charged as a matter of priority to the ordinary shares of category A, in the sense that the right to the repayment of capital associated with the shares of category A would be

³ The scenario presented for in the articles of associations, which could have lead to an integral reclassification of the shares of category B1 into shares of category B3 (articles 4ter3 and 4ter4 of the articles of association) could not be implemented. In that scenario, the States would not have retained their preferential rights in relation to the dividends and the liquidation supplement. At the time of the liquidation, the States, holders of shares of category B3, would have received a liquidation bonus of EUR 499,999,999 corresponding to the amount representing their right to the repayment of the capital with the balance, if any, to be attributed to the holders of shares A and B3, proportionally to the number of shares they hold. The statutory conversion mechanisms can however no longer be applied in view of the evolution of the requirements of the ECB.

reduced by the same amount (it being understood that the total amount of the rights to repayment of capital of all the shares of a given category will always remain strictly positive). Otherwise, the rights attached to the shares are not affected. Such a capital reduction operation with a view to clearing the Company's losses was carried out at the Company shareholders' meeting held on 8 May 2013⁴.

4 Regulation No 575/2013 of the European Parliament and Council dated 26 June 2013 concerning the prudential requirements applicable to credit institutions and investment companies and amending Regulation (EU) No 648/2012 (the "**CRR Regulation**") allows instruments constituting State aids, such as the shares of category B, to be treated as category 1 core capital (*Common Equity Tier 1* or "*CET1*")⁵ under a transitional regime which expires on 31 December 2017⁶.

5 On 12 December 2016, the European Central Bank (the "**ECB**") sent the Company its decision taken within the framework of the Supervisory Review and Evaluation Process, (the "**SREP**"). In its decision, the ECB set, *inter alia*, the qualitative and quantitative regulatory requirements regarding own funds which will be applicable to the Company and certain of its subsidiaries as from 1 January 2018⁷.

Against that background, the ECB asked the Company to submit a plan allowing the conversion of all the shares of category B into instruments eligible as category 1 core capital instruments, given that the transitional regime from which such shares benefited under the CRR Regulation would expire on 31 December 2017 (*cf. supra*, No 4).

6 The States submitted a plan (the "**Conversion Plan**") to the European Commission with a view to complying both with the regulations regarding State aid (the aforementioned "burden sharing" principle) and the decision of the ECB within the framework of the SREP. The Conversion Plan contains the proposal which will be put to the extraordinary shareholders' meeting of the Company to be held on 17 November 2017 (or 7 December 2017 if a second meeting has to be convened when there is no quorum at the first meeting) to proceed with the conversion of shares of category B into ordinary shares with the attribution of profit shares (*cf. infra*, No 8).

On 19 September 2017, the European Commission authorized the State aid resulting from the Conversion Plan submitted by the Belgian and French States.

7 On 29 September 2017, the Company officially submitted the Conversion Plan to the ECB. Implementation of the Conversion Plan and of the proposed Statutory amendments is subject to condition precedent of the approval by the ECB of the treatment as category 1 core capital instruments of the new ordinary shares issued (concomitantly with the issuance of profit shares

⁴ The deferred loss amounted to 5.5 billion euros. The capital reduction was imputed in priority on the class A shares in the sense that the right to the reimbursement of share capital of class A shares in case of a liquidation now amounts to a global amount of EUR 1 for all class A shares. The other rights attached to the class A shares (such as the voting right and the right to dividends) were not affected by this capital reduction.

⁵ Art 28 of the CRR Regulation.

⁶ Art. 483(1) of the CRR Regulation.

⁷ Decision of the ECB dated 8 December 2016 establishing the prudential requirements applicable to Dexia, notified to Dexia on 12 December 2016 and made public in the 15 December 2016 Press Release.

(*Contingent Liquidation Rights*) described in point 8 below) in exchange for shares of category B. In case this approval does not take place before 28 February 2018 at the latest, the decisions of the shareholders meeting will be considered as null and void.

II Object and consequences of the proposed operation

8 The Conversion Plan proposes a “weighted conversion” of all the shares of category B issued on 31 December 2012 and held by the States in order to take account the requirements of the ECB and the European Commission. Within the framework of converting their shares of category B, the States will receive (i) on the one hand, ordinary shares of the Company, and (ii) on the other hand, profit shares (“Contingent Liquidation Rights” or “CLR”).

The conversion ratio used within the framework of the operation proposed in the Conversion Plan is a function of the Company’s equity, Group share, as at 30 June 2017 (date of the most recently published financial statements) and the market value of the shares of category A, defined as the average closing price of shares of category A during thirty consecutive days prior to 19 September 2017 (date of the publication of the decision of the European Commission). In accordance with the table below, the conversion ratio will therefore be 14.446 ordinary shares (i.e. currently shares of category A) against one share of category B, so that after the operation the shareholders of category A should represent 0.46% of the shares of the Company.

Calculation of the conversion ratio ⁸			
		Operation	Result
€ 11.12	(1)		Market price of a share of category A
€ 4,672,943,784	(2)		Equity, Group share, of Dexia SA/NV
1,948,984	(3)		Current number of shares of category A
€ 21,677,575	(4)	(1)x(3)	Market capitalisation of shares of category A
0.46%	(5)	(4)/(2)	Percentage of equity capital, Group share, of de Dexia SA/NV
28,947,368	(6)		Current number of shares of category B
420,134,302	(7)	(3)/(5)	Total number of ordinary shares after conversion of the shares of category B
418,185,318	(8)	(7)-(3)	Of which the number of ordinary shares issued in exchange for shares of category B
14.446	(9)	(8)/(6)	Conversion ratio

9 The CLR profit shares issued in favour of the States in the proposed operation do not represent the Company’s capital, but grant the States a right to benefit from a preferential right at the occasion of the liquidation of the company amounting to EUR 440 million per annum (or 8% of EUR 5.5 billion: *cf. supra*, No 3) as from 1 January 2018 until the day the liquidation is started.

⁸ The figures of this table have been rounded. The operations have been executed on the basis of exact figures.

The rights attached to the profit shares CLR are described within the new article 4*bis* which replaces the former article 4*bis* of the articles of association.

For your information, the former Article 4*bis* of the Articles of Associations dealt with the guarantee for the “financial products” portfolio of Financial Security Assurance (FSA) provided by the French and Belgian States in the framework of the sale, finalised on 1st July 2009, of the insurance activities of FSA to Assured Guaranty Ltd. The former Article 4*bis* of the articles of associations entitled the states to recover from Dexia any amount paid pursuant to their guaranty through the exercise of subscription rights (warrants) for a period of 5 years to allow the States to be compensated through the issuance of new shares, or if the occasion arose, of profit shares, following the contribution in kind to Dexia of their right of reimbursement.⁹

As a result of the sale of all assets concerned in 2011, it is considered relevant to remove the statutory provisions dealing with the profit shares that can be issued in that context. The fact that these statutory provisions are removed does not affect the rights of the States to exercise, as the case may be, their rights to recourse against Dexia in the form of a capital conversion.

10 The operation described in the Conversion Plan will be submitted for resolution of the extraordinary shareholders’ meeting of the Company to be held on 17 November 2017 (or 7 December 2017 if a second meeting has to be convened when there is no quorum). Article 560 of the Companies Code is applicable to this proposed resolution insofar as it involves a change of the rights attached to the share categories. Under Article 560 (4) 1 of the Companies Code, the resolution may only be passed by there being, within each of share categories A and B, a quorum of 50% (this quorum requirement will no longer apply if a second meeting has to be convened when there is no quorum at the first meeting) and a majority of 75% of the shares present or represented.

11 If the aforementioned proposed resolution is passed by the extraordinary shareholders’ meeting of the Company, such resolution will result in the abolition of shares of category B. As a consequence, the capital of the Company will then only be represented by ordinary shares (which are currently known as “shares of category A”), which will all be treated as category 1 core capital (“*CET1*”) if the ECB approves such a treatment.

Moreover, if the operation envisaged in the Conversion Plan is approved, it will have the following consequences on the rights of the shareholders of the Company:

- as regards *shareholders’ voting rights*: the planned operation will involve a dilution of the holders of shares of category A, from 6.31% to 0.46%;
- as regards *shareholders’ economic rights*: the preferential rights to dividends attached to the shares of category B will be removed as from 1 January 2018 and those shares will be converted into ordinary shares at a ratio of one share of category B against 14.446 ordinary shares. As from the conversion, all the shareholders will have identical economic rights. Owing to the Company’s financial situation and its prospects, however, it is extremely unlikely that a dividend distribution can be envisaged. Beyond this right to dividends attached

⁹ Please refer to the annual report of Dexia of 2016, p.112-113.

to all the ordinary shares, by virtue of the profit shares CLR the States will also have a preferential right at the occasion of the liquidation of the Company, equal to the amount of EUR 440 million per annum (*cf. supra*, No 9).

As a consequence, if the Company were to be liquidated, the States would have at that time a preferential right to the liquidation distribution resulting from the profit shares CLR which would amount to an amount of EUR 440 million per annum calculated as from 1 January 2018 (*cf. supra*, No 9) until the date the liquidation of the Company is started.

Any balance would then be attributed to all the holders of ordinary shares, proportionally to the number of shares they hold.

12 The tables below show the situation of the shareholders of the Company before and after implementation of the Conversion Plan:

Current shareholders' rights

	Voting rights	Economic rights	
		Right to dividends	Right to liquidation distributions
Shares of category A	6.31%	Subsidiary right	Subsidiary right, (preference granted to the category B shareholders) ¹⁰
Shares of category B	93.69%	Preferential right	Preferential right

Shareholders' rights after implementation of the Conversion Plan

		Voting rights	Economic rights	
			Right to dividends	Right to liquidation distributions
Ordinary shares received in exchange for shares of category A		0.46%	Yes	Subsidiary right (preference granted to holders of CLR)
Shares received in	Ordinary shares	99.54%	Yes	Subsidiary right (preference granted to holders of CLR)

¹⁰ The right to repayment in the framework of a liquidation now equals a global amount of EUR 1 for all shares of category A (*cf. above footnote n°4*). A higher amount could only be attributed to the holders of shares of category A, if, at the closing of the liquidation, the net assets to be distributed, after the settlement of debts and charges of Dexia, exceed EUR 5.5 billions plus the liquidation supplement (of EUR 440 million per year as from the emission of the shares of category B on the 31st December 2012), which is unlikely.

exchange for shares of category B	CLR	0	No	Preferential right (by virtue of CLR)
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III Justification for the proposed resolution

13 The resolution submitted to the extraordinary shareholders' meeting of the Company to be held on 17 November 2017 (or 7 December 2017 if a second meeting has to be convened when there is no quorum at the first meeting) has the following two aims:

- on the one hand, to ensure the observance by the Company of the capital requirements imposed by the ECB in its decision dated 8 December 2016 on the expiry of the transitional regime of the CRR Regulation on 31 December 2017; and
- on the other hand, to ensure the ongoing observance of the "burden sharing" requirements imposed by the European Commission in its decision dated 28 December 2012 by virtue of the regulations on State aid.

Dexia's compliance with these two objectives is vital to ensure the company's continuity. If Dexia were not to convert its preference shares into ordinary shares before 31 December 2017, the group would no longer comply with the prudential ratios applicable to it and its entities would face the risk to lose their banking license. The allocation of profit shares CLR to the States was necessary to obtain the approval of this conversion by the European Commission.

14 The proposed conversion takes into consideration the market value of the shares of category A, which is considerably higher than the liquidation value of those shares (cf. above, footnote 4), and compares it to the amount of Dexia's equity, group share. As such, it preserves some of the value given by the market to the shares of category A in existence today.

15 On 19 September 2017, the European Commission decided that the Conversion Plan constitutes a State aid, which is part of the same resolution operation which started in 2012 and which is intended to avoid Dexia's insolvency and immediate liquidation. The European Commission considers that the Conversion Plan observes the principles of "burden sharing" contained in its decision dated 28 December 2012 and that the measures contemplated are compatible with the internal market (Article 107 TFEU). In order to justify its decision, the European Commission declares in particular that "*the Conversion Plan sufficiently ensures there is no undue benefit is granted to ordinary shareholders at the expense of taxpayers*".

16 The European Commission considered that the proposed conversion would not grant an "*undue benefit*" to the holders of shares of category A and would meet the "*burden sharing*" requirements despite the fact that the proposed conversion replaces the amount which may be repaid for all the shares of category A in the event of liquidation¹¹ by an amount, per share, equal to that which would be obtained for an ordinary share resulting from the conversion of shares of category B.

¹¹ See above, footnote 4.

This replacement was rendered acceptable within the framework of the regime of State aid by the fact that **on the one hand** it would be realized with a dilution of the holders of shares of category A¹² **and on the other hand** because it would be realized with the concomitant issue of CLR Profit Shares, which would give their holders (the former holders of shares of category B) a preferential right in the case of liquidation of the Company equal to an amount of EUR 440 million per annum as from 1 January 2018 until the date the liquidation is started. This latter amount is a translation (reduced to a single preferential right payable in the case of liquidation) of the preferential rights previously attached to the shares of category B (described above, 3).

17 The Board of Directors of the Company is of the opinion that the operation described above is necessary and in line with the Company's corporate interest because it enables it (i) to comply with regulatory capital requirements by converting the shares of category B into ordinary shares on the basis of the market value of the shares of category A, which constitutes a fair conversion basis and (ii) to fulfil the obligations of "burden sharing" resulting from the resolution plan approved by the European Commission on 28 December 2012, by substituting the preferential rights attached to the shares of category B by the preferential right attached to the CLR Profit Shares. This operation offers a structural and permanent solution which appropriately meets the economic interests of present and future shareholders of the Company.

For the reasons stated above, the Board of Directors of the Company asks the shareholders of the Company to approve the conversion of the shares of category B into ordinary shares with the attribution of profit shares in accordance with the terms described above.

Signed in Brussels, on 11 October 2017,

For the Board of Directors,



Wouter Devriendt

Chief Executive Officer



Robert de Metz

Chairman of the Board of Directors

¹² Dilution resulting from the attribution to the holders of shares of category A of a part of the equity, part of the group, equal to their market capitalization (EUR 21,677,575, see table above, under number 8). This part remains theoretical given the lack of prospect of any dividend distribution and the preferential right in case of liquidation attached to the profit shares CLR.