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European Commission approval of the revised Dexia orderly resolution plan

Dexia Group N.V./S.A.

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Press release

DEXIA

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On 28 December 2012, the European Commission communicated its approval of the revised Dexia orderly resolution plan submitted by the Belgian, French and Luxembourg States on 14 December 2012[1].

Despite the very significant restructuring progress made by the Group since the end of 2008 both in reducing its balance sheet and refocusing its activities and in reducing its risk profile, Dexia encountered serious refinancing difficulties in the autumn of 2011, in the wake of the accelerating sovereign debt crisis, leading it to announce the implementation of an orderly resolution of its activities with the support of the three States.

European Commission validation of the revised Dexia orderly resolution plan marks the beginning of a decisive stage for the Group. It will permit implementation of the two pillars of the plan which are the EUR 5.5 billion capital increase for Dexia SA on the one hand and the establishment of the definitive tripartite funding guarantee on the other.

Dexia will thus be able to financially carry its residual long-term assets, the principal foundation of the revised orderly resolution plan, in order to avoid materialisation of the systemic risk which would be represented at a euro zone level and primarily for the guarantor States of an immediate dissolution of the Group.

Main elements of the orderly resolution plan

Asset disposals

The revised Dexia Group orderly resolution plan provides for the sale of those commercial franchises considered saleable within a short deadline and management in run-off for the other franchises, if necessary accompanied by residual credit activity, and carrying other assets to maturity.

- On the date of validation of the revised Group orderly resolution plan, Dexia had already sold several of its main operating entities, and this had made a very considerable contribution to reducing its balance sheet and its weighted assets.

  The sales of Dexia Bank Belgium, now Belfius Bank and Insurance (20 October 2011), RBC-Dexia Investor Services (27 July 2012), Banque Internationale à Luxembourg (5 October 2012) and Denizbank (28 September 2012) have now been finalised. Dexia Habitat was also sold on 29 June 2012 to the Société Nationale Immobilière, a subsidiary of the Caisse des Dépôts and DKB Polska was sold on 7 November 2012 to Getin Noble. An agreement for the sale of Dexia Asset Management to GCS Capital was also signed on 12 December 2012.

- The revised plan contains a timetable for the disposal of certain other Group entities, providing for the sale of Dexia's holdings in Popular Banca Privada and Sofaxis before 31 December 2013. Dexia will also sell Dexia Bail Régions, Dexia Bail, Dexia LLD and Dexia Flobail before 31 December 2013 or place them under management in run off. Finally, the Dexia holding in Dexia Israel should be sold within twelve months following a definitive decision on the various legal actions commenced against DIL and DCL as shareholders.

[1] *Cf. European Commission Press Release IP/12/1447 dated 28 December 2012*

- With the exception of Crediop and DCL, which will be subject to specific terms, management in run-off without new production is provided for the other residual Group entities, namely:
    - Dexia SA
    - DCL Paris
    - DCL Dublin
    - DCL America, combining DCL New York, DRECM, DCL Mexico and Dexia US Securities
    - CLF Bank
    - Dexia Sabadell
    - Dexia Kommunalbank Deutschland
    - Dexia Kommunalkredit Austria
    - Dexia Holding Inc. and its subsidiaries
    - Dexia Lettres de Gage Bank and Parfipar
- Crediop will have the benefit of a production envelope of EUR 200 million for a term of one year to run from the European Commission decision, intended for its existing clients, and with a view to protecting the Bank's franchise prior to any disposal. At the end of that period of one year, the States may ask the European Commission for a new production envelope.
- DCL may grant new credits within a limit of EUR 600 million over 2013-2014, with the exclusive aim of desensitising the sensitive structured credits retained in the portfolio, under certain terms approved by the European Commission. This envelope will enable the DCL risk profile to be reduced, as well as the volatility of the collateral associated with derivatives linked to those loans, and the operational risk on the management of these products.
- Dexia will proceed with an accelerated sale of its bond portfolio if market conditions improve and offer it sale opportunities, subject to those asset sales having no substantial impact on Group solvency. The revised orderly resolution plan does not contain any target figure for the sale of assets from the residual portfolio.

Sale of Dexia Municipal Agency aiming to establish a new pole for financing the French local public sector

The European Commission noted that there is an ongoing market failure in France, responsible for a lack of long-term funding for local authorities and public heath institutions. It ratified the principle of the mechanism which the French State wished to introduce in order to perpetuate the access of operators to long-term funding sources. This mechanism is considered as being similar to a development bank, the activity of which will be strictly limited to loans to local authorities and health institutions in France.

Dexia Municipal Agency (DMA), the Dexia Crédit Local (DCL) covered bond issuer dedicated to refinancing loans to the public sector, will be a central element of this new mechanism for which it will secure refinancing on the capital markets.

Within the framework of this new mechanism replacing the one announced in March 2012, by 31 January 2013 Dexia will sell the entirety of its holding in DMA, at a price of one euro[2], to a new credit institution (NEC) held by the French State (75%), the Caisse des Dépôts et Consignations (20%) and La Banque Postale, which will take an initial holding of 5%, which could rise to 33% depending on the increase of new assets financed by DMA. The State will play the role of reference shareholder of this new structure. Thus the future of DMA will be in an activity entirely dedicated to financing the French local public sector, within a mechanism sustainably held and controlled by the State.

[2] *Including the acquisition of the tools, means and personnel necessary for the activity of NEC*

On the date of completion of this sale, the shareholders of the new structure will provide NEC and DMA with the liquidity they require, enabling DMA to repay the funding granted by DCL.

At the end of the sale, no capital or financial link will remain between DCL and DMA. Operational links between the two entities will be untied within six months, with the exception of IT systems where links will be untied within a period of 24 to 30 months, considering the very strong interconnection between the two entities.

The DMA balance sheet, which represented EUR 94.3 billion as at 30 September 2012, of which EUR 72.1 billion were cover pool assets, will be fully transferred to the new structure, including the non-French assets. These represented 30.8% of the cover pool assets as at 30 September 2012 and will be subject to management in run-off.

As already announced, commercial relations with local authorities and public health institutions will be managed by a joint venture, held 65% by La Banque Postale and 35% by the Caisse des Dépôts et Consignations. Dexia will therefore no longer have any commercial presence in the local public sector finance market.

Implementation of a definitive liquidity guarantee

The Belgian, French and Luxembourg States have undertaken to grant a definitive joint and several funding guarantee in favour of Dexia Crédit Local. The ceiling of this guarantee will be EUR 85 billion in principal, including funding already covered by the provisional guarantee put in place in December 2011 (which outstanding amount was EUR 53.9 billion as at 27 December 2012).

This definitive guarantee is split 51.41% Belgium, 45.59% France and 3% Luxembourg.

The definitive guarantee will cover funding raised in the form of securities and financial instruments, deposits or borrowings until 31 December 2021, with a maximum maturity of ten years.

The cost of the guarantee has been set by the States, in agreement with the European Commission, at 5 basis points per annum, payable monthly to the guarantors on the basis of the amount issued. Dexia will also pay an implementation fee of 50 basis points on a secured base of EUR 85 billion, less the EUR 225 million implementation fee already paid when the 2011 provisional guarantee was put in place.

The provisional guarantee will remain in place until the definitive guarantee enters into force, which will be by the end of January 2013.

Recapitalisation undertaking by the Belgian and French States

Following the full impairment of the DCL holding in the books of Dexia SA posted on 7 November 2012, the Belgian and French States undertook to subscribe in full to a Dexia SA capital increase of EUR 5.5 billion, to be realised on 31 December 2012 through the issue of preference shares with voting rights.

This capital increase has been calibrated so as to enable the Group's orderly resolution to continue in accordance with the terms validated by the European Commission. It will be subscribed 53% by Belgium and 47% by France.

The main characteristics of these preference shares and the allocation of the proceeds of the capital increase were communicated by Dexia in its Group Interim Declaration for 9M 2012 and 3Q 2012[3], as well as in the convocation and the special reports drawn up for the Extraordinary Shareholders' Meeting convened for 21 December last. The operation will result in a very significant economic dilution of existing shareholdings, the Belgian and French States holding 94.42% of the capital of Dexia SA after the capital increase.

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[3] *Dexia Press Release dated 8 November 2012*

Behavioural undertakings

Furthermore, certain provisions of the restructuring plan validated by the European Commission on 26 February 2010[4] are amended or renewed:

- Absence of payment of discretionary coupons or early redemption on hybrid Tier 1 or Tier 2 instruments. Under certain conditions, Dexia may nonetheless engage in the repurchase of hybrid Tier 1 and Tier 2 securities;
- Absence of acquisition of other credit institutions, investment companies or insurance companies;
- Observance of the principles of remuneration established within the context of the G20 and national bodies regarding the remuneration of members of the management board and executive committee of Dexia SA and the Group's main operating entities;

Dexia tomorrow: profile of the Group in resolution

The resolution strategy implemented by the Group and validated by the European Commission leads Dexia to withdraw from all of the markets on which it is present, through the disposal of its commercial franchises or the management in run-off of its residual entities.

This will result in a significant reduction in the size of the Group balance sheet. Indeed, as at 30 September 2012, this had already fallen to EUR 384 billion, a reduction of 41% from 31 December 2011. The balance sheet will continue to reduce so as to reach approximately EUR 150 billion at the end of 2020, with a marked reduction between 2020 and 2025. These projections rely solely on the natural amortization of the portfolio and include the impact of the sale of Dexia Municipal Agency in 2013.

The portfolio's credit quality should remain relatively stable over time so, in the absence of any major credit shock, 86% of the assets should retain a rating above "investment grade" in 2020.

The Group balance sheet will be funded by debts guaranteed by the States principally placed on the market, by short and medium term market funded collateralised funding, and to a lesser extent by central bank funding.

After the capital increase subscribed by the States at the end of 2012, Dexia will find itself once more on a robust solvency base, both under a Basle 2 and a Basle 3 target, which will be strenghtend over time by the reduction of the Group's weighted assets.

The Group's net income will be impacted by exceptional elements in 2012 and 2013, particularly by the costs associated with activity disposals, as well as high funding costs.

The Group will move towards a more centralised management model and, once the various ongoing break-up processes have been completed, it will continue with the optimisation of its processes, adapting them to the Group's new dimension.

Karel de Boek indicated that, "*Dexia constitutes the most substantial run-off management for a banking operation in Europe. It is a major task for the teams, and I thank them for their ceaseless commitment and motivation in often difficult circumstances, and always with a heightened sense of the general interest. We will continue to implement the resolution with the same determination in the future*."

** Dexia is a limited company listed on a regulated market (NYSE-Euronext Brussels and NYSE-Euronext Paris). This press release contains information the dissemination of which is governed by the Royal Decree dated 14 November 2007 relating to the obligations of issuers of financial instruments listed on a regulated market.*

[4] *Cf. Dexia Press Release dated 5 February 2010 and the Decision of the European Commission C(2010)1180 dated 26 February 2010*

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