



# *t*o undertake

Applying the best practices of corporate governance, Dexia undertakes to provide regular, full and transparent information to all its shareholders.







# CORPORATE GOVERNANCE

Since 1996, Dexia is committed to implementing the best practices of corporate governance by modifying its organization and its rules and policies to take into account the numerous ongoing developments in this area. Dexia intends to be at the cutting edge of international corporate governance, thereby guaranteeing investors top-quality supervision of its activities and complete transparency in reporting. Specifically, in 2003, Dexia plans to adapt its policies to the new Belgian “Corporate Governance” Act dated August 2, 2002, certain provisions of which already apply in 2003 (notably relating to “management board”).

The criteria of independence for Dexia’s directors have also been amended to take account of latest developments in this area both in Belgium and France.

# board of directors

As of January 1, 2003, the Board of Directors was composed of twenty members, of whom twelve, more than a half, are independent. The Board of Directors reflects the European presence of the Group with six nationalities represented. There is also the same number of French and Belgian directors, consistent with Dexia's Franco-Belgian statutory identity, both nationalities accounting for at least one third of the Board.

## Composition<sup>(1)(2)</sup> of the Board of Directors

	Beginning and end of mandate	Primary function	Other functions	Biography
<b>François Narmon</b>	2002-2006	<b>Chairman of the Board of Directors, Dexia</b>	Chairman of the Board of Directors: - Dexia BILL - DVV Insurance Chairman: - Belgian Olympic and Interfederal Committee Vice-chairman: - Société Monégasque de Banque Privée Member: - International Olympic Committee	Ingénieur commercial (degree similar to MBA). Joined Crédit Communal de Belgique in 1957. Chairman of the Management Board of Crédit Communal de Belgique (then of Dexia) from 1979 to 1999. Co-chairman of the Dexia Group from 1996 to 1999. Chairman of the Board of Directors of Dexia since 1999.
<b>Pierre Richard</b>	2002-2006	<b>Group Chief Executive Officer and Chairman of the Management Board, Dexia</b>	Director: - Crédit du Nord - Le Monde - Air France - European Investment Bank - Generali France Holding - Financial Security Assurance (USA)	Graduate of Ecole Polytechnique and Ecole nationale des Ponts et Chaussées. General Director for Local Governments, French Ministry of the Interior, from 1978 to 1982. Deputy Managing Director of the Caisse des dépôts et consignations in 1983. Chairman of Crédit Local de France from 1987 to 1996. Co-chairman of the Dexia Group from 1996 to 1999. Since 1999, Chairman of the Management Board and Chief Executive Officer of Dexia.
<b>Eric André</b>	2002-2006	<b>Municipal counselor, Uccle</b>	President: - Record SCRL - DB Associates SA - Association de la Ville et des Communes de la région de Bruxelles-Capitale Vice-president: - Association des Villes et des Communes de Belgique Director: - Intercommunale Bruxelloise d'Assainissement des Eaux	Master in Business Administration (Cornell University, USA). Before becoming active in the Brussels-Capital Region politics, he was among others expert at Bureau Fédéral du Plan. Lecturer at Ecole des Hautes Etudes Commerciales in Liège.
<b>Gilles Benoist</b>	1999-2006	<b>Chairman of the Executive Board, CNP Assurances</b>	Member of the Executive Board: - Groupe Caisse des dépôts Member of the Supervisory Board: - CDC IXIS	Law degree. Graduate of Institut d'Etudes Politiques and Ecole Nationale d'Administration. - Secretary-General of Crédit Local de France as of 1987. Member of the Executive Board of Caisse des dépôts et consignations from 1993 to 1998.

(1) As of January 1, 2003.

(2) Article 2 of the law of August 6, 1931 (Belgian Official Gazette August 14, 1931) forbids ministers, former ministers and State ministers, as well as members and former members of Legislative Assemblies to mention their status as such in acts and publications of profit-making companies.

	Beginning and end of mandate	Primary function	Other functions	Biography
<b>Philippe Bourguignon</b>	1999-2006	Company Director	Director: - eBay - Maison de la France Member: - Mouvement des Entreprises de France Former Chief Executive Officer: - Euro Disney Former Chairman of the Executive Board: - Club Méditerranée	Trained as an economist. Former Chief Executive Officer of Euro Disney and Executive Vice President of The Walt Disney Company (Europe). Also former Chairman of the Executive Board of Club Méditerranée.
<b>Rik Branson</b>	2002-2006	Chairman of the Executive Committee, Arcofin	Chairman of the Executive Committee: - Arcopar - Arcoplus - Auxipar Censor: - National Bank of Belgium	Graduate degree in economics. Several functions at the Regional Investment Company of Flanders from 1980 to 1989. Joined the Arco Group in 1989, Chairman of the Executive Committee as of 1992.
<b>Thierry Breton</b>	2000-2007	Chairman and Chief Executive Officer, France Télécom	Chairman of the Board of Directors: - Thomson SA - Orange Director: - Schneider Electric - Thomson Multimedia Member of the Supervisory Board: - AXA	Engineer. Chief Executive Officer of the CGI Group from 1990 to 1993. Executive Chairman and Vice-chairman of the Board of Directors of the Bull Group from 1993 to 1997. President of the technology university of Troyes. Prior to France Télécom, Chairman and Chief Executive Officer of Thomson SA and Thomson Multimedia.
<b>Guy Burton</b>	2001-2003	Chief Executive Officer, Société Mutuelle des Administrations Publiques	Chairman of the Board of Directors: - Union des associations d'assurance mutuelle - Belfinace	Law degree. Joined Société Mutuelle des Administrations Publiques in 1974; Secretary-General in 1991; Chief Executive Officer in 1995.
<b>Karel De Gucht</b>	2002-2006	Lecturer in European law at <i>Vrije Universiteit Brussel</i> Municipal councillor, Berlare	Director: - Gemeentelijk Havenbedrijf Antwerpen - Merit Capital Group	Law degree. Lawyer from 1976 to 2000. Active in Belgian national politics.
<b>Didier Donfut</b>	1999-2006	Burgomaster, Frameries	President: - Communauté urbaine de Mons Vice-chairman of the Board of Directors: - Société Publique d'Electricité	Ingénieur commercial (degree similar to MBA). Active in Belgian national politics and in the Belgian energy sector. Burgomaster of Frameries since 1992.
<b>Paul-Louis Halley</b>	2002-2003	Director, Chairman of the Strategy Committee, Carrefour	Chairman of the Board of Directors: - Eurocommerce Director: - BNP Paribas Member of the Advisory Board: - Banque de France	Graduate of City of London College. Founder of Promodès. Chairman and Chief Executive Officer of Promodès from 1972 to 1999.
<b>Denis Kessler</b>	1999-2006	Chairman and Chief Executive Officer, SCOR Group	President: - SCOR Life US Reinsurance (USA) - SCOR Reinsurance Company Corporate (USA) Director: - BNP Paribas - Bolloré Investissement SA - Cogedim - AMVESCAP Plc Member of the Supervisory Board: - Cetelem	Ecole des Hautes Etudes Commerciales. Degrees in political science, economics and philosophy. Member of Conseil économique et social, Conseil National des Assurances and Commission économique de la Nation.
<b>André Levy-Lang</b>	2000-2006	Associate Professor, Université Paris-Dauphine	Director: - Schlumberger - AGF - Institut Europlace de Finance - Fondation pour la recherche médicale	Graduate of Ecole Polytechnique. Ph.D. in Business Administration from Stanford University. Former Chairman of the Supervisory Board of Paribas, Professor at Université Paris-Dauphine and company director.

	Beginning and end of mandate	Primary function	Other functions	Biography
<b>Roberto Mazzotta</b>	2002-2006	Chairman of the Board of Directors, Banca Popolare di Milano	Vice-chairman of the Board of Directors: - Associazione Bancaria Italiana Director: - Associazione Nazionale Banche Popolari	Trained as an economist. Former professor at the University of Genoa. Active in Italian politics for twenty years. Entered banking in 1987.
<b>Theo Rombouts</b>	2002-2006	Chairman of the Board of Directors, Arco Group	President: - Conseil Fédéral pour le Développement Durable	LL.D. and graduate degree in economics. Prior to Chairman of ACW, Chief Executive Officer of the Antwerp Regional Development Company. Trustee of the <i>Fondation Roi Baudouin</i> .
<b>Gaston Schwertzer</b>	1999-2006	Doctor of law, company director	Chairman of the Board of Directors: - Luxempart - Sichel - Presta-Gaz Director delegate: - Audiolux Director: - SES Global - Société électrique de l'Our - Foyer Finance	Career in the gas industry. Director of Dexia BIL since 1984. Honorary Consul of the Republic of Nicaragua.
<b>Anne-Claire Taittinger</b>	2001-2007	Chairwoman of the Supervisory Board, Groupe Taittinger Chief Executive Officer, Société du Louvre - Groupe du Louvre	Chairwoman of the Board of Directors: - Baccarat Chairwoman: - Société Immobilière de la Tour La Fayette Director: - Damon Delente - Baccarat Real Estate - Baccarat Pacific Limited Permanent representative of Groupe Taittinger to Taittinger CCVC	Graduate of Institut d'Etudes Politiques de Paris. Prior to becoming Chairwoman of the Supervisory Board of Groupe Taittinger, she was successively Secretary-General, Deputy Chief Executive Officer, Chief Executive Officer, then Chairwoman of the Supervisory Board of Société du Louvre of which she is now Chief Executive Officer as a result of the separation of the functions of chairwoman and Chief Executive Officer.
<b>Marc Tinant</b>	2002-2006	Member of the Management Board, Arcofin	Director: - Arcoplus - Auxipar - Arcopar Chief Executive Officer and Vice-chairman of the Board of Directors: - EPC	Graduate and Master's degree in economics. Before joining the Arco Group in 1991, he was General Advisor to the Management Board of the Walloon Regional Investment Company.
<b>Sir Brian Unwin</b>	2000-2006	Honorary Chairman, European Investment Bank	Chairman of the Board of Directors: - European Center for Nature Conservation Director: - English National Opera Company Companion: - British Institute of Management Member of the Executive Council: - Britain in Europe	Studied at Oxford and Yale. Former diplomat, also worked for the Chancellor of the Exchequer and on the Prime Minister's staff in the United Kingdom. Chairman of the European Investment Bank in 1993; Honorary Chairman in 2000.
<b>Pieter Paul Van Besouw</b>	1999-2006	Chairman, Bank Nederlandse Gemeenten	Director: - Nederlandse Vereniging van Banken Commissioner: - NV Trustinstelling Hoevelaken Secretary-General: - Centre international pour le crédit communal	Economist and IT specialist. After NCR Nederland and Elsevier, joined Bank Nederlandse Gemeenten in 1985. Chairman of the Management Board of Bank Nederlandse Gemeenten in 1992.
<b>Observer: Frank Beke</b>	2002-2006	Burgomaster, Ghent		Graduate degree in philology and communication sciences. Prior to being elected Burgomaster of Ghent in 1995, municipal councillor and alderman.

Changes in the composition of the Board of Directors during the 2002 financial year are given in detail in the 2002 Accounts and Reports document, page 17.

## Independent directors

There are twelve independent directors represented on the Board of Directors, as set out below, accounting for more than one half of the Board:

- ▶ Ms Anne-Claire Taittinger
- ▶ Mr Gilles Benoist
- ▶ Mr Thierry Breton
- ▶ Mr Philippe Bourguignon
- ▶ Mr Guy Burton
- ▶ Mr Paul-Louis Halley
- ▶ Mr Denis Kessler
- ▶ Mr André Levy-Lang
- ▶ Mr Roberto Mazzotta
- ▶ Mr Gaston Schwertzer
- ▶ Sir Brian Unwin
- ▶ Mr Pieter Paul Van Besouw

The criterion of independence is based on recent developments in terms of corporate governance, notably the definition given in the so-called “Bouton” white paper submitted in 2002 in France, and by the Belgian “Corporate Governance” Act dated August 2, 2002.

## Non-executive members of the Board of Directors

Non-executive members of the Board of Directors exercise no management functions in the company or any of its subsidiaries. Except for Pierre Richard, who is both Chief Executive Officer and Chairman of the Management Board, the other members of the Board of Directors are all non-executive members.

## Separation of the functions of Chairman of the Board of Directors and Chief Executive Officer (CEO)

Dexia SA's Extraordinary General Meeting held on May 7, 2002 adopted a resolution amending the company's articles of association which reinforces the rule requiring that the functions of Chairman of the Board of Directors and Chief Executive Officer (CEO) cannot be exercised by the same person. They must necessarily be entrusted to

different individuals of different nationalities, even when the Chairman of the Board of Directors is unable to preside and is replaced by another member of the Board.

## Reduction in the terms of members of the Board

The Extraordinary General Meeting held on May 7, 2002 adopted a resolution reducing the terms of the members of the Board to a maximum of four years, and consequently to modify the company's article of association which hitherto provided for a maximum of six years. In this way, Dexia brought its practice into line with recent recommendations in this regard.

# Attributions

of the board of directors



The Board of Directors determines the strategic objectives and the general policy of both the holding company and the Group. It oversees and sets guidelines for management. The Board of Directors appoints the members of the Management Board, approves the measures required to achieve the strategic targets it defines, monitors implementation of the company's management and control programs, and reports to shareholders.

# Operation

## of the board of directors

### Statutory rules

The company's articles of association lay down the following rules which govern the operation of the Board of Directors.

- ▶ Any debate requires the presence or representation of at least half of the members of the Board.
- ▶ Decisions require the majority of the votes of all the members present or represented; in the event of a tie, the vote of the Chairman or the member who replaces him determines the vote.
- ▶ Decisions concerning fundamental problems require the presence or representation of at least two-thirds of the members of the Board, and a majority of two-thirds of all the members present or represented is needed to obtain approval:
  - any decision to employ authorized capital or to submit to the General Meeting a resolution to approve the issue of shares, bonds convertible or redeemable in shares, warrants or other financial instruments eventually conferring the right to shares, when the amount of the capital increases which would result from the issue of these shares or the conversion or redemption of these bonds or the exercise of these warrants or other financial instruments exceeds ten per cent of the amount of capital existing prior to these decisions;
  - any decision relating to the acquisition or sale of assets representing more than ten per cent of the company's equity;
  - any decision to submit to the General Meeting a resolution to

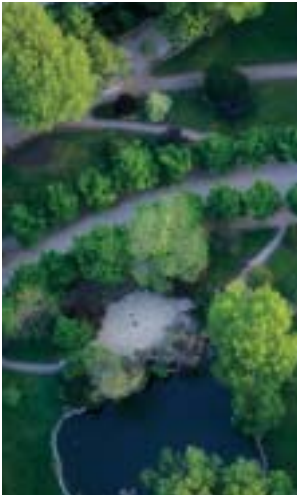
modify the company's articles of association;

- any decision relating to the appointment and dismissal of the Chairman of the Board of Directors and of Chief Executive Officer.

### Board of Directors internal code of rules

Since its creation in 1999, the Board of Directors has operated according to a code of internal rules (hereinafter the "Code"). Amended on several occasions, the Code sets rules and recommendations designed to guarantee the full exercise of power by the Board of Directors and to optimize the contribution of each member of the Board. It defines the rights and obligations of the members of the Board in the exercise of their mandate, operating and evaluation guidelines, relations with the Management Board and the organization and operation of the Board's specialist committees (see pages 18 to 21).

Directors' rights specified in the Code include the right of all directors to receive all the information required to satisfactorily carry out their duties, in particular information concerning strategy. On the subject of directors' duties, the Code imposes a series of rules designed to ensure directors' independence. They must act in the company's interests, deemed to be the interests of the shareholders as a whole, and those of the company's and the Group's customers and employees. Directors must generally ensure that they serve the Board completely independently of the interests of all parties external to the company. Directors also undertake to participate actively in the work of the Board and its



specialist committees to which they belong, for which the first condition is regular attendance at meetings. They are requested to attend at least three quarters of meetings.

In a further measure aimed at guaranteeing directors' independence, and in accordance with regulations concerning insider trading, the Code also imposes a series of strict rules designed (i) to ensure complete transparency of trading of Dexia shares, by requiring directors to make regular formal declarations to the Chief Compliance Officer and (ii) to prohibit certain types of transactions or all transactions during specified periods, unless approved by the Chief Compliance Officer.

Furthermore, the Code establishes rules concerning membership, operation and responsibilities of the specialist committees composed of members of the Board of Directors and acting under its authority. These rules are specified on pages 18 to 21 for each specialist committee.

## Activity and functioning of the Board of Directors in 2002

The Board met six times in 2002. The directors' attendance rate at Board meetings was 80.3%.

Besides the statutory appointments, the main issues examined by the Board of Directors were as follows:

- ▶ discussion and approval of the 2001 company and consolidated financial statements and a review of the Group's business results for the 2001 financial year;
- ▶ discussion and approval of the company and consolidated interim financial statements as of March 31, June 30, and September 30, 2002 and a review of the Group's business results for the same periods;
- ▶ discussion and approval of the Dexia Group's budget for 2002;
- ▶ discussion and approval of the internal audit program for 2002;
- ▶ discussion and approval of the Dexia Group's audit charter;
- ▶ periodic reports of the Audit Committee;
- ▶ monitoring of the Artesia BC acquisition including the merger and integration of Dexia Bank and Artesia BC, and monitoring of these two entities;
- ▶ monitoring of Dexia Bank Nederland;
- ▶ employee shareholding plan (for Company and Group employees) and Stock Option Plan for 2002;
- ▶ statement on the Strategy, Compensation and Appointments Committees;
- ▶ strategy and treatment of operations on Dexia shares;
- ▶ the legal structure of the Group.
- ▶ review of the Board's internal Code of Rules;

Each quarter, the Group's Chief Executive Officer provides a report to the members of the Board of Directors in advance of the relevant Board meeting on the activities of the different entities and their subsidiaries. This report gives a detailed picture of Dexia's position in each of its three key business line.

If a major event related to the Dexia Group occurs between two meetings of the Board of Directors, the Group's Chief Executive Officer addresses a letter of information to the directors.

## Assessment

The Board's internal rules specify that the Board should perform a self-assessment of its operations at regular intervals not exceeding two years.

In 2001, the Board of Directors carried out an internal assessment by means of a questionnaire which was sent to each member. This showed that, overall, the directors were generally satisfied with the quantity and quality of the information that they received. There was a request for the role of the Audit Committee to be reinforced so as to allow it to deal with cross-division topics in addition to auditing the accounts. Responses also showed the desire to set up a committee to prepare the replacement of certain Board members in 2002. In 2002, appropriate action was taken in response to these requests.

The Board will perform a new self-assessment during 2003.

# Compensation

## of the members of the Board of Directors

In 2002, Dexia SA's General Meeting resolved to grant maximum annual directors' remuneration of EUR 700,000. This Meeting also authorized the Board to determine the practical procedures and individual allocation of this remuneration.

Following the decision of the General Meeting, the Board of Directors resolved to launch discussions, led by André Levy-Lang, on current practices in European groups in terms of directors' compensation and to inform the Board of the conclusions thereof. At its meeting held on May 23, 2002, the Board of Directors resolved to grant each director fixed remuneration, being

an annual fee of EUR 20,000 (EUR 5,000 per quarter), and variable remuneration, being an attendance fee of EUR 2,000 per Board meeting or specialist committee meeting.

Directors who have been in office for less than one full year shall earn a proportion of this fixed fee equivalent to the number of quarters during which they have effectively been in office.

The Chairman of the Board of Directors does not receive any fees for his position as director. However, at its meeting dated March 13, 2000, the Compensation Committee determined a fixed annual fee for the Chairman. This

decision, which was approved by the Board of Directors on March 14, 2000, was taken in view of the pre-eminent role played by the current Chairman of the Board of Directors in promoting and representing the Group.

The Chief Executive Officer does not receive any fees for his position as director. However, he is remunerated for his functions as Chief Executive Officer and Chairman of the Management Board (see page 25).

## Compensation of the members of the Board of Directors of Dexia

for the performance of their duties in 2002

	Board of Directors (fix. rem.)	Board of Directors (var. rem.)	Strategy Committee	Audit Committee	Compensation Committee	Appointments Committee	Total
François Narmon	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pierre Richard	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Eric André	15,000.00	8,000.00	0.00	0.00	0.00	0.00	23,000.00
Gilles Benoist	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Philippe Bourguignon	20,000.00	6,000.00	0.00	0.00	4,000.00	0.00	30,000.00
Rik Branson	20,000.00	12,000.00	4,000.00	0.00	0.00	4,000.00	40,000.00
Thierry Breton	20,000.00	4,000.00	0.00	0.00	0.00	0.00	24,000.00
Guy Burton	20,000.00	10,000.00	0.00	0.00	0.00	0.00	30,000.00
François-Xavier de Donnea	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Karel De Gucht	20,000.00	10,000.00	4,000.00	0.00	0.00	4,000.00	38,000.00
Didier Donfut	20,000.00	12,000.00	0.00	0.00	0.00	0.00	32,000.00
Denis Kessler	20,000.00	10,000.00	2,000.00	0.00	0.00	4,000.00	36,000.00
Daniel Lebègue	10,000.00	0.00	0.00	0.00	0.00	0.00	10,000.00
André Levy-Lang	20,000.00	12,000.00	2,000.00	0.00	0.00	4,000.00	38,000.00
Roberto Mazzotta	20,000.00	8,000.00	0.00	0.00	0.00	0.00	28,000.00
Theo Rombouts	20,000.00	12,000.00	0.00	0.00	0.00	0.00	32,000.00
Gaston Schwertzer	20,000.00	10,000.00	0.00	0.00	4,000.00	0.00	34,000.00
Anne-Claire Taittinger	20,000.00	12,000.00	0.00	0.00	0.00	0.00	32,000.00
Marc Tinant	20,000.00	10,000.00	0.00	4,000.00	0.00	0.00	34,000.00
Sir Brian Unwin	20,000.00	10,000.00	0.00	0.00	0.00	0.00	30,000.00
Pieter Paul Van Besouw	20,000.00	12,000.00	0.00	4,000.00	0.00	0.00	36,000.00
Frank Beke (observer)	20,000.00	10,000.00	0.00	0.00	0.00	0.00	30,000.00

# Specialist committees

created by the board of directors

The Board of Directors has established four specialist committees composed of its own members (Strategy Committee, Audit Committee, Compensation Committee and Appointments Committee). These committees have an advisory role enabling the Board of Directors to take full advantage of individual members' expertise by allocating specific functions to each member.



## Strategy Committee

### Composition

The Strategy Committee is composed of six directors, including the Chairman and the Chief Executive Officer, as well as two independent directors. The attendance rate of the directors concerned was 77%.

Committee members:

- ▶ François Narmon, Chairman of the Board of Directors,
- ▶ Pierre Richard, Chief Executive Officer,
- ▶ André Levy-Lang (independent director),
- ▶ Denis Kessler (independent director),
- ▶ Karel De Gucht,
- ▶ Rik Branson.

### Attributions

The Strategy Committee meets at least once a year to assess the strategic position of the Dexia Group in view of developments in its markets and trading environment and its medium-term growth strategies. The Chief Executive Officer also has the power to convene a meeting of the Strategy Committee at any time to enable the members to study sensitive matters before they are put to the Board of Directors. Any single member may also suggest to the CEO that he convenes a meeting of the Strategy Committee.

### Operation and activities during 2002

In 2002, the Strategy Committee met twice, on June 20, and October 7. Topics discussed at these meetings included the following:

- ▶ Dexia Group's financial plan;
- ▶ growth in retail financial services;
- ▶ the situation at Dexia Bank Nederland.

## Audit Committee

### Composition

The Audit Committee is composed of three directors, of whom two are independent, as follows:

- ▶ Gilles Benoist (independent director),
- ▶ Pieter Paul Van Besouw (independent director),
- ▶ Marc Tinant.

The attendance rate of the directors concerned was 78% in 2002.

### Attributions

The role of the Audit Committee is to ensure (i) the accuracy and reliability of Dexia's company and consolidated financial statements, including the quality of procedures adopted in their preparation, and (ii) that risks of any kind that Dexia undertakes in its operations, including on and off-balance sheet items, are properly monitored applying reliable procedures.

The Audit Committee has free access to the statutory auditors, the Group auditor and the Chief Compliance Officer.

In the context of its responsibilities, the Audit Committee:

- ▶ analyzes financial information and accounting procedures, and, in particular:
  - reviews the conclusions, comments and recommendations of the statutory auditors; it may suggest further work if deemed appropriate;
  - reviews the half-year and annual financial statements prior to approval by the Board of Directors and publication;
  - gives an opinion on the appointment of statutory auditors;

- ▶ ensures that proper control and risk management procedures are in place and applied in respect of:
  - credit risks;
  - market risks;
  - operational risks.

For this purpose, the Audit Committee:

- ▶ may request to be notified of conclusions of internal audit assignments;
- ▶ may also recommend additional audit assignments;
- ▶ ensures that resources available to internal audit and compliance are sufficient;
- ▶ ensures that rules issued by market authorities are properly acted upon;
- ▶ is consulted regarding rules in force affecting ethics within the Group.

The Audit Committee meets at least three times a year. Two of these meetings take place prior to Board of Directors' meetings convened to approve the annual and half-year financial statements. It may be convened by one of its members, or by the Chairman of the Board of Directors. It reports the results of its work and comments to the Board of Directors.

### Operation and activities during 2002

In 2002, the Audit Committee met on January 25, March 7, and September 6, to review the following issues:

- ▶ Group financial statements and results as of December 31, 2001, and June 30, 2002;
- ▶ 2002 report on internal control within the Group;
- ▶ 2002 report on internal audit activities in Group entities;
- ▶ 2002 report on risk assessment and management;
- ▶ new Group Audit Charter;
- ▶ new Group Ethics Code;
- ▶ 2002 audit plan;
- ▶ half-year status of internal audit recommendations;
- ▶ results of audit work on procedures to prevent money laundering;
- ▶ results of audit work on the share leasing business in the Netherlands.





## Compensation Committee

### Composition

The Compensation Committee is composed of three non-executive Group directors (of whom two are independent):

- ▶ François Narmon,
- ▶ Philippe Bourguignon (independent director),
- ▶ Gaston Schwertzer (independent director).

The attendance rate of directors at meetings of the Compensation Committee was 100%.

### Attributions

Responsibilities include:

- ▶ determination of compensation criteria for the Chairman of the Board of Directors, the Chief Executive Officer and, following the latter's recommendation, that of the members of the Management Board;
- ▶ decision as to how stock options are to be granted in application of the general principles defined by the Board of Directors.

The Committee also debates all compensation policies and incentives paid to members of the management boards of the Group's main subsidiaries and employee shareholding plans.

The Committee sets policies for the level of remuneration paid to individual members of the Board of Directors and their breakdown.

It reviews the general principles and amounts of all benefits in kind granted to executive managers and directors of the Group. It sets general principles in that framework as well as quanta (contingency, retirement...).

It reviews the compensation policy of Group executives ensuring compliance

with the general principles laid down by the Management bodies.

### Operation and activities during 2002

The Committee meets at least once a year, at the latest on the date of the Board of Directors meeting convened to approve the annual financial statements. It may also be convened more frequently on request from the Chairman of the Board of Directors or from two of its members.

It reports to the next meeting of the Board of Directors concerning the results of its work and its meetings. On request, it provides copies of the minutes of its meetings to the Board of Directors.

In 2002, the Compensation Committee held two meetings, on March 11, and November 18. The following subjects were discussed:

- ▶ analysis comparing current procedures in European groups in terms of variable remuneration and bonuses;
- ▶ annual survey on remuneration levels of members of the Management Board (European benchmark, excluding UK);
- ▶ pension procedures for executives (comparative analysis and establishing of the general principles including those for the Chairman of the Management Board);
- ▶ establishing general terms and conditions for the worldwide employee shareholding plan and the 2002 Stock Option Plan;
- ▶ establishing technical and financial terms and conditions for converting ABC options into Dexia options (following integration of Artesia BC Group into Dexia Group);
- ▶ establishing terms for the departure of the Vice-chairman of the Management Board.

## Appointments committee

### Composition

The Appointments Committee was formed in 2002 following the self-assessment exercise of the Board in 2001. It is composed of six directors including the Chairman of the Board of Directors, the CEO and two independent directors. Furthermore, it is chaired by an independent director. The attendance rate of the directors concerned was 100%.

Members of this committee were as follows:

- ▶ André Levy-Lang (Chairman of the Committee, independent director),
- ▶ François Narmon (Chairman of the Board of Directors),
- ▶ Pierre Richard (CEO),
- ▶ Denis Kessler (independent director),
- ▶ Karel De Gucht,
- ▶ Rik Branson.



### Attributions

The Appointments Committee prepares decisions of the Board of Directors relating to:

- ▶ appointments and renewals of terms of office proposed by the Board to the Ordinary General Meeting, and co-optation of directors proposed to the Board of Directors;
- ▶ appointment of members of specialist committees of the Board of Directors;
- ▶ appointment or renewal of the term of office of the CEO;
- ▶ appointment or renewal of the term of office of the Chairman of the Board of Directors;
- ▶ recommendations of the CEO concerning the composition of the Management Board;
- ▶ changes to the internal Code of the Board.

For these purposes, the Committee is responsible for monitoring procedures adopted by major listed companies in terms of membership and operation of boards of directors. The Committee nominates one of its members to ensure proper completion of the Board's self assessment.

The Committee may receive suggestions for potential directors of Dexia. All potential appointments must be reviewed by the Committee before an approach is made to the person in question and before his/her name is submitted to the Board of Directors.

The Committee submits its recommendations to the Board, which alone is responsible for the decision.



### Operation and activities during 2002

The Appointments Committee meets at least once a year prior to the Board of Directors meeting convened to prepare the relevant draft resolutions to be submitted to the General Meeting, and during the year, on a justified request from one of its members.

The Appointments Committee met twice in 2002 on March 5 and June 20. Topics discussed included the following:

- ▶ reduction in directors' term of office from 6 to 4 years;
- ▶ proposed appointment of new directors (Eric André and Paul-Louis Halley).

# management board

## Composition of the management board

The Management Board is composed of a maximum of eight members who are appointed and removed from office by the Board of Directors acting on the recommendation of the CEO. There is an age limit of 65. As of January 1, 2003, the Management Board is composed of:

<b>CHAIRMAN</b>	
<b>Pierre Richard</b>	Chief Executive Officer (CEO) Chairman of the Supervisory Board of Dexia Crédit Local Vice-Chairman of the Board of Directors of Dexia Bank Belgium Vice-Chairman of the Board of Directors of Dexia Banque Internationale à Luxembourg. Director of Financial Security Assurance (FSA)
<b>MEMBERS</b>	
<b>Jacques Guerber</b>	Head of Public/Project Finance and Credit Enhancement Chairman of the Management Board of Dexia Crédit Local Director of Financial Security Assurance (FSA)
<b>Axel Miller</b>	Head of Retail Financial Services Chairman of the Management Board of Dexia Bank Belgium
<b>Marc Hoffmann</b>	Head of Investment Management Services Chairman of the Management Board of Dexia Banque Internationale à Luxembourg
<b>Dirk Bruneel</b>	Head of Capital Markets and Treasury Activities Director of Financial Security Assurance (FSA)
<b>Rembert von Lowis</b>	Chief Financial Officer Vice-chairman of the Supervisory Board of Dexia Crédit Local Director of Financial Security Assurance (FSA)



*From left to right: Rembert von Lowis, Dirk Bruneel, Axel Miller, Pierre Richard, Marc Hoffmann, Jacques Guerber.*

# Attributions

of the management board

In accordance with the strategic objectives and general policy guidelines defined by the Board of Directors, the Management Board runs the holding company and the Group and oversees the different business lines.

To this end, each member of the Management Board is invested with operating responsibilities at the level of the company or Group entities (by business, activity or function). The Management Board is chaired by the Chief Executive Officer, whom the

Board of Directors entrusts with the daily management of the company and implementation of decisions taken by the Board of Directors.

The central functions – e.g. audit, secretary general, ethics, accounting and consolidation, human resources, risk management, communications, legal and tax departments and strategic planning (see pages 26-27) – support the Management Board and its Chairman in their role of integration and management of the Group.

# Operation

## of the management board

Since its creation in 1999, the Management Board has operated according to a Code of internal rules. Amended on several occasions, these rules and recommendations define its role and mode of operation. The collegial decision-making process, the Board's powers and certain regulations governing the status of members are also subject to specific provisions in the protocol on the prudential structure of the Dexia Group signed with the Belgian Banking and Finance Commission. In addition to rules governing the composition of the Management Board, the Code of internal rules also includes the following rules.

### Powers of the Management Board

The Code firstly lays down the powers of the Management Board in conjunction with its dealings with the Board of Directors. The Management Board may make a prior recommendation regarding any proposals debated by the Board of Directors or the Strategy Committee in terms of strategy or general policy of the Group. It may make recommendations to the Board of Directors via the CEO. If the CEO takes part in discussions by the Board of Directors or its specialist committees, for which the Management Board has an acknowledged right of opinion or initiative, the CEO presents and defends the points of view previously debated by the Management Board with the Board of Directors. With respect to the role of each member of the Management Board, the Code specifies that they have personal operational responsibilities by business line or function. In accordance with the strategy defined by the Management Board, each member is responsible for setting policies for the

business line or function that he/she manages or coordinates, which is carried out together with the manager in each subsidiary of the corresponding business line or function. As part of their operational responsibilities, members of the Management Board ensure that decisions taken by the Management Board are implemented by companies of the Group.

### Decision-making

The Management Board operates in a collegial manner and its decisions result from a consensus of its members. It assumes joint responsibility for such decisions. If applicable, the Chairman of the Management Board may, on his own initiative or on request from two other members, submit the issue under debate to a vote. Resolutions are adopted by a majority vote of all members present or represented. In the event of a split vote, the Chairman's vote takes precedence.

### Meetings

Management Board meetings are convened by its Chairman, in principle once a week on Wednesday, or otherwise on a date fixed at the preceding meeting. If necessary, meetings can be convened at any time by the Chairman or if two or more members so desire. Each member may be represented by another member of the Board, but one member may not represent more than one person. The secretary at each meeting is the General Secretary of the Group or any other person nominated by the Chairman. A statement of resolutions is prepared and signed by the Chairman. The Code also specifies the basic principles for compensation of the members of the Management Board.

### 2003 changes

Certain amendments to the articles of association, intended to ensure compliance with the Belgian Corporate Governance Act dated August 2, 2002, will be put to shareholders at the Ordinary General Meeting on May 14, 2003. This Act creates a new corporate body for sociétés anonymes (Belgian limited liability companies) known as "comité de direction" (management committee). As a consequence of this new legislation, the Management Board of Dexia is required to convert into a management committee. In terms of organization, membership, operation and powers, however, the law will not lead to major changes to be made. The main change is to infer a legal status on this committee which becomes a corporate body as such. Members of the committee have specific responsibilities and must avoid conflicts of interest. The articles of association, the internal Code of rules and the Protocol for Dexia's prudential structure will be modified accordingly during 2003.

# Compensation

## of members of the management board

### Compensation principles

Compensation for the members of the Management Board is determined by the Board of Directors on the recommendation of the Compensation Committee.

In 2002 and 2001, the Compensation Committee conducted a study on the compensation of the members of the Management Board, with the help of a specialized consultant. The conclusions of this study were debated by the Compensation Committee which forwarded its proposals to the Board of Directors which adopted them in March 2002. The Compensation Committee also engaged an external consultant to perform a review of procedures for calculating the discretionary portion of compensation.

The fixed portion of compensation is determined on the basis of the nature and importance of the responsibilities exercised by each member with a market benchmark for comparable positions.

The discretionary part, capped at the same level as fixed compensation for executive management and twice that for the CEO, is linked to the Group's performance, which is measured by reference to earnings per share in absolute terms and the change in earnings per share between 2001 and 2002. Members' individual contributions to the success of their respective activities and individual achieving of objectives set are also taken

into account, increasing or decreasing the discretionary portions accordingly.

The Chief Executive Officer received net compensation after taxes and charges of EUR 525,000. This sum corresponded to annual gross income of EUR 1,125,000. His gross fixed compensation totaled EUR 750,000 and his discretionary compensation was EUR 375,000. He also received EUR 200,000 earned in 2001 but paid in 2002.

The seven members of the Management Board (Luc Onclin having retired on December 31, 2002) received a total of EUR 5,219,000 in gross compensation in 2002.

The members of the Management Board were granted 480,000 Dexia stock options in the framework of the 2002 stock option plan, of which 150,000 were granted to the CEO.

### General compensation and management principles for executive management

Compensation is reviewed once a year in the first quarter for company managers in the Group's different subsidiaries and sub-subsidiaries in line with the general policy guidelines issued by the respective compensation committees in compliance with the recommendations of the Group's Compensation Committee.

Fixed salaries are determined on the basis of local market benchmarks and individual levels of responsibility.

Discretionary compensation takes into account both Group performance criteria, i.e. earnings per share and changes thereto, and performance criteria specific to the manager's activity and his/her business line.

It also reflects individual performance, which is assessed on the basis of an annual evaluation which each manager undergoes. This includes an assessment of the manager's achievements in relation to his/her personal objectives, particularly financial and commercial, in the context of the annual budget process.

An analysis is performed every year comparing practices observed in the various activities of the Group (financial markets, private banking, asset management, retail banking) with those in comparable Groups.

Since 2002, the Management Board has decided to centralize career management of the Group's main executives at its level. This concerns both recruitment and promotion policies and internal transfers of managers within the Group.

# Dexia Group

staff

On an operational level, the Management Board relies on some fifteen teams totaling more than one hundred senior staff in Brussels and Paris. These teams are charged with performing the vital functions of the Group, including audit and ethics, accounting consolidation, risk management and strategic planning. They are also responsible for defining and coordinating Dexia's policy in terms of communication, human resources, IT, etc.

The Chairman's office, reporting to **Mireille Eastwood**, coordinates and monitors the activities of the CEO and the Management Board in collaboration with the general secretariat. It also ensures optimum coordination between Group departments and head office. **Mireille Eastwood** also heads Dexia's logistics department.

**Olivier Van Herstraeten**, who reports directly to the CEO, is in charge of the general secretariat and the legal and tax department. The general secretariat is principally responsible for ensuring that Dexia SA's corporate bodies and Management Board function properly in coordination with the Chairman's office. The legal and tax department deal with issues concerning the Group as a whole.

**Alain Delouis** is in charge of the Group's Audit department (see internal audit next page).

The Chief Compliance Officer (Group ethics officer) is **Jean-Noël Lequeue** who reports directly to the Chief Executive Officer (see ethics and compliance p. 29).

The strategic planning and management information team, managed by **Yves Guérit**, are responsible for producing information to prompt long-term strategic reflection. It is responsible for preparing Dexia's budget, and for monitoring the Group's various business lines.

The risk management team, headed by **Eric Hermann**, is in charge of defining and organizing risk management, control and monitoring of Group funds.

The financial communication and investor relations team, reporting to **Robert Boublil**, communicates with investors, analysts and credit rating agencies relating to all relevant Group financial and strategic information.

Headed by **Françoise Lefebvre**, the external communication team is charged with promoting Dexia's image, especially with journalists, individual shareholders and opinion leaders.



**Xavier de Walque** heads a team that manages and evaluates mergers, acquisitions and disposals and studies the financial impact of internal reorganizations of Dexia's subsidiaries and equity investments.

**Thierry Nederlandt** heads the Group accounting and consolidation department and the project to implement the new IFRS accounting policies.

The Basel II project is managed by **André Delasnerie**, assisted by risk management staff. Given the strategic importance of this project and its

impact on information systems, the IT team, managed by **Gabor Szalai**, which coordinates IT systems and equipment throughout the Group, also reports to him.

**Jacques Bellut** coordinates Dexia's activities on the capital markets.

The mission of the human resources and internal communication team, under **Bernard-Franck Guidoni-Tarissi**'s management, is to develop a Group culture and working community, via both compensation, mobility and career management policies and internal information.



## Internal audit



Dexia has an internal audit department complying with the highest audit standards. Its work involves promoting internal control in the Group and constantly ensuring that the current internal control system is functioning properly. Internal audit's organization and resources were strengthened in 2002, particularly at Dexia holding company level.

This discipline is consistent with one of the Group's primary values which is to preserve its reputation, the effectiveness and integrity of its organization.

In this respect, internal audit is responsible for establishing whether risks incurred by Dexia in its activities throughout all Group entities have been identified, analyzed and whether adequate measures have been taken to guard against such risks. Internal audit must also check for continuous improvement in Group operations.

## Internal audit

### Organization

The internal audit organization adopted at the end of 2001 is based on three underlying principles:

- ▶ the strategy, the operational policies and procedures of internal audit are set by the Management Board in a framework approved by Dexia's Audit Committee;
- ▶ the internal audit work is performed by a network of internal audit departments which carry out their work under the supervision of the Group General Auditor, who reports directly to the CEO, Chairman of the Management Board; the General Auditor has direct access to the Audit Committee to whom he regularly reports regarding internal audit activities within the Group;
- ▶ the internal audit department of the subsidiaries is responsible for performing its assignments on behalf of the entity's chairman of the management board, while functionally reporting to the Group General Auditor.

The year 2002 featured a merger between the auditing departments of Dexia Bank, Artesia BC and BACOB, as well as a continued increase in internal audit department resources at Dexia SA holding company level.

### 2002 Assignments

Risks addressed in 2002 by internal audit departments, both at Dexia holding company level and operating entity, subsidiary and branch levels, particularly focused on:

- ▶ financial market activities, especially operational risks;
- ▶ measures taken against money laundering and general compliance with regulations for financial ethics;
- ▶ the integration process of Dexia Bank and Artesia BC;
- ▶ IT security.

Furthermore, specific audit programs are written for each of the group's three commercial business lines, focusing on credit and operational risks.

The various internal audit assignments performed in 2002 resulted in an action plan for the correction of weaknesses found in the internal control system. Each action plan has been approved by the management board of the entity concerned and is regularly monitored so as to ensure that the recommendations made are effectively implemented.

### Methods

The global approach to risk, the unique audit methodology applied and the reporting and monitoring procedures at Group level play a major part in providing Dexia with an effective internal control system.

Lastly, the new internal audit charter has been approved by the Board of Directors and the Management Boards of operational entities, and issued to the internal audit departments of the subsidiaries and branches. It will be sent to all Group staff in 2003 in order to make them aware of the role and work of internal audit in Dexia.

# Ethics and compliance

Dexia complies with all legal, regulatory and prudential requirements in the highly regulated sectors of finance and insurance. Compliance is one of the key conditions for maintaining customers' trust. In addition to purely regulatory requirements, the Group has implemented an approach focusing strongly on ethics and regulatory compliance based on best practices in this area. With respect to anti money laundering measures, the Group complies with local rules applying to each Dexia entity. Furthermore, Dexia goes beyond external regulations and voluntarily follows a stricter procedure, based on standardized criteria relating to the acceptability and respectability of its customers. In this respect, no Group subsidiary is located in a country listed on the official list of countries not cooperating with the FATF (Financial Action Task Force) in terms of money laundering.

Indeed, Dexia's reputation is based on maintaining an upright and professional attitude in its banking and insurance activities. This approach and the organization within the Group are covered under the Compliance Charter approved in 2002 by the Management Board and Dexia's Board of Directors.



## Principles

For matters relating to ethics, all Group staff are bound by a Code of Conduct that was issued and approved by the Management Board and Audit Committee of the Dexia Board of Directors in 2001. This code is currently being reviewed by the operating entities and it will be issued to all staff during 2003.

The standard Group policy applies to the following areas:

- ▶ ethics – professional ethics, customer information, confidentiality of private details, own trading transactions;
- ▶ money laundering – prevention, detection, guidance;
- ▶ proper market behavior – insider trading, price manipulation;
- ▶ corporate governance – listed company, Group, conflict of interests;
- ▶ additional areas required by management boards in the Group.

## Organization

Compliance consists of ensuring the effective application of rules defined by the Group. For this purpose, Dexia has set up an independent department to oversee its policy throughout all Group entities including at the holding company level, notably with regard to members of the Board of Directors and the Management Board. Appointed at the end of 2002, the Chief Compliance Officer of the Group, reporting directly to the CEO, Chairman of the Management Board, heads the network of active compliance officers in each operational entity and Group subsidiary.

Together with his opposite numbers, the Chief Compliance Officer is responsible for keeping the internal ethics and regulatory rules up-to-date based on external developments in regulations. The different compliance officers also inform and coach management and staff in regulations while ensuring compliance with the policy in each entity.

This restructuring of the compliance department will help to strengthen the policy and will contribute to the development of a culture of ethics, which has been followed by the Dexia Group since it was founded.