



**Dexia Funding Luxembourg S.A.**

*(incorporated with limited liability in Luxembourg)*

**€500,000,000**

**FIXED RATE/FLOATING RATE PERPETUAL NON-CUMULATIVE GUARANTEED  
SECURITIES**

**having the benefit of a subordinated guarantee of**

**Dexia SA**

*(incorporated with limited liability in Belgium)*

**Issue Price: 100 per cent.**

The €500,000,000 Fixed Rate/Floating Rate Perpetual Non-cumulative Guaranteed Securities (the **Securities**) are issued by Dexia Funding Luxembourg S.A. (the **Issuer**) and will be guaranteed on a subordinated basis by Dexia SA (the **Guarantor**).

Subject as set out below, the Securities bear interest on their Current Principal Amount at a fixed rate of 4.892 per cent. per annum from, and including, 2 November 2006 (the **Interest Commencement Date**) to (but excluding) the First Call Date payable annually in arrear on 2 November of each year and thereafter at a floating rate equal to 3-month EURIBOR plus a margin equal to 1.78 per cent. per annum payable quarterly in arrear on the Interest Payment Dates falling in February, May, August and November of each year.

If the Issuer gives a Waiver Notice stating that it will waive the payment of interest that would have been payable on an Interest Payment Date, no interest amount will be payable on such Interest Payment Date. The Issuer may give a Waiver Notice in its sole discretion in respect of any Optional Interest Payment Date but, notwithstanding the foregoing, if before or after giving effect to any interest amounts, a Trigger Event has occurred and is continuing, it is required to give a Waiver Notice.

The Securities are not redeemable at the option of the holders of the Securities (the **Securityholders**) at any time and are not redeemable at the option of the Issuer prior to the First Call Date, except in certain circumstances set out herein. Subject to compliance with applicable regulatory requirements, the Securities may be redeemed at the option of the Issuer, in whole (but not in part), on the First Call Date or on any subsequent Interest Payment Date.

The Luxembourg *Commission de Surveillance du Secteur Financier* (the **CSSF**) is the competent authority in Luxembourg for the purpose of Directive n°2003/71/EC (the **Prospectus Directive**) and the Luxembourg law on prospectuses for securities of 10 July 2005, for the purpose of approving this Prospectus to give information with regard to the Securities. Application has been made in order for the Securities to be admitted to trading and listing on the regulated market of the Luxembourg Stock Exchange, which is an EU regulated market within the meaning of Directive 2004/39/EC. References in this Prospectus to Securities being **listed** (and all related references) shall mean that such Securities have been admitted to trading on the regulated market of the Luxembourg Stock Exchange and to the official list of the Luxembourg Stock Exchange.

This Prospectus constitutes a prospectus for the purposes of Article 5.3 of Directive 2003/71/EC (the Prospectus Directive) and the Luxembourg law on prospectuses for securities of 10 July 2005 implementing the Prospectus Directive in Luxembourg.

The Securities will initially be represented by a temporary global security (the **Temporary Global Security**), without interest coupons, which will be deposited on or about 2 November 2006 (the **Closing Date**) with a common depository for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Temporary Global Security will be exchangeable for interests in a permanent global security (the **Permanent Global Security** and, together with the Temporary Global Security, the **Global Securities**), without interest coupons, on or after 12 December 2006 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Security will be exchangeable for definitive Securities only in certain limited circumstances – see “*Summary of provisions relating to the Securities while represented by the Global Securities*”.

The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the **Securities Act**) and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons unless the Securities are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

The Securities are expected to be assigned a rating of “A+” by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc., “A1” by Moody’s Investors Service Limited, and “AA” by Fitch Ratings Ltd. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the relevant rating agency. A revision, suspension, reduction or withdrawal of a rating may adversely affect the market price of the Securities.

**An investment in the Securities involves certain risks. Potential investors should read carefully the section entitled “Risk Factors” set out below before making a decision to invest in the Securities.**

**Joint Bookrunners**

**ABN AMRO**

**Citigroup**

**UBS Investment Bank**

*(Sole Structuring Adviser)*

**Joint Lead Manager**

**Dexia Capital Markets**

*Certain information contained in this Prospectus and/or documents incorporated herein by reference has been extracted from sources specified in the sections where such information appears. Each of the Issuer and the Guarantor confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the above sources, no facts have been omitted which would render the reproduced inaccurate or misleading.*

*References herein to the **Issuer** are to Dexia Funding Luxembourg S.A., references to the **Guarantor** are to Dexia SA and references to the **Dexia Group** are to the Guarantor, together with its consolidated subsidiaries.*

*This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “Documents Incorporated by Reference”). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus.*

*The Managers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the issue and sale of the Securities. No Manager accepts any liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer or the Guarantor in connection with the issue and sale of the Securities.*

*In connection with the issue and sale of the Securities, no person is or has been authorised by the Issuer or the Guarantor to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or the Managers.*

*Neither the delivery of this Prospectus nor the offering, sale or delivery of any Securities shall in any circumstances imply that the information contained herein concerning the Issuer or the Guarantor is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issue and sale of the Securities is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer or the Guarantor during the life of the Securities or to advise any investor in the Securities of any information coming to their attention. Investors should review, inter alia, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Securities.*

*Neither this Prospectus nor any other information supplied in connection with the issue and sale of the Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Guarantor or any of the Managers that any recipient of this Prospectus or any other information supplied in connection with the issue and sale of the Securities should purchase any Securities. Neither this Prospectus nor any other information supplied in connection with the issue and sale of the Securities constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor or any of the Managers to any person to subscribe for or to purchase any Securities.*

*In making an investment decision regarding the Securities, prospective investors should rely on their own independent investigation and appraisal of the Issuer and the Guarantor, their businesses, their financial condition and affairs and the terms of the offering, including the merits and risks involved. The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult its own advisers as to legal, tax, financial, credit and related aspects of an investment in the Securities. Potential investors should read carefully the section entitled “Risk Factors” set out below before making a decision to invest in the Securities.*

*This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Securities may be restricted by law in certain*

*jurisdictions. The Issuer, the Guarantor and the Managers do not represent that this Prospectus may be lawfully distributed, or that any Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Guarantor or the Managers which would permit a public offering of any Securities outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Securities may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Securities. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Securities in the United States, the United Kingdom and Luxembourg, see "Subscription and Sale".*

*The Securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the Securities Act) and, subject to certain exceptions, may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (Regulation S)).*

*In this Prospectus, unless otherwise specified or the context requires, references to **euro**, **EUR** and **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended.*

**IN CONNECTION WITH THIS ISSUE UBS LIMITED (OR PERSONS ACTING ON BEHALF OF UBS LIMITED) MAY OVER-ALLOT SECURITIES (PROVIDED THAT, THE AGGREGATE PRINCIPAL AMOUNT OF SECURITIES ALLOTTED DOES NOT EXCEED 105 PER CENT. OF THE AGGREGATE PRINCIPAL AMOUNT OF SECURITIES) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT UBS LIMITED (OR PERSONS ACTING ON BEHALF OF UBS LIMITED) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE OFFER OF THE SECURITIES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES.**

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## DESCRIPTION OF THE SECURITIES AND THE GUARANTEE

*The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this document. Words and expressions defined in the “Conditions of the Securities” below shall have the same meaning in this description.*

<b>Securities</b>	<p>Fixed Rate/Floating Rate Perpetual Non-cumulative Guaranteed Securities.</p> <p>The Securities will be eligible to be included in calculating the Tier 1 capital of Dexia Group.</p>
<b>Issuer</b>	<p>Dexia Funding Luxembourg S.A., a special purpose financing vehicle incorporated under the laws of Luxembourg in the form of a limited liability company.</p> <p>Its articles of incorporation will restrict its activities to issuing securities and to investing the proceeds thereof in loans or other instruments (other than ordinary share capital) issued by any of the Dexia Group banking entities. The Issuer will not carry out any activity falling within the scope of the Luxembourg law of 5 April 1993 on the financial sector, as amended.</p>
<b>Guarantor</b>	<p>Dexia SA, the parent company of the Dexia Group.</p> <p>The Dexia Group provides financial services to the local public sector, retail and private banking services and investment management and insurance services in various parts of the world, mainly in Europe and in the United States.</p>
<b>Interest Payments</b>	<p>Subject as described under “<i>Waived Interest Payments</i>”, Interest Payments on the Securities will be payable:</p> <ul style="list-style-type: none"><li>• until the First Call Date annually in arrear, at a fixed rate of 4.892 per cent. per annum on their Current Principal Amount (calculated on an unadjusted Actual/Actual basis); and</li><li>• thereafter quarterly in arrear, at a rate equal to 3 month EURIBOR plus a margin of 1.78 per cent. per annum (calculated on a modified following adjusted Actual/360 basis).</li></ul>
<b>Waived Interest Payments</b>	<p>If and to the extent that a Trigger Event has occurred and is continuing or, as a result of the payment of the Interest Payment would occur, on any Interest Payment Date:</p> <ul style="list-style-type: none"><li>• the Issuer will waive the coupon on the Securities; and</li><li>• the Guarantor shall be paid by way of dividend or otherwise any relevant dividend or interest received by the Issuer pursuant to the terms of any on-loan of the issue proceeds of the Securities.</li></ul> <p>The Issuer may also elect to waive any coupon that would otherwise be due on any Optional Coupon Date.</p>
<b>Loss Absorption</b>	<p>In the event of the occurrence of a Trigger Event, the board of directors of the Guarantor shall convene an extraordinary shareholders’ meeting to be held during the three months following the occurrence of such Trigger Event in order to propose a share capital increase or any other measure regarded by it as necessary or useful to remedy such event.</p>

If a share capital increase or any such other proposed measure is not adopted by the extraordinary shareholders' meeting of the Guarantor or if the share capital increase is not sufficiently subscribed to remedy such Trigger Event in full, or if such Trigger Event remains in effect for six months following the occurrence of such event, the board of directors of the Guarantor will cause the Issuer to implement, within ten days following the date that is six months following the occurrence of such event, a proportionate reduction of the amount of Current Principal Amount of each Security (a **Loss Absorption**) necessary in order to remedy the Trigger Event to the fullest extent possible. Notwithstanding anything to the contrary, the nominal value of any Security shall never be reduced to an amount lower than one cent (EUR 0.01).

The amount by which the aggregate Current Principal Amount of the Securities is reduced to enable the Guarantor to absorb losses in order to ensure the continuity of its activities, shall be the lower of:

- the amount by which the applicable regulatory capital solvency requirements exceed the solvency capital of the Guarantor on a consolidated basis at the time of the Trigger Event; and
- the aggregate amount of the Current Principal Amount of the Securities before such reduction.

In the event of Loss Absorption, Interest Payments will only continue to be payable on the Current Principal Amount of the Securities until Reinstatement to the Original Principal Amount. Furthermore there is no limitation on such Interest Payments being waived as described above.

For the avoidance of doubt, the first remedy to the Trigger Event will be the share capital increase or the implementation of any other measures adopted by the extraordinary shareholders' meeting of the Guarantor to remedy such Trigger Event. To the extent such increase of share capital or other measures are not sufficient, the Loss Absorption will be applied against the Current Principal Amount of the Securities.

## **Reinstatement**

If, following a Loss Absorption, the Guarantor has recorded positive Consolidated Profit for at least two consecutive fiscal years following the end of the most recent fiscal year in which there was a Loss Absorption, Dexia SA may cause the Issuer to increase, and the Issuer shall increase, the Current Principal Amount of each Security on any date and in an amount that they determine (either up to the Original Principal Amount or up to any other amount lower than the Original Principal Amount), subject to any necessary regulatory approval.

Irrespective of whether a Return to Profitability has occurred, the Guarantor shall cause the Issuer to increase, and the Issuer shall increase, the aggregate Current Principal Amount of the Securities in an amount equal to the Mandatory Reinstatement Amount on the date of a Mandatory Reinstatement Event.

For the avoidance of doubt, following a Reinstatement, the aggregate Current Principal Amount of the Securities may never be greater than the aggregate Original Principal Amount of the Securities.

## **Subordination**

The payment obligations of the Issuer under the Securities constitute unsecured subordinated obligations of the Issuer and will rank:



- behind (junior to) the claims of holders of Issuer Senior and Subordinated Indebtedness;
- *pari passu* with Other Pari Passu Claims; and
- before (senior to) (x) the claims for payment of any obligation that, expressly or by applicable law, is subordinated to the Securities and (y) the claims of holders of Issuer Ordinary Shares.

#### **Additional Amounts**

All payments in respect of the Securities will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Luxembourg or Belgium or any political subdivision or authority thereof or therein having the power to tax, unless the withholding or deduction is required by law.

If at any time the Issuer or the Guarantor is required to withhold or deduct any tax with respect to any payments on the Securities, the Issuer or the Guarantor, as applicable, will be required, subject to customary exceptions, to pay such additional amounts as shall be required so that the net amount received by each Securityholder after the withholding or deduction of any such relevant tax will not be less than the amount then due and payable to each Securityholder in the absence of such withholding or deduction.

#### **Optional Redemption**

The Securities are not redeemable at the option of the Securityholders at any time.

On the First Call Date and on any subsequent Interest Payment Date thereafter, the Issuer, subject to having given not less than 30, and not more than 60, days' prior notice to the Securityholders (which notice shall be irrevocable), and subject to any required prior approval of the CBFA, may, at its option, redeem the Securities in whole but not in part at the Base Redemption Price.

#### **Redemption Upon Certain Events**

Upon the occurrence of a Tax Event other than as a result of a Tax Law Change or upon the occurrence of a Tier 1 Disqualification Event, the Issuer will have the right, at any time before the First Call Date, to redeem the Securities in whole (and not in part) at a redemption price equal to the greater of (x) the Make Whole Amount and (y) the Base Redemption Price.

Upon the occurrence of a Tax Event as a result of a Tax Law Change, the Issuer will have the right at any time to redeem the Securities in whole (and not in part) at a redemption price equal to the Base Redemption Price.

Any redemption of Securities upon the occurrence of a Tax Event or a Tier 1 Disqualification Event is subject to any required prior approval of the CBFA.

In any event, no redemption of Securities will be permitted if before or after giving effect to such redemption, a Trigger Event has occurred and is continuing or would occur.

#### **Form and Denomination**

The Securities will be issued in the denomination of €50,000 principal amount.

So long as any Securities are represented by a Temporary Global Security and/or a Permanent Global Security and the relevant clearing system(s) so

permit, the Securities will be tradeable only in principal amounts of at least €50,000 and integral multiples of €1,000 in excess thereof.

The Securities will be issued in global bearer form and deposited on or about the issue date with a common depositary for Euroclear and Clearstream. Definitive Securities will only be available in limited circumstances and in the denomination of €50,000 principal amount.

#### **Crystallisation of claims**

If a Remedies Event occurs and is continuing, the Securityholders, by written notice to the Issuer, may institute proceedings to obtain the payment of the amounts due or compliance with the defaulted covenant provided that the Securityholders may not declare the aggregate principal amount of the Securities due and payable.

If any judgment is issued for a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer or if the Issuer has been liquidated for any other reason, then the Securities shall immediately become due and payable.

In connection with the institution of proceedings by holders against the Issuer to obtain payments of any amounts due under the Securities, such Securityholders may require the Issuer to, and the Issuer shall, enforce any rights it may have under the intercompany loans it makes to any of the Dexia Group banking entities.

#### **Reinstatement upon Liquidation or Bankruptcy**

In the event of a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer or a judicial or voluntary liquidation (*liquidation judiciaire ou volontaire/gerechtelijke of vrijwillige vereffening*) (except for corporate reorganisations involving a voluntary dissolution without liquidation (*dissolution volontaire sans liquidation/vrijwillige ontbinding zonder vereffening*) as referred to in Articles 671-677 or 878-884 of the Belgian Code of Companies) or bankruptcy (*faillite/faillissement*) of the Guarantor, the Guarantor shall cause the Issuer to implement and the Issuer shall implement a Reinstatement in an amount up to the Original Principal Amount of the Securities, subject to any necessary regulatory approval.

The rights of Securityholders in the event of such liquidation or bankruptcy will be calculated on the basis of:

- the Original Principal Amount of the Securities they hold; plus
- an amount equal to unpaid Interest Payments, if any, thereon with respect to the current Interest Period accrued on a daily basis to the date of the decision of the court or the shareholders' meeting



relating to the liquidation or of the decision of the court relating to the bankruptcy, as the case may be.

No payments will be made to the Securityholders unless and until all amounts due, but unpaid, to all other senior and subordinated creditors of the liquidated or bankrupt entity have been paid by the Guarantor or the Issuer, as the case may be, as ascertained by the liquidator or the trustee in bankruptcy.

## Guarantee

The Guarantor will give an unconditional, irrevocable and subordinated Guarantee for the due payment (without double counting) of:

- Coupons which are not waived as described under “Waived Interest Payments” and additional amounts thereon, if any;
- the Base Redemption Price payable when the Securities become payable in accordance with their terms in the event of a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer; and
- the Base Redemption Price or Make Whole Amount, as applicable, payable when the Securities become payable in accordance with their terms in the event of a redemption as described under “Optional Redemption” and “Redemption Upon Certain Events”.

In the event of a General *concursum creditorum* affecting the Guarantor, the claims of Securityholders under the Guarantee will be satisfied after (but only after, and subject to) the claims of all holders of Guarantor Senior and Subordinated Indebtedness have first been paid in full, other than claims of creditors of the Guarantor which (x) rank *pari passu* with the Securities or the Guarantee or (y) are junior to the Securities or the Guarantee, in the case of (x) or (y) whether expressly or in accordance with applicable law.

The holders of the Securities will be required to accept that, in the circumstances described above, payments in respect of the Securities will be made by the Guarantor pursuant to the Guarantee only in accordance with the subordination described above.

*No Right to Set-Off.* No Securityholder may set off any claims arising under the Guarantee against claims that the Guarantor may have against it. The Guarantor may set off against any claims of any Securityholder under the Guarantee only if the appropriate regulatory authority has given its consent to the set off, and subject to there existing no Trigger Event.

*Remedy for Non-payment.* In any event resulting in the liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer,

whether due to a Remedies Event or otherwise, the Securityholders by written notice to the Guarantor may institute proceedings against the Guarantor to obtain the payment of the amounts due or to obtain compliance with the defaulted covenant or agreement or to obtain the bankruptcy of the Guarantor (or any analogous proceeding which may be available from time to time under the laws of Belgium). The Securityholders may not declare the principal amount of the Securities due and payable.

If a Remedies Event occurs and is continuing, the Securityholders may by written notice to the Guarantor, institute proceedings to obtain the payment of the amounts due or compliance with the defaulted covenant or agreement provided that the Securityholders may not declare the aggregate principal amount of the Securities due and payable.

If a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer has occurred and there exists a Trigger Event, any Securityholder may institute bankruptcy proceedings against the Guarantor exclusively in Belgium.

#### **Use of Proceeds**

The Issuer will use the net proceeds of the issue and sale of the Securities to on-lend to any of the banking entities within the Dexia Group. Any such on-loans shall be structured to achieve solvency capital treatment as required by the applicable regulator. The Issuer shall use reasonable efforts, including consultation with the Rating Agencies, to ensure that any on-loan, any amendment to the terms of such on-loan or any transfer of such on-loan to a non-core operating company does not reduce the then-current rating of the Securities at that point in time.

#### **Listing and admission to trading**

Application has been made for the Securities to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange.

#### **Governing Law**

The Securities and the Guarantee will be governed by the laws of England, except that the subordination provisions of the Guarantee will be governed by the laws of Belgium. For the avoidance of doubt, the provisions of Articles 86 to 94-8 of the Luxembourg law regarding Commercial Companies dated 10 August 1915, as amended, are excluded.

## RISK FACTORS

*The following sets out certain aspects of the offering of the Securities of which prospective investors should be aware. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus, including in particular the following risk factors detailed below. This summary is not intended to be exhaustive and prospective investors should make their own independent evaluations of all risk factors and should also read the detailed information set out elsewhere in this Prospectus. Terms defined in the Terms and Conditions of the Securities shall have the same meaning where used below.*

### RISKS RELATED TO THE SECURITIES

#### *Securityholders rights under the Securities are limited.*

The claims of the Securityholders for payment by the Issuer under the Securities will be subordinated, and subject in right of payment, to the claims of all existing and future liabilities of the Issuer (including those in respect of bonds, notes and debentures (whether senior or subordinated)), other than liabilities of the Issuer expressed to rank *pari passu* with or junior to the Securities. In any case the Securities will rank before (x) the claims for payment of any obligation that, expressly or by applicable law, is subordinated to the Securities and (y) the claims of holders of the Issuer's ordinary shares.

#### *Restrictions on payment of coupons.*

The Issuer will be permitted to waive its obligations to pay interest on the Securities on any Optional Coupon Date in the circumstances set out in the Conditions. Furthermore the Issuer is required to waive its obligations to pay interest on the Securities on any Interest Payment Date if and to the extent that a Trigger Event has occurred and is continuing or, as a result of the payment of the relevant interest payment would occur, on such Interest Payment Date.

Any interest not so paid shall be lost and shall therefore no longer be due and payable by the Issuer.

#### *Loss Absorption on a Trigger Event.*

As further specified in Condition 7, if a Trigger Event should occur, and such Trigger Event cannot be cured by means of a capital increase, the principal amount of the Securities will be reduced (a **Loss Absorption**) by an amount sufficient to remedy the Trigger Event to the extent possible. Under certain circumstances this means the principal amount of the Securities could be fully reduced (although no lower than EUR 0.01). Although coupons may continue to be paid following a Loss Absorption, the amount of such coupons will be calculated on the basis of the then reduced principal amount. As a result, unless the principal amount of the Securities is reinstated (which could occur if the Guarantor records positive consolidated profit for two consecutive years) (a **Reinstatement**), coupons will be reduced or could be stopped. As a result, depending on the application of the Loss Absorption mechanism, coupons may fluctuate and such fluctuations could be material.

In addition, although under certain circumstances the principal amount of the Securities may be reinstated and under certain circumstances it will be mandatory, there can be no assurance when Reinstatement will occur. As a result, coupon payments may be reduced or stopped as noted above. Notwithstanding the foregoing, in the event of a judicial or voluntary liquidation or bankruptcy of the Issuer or the Guarantor, there shall be a full Reinstatement of the principal amount of the Securities, subject always to the subordinated nature of the Securities.

*The Securities are perpetual although the Issuer may redeem the Securities (i) at any time upon the occurrence of a Tax Event or a Tier 1 Disqualification Event or (ii) on the First Call Date or on any Interest Payment Date thereafter.*

The Securities are perpetual and have no final maturity date and Securityholders have no right to require redemption of the Securities. However, the Issuer may elect to redeem the Securities (in whole and not in

part) upon the occurrence of a Tax Event or a Tier 1 Disqualification Event before the First Call Date, or for any reason (in whole or in part) on the First Call Date or on any subsequent Interest Payment Date, in each case subject to the prior approval of the CBFA, if then required. There can be no assurance that, at the relevant time, Securityholders will be able to reinvest the amounts received upon redemption of the Securities at a rate that will provide the same return as their investment in the Securities.

***The Securities will be issued in global form.***

All notices and payments to be delivered to Securityholders will be distributed by the Issuer through the relevant clearing agencies. In the event that a beneficial owner does not receive such notices or payments, its rights may be prejudiced but it will not have a direct claim against the Issuer or the Guarantor therefor.

***Trading amounts in clearing systems.***

Although the Securities have a denomination of €50,000 per Security, it is possible that the Securities may be traded in the clearing systems in amounts in excess of €50,000 that are not integral multiples of €50,000. In such case, should definitive Securities be required to be issued, a Securityholder who does not have €50,000 or an integral multiple thereof in his account with the relevant clearing system at the relevant time may not receive all of his entitlement in the form of definitive Securities unless and until such time as his holding becomes €50,000 or an integral multiple thereof.

***Active public and trading markets for the Securities may not develop.***

Although application has been made to list the Securities on the Luxembourg Stock Exchange, there can be no assurance that an active public market for the Securities will develop, and if such a market were to develop, that it will be maintained. The liquidity and the market prices for the Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Issuer and the Guarantor and other factors that generally influence the market prices of securities. Such fluctuations may significantly affect the liquidity and the market prices of the Securities, which may trade at a discount to the price at which an investor purchased the Securities. In addition, there is no assurance that a trading market for the Securities will exist and no assurance as to the liquidity of any trading market.

**RISKS RELATED TO THE ISSUER**

The Issuer is a special purpose vehicle with no operations of its own. The primary source of funds for the Issuer to service payments on the Securities is on-loans of the proceeds of the Securities to any of the Guarantor's banking entities. In addition, the investors benefit from the Guarantee from the Guarantor, it being understood that all obligations of the Guarantor under the Guarantee are deeply subordinated. As a result, the Issuer's ability to meet its obligations will be largely dependent on the financial condition of the Guarantor's banking entities who receive the proceeds of the offering and of the Guarantor.

As the Issuer's ability to meet its obligations will be reliant on the financial condition of the banking entities, if such banking entities' financial condition were to deteriorate and to the extent that funds are not available through the Guarantee, the Securityholders could suffer direct and materially adverse consequences, including waived interest payments and, if a liquidation or bankruptcy of the Issuer were to occur, loss by Securityholders of all or part of their investment.

**RISKS RELATED TO THE GUARANTOR**

***Securityholders' rights under the Guarantee are limited.***

The Guarantor will give an unconditional and irrevocable Guarantee for the due payment of (i) any coupons that are not waived pursuant to the Conditions and (ii) the Base Redemption Price when the Securities become payable in the event of liquidation or bankruptcy of the Issuer. The Securityholders' claims are subordinated, however, and in the event of a General *concurso creditorum* affecting the Guarantor, the claims of Securityholders under the Guarantee will be satisfied only after the claims of all creditors of the Guarantor, whether senior or subordinated, other than those which rank *pari passu* with or junior to the

Guarantee, have first been paid in full. Securityholders may not set off any claims arising under the Guarantee against claims the Guarantor may have against them.

***The ability of the Guarantor to make payments under the Guarantee depends primarily on the earnings of its subsidiaries and their ability to distribute such earnings to the Guarantor; these subsidiaries are highly regulated and such regulations could impose restrictions on such distributions.***

The Guarantor's assets consist solely of its investments in the banking entities of the Dexia Group. Accordingly, the cash flow and the consequent ability to service obligations of the Guarantor, including those obligations that may arise under the Guarantee, are primarily dependent upon the earnings of the Guarantor's subsidiaries, and the distribution of those earnings to the Guarantor.

In addition, the payment of distributions and the making of loans and other advances to the Guarantor by the Guarantor's subsidiaries are and may continue to be subject to certain statutory and regulatory restrictions. The Belgian banking, finance and insurance regulator, as well as European Union regulatory authorities, certain Belgian authorities and regulatory authorities in other countries have regulatory authority over the Guarantor and its subsidiaries. Under certain circumstances, any of such regulatory authorities could make determinations or take decisions in the future with respect to the Guarantor and/or any of the Guarantors' subsidiaries or a portion of their respective operations or assets that could adversely affect the ability of the Issuer or the Guarantor to, among other things, make distributions to their respective security holders, to engage in transactions with affiliates, to purchase or transfer assets, to pay their respective obligations or to make any redemption or liquidation payments to their security holders. See "*Supervision and Regulation*".

Furthermore, the Guarantor's rights and the rights of its creditors to participate in the distribution of assets of any subsidiary upon such subsidiary's liquidation or reorganisation will be effectively subordinated to all existing and future liabilities, including trade payables, of such subsidiary, except to the extent that the Guarantor is itself recognised as a creditor of such subsidiary, in which case the claims of the Guarantor would still be subordinated to any security interests in the assets of such subsidiary and any indebtedness of such subsidiary senior to that held by the Guarantor.

## **RISKS RELATED TO THE ISSUER AND THE GUARANTOR**

***The Issuer and the Guarantor may issue additional debt.***

Neither the Issuer nor the Guarantor is prohibited or restricted from issuing additional debt ranking *pari passu* with or senior to the Securities (in the case of the Issuer) or *pari passu* with or senior to the Guarantee (in the case of the Guarantor). None of the Securities or the Guarantee limits the ability of the Issuer or the Guarantor or any other members of the Dexia Group to incur indebtedness, including indebtedness that ranks senior to the obligations of the Issuer under the Securities or the Guarantor under the Guarantee. The issuance of any such further debt may dilute the claim of Securityholders under the Securities or the Guarantee, and under certain circumstances Securityholders may be unable to recover any amounts under the Securities or the Guarantee.

***Regulatory authorities have oversight powers over the Dexia Group.***

The CBFA or its successors, regulatory authorities in the European Union and regulatory authorities in other countries have oversight powers over the Dexia Group and in varying degrees over the banking entities of the Dexia Group to which the proceeds of the Securities will be lent. Under certain circumstances, any of such regulatory authorities could make determinations or take decisions in the future with respect to any of such entities or a portion of their respective operations or assets that could adversely affect the ability of the Issuer or the Guarantor to, among other things, make distributions to their respective security holders, to engage in transactions with affiliates, to purchase or transfer assets, to pay their respective obligations and to make any redemption or liquidation payments to their security holders.

## **RISKS RELATED TO THE GUARANTOR'S BUSINESS**

### ***Operational Risk***

Operational risk is defined as the risk of loss arising from the inadequacy or failure of procedures, individuals or internal systems, or even external events (such as, but not limited to natural disasters and fires). It includes risk relating to the security of information systems, litigation risk and reputation risk.

Unforeseen events like severe natural catastrophes, terrorist attacks or other states of emergency can lead to an abrupt interruption of Dexia Group's operations, which can cause substantial losses. Such losses can relate to property, financial assets, trading positions and to key employees. Such unforeseen events can also lead to additional costs (such as relocation of employees affected) and increase the costs of Dexia Group (such as insurance premiums). Such events may also make insurance coverage for certain risks unavailable and thus increase the risk of Dexia Group.

As with most other banking groups, Dexia Group relies heavily on communications and information systems to conduct its business. Any failure or interruption or breach in security of these systems could result in failures or interruptions in the Dexia Group's customer relationship management, general ledger, deposit, servicing and/or loan organisation systems. Dexia Group cannot provide assurances that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures or interruptions could have a material adverse effect on the Dexia Group's financial condition and results of operations.

### ***Credit Risk***

Dexia Group is exposed to the creditworthiness of its customers and counterparties. Dexia Group may suffer losses related to the inability of its customers or other counterparties to meet their financial obligations. Most of the commitment decisions concern customers in the local government sector, which is low risk and also subject to specific controls relating to its public nature. Dexia Group cannot assume that its level of provisions will be adequate or that it will not have to make significant additional provisions for possible bad and doubtful debts in future periods. Group Risk Management oversees the Dexia Group's risk policy and is responsible for, *inter alia*, setting and managing the risk surveillance function and decision processes and implementing Group-wide risk assessment methods for each of the bank's activities and operational entities.

### ***Market Risk***

Market risks are all the risks linked to the fluctuations of market prices, including, principally, exposure to loss arising from adverse movements in interest rates, and, to a lesser extent, foreign exchange rates and equity prices, stemming from Dexia Group's activities. Due to the nature of its activity, the Dexia Group is prevented from assuming significant exposure to market risk. Market risks generated by the capital markets activities stems mainly from short-term cash management and a portfolio of derivative products with customers that is managed on a market value basis. Market risks generated by the commercial businesses are generally hedged and residual risks are handled by the Asset and Liability Management function.

### ***Liquidity Risk***

The objective of liquidity management is to ensure that, at all times, Dexia Group holds sufficient funds to meet its contracted and contingent commitments to customers and counterparties, at an economic price. All the main issues regarding liquidity risk are managed by the Dexia Group's Asset and Liability Management teams, which carefully manage resources of the different Dexia Group entities and their use, in particular, the adequacy of expected new lending production with the available resources and the Dexia Group's liquidity needs.



### ***Risk Management***

Monitoring of the risks relating to Dexia Group and its operations and the banking industry is performed in compliance with the guidelines established by the Dexia Group and all legal constraints and rules of prudence.

## **RESPONSIBILITY STATEMENT**

The Issuer and the Guarantor accept responsibility for the information contained in this Prospectus. The Issuer and the Guarantor declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of the Issuer's and the Guarantor's knowledge, in accordance with the facts and contains no omission likely to affect its import.

## DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents which have been previously published or will be published simultaneously with this Prospectus, and have been filed with the Luxembourg Commission de Surveillance du Secteur Financier which is the competent authority for purposes of the Prospectus Directive and shall be incorporated in, and form part of, this Prospectus:

- (a) the audited consolidated financial statements of the Guarantor for the financial years ended 31 December 2005 and 31 December 2004 and the notes related thereto contained in the Annual Report of the Guarantor for the year 2005 and 2004 respectively and the reports of the statutory auditors of the Guarantor in respect of such financial statements; and
- (b) the intermediary activity report of the Guarantor, *Activity and results as of 30 June 2006*, published on 5 September 2006.

The consolidated financial statements of Dexia Group are prepared in accordance with all IFRSs as adopted by the European Union (the EU).

The European Commission (the EC) published Regulation EC 1606/2002 on 19 July 2002, requiring listed groups to apply IFRS as from 1 January 2005. This regulation has been updated several times since 2002, validating the various texts published by the IASB with the exception of certain rules included in IAS 39.

The EC carved out some paragraphs of IAS 39 with the objective of enabling European companies to reflect appropriately in their consolidated financial statements the economic hedges they make in the management of their interest rate risk exposure.

Dexia Group's financial statements have therefore been prepared "in accordance with all IFRSs as adopted by the EU" and endorsed by the EC up to 31 December 2005, including the conditions of application of interest rate portfolio hedging and the possibility to hedge core deposits. Therefore, they cannot be described as IFRSs compliant in the sense of IAS 1.

Dexia Group adopted the new accounting rules on 1 January 2005 and has accordingly restated its previously reported 2004 consolidated financial statements. The effects of the adoption of IFRS have been reflected within Paragraph 4 ("Effects of changes in accounting policies") of the Notes to the consolidated financial statements appearing in the Dexia Group's 2005 Annual Report.

Dexia Group decided to apply IAS 32&39 and IFRS 4 as from 1 January 2005, without restating the 2004 comparative information as permitted by IFRS 1.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect amounts reported. While management believes they have considered all available information in developing these estimates, actual results could differ from such estimates and the differences could be material to the financial statements. The consolidated financial statements are stated in millions of euro (EUR) unless otherwise stated.

**CROSS-REFERENCE LIST IN RESPECT OF THE FINANCIAL INFORMATION  
OF DEXIA SA FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004**

<b>Information incorporated by reference</b>	<b>Reference</b>
<i>Annual Accounts for the year ended 31 December 2005</i>	
Consolidated Balance Sheet .....	page 48 and page 49
Consolidated Statement of Income .....	page 50
Consolidated Cash Flow Statement.....	page 53
Notes to the Financial Statements .....	page 54 to page 159
Auditor's Report on the Annual Accounts.....	page 160
Management Report .....	page 4 to page 45
<i>Annual Accounts for the year ended 31 December 2004</i>	
Consolidated Balance Sheet .....	page 40 and page 41
Consolidated Statement of Income .....	page 43
Unaudited Cash Flow Statement .....	page 110
Notes to the Financial Statements .....	page 44 to page 106
Auditor's Report on the Annual Accounts.....	page 107
Management Report .....	page 4 to page 37
<i>Activity Report for the six months ended 30 June 2006</i>	
Consolidated Balance Sheet .....	page 52 and page 53
Consolidated Statement of Income .....	page 54
Consolidated Cash Flow Statement.....	page 57
Notes to the Financial Statements .....	page 58 to page 63
Review Report of the Auditors on the Interim Financial Information in accordance with International Standards on Review Engagements .....	page 64

All documents incorporated by reference in this Prospectus may be obtained, free of charge, at the registered office of the Guarantor and the offices of the Fiscal Agent set out at the end of this Prospectus during normal business hours so long as any of the Securities are outstanding. They will also be available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)). Any information not listed in the cross reference table but included in the documents incorporated by reference is given for information purposes only.

## CONDITIONS OF THE SECURITIES

*The following is the text of the Conditions of the Securities which (subject to modification) will be endorsed on each Security in definitive form:*

The €500,000,000 Fixed Rate/Floating Rate Perpetual Non-cumulative Guaranteed Securities (the **Securities**, which expression shall in these Conditions, unless the context otherwise requires, include any further securities issued pursuant to Condition 17 and forming a single series with the Securities of Dexia Funding Luxembourg S.A. (the **Issuer**) are issued subject to and with the benefit of an Agency Agreement dated 2 November 2006 (such agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) made between the Issuer, Dexia SA (the **Guarantor**) as guarantor, Dexia Banque Internationale à Luxembourg, société anonyme as fiscal agent, principal paying agent and agent bank (the **Fiscal Agent**). The Fiscal Agent and any other paying agents appointed by the Issuer from time to time shall be referred to as the **Paying Agents**.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the holders of the Securities (the **Securityholders**) and the holders of the interest coupons and the talons (**Talons**) for further interest coupons appertaining to the Securities (the **Couponholders** and the **Coupons** (which expression shall in these Conditions, unless the context otherwise requires, include the holders of the Talons and the Talons) respectively) at the specified office of each of the Paying Agents. The Securityholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement applicable to them. References in these Conditions to the Fiscal Agent and the Paying Agents shall include any successor appointed under the Agency Agreement.

### 1. DEFINITIONS

In these Conditions the following expressions have the following meanings:

**Administrative Action** means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt such procedures or regulations) by any legislative body, court, governmental or administrative authority or regulatory body having appropriate jurisdiction;

**Base Redemption Price** for each Security means (i) 100 per cent. of the Original Principal Amount of the Security, plus (ii) an amount equal to unpaid interest, if any, thereon with respect to the then-current Interest Period accrued on a daily basis to the date fixed for redemption;

**Business Day** means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open;

**CBFA** means the *Commission bancaire, financière et des assurances/Commissie voor het Bank-, Financie- en Assurantiewezen/Banking, Finance and Insurance Commission* or any successor thereto with primary responsibility for regulatory supervision of the Dexia Group;

**Consolidated Profit** means the consolidated profit (excluding actual distributions paid to minority interests) of Dexia Group, as calculated and set out in the latest audited annual consolidated financial statements of Dexia Group;

**Current Principal Amount** means, with respect to any Security, the principal amount of each Security outstanding at any time calculated on the basis of the Original Principal Amount of each Security as such amount may be reduced pursuant to the application of the Loss Absorption mechanism and/or reinstated on one or more occasions;

**Dexia Group** means the Guarantor together with its consolidated Subsidiaries;

**Euro-zone** means the region comprised of the Member States of the European Union that have adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25th March, 1957) as amended;

**First Call Date** means 2 November 2016;

**Fixed Day Count Fraction** means (i) the actual number of days in the period from (and including) the date from which interest begins to accrue for the relevant period of calculation (the **Accrual Date**) to (but excluding) the date on which it falls due divided by (ii) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date;

**General concursus creditorum** means with respect to the Guarantor, any *concursum creditorum* (*concoure de créanciers/samenloop van schuldeisers*) on the entire assets of the Guarantor, including bankruptcy (*faillitelfaillissement*), moratorium (*concordat judiciaire/gerechtigd akkoord*) and judicial or voluntary dissolution and liquidation (*dissolution et liquidation judiciaire ou volontaire/gerechtigde of vrijwillige ontbinding en vereffening*), except in the latter case for corporate reorganisations involving a voluntary dissolution without liquidation (*dissolution volontaire sans liquidation/vrijwillige ontbinding zonder vereffening*) as referred to in Articles 671-677 or 878-884 of the Belgian Code of Companies;

**Guarantor Junior Securities** means (i) the Guarantor Ordinary Shares and any securities of the Guarantor which are expressly stated to rank junior to the Guarantee, (ii) guarantees by the Guarantor (whether through an agreement or instrument labelled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of any preferred securities or preferred or preference shares issued by any of the Guarantor's Subsidiaries (including the Issuer), which guarantees are expressly stated to rank junior to the Guarantee or rank junior to Guarantor Parity Securities (**Guarantor Junior Guarantees**) and (iii) securities issued by any Subsidiary of the Guarantor (including the Issuer) that are guaranteed under any Guarantor Junior Guarantee;

**Guarantor Ordinary Shares** means ordinary shares of the Guarantor;

**Guarantor Parity Securities** means, (i) any preferred or preference shares and any securities of the Guarantor which are expressly stated to rank *pari passu* with the Guarantee (**Guarantor Parity Shares**), (ii) guarantees by the Guarantor (whether through an agreement or instrument labelled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of any preferred securities or preferred or preference shares issued by any of the Guarantor's Subsidiaries (including the Issuer), which guarantees are expressly stated to rank *pari passu* with the Guarantee or rank *pari passu* with Guarantor Parity Shares (**Guarantor Parity Guarantees**) and (iii) securities issued by any Subsidiary of the Guarantor (including the Issuer) that are guaranteed under any Guarantor Parity Guarantee;

**Guarantor Senior and Subordinated Indebtedness** means all liabilities of the Guarantor (including those in respect of bonds, notes and debentures (whether senior or subordinated)), other than liabilities of the Guarantor under the Guarantee or pursuant to obligations expressed to rank *pari passu* with or junior to the Guarantee;

**Interest Determination Date** means, for each Interest Period starting on or after the First Call Date, the second Business Day before the commencement of the Interest Period for which the rate will apply;

**Issuer Junior Securities** means the Issuer Ordinary Shares and any securities which are expressly stated to rank junior to the Securities;

**Issuer Ordinary Shares** means ordinary shares of the Issuer;

**Issuer Parity Securities** means any securities which are expressly stated to rank *pari passu* with the Securities;



**Issuer Senior and Subordinated Indebtedness** means all liabilities of the Issuer (including those in respect of bonds, notes and debentures (whether senior or subordinated)), other than liabilities of the Issuer under the Securities or pursuant to obligations expressed to rank *pari passu* with or junior to the Securities;

**Make Whole Amount** means, in respect of each Security, the price, as determined by the Determination Agent three dealing days before the relevant Redemption Date, equal to (i) the Original Principal Amount of the Security discounted from the First Call Date, plus (ii) the present values of scheduled interest accruing from (and including) the relevant Redemption Date to (but excluding) the First Call Date plus (iii) any due and accrued but unpaid interest calculated from (and including) the immediately preceding Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the Redemption Date. The present values calculated in (i) and (ii) above shall be calculated by discounting the relevant amounts to the date when the Security is to be redeemed on an annual basis at the Adjusted Yield.

For the purposes of determining the Make Whole Amount:

**Adjusted Yield** means the Bond Yield, plus 0.50 per cent.;

**Bond Yield** means the rate per annum equal to the annual yield to maturity of the Reference Bond;

**Determination Agent** means an investment bank of international standing selected by the Issuer; and

**Reference Bond** means such European government bond as the Determination Agent may, with the advice of three brokers of, and/or market makers in, European government bonds selected by the Determination Agent determine to be appropriate for determining the Make Whole Amount;

**Mandatory Reinstatement Amount** means the lesser of (i) the difference between the aggregate Original Principal Amount of the Securities and the aggregate Current Principal Amount of the Securities, and (ii) the positive Consolidated Profit of Dexia Group. Additionally, for the purpose of a Reinstatement pursuant to item (ii) of the definition of “Mandatory Reinstatement Event”, the Mandatory Reinstatement Amount will be computed so that the Securities will be reinstated by an aggregate principal amount which is the same in percentage terms as the largest increase in principal amount of any Guarantor Parity Securities which triggered the Mandatory Reinstatement Event. Accordingly, if there are other Guarantor Parity Securities that must also be reinstated by virtue of a similar provision, the amount of profits will be shared *pro rata* and hence the Securities will not necessarily be able to use up 100 per cent. of such profits for their own reinstatement only;

**Mandatory Reinstatement Event** will occur if (i) the Guarantor pays any dividend or makes any distribution or other payment on any of its Guarantor Junior Securities or Guarantor Parity Securities or redeems, repurchases or otherwise acquires any of its Guarantor Junior Securities or Guarantor Parity Securities, or (ii) the increase by the Guarantor of the principal amount of any Guarantor Parity Securities other than the Securities, the terms of which contain a provision for the reinstatement of their principal amount similar to that of the Securities; *provided that* it shall not be a Mandatory Reinstatement Event if a distribution is made on the current principal amount of a Guarantor Parity Security which has been written down on a *pro tanto* basis with the Securities;

**Margin** means 1.78 per cent. per annum;

**Optional Coupon Date** means any Interest Payment Date in respect of which the Guarantor (a) has not paid any dividend or other distribution on or repurchased, cancelled, redeemed or otherwise acquired any Guarantor Junior Securities or any Guarantor Parity Securities classified as equity under IFRS or (b) has paid any dividend or other distribution on Guarantor Parity Securities classified as equity under IFRS which payment has been made solely as a result of payment on any Guarantor Junior Securities or another Guarantor Parity Security since in any such case (i) the annual general

meeting of the ordinary shareholders of the Guarantor immediately preceding such Interest Payment Date or (ii) if longer, in the six months preceding such Interest Payment Date;

**Original Principal Amount** means, with respect to any Security, the initial denomination of €50,000 principal amount per Security and integral multiples of €1,000 above such amount;

**Other *Pari Passu* Claims** means claims of creditors of the Issuer which are subordinated so as to rank *pari passu* with claims in respect of the Securities;

**Person** means any individual, corporation, company, partnership, joint venture, trust, unincorporated organisation or any agency or political subdivision thereof;

**Rating Agencies** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service Limited, Fitch Ratings Ltd. and any other rating agency or rating agencies which may provide a solicited credit rating for the Securities from time to time;

**Redemption Date** means any date on which the Securities become due for redemption;

**Reference Banks** means the principal Euro-zone office of each of five major banks engaged in the Euro-zone interbank market selected by the Agent Bank *provided that*, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such;

**Remedies Event** occurs if the Issuer fails to pay any Interest Payment due and payable on the Interest Payment Date with respect thereto in circumstances where the Interest Payment has not been waived as set out in Condition 6 below and such failure continues for a period of 30 days;

**Representative Amount** means, in relation to any quotation of a rate for which a Representative Amount is relevant, an amount that is representative for a single transaction in the relevant market at the relevant time;

**Screen Rate** means the rate for three month deposits in euro which appears on the Telerate Page 248 (or such replacement page on that service which displays the information);

**Subsidiary** means, with regard to the Guarantor, any consolidated subsidiary;

**Tax Event** means the receipt by the Issuer of an opinion of a nationally recognised law firm or other tax advisor (which may be an accounting firm) in Luxembourg experienced in such matters to the effect that, as a result of (i) any amendment to, clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations thereunder) of Luxembourg or any political subdivision or taxing authority thereof or therein affecting taxation, (ii) any Administrative Action, (iii) any amendment to, clarification of, or change in the official position on the interpretation of any Administrative Action or any interpretation or pronouncement that provides for a position with respect to any Administrative Action that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification, change, interpretation or pronouncement is made known, which amendment, clarification or change is effective or which interpretation or pronouncement is announced on or after 31 October 2006 (sub-paragraphs (i), (ii) and (iii) above are collectively referred to as a **Tax Law Change**) or (iv) other than as a result of a Tax Law Change, there is more than an insubstantial risk that (A) the Issuer is or will be required to pay any Additional Amounts or (B) any interest deduction or other similar direct or indirect tax benefit available to the Issuer in respect of the Current Principal Amount of the Securities is eliminated, reduced or otherwise adversely affected in any material respect;

**Tier 1 Disqualification Event** means the receipt by the Guarantor of an opinion, declaration, rule or decree of the CBFA to the effect that there has been a change in (i) the law or regulation or (ii) the interpretation thereof, resulting in more than an insubstantial risk that the Securities (or any portion thereof) will not be eligible to be included in calculating the Tier 1 capital of Dexia Group, other than as a result of such Securities exceeding the permitted basket for innovative hybrid securities for

inclusion as Tier 1 capital (as such basket is determined and interpreted as of the Interest Commencement Date); and

**Trigger Event** means:

- (i) the sum of Dexia Group's assets is less than the sum of its liabilities on a consolidated basis, excluding liabilities not considered Guarantor Senior and Subordinated Indebtedness;
- (ii) the total risk based consolidated capital ratio of Dexia Group falls below the minimum percentage required by applicable regulations; or
- (iii) at the discretion of the CBFA, if Article 57 § 1 of the Law of 22 March 1993 has become applicable and the CBFA has imposed special measures in application thereof.

## **2. FORM, DENOMINATION AND TITLE**

### **2.1 Form and Denomination**

The Securities are in bearer form, serially numbered, in the denomination of €50,000 with Coupons and one Talon attached on issue.

*For so long as the Securities are represented by the Temporary Global Security and/or the Permanent Global Security and the relevant clearing system(s) so permit, the Securities will be tradeable only in principal amounts of at least €50,000 and integral multiples of €1,000 in excess thereof. For the avoidance of doubt, in the case of a holding of Securities in an integral multiple of €1,000 in excess of €50,000 and subject to Condition 9, such holding will be redeemed at its nominal amount.*

### **2.2 Title**

Title to the Securities and to the Coupons will pass by delivery.

### **2.3 Holder Absolute Owner**

The Issuer, the Guarantor and any Paying Agent may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Security or Coupon as the absolute owner for all purposes (whether or not the Security or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Security or Coupon or any notice of previous loss or theft of the Security or Coupon).

## **3. STATUS OF THE SECURITIES**

The Securities and the Coupons constitute direct unsecured and subordinated obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves. The claims of the Securityholders for payment by the Issuer under the Securities will be subordinated, and subject in right of payment, to the claims of all existing and future Issuer Senior and Subordinated Indebtedness, and will rank *pari passu* with Other *Pari Passu* Claims. In any case the Securities will rank before (x) the claims for payment of any obligation that, expressly or by applicable law, is subordinated to the Securities and (y) the claims of holders of Issuer Ordinary Shares.

## **4. GUARANTEE**

### **4.1 Guarantee**

The payment of the principal and interest in respect of the Securities has been irrevocably guaranteed on a subordinated basis by the Guarantor under a guarantee (the **Guarantee**) dated 2 November 2006 and executed by the Guarantor.

## 4.2 Status of the Guarantee

The payment obligations of the Guarantor under the Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor and in the event of a General *concurso creditorum* affecting the Guarantor, the claims of Securityholders under the Guarantee will be satisfied after (but only after), and subject to the condition that, the claims of all Guarantor Senior and Subordinated Indebtedness have first been paid in full, other than claims of creditors of the Guarantor which (x) rank *pari passu* with the Securities or the Guarantee or (y) are junior to the Securities or the Guarantee, in the case of (x) or (y) whether expressly or in accordance with applicable law.

## 5. INTEREST

### 5.1 Interest Rate and Interest Payment Dates

Subject as provided in Condition 6, the Securities bear interest on their Current Principal Amount from and including 2 November 2006 (the **Interest Commencement Date**) payable annually in arrear on 2 November in each year commencing on 2 November 2007 to (and including) the First Call Date (each a **Fixed Interest Payment Date**) and thereafter on 2 February, 2 May, 2 August and 2 November in each year (together with each Fixed Interest Payment Date, an **Interest Payment Date** and each such payment, an **Interest Payment**). If any Interest Payment Date (other than a Fixed Interest Payment Date) would otherwise fall on a day which is not a Business Day it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day. The period from (and including) the Interest Commencement Date to (but excluding) the first Interest Payment Date and each successive period from (and including) an Interest Payment Date to (but excluding) the next succeeding Interest Payment Date is called an **Interest Period**.

Whenever it is necessary to compute an amount of interest in respect of the Securities for a period that ends prior to the First Call Date, such interest shall be calculated by applying the Fixed Rate of Interest to the Current Principal Amount of such Security, multiplying such sum by the Fixed Day Count Fraction and rounding the resultant figure to the nearest cent, half a cent being rounded upwards or otherwise in accordance with applicable market convention.

Whenever it is necessary to calculate an amount of interest in respect of the Securities for a period other than an Interest Period and such period begins on or after the First Call Date, such interest shall be calculated on the basis of the actual number of days in the relevant period divided by 360 and otherwise in accordance with paragraph 5.4 below.

### 5.2 Interest Accrual

Each Security will cease to bear interest from and including the due date for redemption unless, upon due presentation, payment of the principal in respect of the Security is improperly withheld or refused or unless default is otherwise made in respect of the payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Security have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Securities has been received by the Fiscal Agent and notice to that effect has been given to the Securityholders in accordance with Condition 14.

### 5.3 Rate of Interest

The rate of interest for each Interest Period up to (but excluding) the First Call Date shall be 4.892 per cent. per annum (the **Fixed Rate of Interest**). Thereafter, the interest payable from time to time in respect of the Securities (the **Rate of Interest**) will be determined on the basis of the following provisions:

- (a) On each Interest Determination Date, the Fiscal Agent or its duly appointed successor (in such capacity, the **Agent Bank**) will determine the Screen Rate at approximately 11.00 a.m. (Brussels time) on that Interest Determination Date. If the Screen Rate is unavailable, the Agent Bank will request the principal Euro-zone office of each of the Reference Banks to provide the Agent Bank with the rate at which deposits in euro are offered by it to prime banks in the Euro-zone interbank market for three months at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question and for a Representative Amount.
- (b) The Rate of Interest for the Interest Period shall be the Screen Rate plus the Margin or, if the Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) as established by the Agent Bank of such rates, plus the Margin.
- (c) If fewer than two rates are provided as requested, the Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by major banks in the Euro-zone, selected by the Agent Bank, at approximately 11.00 a.m. (Brussels time) on the first day of such Interest Period for loans in euro to leading European banks for a period of three months commencing on the first day of such Interest Period and for a Representative Amount, plus the Margin. If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be the last available Screen Rate on any Business Day preceding the relevant Interest Determination Date.

#### **5.4 Determination of Rate of Interest and Interest Amount**

The Agent Bank shall, as soon as practicable after 11.00 a.m. (Brussels time) on each Interest Determination Date, but in no event later than the third Business Day thereafter, determine the euro amount (the **Interest Amount**) payable in respect of interest on the Current Principal Amount of each Security for the relevant Interest Period. The Interest Amount shall be determined by applying the Rate of Interest to such Current Principal Amount, multiplying the sum by the actual number of days in the Interest Period concerned divided by 360 and rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

#### **5.5 Publication of Rate of Interest and Interest Amount**

The Agent Bank shall cause the Rate of Interest and the Interest Amount for each Interest Period starting on or after the First Call Date and the relative Interest Payment Date to be notified to the Issuer, the Guarantor, the Fiscal Agent as soon as possible after their determination, and in no event later than the second Business Day thereafter. The Interest Amount and Interest Payment Date may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period.

#### **5.6 Notifications**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank, will (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Guarantor, the Agents and all Securityholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer, the Guarantor or the Securityholders or the Couponholders shall attach to the Reference Banks (or any of them) or the Agent Bank in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition.

#### **5.7 Agent Bank**

The Issuer shall procure that, so long as any of the Securities remains outstanding, there is at all times an Agent Bank for the purposes of the Securities. The Issuer reserves the right at any time to vary or

terminate the appointment of the Agent Bank and to appoint a successor Agent Bank. In the event of the appointed office of any bank being unable or unwilling to continue to act as the Agent Bank or failing duly to determine the Rate of Interest and the Interest Amount for any Interest Period, the Issuer shall appoint a Euro-zone office of another major bank engaged in the Euro-zone interbank market to act in its place. The Agent Bank may not resign its duties or be removed without a successor having been appointed.

## **6. WAIVED INTEREST PAYMENTS**

### **6.1 Waived Interest Payments**

If and to the extent that a Trigger Event has occurred and is continuing or, as a result of the payment of the relevant Interest Payment would occur, on an Interest Payment Date, the relevant Interest Payment on the Securities will be waived and the Issuer will give a Waiver Notice.

If on any Optional Coupon Date no Trigger Event has occurred or is continuing, the Issuer may in its sole discretion decide that relevant Interest Payment on the Securities will be waived and the Issuer will give a Waiver Notice.

### **6.2 Waiver Notice**

In respect of any Interest Payment which the Issuer will waive pursuant to the provisions of this Condition, the Issuer shall give notice (a **Waiver Notice**) to the Securityholders and any Paying Agent that the Issuer will waive the relevant Interest Payment. Waiver Notices shall be given at least 16 Business Days prior to the applicable Interest Payment Date or, if a Trigger Event should occur at any time prior to an Interest Payment Date, as soon as practicable following the occurrence of such Trigger Event.

### **6.3 On-loan**

Following the delivery of a Waiver Notice in respect of an Interest Payment, the Issuer shall pay to the Guarantor by way of dividend or otherwise any relevant dividend or interest received by the Issuer pursuant to the terms of any on-loan of the proceeds of the Securities.

## **7. LOSS ABSORPTION**

### **7.1 Loss Absorption**

In the event of the occurrence of a Trigger Event, the board of directors of the Guarantor shall convene an extraordinary shareholders' meeting to be held during the three months following the occurrence of such Trigger Event and shall put forward a proposal to their shareholders for a share capital increase or such other measure as the board of directors of the Guarantor regards as necessary or useful to remedy such event.

If a share capital increase or any such other proposed measure is not adopted by the extraordinary shareholders' meetings of the Guarantor or if the share capital increase is not sufficiently subscribed to remedy such Trigger Event in full, or if such Trigger Event remains in effect for six months following the occurrence of such event, the board of directors of the Guarantor shall cause the Issuer to implement, within 10 days following the date that is six months following the occurrence of such event, a proportionate reduction of the Current Principal Amount of each Security (a **Loss Absorption**) necessary in order to remedy the Trigger Event to the fullest extent possible. Notwithstanding anything to the contrary, the nominal value of any Security shall never be reduced to an amount lower than one cent (EUR 0.01).

The amount by which the aggregate Current Principal Amount of the Securities is reduced to enable the Guarantor to absorb losses in order to ensure the continuity of its activities, shall be the lower of:



- (i) the amount by which the applicable regulatory capital solvency requirements exceed the solvency capital of the Guarantor on a consolidated basis at the time of the Trigger Event; and
- (ii) the aggregate amount of the Current Principal Amount of the Securities before such reduction (but not to below EUR 0.01 in respect of each Security as provided for above).

In the event of Loss Absorption, Interest Payments will only continue to be payable on the Current Principal Amount of the Securities until Reinstatement to the Original Principal Amount. Such Interest Payments may be waived as described above.

For the avoidance of doubt, the first remedy to the Trigger Event shall be the share capital increase or the implementation of any other measures adopted by the extraordinary shareholders' meetings of the Guarantor to remedy such Trigger Event. To the extent such increase of share capital or other measures are not sufficient, the Loss Absorption shall be applied against the Current Principal Amount of the Securities.

## 7.2 Reinstatement

If, following a Loss Absorption, the Guarantor has recorded positive Consolidated Profit for at least two consecutive fiscal years (a **Return to Profitability**) following the end of the most recent fiscal year in which there was a Loss Absorption (the **Absorption Year End**), the Guarantor may cause the Issuer to increase, and the Issuer shall increase, the Current Principal Amount of each Security (a **Reinstatement**) on any date and in an amount that they determine (either up to the Original Principal Amount or up to any other amount lower than the Original Principal Amount but in each case proportionate to the denomination held by each Securityholder), subject to any necessary regulatory approval.

Irrespective of whether a Return to Profitability has occurred, the Guarantor shall cause the Issuer to increase, and the Issuer shall increase, the aggregate Current Principal Amount of the Securities in an amount equal to the Mandatory Reinstatement Amount on the date of a Mandatory Reinstatement Event.

For the avoidance of doubt, following a Reinstatement, the aggregate Current Principal Amount of the Securities may never be greater than the aggregate Original Principal Amount of the Securities.

## 7.3 Reinstatement Upon Liquidation Or Bankruptcy

In the event of a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer or a judicial or voluntary liquidation (*liquidation judiciaire ou volontaire/gerechtelijke of vrijwillige vereffening*) (except for corporate reorganisations involving a voluntary dissolution without liquidation (*dissolution volontaire sans liquidation/vrijwillige ontbinding zonder vereffening*) as referred to in Articles 671-677 or 878-884 of the Belgian Code of Companies) or bankruptcy (*faillite/faillissement*) of the Guarantor, the Guarantor shall cause the Issuer to implement and the Issuer shall implement a Reinstatement, as necessary, in an amount up to the Original Principal Amount of the Securities, subject to any necessary regulatory approval.

The rights of the Securityholders in the event of such liquidation or bankruptcy will be calculated on the basis of:

- (i) the Original Principal Amount of the Securities they hold; plus
- (ii) an amount equal to unpaid Interest Payments, if any, thereon with respect to the current Interest Period accrued on a daily basis to the date of the decision of the court or the shareholders'

meeting relating to the liquidation or of the decision of the court relating to the bankruptcy, as the case may be.

No payments shall be made to any Securityholder unless and until all amounts due, but unpaid, to all other senior and subordinated creditors of the liquidated or bankrupt entity have been paid by the Guarantor or the Issuer, as the case may be, as ascertained by the liquidator or the trustee in bankruptcy.

## **8. PAYMENTS AND EXCHANGES OF TALONS**

### **8.1 Payments in respect of Securities**

Payments of principal and interest in respect of each Security will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Security, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

### **8.2 Method of Payment**

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

### **8.3 Missing Unmatured Coupons**

Each Security should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons). Upon the date on which any Security becomes due and repayable, all unmatured Coupons appertaining to the Security (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

### **8.4 Payments subject to Applicable Laws**

Payments in respect of principal and interest on Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 10.

### **8.5 Payment only on a Presentation Date**

A holder shall be entitled to present a Security or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 5, be entitled to any further interest or other payment if a Presentation Date is after the due date.

**Presentation Date** means a day which (subject to Condition 11):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Security or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a euro account as referred to above, is a Business Day.

In this Condition, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

## **8.6 Exchange of Talons**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 11. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Interest Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

## **8.7 Initial Paying Agents**

The name of the initial Paying Agent and its initial specified office is set out at the end of these Conditions. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents *provided that*:

- (a) there will at all times be a Fiscal Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Fiscal Agent) having its specified office in a European city which so long as the Securities are listed on the Luxembourg Stock Exchange shall be Luxembourg;
- (c) in the event that the Securities are in definitive form the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; and
- (d) if the requirement to pay Additional Amounts pursuant to Condition 10 would not arise if the Securities were presented at another paying agent in a jurisdiction within continental Europe other than the jurisdictions in which the Issuer or the Guarantor is incorporated, a Paying Agent will be appointed in such jurisdiction.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Securityholders promptly by the Issuer in accordance with Condition 12.

## **9. REDEMPTION AND PURCHASE**

### **9.1 No fixed redemption date**

The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provision of Conditions 3 and 12), only have the right to repay them in accordance with the provisions of this Condition 9.

Any optional redemption of Securities pursuant to this Condition 9 is subject to compliance with applicable regulatory requirements, including any required prior approval of the CBFA. In any event, no redemption of Securities will be permitted if, before giving effect to such redemption, a Trigger Event has occurred and is continuing or, as a result of giving effect to such redemption, would occur.

### **9.2 Redemption for tax reasons other than as a result of a Tax Law Change**

Upon the occurrence of a Tax Event other than as a result of a Tax Law Change, and subject to the conditions set forth in this Condition, the Issuer will have the right by giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14, at any time before the First Call Date, to redeem the Securities in whole (but not in part) at a redemption price equal to the greater of (x) the Make Whole Amount and (y) the Base Redemption Price.

### **9.3 Redemption for tax reasons as a result of a Tax Law Change**

Upon the occurrence of a Tax Event as a result of a Tax Law Change, and subject to the conditions set forth in this Condition, the Issuer will have the right by giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14, at any time before the First Call Date to redeem the Securities in whole (but not in part) at a redemption price equal to the Base Redemption Price.

### **9.4 Tier 1 Disqualification Event**

Upon the occurrence of a Tier 1 Disqualification Event, and subject to the conditions set forth in this Condition, the Issuer will have the right by giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14, at any time before the First Call Date, to redeem the Securities in whole (but not in part) at a redemption price equal to the greater of (x) the Make Whole Amount and (y) the Base Redemption Price.

### **9.5 Redemption at the option of the Issuer**

Subject to the conditions set forth in this Condition, the Issuer will have the right by giving not less than 30 nor more than 60 days' notice to the Securityholders in accordance with Condition 14, on the First Call Date or on any subsequent Interest Payment Date to redeem the Securities in whole (but not in part) at a redemption price equal to the Base Redemption Price.

### **9.6 No other redemption**

The Securities are not redeemable at the option of the Securityholders at any time. The Issuer shall not be entitled to redeem the Securities otherwise than as provided in paragraphs 9.2 to 9.5 above.

### **9.7 Purchases**

The Issuer, the Guarantor or any of the Guarantor's other Subsidiaries may at any time purchase Securities (provided that all unmatured Coupons appertaining to the Securities are purchased with the Securities) in any manner and at any price *provided that* any such purchase of Securities is subject to compliance with any applicable regulatory requirements, including any required prior approval of the CBFA. Such Securities may be held, reissued, resold or, at the option of the Issuer, surrendered to any Paying Agent for cancellation.

### **9.8 Cancellations**

All Securities which are (a) redeemed or (b) purchased by or on behalf of the Issuer, the Guarantor or any of the Guarantor's other Subsidiaries and surrendered to a Paying Agent for cancellation will forthwith be cancelled, together with all relative unmatured Coupons attached to the Securities or surrendered with the Securities, and accordingly may not be reissued or resold.

### **9.9 Notices**

Upon the expiry of any notice as is referred to in paragraphs 9.2 to 9.5 above the Issuer shall be bound to redeem the Securities to which the notice refers in accordance with the terms of such paragraph.

## **10. TAXATION**

### **10.1 Payment without Withholding**

All payments in respect of the Securities by or on behalf of the Issuer or the Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of any of the Relevant Jurisdictions, unless the withholding or deduction of the Taxes is required by

law. In that event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts (the **Additional Amounts**) as may be necessary in order that the net amounts received by the Securityholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Securities or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Security or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Security or Coupon by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Security or Coupon; or
- (b) presented for payment in Luxembourg or Belgium; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last Presentation Date (as defined in Condition 8) in that period of 30 days.

## 10.2 Interpretation

In these Conditions:

- (a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Securityholders by the Issuer in accordance with Condition 14; and
- (b) **Relevant Jurisdiction** means Luxembourg or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Issuer) or Belgium or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Guarantor) or in either case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or the Guarantor, as the case may be, becomes subject in respect of payments made by it of principal and interest on the Securities and Coupons.

## 10.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Securities shall be deemed also to refer to any additional amounts which may be payable under this Condition.

## 11. PRESCRIPTION

Securities and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Securities or, as the case may be, the Coupons, subject to the provisions of Condition 8. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this Condition or Condition 8.

## **12. REMEDIES EVENT AND LIQUIDATION OF THE ISSUER**

If any judgment is issued for a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer or if the Issuer has been liquidated for any other reason, then the Securities shall immediately become due and payable.

If a Remedies Event occurs and is continuing, the Securityholders may by written notice to the Issuer, institute proceedings to obtain the payment of the amounts due or compliance with the defaulted covenant or agreement provided that the Securityholders may not declare the aggregate principal amount of the Securities due and payable.

In connection with the institution of proceedings by Securityholders against the Issuer to obtain payments of any amounts due under the Securities, such Securityholders may require the Issuer to, and the Issuer shall, enforce any rights it may have under any intercompany loans it makes to any of the banking entities in the Dexia Group with the proceeds of the Securities.

## **13. REPLACEMENT OF SECURITIES AND COUPONS**

Should any Security or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent or the Paying Agent in Luxembourg, upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Securities or Coupons must be surrendered before replacements will be issued.

## **14. NOTICES**

### **14.1 Notices to the Securityholders**

All notices to the Securityholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Issuer may decide and, so long as the Securities are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in one daily newspaper published in Luxembourg. It is expected that publication will normally be made in the *d'Wort* or the *Tageblatt*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Securities are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. For as long as the Securities are admitted to trading on the regulated market and listed on the Official List of the Luxembourg Stock Exchange, any notice may, instead of its publication in a Luxembourg newspaper (as specified above) be published on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

## **15. MEETINGS OF SECURITYHOLDERS AND MODIFICATION**

### **15.1 Meetings of Securityholders**

The Agency Agreement contains provisions for convening meetings of the Securityholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or the Guarantee or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Securities for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Securities held or represented by him or them, except that at any meeting the business of which



includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Securityholders will be binding on all Securityholders, whether or not they are present at the meeting, and on all Couponholders.

## **15.2 Modification**

The Fiscal Agent may agree, without the consent of the Securityholders or Couponholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement either (i) for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in any other manner which is not materially prejudicial to the interests of the Securityholders. Any modification shall be binding on the Securityholders and the Couponholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Securityholders as soon as practicable thereafter in accordance with Condition 14. Any modification of any of these Conditions is subject to compliance with any applicable regulatory requirements, including any required prior approval of the CBFA.

## **16. USE OF PROCEEDS AND RESTRICTIONS**

The Issuer shall use reasonable efforts, including consultation with the Rating Agencies, to ensure that any on-loan (whether direct or indirect) from it to the Guarantor or any of the Guarantor's other subsidiaries of the proceeds of any issue of bonds, notes and debentures (whether senior or subordinated) issued by the Issuer (or any amendment to the terms of any on-loan or any transfer of such on-loan to a non-core operating company), does not reduce the then-current rating of the Securities.

The Issuer agrees not to issue any guarantees (whether through an agreement or instrument labelled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of any bonds, notes and debentures (whether senior or subordinated) of any Person.

## **17. FURTHER ISSUES**

The Issuer may from time to time without the consent of the Securityholders or Couponholders create and issue further securities, having terms and conditions the same as those of the Securities, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Securities.

## **18. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **18.1 Governing Law**

The Agency Agreement, the Guarantee, the Securities and the Coupons are governed by, and will be construed in accordance with, English law, save for Clause 6 of the Guarantee which shall be governed by, and construed in accordance with, Belgian law. For the avoidance of doubt, the provisions of Articles 86 to 94-8 of the Luxembourg law regarding Commercial Companies dated 10 August 1915, as amended, are excluded.

### **18.2 Jurisdiction of English Courts**

The Issuer and the Guarantor have irrevocably agreed for the benefit of the Securityholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Securities or the Coupons and accordingly have submitted to the exclusive jurisdiction of the English courts. The Issuer and the Guarantor waive any

objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

The Securityholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Securities or the Coupons respectively (together referred to as **Proceedings**) against the Issuer or the Guarantor in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### **18.3 Appointment of Process Agent**

Each of the Issuer and the Guarantor hereby irrevocably and unconditionally appoints Dexia Bank Belgium S.A., London Branch at its registered office for the time being as its agent for service of process in England in respect of any Proceedings and undertakes that in the event of such agent ceasing so to act it will appoint another person as its agent for that purpose.

### **18.4 Other Documents**

Each of the Issuer and the Guarantor has in the Agency Agreement and the Guarantee submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above.

## **19. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Security, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## SUMMARY OF PROVISIONS RELATING TO THE SECURITIES WHILE REPRESENTED BY THE GLOBAL SECURITIES

*The following is a summary of the provisions to be contained in the Temporary Global Security and the Permanent Global Security (together the **Global Securities**) which will apply to, and in some cases modify, the Terms and Conditions of the Securities while the Securities are represented by the Global Securities.*

### 1. Exchange

The Permanent Global Security will be exchangeable in whole but not in part (free of charge to the holder) for definitive Securities only on an Exchange Event.

**Exchange Event** means:

- (a) a Remedies Event (as set out in Condition 12) has occurred and is continuing; or
- (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available.

The Issuer will promptly give notice to Securityholders if an Exchange Event occurs. The holder of the Permanent Global Security, acting on the instructions of one or more of the Accountholders (as defined below), may give notice to the Issuer and the Fiscal Agent of its intention to exchange the Permanent Global Security for definitive Securities on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Security may surrender the Permanent Global Security to or to the order of the Fiscal Agent. In exchange for the Permanent Global Security the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Securities (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Security), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Agency Agreement. On exchange of the Permanent Global Security, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Securities.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given, being a day on which banks are open for general business in the place in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

### 2. Payments

On and after 12 December 2006, no payment will be made on the Temporary Global Security unless exchange for an interest in the Permanent Global Security is improperly withheld or refused. Payments of principal and interest in respect of Securities represented by a Global Security will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Securities, surrender of such Global Security to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Securityholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Security by or on behalf of the Fiscal Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Securities. Payments of interest on the Temporary Global Security (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

### 3. Notices

For so long as all of the Securities are represented by one or both of the Global Securities and such Global Security/Global Securities is/are held on behalf of Euroclear and/Clearstream, Luxembourg, notices to Securityholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 14, *provided that*, so long as the Securities are listed on the Luxembourg Stock Exchange, notice will also be given by publication in a daily newspaper published in Luxembourg if and to the extent that the rules of the Luxembourg Stock Exchange so require. Any such notice shall be deemed to have been given to the Securityholders on the day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

### 4. Accountholders

For so long as all of the Securities are represented by one or both of the Global Securities and such Global Security/Global Securities is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of Securities (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Securities standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of that principal amount for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Securityholders and giving notices to the Issuer pursuant to Condition 12) other than with respect to the payment of principal and interest on the principal amount of such Securities, the right to which shall be vested, as against the Issuer solely in the bearer of the relevant Global Security in accordance with and subject to its terms. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Security.

So long as any Securities are represented by a Temporary Global Security and/or a Permanent Global Security and the relevant clearing system(s) so permit, the Securities will be tradeable only in principal amounts of at least €50,000 and integral multiples of €1,000 in excess thereof.

### 5. Prescription

Claims against the Issuer and the Guarantor in respect of principal and interest on the Securities represented by a Global Security will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 10).

### 6. Cancellation

Cancellation of any Security represented by a Global Security and required by the Terms and Conditions of the Securities to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Fiscal Agent of the reduction in the principal amount of the relevant Global Security on the relevant part of the schedule thereto.

### 7. Euroclear and Clearstream, Luxembourg

Securities represented by a Global Security are transferable in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as appropriate. References in the Global Securities and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system through which interests in the Securities are held.

## GUARANTEE

*The following is the Guarantee substantially in the form to be executed by the Guarantor.*

**THIS SUBORDINATED DEED OF GUARANTEE** (the **Guarantee**) dated 2 November 2006 is executed and delivered by **DEXIA SA**, a public company with limited liability incorporated under the laws of Belgium, with its registered office at Place Rogier 11, B-1210 Brussels, Belgium and registered with the register of legal entities of Brussels under enterprise number 458,548,296 (the **Guarantor**) for the benefit of the Securityholders (as defined below).

WHEREAS:

- (A) Dexia Funding Luxembourg S.A. (the **Issuer**) desires to issue on the date hereof Fixed Rate/Floating Rate Perpetual Non-cumulative Guaranteed Securities in an aggregate amount of €500,000,000 (the **Securities**).
- (B) The Securities will be issued pursuant to an Agency Agreement dated 2 November 2006 between, among others, the Guarantor, the Issuer and Dexia Banque Internationale à Luxembourg, société anonyme as Fiscal Agent.
- (C) The Guarantor desires to enter into this Guarantee for the benefit of the Securityholders.

**NOW, THEREFORE** the Guarantor executes and delivers this Guarantee as a deed poll for the benefit of the Securityholders.

### 1. DEFINITIONS AND INTERPRETATION

In this Guarantee, unless the context otherwise requires:

- (a) capitalised terms used in this Guarantee but not otherwise defined herein shall have the respective meanings assigned to them in Conditions of the Securities (the **Conditions**);
- (b) a term defined anywhere in this Guarantee has the same meaning throughout;
- (c) all references to the **Guarantee** or this **Guarantee** are to this Guarantee as modified, supplemented or amended from time to time;
- (d) all references in this Guarantee to Clauses and Subclauses are to Clauses and Subclauses of this Guarantee, unless otherwise specified;
- (e) all references to the singular include the plural and vice versa; and
- (f) any reference in this Guarantee to any amounts in respect of the Guarantee shall be deemed also to refer to any additional amounts which may be payable under Clause 5.3 of this Guarantee.

### 2. SUBORDINATED GUARANTEE

For value received, the Guarantor hereby irrevocably and unconditionally guarantees (the **Guarantee**) in respect of each Security due and punctual payment (without double counting) of:

- (a) any Coupons which are not waived as described in Condition 6;
- (b) the Base Redemption Price payable when the Securities become payable in accordance with their terms in the event of a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer; and

- (c) the Base Redemption Price or Make Whole Amount, as applicable, payable when the Securities become payable in accordance with their terms in the event of a redemption pursuant to Condition 9.

The obligations of the Guarantor to make available such funds may be satisfied by direct payment of the required amounts, by the Guarantor to the Securityholders.

### **3. NO RIGHT TO SET-OFF**

No Securityholder may set off any claims arising under the Guarantee against claims that the Guarantor may have against it. The Guarantor may set off against any claims of any Securityholder under the Guarantee only if the appropriate regulatory authority has given its consent to the set-off, and subject to there existing no Trigger Event.

### **4. REMEDY FOR NON-PAYMENT**

- (a) In any event resulting in a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer, whether due to a Remedies Event or otherwise, the Securityholders, by written notice to the Guarantor, may institute proceedings against the Guarantor to obtain the payment of the amounts due or to obtain compliance with the defaulted covenant or agreement or to obtain the bankruptcy of the Guarantor (or any analogous proceeding which may be available from time to time under the laws of Belgium). The Securityholders may not declare the principal amount of the Securities due and payable.
- (b) If a liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer has occurred and there exists a Trigger Event, any Securityholder may institute bankruptcy proceedings against the Guarantor exclusively in Belgium. The amount of any claim which may be sought in any such proceeding shall be determined as set forth above under Clause 2.
- (c) If a Remedies Event occurs and is continuing, the Securityholders may, by written notice to the Guarantor, institute proceedings to obtain the payment of the amounts due or compliance with the defaulted covenant or agreement provided that the Securityholders may not declare the aggregate principal amount of the Securities due and payable.

### **5. SCOPE OF AGREEMENT**

#### **5.1 Obligations Not Affected**

The obligations of the Guarantor under this Guarantee shall in no way be affected or impaired by reason of the happening from time to time of any of the following:

- (a) the extension of time for the payment by or on behalf of the Issuer of all or any portion of the coupons payable under the Conditions or any other sums payable under the Conditions or the extension of time for the performance of any other obligation under, arising out of, or in connection with, the Securities; *provided, however*, that nothing in this Guarantee shall affect or impair a valid extension;
- (b) any failure, omission, delay or lack of diligence on the part of the Securityholders to enforce, assert or exercise any right, privilege, power or remedy conferred on the Securityholders



pursuant to the Conditions or this Guarantee, or any action on the part of the Issuer granting indulgence or extension of any kind;

- (c) the liquidation or bankruptcy (including, without limitation, any bankruptcy (*faillite*), insolvency, voluntary or judicial liquidation (*liquidation volontaire ou judiciaire*), composition with creditors (*concordat préventif de faillite*), reprieve from payment (*sursis de paiement*), controlled management (*gestion contrôlée*), fraudulent conveyance (*actio pauliana*), general settlement with creditors or reorganisation proceedings or similar proceedings affecting the rights of creditors generally) of the Issuer;
- (d) any invalidity of, or defect or deficiency in, the Securities;
- (e) the settlement or compromise of any obligation guaranteed or incurred hereby;
- (f) the release or waiver, by operation of law or otherwise, of the performance or observance by the Issuer if any express or implied agreement, covenant, term or condition relating to the Securities to be performed or observed by or on behalf of the Issuer;
- (g) any other circumstance whatsoever that might otherwise constitute a valid discharge or defence of the Guarantor, it being the intent of this Subclause 5.1 that the obligations of the Guarantor shall be absolute and (subject to the subordinated provisions) unconditional under any and all circumstances, in accordance with the terms of this Guarantee,

it being understood and agreed that there shall be no obligation of the Issuer to give notice to, or obtain the consent of, the Guarantor with respect to the occurrence of any of the foregoing.

## **5.2 Action Against the Guarantor**

The Guarantor waives any right or remedy to require that any rights of the Securityholders under this Guarantee be exercised or that any action be brought first against the Issuer or any other person or entity before proceeding directly against the Guarantor.

## **5.3 Taxes**

All payments by the Guarantor under this Guarantee shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of Belgium, or any political sub-division of, or any authority in, or of, Belgium having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the holders of the Securities and Coupons after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Securities or, as the case may be, Coupons, in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Security or Coupon:

- (i) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Security or Coupon by reason of his having some connection with Belgium other than the mere holding of the Security or Coupon; or
- (ii) presented for payment in Belgium;
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (iv) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Security or Coupon to another Paying Agent in a Member State of the European Union; or

- (v) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last Presentation Date in that period of 30 days.

#### **5.4 Other obligations**

The Guarantor agrees that it will comply with all obligations imposed on it pursuant to the Conditions of the Securities.

### **6. RANKING**

The payment obligations of the Guarantor under this Guarantee constitute direct, unsecured and subordinated obligations of the Guarantor and in the event of a General *concursum creditorum* affecting the Guarantor, the claims of Securityholders under the Guarantee will be satisfied after (but only after, and subject to) the claims of all holders of Guarantor Senior and Subordinated Indebtedness have first been paid in full, other than claims of creditors of the Guarantor which (x) rank *pari passu* with the Securities or the Guarantee or (y) are junior to the Securities or the Guarantee, in the case of (x) or (y) whether expressly or in accordance with applicable law.

All payments in respect of the Securities made by the Guarantor pursuant to the Guarantee will be made only in accordance with the subordination provisions described above.

### **7. EFFECTIVENESS AND TERMINATION**

This Guarantee shall become effective as of the date hereof, and shall terminate upon, and be of no further force and effect from the redemption of all (but not less than all) of the Securities by the Issuer:

- (a) on the First Call Date or any subsequent Regular Coupon Date, as described in Condition 9; or
- (b) at any time before or after the First Call Date upon the occurrence of a Tax Event or a Tier 1 Disqualification Event as described in Condition 9,

*provided* that, notwithstanding the foregoing, this Guarantee will continue to be effective or will be reinstated, as the case may be, if at any time any Securityholder must refund or return any sums paid or under this Guarantee, in each case for any reason whatsoever.

### **8. MISCELLANEOUS**

#### **8.1 Amendments**

- (a) Except for those changes provided for in paragraph (b) of this Subclause 8.1, this Guarantee may be modified by the parties thereto only with the prior approval of an Extraordinary Resolution of the Securityholders.
- (b) This Guarantee may be amended without the consent of Securityholders to:
  - (i) amend, waive or otherwise modify any provision incorporated by reference from or defined with reference to the Conditions for purposes of this Guarantee, provided such amendment, waiver or other modification is implemented in accordance with the Conditions;
  - (ii) cure any ambiguity;
  - (iii) correct or supplement any provision in this Guarantee that may be defective or inconsistent with any other provision of Guarantee;
  - (iv) add to the covenants, restrictions or obligations of the Guarantor; or
  - (v) subject to applicable English law, modify, eliminate and add to any provision of this Guarantee,

*provided* that no such amendment shall have a material adverse effect on the rights, preferences or privileges of Securityholders or affect the ranking of the Guarantee, as determined by the Issuer and the Guarantor.

## **8.2 Assignment**

The Guarantor will not assign its obligations under this Guarantee, except in the case of a merger, consolidation or a sale of substantially all of its assets in which the Guarantor is not the surviving entity.

## **8.3 Notices**

Any notice, request or other communication required or permitted to be given hereunder to the Guarantor shall be given in writing by delivering the same against receipt therefor or be addressed to the Guarantor, as follows, to:

Dexia SA  
Place Rogier 11  
B-1210 Brussels

Attention: Olivier Van Herstraeten, Secretary General  
Telephone: +322 213 57 36  
Facsimile: +322 213 58 90

The address of the Guarantor may be changed at any time and from time to time and shall be the most recent such address furnished in writing by the Guarantor to the Fiscal Agent for the Securities.

Any notice, request or other communication required or permitted to be given hereunder to the Securityholders shall be given by the Guarantor in the same manner as notices sent on behalf of the Issuer to Securityholders.

This Guarantee is solely for the benefit of the Securityholders and is not separately transferable from their interests in respect of the Preferred Securities.

## **8.4 Governing Law**

This Guarantee shall be governed by, and construed and interpreted in accordance with, the laws of England except for Clause 6 hereof, which shall be governed by and construed in accordance with the laws of Belgium.

## **8.5 Jurisdiction**

The Guarantor agrees for the benefit of the Securityholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Securities (respectively **Proceedings** and **Disputes**) and, for such purposes, irrevocably submits to the jurisdiction of such courts.

The Guarantor irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.

## **8.6 Appointment of Service of Process Agent for Guarantor**

The Guarantor agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to it at the offices of Dexia Bank Belgium S.A., London Branch of Shackleton House, Hay's Galleria, 4 Battle Bridge Lane, London SE1 2GZ or at any address in Great Britain at which service of process may be served on it in accordance with Part XXIII of the Companies Act 1985. If the appointment of the person mentioned in this Subclause 8.6 ceases to be effective, the

Guarantor shall forthwith appoint a further person in England to accept service of process on its behalf in England and shall immediately notify Securityholders of such appointment in accordance with the terms and conditions of the Securities. Nothing in this paragraph shall affect the right of any Securityholder to serve process in any other manner permitted by law.

The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of any Securityholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

**IN WITNESS** whereof this Guarantee has been entered into as a deed by the Guarantor on the date which appears first on page 1.

EXECUTED as a            )  
deed by **DEXIA SA**        ) .....  
acting by                 )  
and                         ) .....

## **USE OF PROCEEDS**

The Issuer will use the net proceeds of the issue and sale of the Securities to on-lend to certain of the banking entities within the Dexia Group in a form approved by the applicable regulator of such banking entity such that any on-loan will be treated as solvency capital for the applicable banking entity.

## DESCRIPTION OF THE ISSUER

### General

The Issuer was incorporated under the laws of the Grand Duchy of Luxembourg as a public limited liability company (*société anonyme*) under the name Dexia Funding Luxembourg S.A. The Issuer is a special purpose financing vehicle formed by the Guarantor and incorporated on 12 October 2006 for an unlimited duration. The Issuer's registered office (*siège social*) is located at 69 route d'Esch, L-2953 Luxembourg, Grand Duchy of Luxembourg and its correspondence address is at its registered office. The Issuer is in the process of registration with the Luxembourg Register of Commerce and Companies. The articles of incorporation of the Issuer have not been amended since its incorporation. The telephone number of its registered office is +352 269 255. The issued share capital of the Issuer is EUR 31,000 which is fully paid up and divided into 31 ordinary shares with a nominal value of EUR 1,000 each and held by Dexia SA.

### Business

As set forth in its articles of incorporation, the sole purpose of the Issuer is to provide a vehicle for the issuance of securities and investing the proceeds thereof in loans or other instruments (other than ordinary share capital) issued by any of the banking entities in the Dexia Group. Each issue of securities by the Issuer will be on-lent to a Dexia Group banking entity so that the ranking of such borrowing by the Dexia Group banking entity will equate to the ranking of the relevant class of securities. In other words, proceeds of unsubordinated securities will be on-lent on an unsubordinated basis, proceeds of tier 2 qualifying securities will be on-lent on a tier 2 ranking basis and proceeds of tier 1 qualifying securities (including the Securities) will be on-lent on a tier 1 ranking basis. The Issuer will not carry out any activities falling within the scope of the Luxembourg law of 5 April 1993 on the financial sector, as amended.

The Issuer is not subject to the Luxembourg law of 5 April 1993 on the financial sector, as amended, and is not subject to the ordinary supervision of the CSSF.

Since the Issuer is a finance company whose sole business is raising debt to be on-lent to the banking entities in the Dexia Group on an arm's-length basis, the Issuer is accordingly dependent on such companies servicing these loans.

Other than the execution of the Subscription Agreement, the Agency Agreement and the Securities (each as defined in this Prospectus), the Issuer has not entered into any contract outside the ordinary course of its business which could result in the Issuer being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to the Securityholders.

### Principal Subsidiaries and Associated Companies

The Issuer does not have any subsidiaries or associated companies.



## Board of Directors of the Issuer

The following sets out the current members of the Board of Directors of the Issuer as at the date hereof and their principal outside activities:

<u>Name</u>	<u>Principal Outside Activity</u>	<u>Business Address</u>
Experta Corporate and Trust Services, S.A., Luxembourg	a limited liability company, incorporated under the laws of Luxembourg, having its registered office at 180 rue des Aubépines, L-1145 Luxembourg (Grand Duchy of Luxembourg), registered with the Luxembourg Trade and Companies Register under number B 29.597	180 Rue des Aubépines, L-1145 Luxembourg
Olivier Van Herstraeten	Secretary-General, Dexia SA	Place Rogier 11, B-1210 Brussels
Michel Buysschaert	Mergers and Acquisitions, Dexia SA	Place Rogier 11, B-1210 Brussels
Stéphane Vermeire	Projets & Stratégies Filiales, Dexia SA	Place Rogier 11, B-1210 Brussels
Claude Schon	Member of the Executive Committee of Dexia Treasury and Financial Markets, Dexia SA, Luxembourg Branch	69 route d'Esch, L-2953 Luxembourg
Pierre Malevez	Member of the Executive Committee of Dexia Banque Internationale à Luxembourg société anonyme	69 route d'Esch, L-2953 Luxembourg

There are no potential conflicts of interest between the duties to the Issuer of the persons listed above and their private interests or other duties.

## Major Shareholder

The shareholder of the Issuer is the Guarantor.

## DESCRIPTION OF THE GUARANTOR

### INTRODUCTION

The Dexia Group provides financial services to the local public sector, retail and private banking services, asset management, insurance and investor services in various parts of the world, mainly in Europe and in the United States.

The parent company of the Dexia Group is Dexia SA, which is a limited liability company and is incorporated and domiciled in Belgium. The Guarantor was incorporated for an indefinite period on 15 July 1996 under Belgian law with enterprise number 458,548,296. The address of its registered office is Place Rogier 11, B-1210 Brussels, Belgium and the telephone number is +322 213 50 01. Dexia SA is listed on the Euronext Stock Exchange in Paris and in Brussels and on the Luxembourg Stock Exchange.

The Dexia Group was created from the alliance in 1996 of two major players in local public finance in Europe: Crédit local de France and Crédit Communal de Belgique. Both institutions, together with Banque Internationale à Luxembourg (BIL) were united in 1999 into one publicly quoted company named Dexia SA. As a pioneer of European cross-border consolidation, Dexia Group has a development strategy based on the two pillars of the Dexia Group: Public/Project Finance worldwide and Universal Banking activities in Europe. The Dexia Group ranks among the 20 largest financial institutions of the eurozone (source: management estimate based on market capitalisation), and services two main markets:

- **Local public sector**

Since its merger in 1999 and the subsequent acquisition of Financial Security Assurance (FSA) in the US, the Dexia Group has become the world's largest player in local public finance. The Dexia Group's high level of expertise, its long-term outlook and the very high solvency of its customers ensure a superior quality of franchise.

- **Personal sector**

The Dexia Group is also a leading retail bank in Belgium, servicing the financial needs of several million customers. Its commercial presence was enlarged with the acquisition of Artesia Banking Corporation in 2001. In 2006, Dexia Group acquired DenizBank, one of the leading banking franchises in Turkey. Over the years, and initially from its Luxembourg base, the Dexia Group has also developed private banking services catering for affluent customers in Belgium, France and other European countries.

### BUSINESS LINES

#### **Public/Project Finance and Credit Enhancement**

The Dexia Group's global leadership in public finance is deservedly renowned. The Dexia Group operates several subsidiaries and branches in twenty-six countries worldwide. The main ones are Dexia Crédit Local in France and its main subsidiaries abroad, Dexia Bank in Belgium, Dexia Crediop in Italy and FSA in the United States. The very large size of the market, the quality and solvency of borrowers, and the large and growing needs for essential public infrastructures offer wide opportunities for the Dexia Group to underwrite valuable business and expand its international coverage. Size, innovation, expertise and a long-term view are the key ingredients of the Dexia Group's success in this business line, which represents over one half of its earnings. Execution is provided in a variety of ways from straightforward lending to sophisticated project financing schemes and credit enhancement. In addition, insurance, payments, asset management and other services are offered to the Group's clientele.

#### **Personal Financial Services**

In Belgium, Dexia Bank is one of the country's top players in retail banking. It offers a complete range of banking and insurance services to a clientele of households and small and medium-sized enterprises. In Luxembourg, Dexia BIL has a similar position among the retail banks of the Grand Duchy. In Turkey,

DenizBank is the tenth largest bank (source: Banking Regulation and Supervision Agency Annual Report 2005) and has a countrywide coverage (1.4 million retail customers). In Luxembourg, a private banking business has been developed over the years and now extends beyond Belgium and Luxembourg. Several units and joint ventures have been acquired/developed in a number of European countries, including France, Spain, Switzerland and Slovakia.

### **Treasury and Financial Markets**

Dexia Group's principal businesses give the Dexia Group an intensive presence in the capital markets, whether for the funding and management of the Dexia Group's balance sheet, or for the engineering of sophisticated products and solutions delivered to clients of the various business lines. This business segment is not only a key support entity for the whole Dexia Group, but it is also an important profit centre which generates substantial earnings.

### **Specialised units**

The fast developments of the Dexia Group in its two main markets, and its strong franchise in Luxembourg, have given rise to specialist activities in Asset Management, Insurance and Investor Services. Dexia Asset Management is highly renowned in Europe and today distributes over one third of its products among institutions and through third party channels. Dexia Insurance Services supplies all the life and non-life insurance products sold in the retail networks of the Dexia Group in Belgium, Luxembourg and in France. In investor services, RBC Dexia Investor Services has recently been formed as a joint venture with Royal Bank of Canada and ranks among the ten largest custodian banks worldwide.

### **ACTIVITY PORTFOLIO AND BUSINESS MODEL**

The Companies in the 1996 alliance shared the same high financial standing and values, and brought to the union their two different business models: Crédit local de France, later renamed Dexia Crédit Local, was essentially an originator of long-term credit facilities, raising its funding almost exclusively on the bond markets; symmetrically, Crédit Communal de Belgique, later renamed Dexia Bank Belgium, was a network of local branches collecting retail deposits from private individuals, and recycling the majority of them in the form of loans to municipalities.

The alliance has met and even exceeded its initial ambitions. The two founding institutions have been able to expand their activities in several directions; for example, the products on offer are now wider-ranging in the two markets that are served, the client base has been strongly developed both in number and types and the geographic scope of the Dexia Group is now much broader, with a presence in 30 countries. Today, the Dexia Group is one of the very few banking institutions which hold global leadership in one specific business (Public/Project Finance) whilst being a strong local retail player in Belgium and Luxembourg and now also in Turkey, giving it a unique spread in terms of portfolio mix and geographic contributions to earnings.

The Dexia Group's business model is today much like that of its European peers, with a spread of contributions from retail networks, institutional clientele, the capital markets and specialist activities. Dexia Group works on the strengths of its client base of 5.5 million in Belgium, Luxembourg and Turkey and enjoys a good market share owing to its 'state of the art' products and services.

The Dexia Group is also a unique player in the financial services industry, because it is the world leader in Public/Project Finance. In this area, its business model is in fact a combination of several business models. It can take a 'retail' approach, as in Belgium, where the complete range of services is offered to local authorities. It can also take a 'wholesale/investment banking' approach as in France, Italy or the United States, where only some products or services, with high added value, are offered to selected segments of the market. This capacity to execute the business in different ways has given the Dexia Group a major competitive advantage in the deployment of its international strategy. For instance, the Dexia Group has successfully established itself in Spain and Austria by setting up a joint, highly specialised, public finance subsidiary with a local retail bank which operates on the local market. In other cases, following an acquisition, the Dexia Group wholly or partly owns a company conducting specialist activities (e.g. Dexia Crediop in Italy; FSA, a US major in the credit enhancement of municipal bonds; or Dexia Kommunalbank

Deutschland, formerly Dexia Hypothekenbank Berlin, a holder and manager of German public authority funding instruments). Lastly, the Dexia Group may own and directly operate a fully-fledged ‘bank of the municipalities’, such as Dexia Banka in Slovakia, which operates a similar business model to that of Dexia Bank in Belgium. Not only has the Dexia Group all the means to deploy its strategy by applying the right business model in the right place, but its established experience in public finance has also allowed it, in many countries, to transform a ‘demand-side’ market, where the products are quasi-commodities and where winning a transaction is only a matter of price, into a ‘supply-side’ market where public finance customers are willing to discuss not only a single piece of new debt, but also all possible solutions to their overall financial and risk management needs.

Other than the execution of the Subscription Agreement, the Agency Agreement and the Guarantee (each as defined in this Prospectus), the Guarantor has not entered into any contract outside the ordinary course of its business which could result in the Guarantor being under an obligation or entitlement that is material to the Guarantor’s ability to meet its obligations to the Securityholders.

## SHAREHOLDERS

The following table shows the principal shareholders of Dexia SA (as of 1 October 2006):

<b>Name of shareholder</b>	<b>Percentage of existing shares held as of 1 October, 2006</b>
Arcofin	17.51 per cent.
Holding Communal	16.67 per cent.
Caisse des dépôts et consignations	11.60 per cent.
Groupe Ethias	6.27 per cent.
CNP Assurances	2.00 per cent.

## MANAGEMENT OF THE DEXIA GROUP

The Dexia Group was created in 1996 from Europe’s first cross-border union in the banking sector, between Crédit Communal de Belgique and Crédit local de France. This initiative anticipated the emergence of a single currency and financial area in Europe. At first, the two entities were placed under the joint and equal control of two holding companies, one in Brussels and the other in Paris. In 1999, the Dexia Group was unified following the merger of the two holding companies, to form Dexia SA, a company under Belgian law with its registered office in Brussels. Dexia SA is listed on the Euronext market and is part of the CAC 40 and BEL20 indices.

At the time of its unification in 1999, Dexia SA was structured so that it was controlled by a Management Board, itself chaired by the Chief Executive Officer and composed of a total of seven members, among which three were in charge both of a business line and an operating entity. That structure remained until the end of 2005, but was recast when the new Chief Executive Officer took office on 1 January 2006. That reorganisation, described below, was conceived so that the Dexia Group might operate in an even more integrated, rapid and effective manner than before, in order to take account of an environment presenting new challenges every day. Furthermore, in terms of governance, a Corporate Governance Charter was drawn up and put in place in 2005.

The operational management of the Dexia Group is currently organised as follows.

- The general management body at Dexia Group is the Management Board. This is composed of five members. It is chaired by Axel Miller, Chief Executive Officer; the other members are Jacques Guerber, Vice Chairman, Dirk Bruneel, Rembert von Lowis and Xavier de Walque. The mission of the Management Board consists of steering the Dexia Group and defining its strategy, responding to challenges and developing its human resources. Furthermore, in order to allow a quick decision-making process, four out of the five members of the Management Board are members of the

Management Boards of the Dexia Group's major entities. Together with the head of the entity, they form the top management body of each entity.

- The Group Executive Committee, which deals with the central steering of the entire Dexia Group, consists of the five members of the Group Management Board, plus six Executive Vice Presidents in charge of the business lines and the principal horizontal functions within the entire Dexia Group:
  - Public Finance, under the charge of Bruno Deletré;
  - Personal Financial Services (to be appointed);
  - Treasury and Financial Markets, under the charge of Alain Delouis;
  - Finance, under the charge of Luc Auberger (appointed as from 27 November 2006);
  - Risk Management, under the charge of Claude Piret; and
  - Operations and IT, under the charge of Marc Huybrechts.
- Each of the management bodies of the three main operating entities of the Dexia Group (Management Boards of Dexia Crédit Local, Dexia Bank and Dexia BIL) is composed of five members: four members of the Group Management Board and the Chairman of the management organ of the operating entity concerned. Moreover, the chairmen of the Management Board of Dexia Asset Management, Dexia Insurance Services and RBC Dexia & Investor Services also report directly to the Group Management Board.
- Finally, those in charge at Dexia Group level of Strategy and Development (Stéphane Vermeire), Communication (Robert Boubilil), Audit (Véronique Thirion), Compliance (Marie Bourlond), Human Resources (Nicolas Meire) and General Secretariat, Legal and Tax Department (Olivier Van Herstraeten) report directly to the Chief Executive Officer.

The cohesion of the decision-making and management process of the Dexia Group is thus ensured by the majority presence of members of the Group Management Board within the management bodies of the operating entities, and by the existence of seven Dexia Group divisions charged with monitoring the business lines and the major horizontal functions.

#### **Members of the Board of Directors of Dexia SA<sup>(1)</sup>**

The bylaws of Dexia SA stipulate that the Board is composed of between sixteen and twenty directors. The Board of Directors is currently composed of nineteen members.

The Board of Directors of Dexia SA reflects the European identity of the Dexia Group with five nationalities represented. There is also the same number of French and Belgian directors, consistent with the Franco-Belgian legal identity of Dexia SA, with each nationality representing at least one third of the Board.

The table hereunder shows the current situation:

<b>Names</b>	<b>Business Addresses</b>	<b>Primary function</b>	<b>Other mandates/functions (outside the Dexia Group)</b>
Axel Miller	11 Place Rogier, B-1210 Brussels	Group Chief Executive Officer and chairman of the Management Board, Dexia SA	Crédit du Nord Ethias Vie L.V.I. Holding (Carmeuse Natural Chemicals)

<sup>1</sup> Article 2 of the Law of 6 August 1931 (Belgian Gazette of 14 August 1931) forbids ministers, former ministers and State Ministers as well as members or former members of Legislative Assemblées to mention their status as such in acts and publications of profit-making companies.

<b>Names</b>	<b>Business Addresses</b>	<b>Primary function</b>	<b>Other mandates/functions (outside the Dexia Group)</b>
Pierre Richard	7-11 Qui André Citroën, F-75015 Paris or 11 Place Rogier , B-1210 Brussels	Chairman of the Board of Directors, Dexia SA	Crédit du Nord Le Monde Air France/KLM Generali France
Gilles Benoist <i>Independent director</i>	4 Place Raoul Dautry, F-75015 Paris	Chairman of the Management Board, CNP Assurances	Groupe Caisse des Dépôts
Rik Branson	6 Livingstonelaan, B-1000 Brussels	Chairman of the Management Board, Arcofin	Arcopar Arcoplus Auxipar Arcosyn Interfinance E.P.C. ACW-Koepel van Christelijke werknemersorganisaties National Bank of Belgium
Guy Burton	10 rue des Prémontrés, B-4000 Liège	Chief Executive Officer and Chairman of the Management Board, Ethias	Union des associations d'assurance mutuelle Nateus SA Network Research Belgium (NRB) Incotech Ame Life Lux Ame Holding Ame Lux Audi Azur-GMF Ethias Assurances Ethias Banque Ethias Informatique Ethias Informatica E-Santé FIL Liège G.I. G.I.E.I. Legibel GIE N.R.B. SA Palais des expositions de Charleroi S.L.F. Finances S.L.F. Immo S.L.F. Participations
Anne-Marie Idrac <i>Independent director</i>	34 rue du Commandant Mouchotte, F-75699 Paris	Chairwoman and Chief Executive Officer, SNCF	Member of the Conseil économique et social



<b>Names</b>	<b>Business Addresses</b>	<b>Primary function</b>	<b>Other mandates/functions (outside the Dexia Group)</b>
Fabio Innocenzi <i>Independent director</i>	2 Piazza bogara, I-37121 Verona	Chief Executive Officer, Banco Popolare di Verona e Novara	Credito Bergamasco Banca Popolare di Novara Banca Aletti & C. Banca Per Il Leasing – Italease Aletti Merchant Aletti Gestielle SGR BPV VITA A.B.I. (Associazione Bancaria Italiana) Banka Sonic D.D.
Denis Kessler <i>Independent director</i>	1 avenue Général De Gaulle, F-92074 Paris La Défense Cédex	Chairman and Chief Executive Officer, SCOR Group	SCOR Life US Reinsurance (USA) SCOR Reinsurance Company (USA) SCOR US Corporation (USA) BNP Paribas SA Bolloré Investissement SA Dassault Aviation Cogedim AMVESCAP Plc SCOR Vie SDC GIMAR Finance & Cie SCOR Canada Reinsurance Company SCOR Italia Riassicurazioni SCOR Deutschland Communication et Participation
Serge Kubla	1 bte2 rue du tan, B-5000 Namur (mail)	Burgomaster of Waterloo (Belgium)	IP Trade
André Levy-Lang <i>Independent director</i>	48 boulevard Emile Augier, F-75007 Paris	Associate Professor [émérite], Université Paris-Dauphine	Schlumberger AGF Institut Europlace de Finance SCOR SCOR Vie Paris-Orléan
Bernard Lux	20 Place du Parc, B-7000 Mons	Rector-Chairman of the Université de Mons-Hainaut	WHESTIA SOGEP SWL (Société wallonne du logement)

<b>Names</b>	<b>Business Addresses</b>	<b>Primary function</b>	<b>Other mandates/functions (outside the Dexia Group)</b>
Dominique Marcel	56 rue de Lille, F-75007 Paris	Financial Director of the Groupe Caisse des Dépôts Member of the Management Board of Caisse des dépôts et consignations	Accor CNP Assurances Caisse des dépôts et consignations Caisses Nationale des Caisses d'Épargne et de Prévoyance (CNCE) Icade Compagnie des Alpes CDC DI GMBH CDC Entreprises CDC Holding Finances SA CNP Assurances Financière Transdev Théâtre des Champs Elysées Société forestière de la CDC Société Nationale Immobilière Transdev
Francis Mayer	56 rue de Lille, F-75356 Paris 07 SP	Chief Executive Officer, Caisse des dépôts et consignations	CNP Assurances CNCEP VEOLIA Environment Casino Guichard- Perrachon Accor CDC Entreprises Société Nationale Immobilière Icade Ixis CIB
Jan Renders	579 Haachtsesteenweg, B-1030 Brussels	Chairman of ACW	HIVA Arcopar Arcofin IDEWE IBEVE Sociale Hogeschool Heverlee Katholieke Hogeschool Leuven WSM Sociaal Engagement Fonds voor Sociaal Engagement

<b>Names</b>	<b>Business Addresses</b>	<b>Primary function</b>	<b>Other mandates/functions (outside the Dexia Group)</b>
Gaston Schwertzer <i>Independent director</i>	11 Place Rogier, B-1210 Brussels	Chairman of Luxempart Chief Executive Officer, Audiolux	Luxempart Luxempart Energie Presta-Gaz Energus Société électrique de l'Our Foyer Finance Dexia Banque Internationale à Luxembourg Trief Corporation (Groupe Wendel) Société Electrique de l'Our Foyer Finance Foncier + Sichel-Esch Audiocom Orchimont Rangwee Trief, groupe de Wendel, Centre Bourbon Immobilière de l'Alzette Immobilière de la Ville Haute Immobilière Schwertzer- Geiben
Anne-Claire Taittinger <i>Independent director</i>	10 avenue de Friedland, F-75008 Paris	Member of the Management Board, Groupe Taittinger Chief Executive Officer, Société du Louvre – Groupe du Louvre	Société immobilière de la Tour La Fayette Baccarat Group Taittinger at Taittinger CCVC Carrefour Baccarat Inc. Baccarat Pacific KK Baccarat Pacific Limited SARL du Riffay I SARL du Riffay II
Marc Tinant	6 avenue de Livingstone, B-1000 Brussels	Member of the Management Board, Arcofin	Arcoplus Auxipar Arcopar Arcosyn Syneco Finexha EPC Retail Estates (SICAFI listed in Brussels) SRIW (Société Régionale d'Investissement de Wallonie) Eurovillage Bruxelles SC Interfinance SBE/Mediabel (Groupe VUM) Sofadi (Groupe VUM) Sofato ASBL CETS ASBL Ardennes ASBL

<b>Names</b>	<b>Business Addresses</b>	<b>Primary function</b>	<b>Other mandates/functions (outside the Dexia Group)</b>
Sir Brian Unwin <i>Independent director</i>	11 Place Rogier, B-1210 Brussels	Chairman of Assettrust Housing, Limited	European Investment Bank European Centre for Nature Conservation English National Opera Company Federal Trust for Education and Research
Francis Vermeiren	37 Diegemstraat, B-1930 Brussels	Burgomaster of Zaventem (Belgium)	Holding Communal Asco BIWM-Intercommunale Elia

The internal rules of the Board of Directors describe the expertise and responsibilities of the Board of Directors in three areas:

- strategy and general policy;
- management control and monitoring risks; and
- relations with shareholders.

Directors make sure that their participation on the Board of Directors is not a source of direct or indirect conflict of interest, either personally or because of the professional interests they represent.

### **The Management Board of Dexia SA**

The Management Board is composed of a maximum of eight members. It is chaired by the Chief Executive Officer, to whom the Board of Directors have entrusted the daily management of Dexia SA. The members of the Management Board, other than the Chief Executive Officer, are appointed and dismissed by the Board of Directors on the recommendation of the Chief Executive Officer and on the advice of the Management Board. Members are appointed for a term of four years, which may be renewed.

The table hereunder shows the current situation:

<b><i>The Management Board</i></b>
<p>Axel MILLER  Chairman of the Management Board  <i>Chief Executive Officer</i>  <i>Member of the Management Board of Dexia Bank Belgium</i>  <i>Member of the Management Board of Dexia Banque Internationale à Luxembourg</i>  <i>Member of the Management Board of Dexia Crédit Local</i>  <i>Vice Chairman of the Board of Directors of Financial Security Assurance Holdings Ltd (FSA)</i></p>
<p>Jacques GUERBER  <i>Vice Chairman of the Management Board</i>  <i>Member of the Management Board of Dexia Bank Belgium</i>  <i>Member of the Management Board of Dexia Banque Internationale à Luxembourg</i>  <i>Member of the Management Board of Dexia Crédit Local</i>  <i>Director of Financial Security Assurance Holdings Ltd (FSA)</i>  <i>Other mandates: Crédit du Nord, Financière Centuria</i></p>
<p>Rembert von LOWIS  <i>Member of the Management Board of Dexia Bank Belgium</i>  <i>Member of the Management Board of Dexia Crédit Local</i>  <i>Director of Financial Security Assurance Holdings Ltd (FSA)</i>  <i>Chairman of the Board of Directors of Dexia Asset Management Luxembourg</i></p>
<p>Dirk BRUNEEL  <i>Member of the Management Board of Dexia Banque Internationale à Luxembourg</i>  <i>Member of the Management Board of Dexia Crédit Local</i>  <i>Chairman of the Board of Directors of Dexia Bank Nederland</i>  <i>Director of Financial Security Assurance Holdings Ltd (FSA)</i></p>
<p>Xavier de WALQUE  <i>Member of the Management Board of Dexia Bank Belgium</i>  <i>Member of the Management Board of Dexia Banque Internationale à Luxembourg</i>  <i>Director of Financial Security Assurance Holdings Ltd (FSA)</i></p>

The business address of each member of the Management Board is 11 Place Rogier, B-1210 Brussels.

The Management Board is charged with the management of the company and of the Dexia Group, for which it manages and coordinates the different business lines, in the context of the strategic objectives and the general policy defined by the Board of Directors. The Management Board is chaired by the Chief Executive Officer, who is charged by the Board of Directors with the daily management of the company. In addition, he ensures the execution of the decisions taken by the Board of Directors.

## **STATUTORY AUDITORS**

In accordance with Article 14 of Dexia SA's articles of association, the audit of the company's financial situation and annual financial statements is entrusted to one or more auditors who are appointed by the Ordinary Shareholders' Meeting for a maximum of three years on the recommendation of the Board of Directors.

Since 2000, a college of Statutory Auditors comprised of two audit firms has audited Dexia SA:

- PricewaterhouseCoopers SCCRL, an audit firm, represented by Robert Peirce, a certified public accountant. This firm was reappointed by the Ordinary Shareholders' Meeting of 11 May 2005 for a period of 3 years ending after the May 2008 Ordinary Shareholders' Meeting; and

- Mazars & Guérard SCCRL, an audit firm, represented by Xavier Doyen, a certified public accountant. This firm was reappointed by the Ordinary Shareholders' Meeting of 10 May 2006 for a period of three years until the end of the Ordinary Shareholders' Meeting of May 2009.

## RESULTS

Dexia SA's 2005 results are presented under IFRS as adopted by the EU, including the IAS 32 & 39 and IFRS 4 standards. Comparisons with 2004 are not totally relevant since the three standards mentioned above were not in place in 2004. Furthermore, a number of adjustments were made during the fourth quarter 2005 on certain accounting entries of the first three quarters, following more accurate interpretation and application of the new IFRS standards. They are pointed out where appropriate in the commentary below.

### Net income – Group share

Net income – Group share amounted to EUR 2,038 million in 2005, up EUR 216 million (+11.9 per cent.) over 2004. Some changes took place between the two years in the scope of consolidation, accounting for a small variation in net income (EUR -3 million). The contribution of the non-operating factors was significant this year again (EUR 251 million in 2005, compared with EUR 214 million in 2004, accounting for EUR 37 million of the increase). Hence, the underlying performance progressed by EUR +181 million, or 11.3 per cent. overall, and it was good in all business lines, with progressions of +14.0 per cent. in Public/Project Finance and Credit Enhancement, +13.3 per cent. in Personal Financial Services, +28.6 per cent. in Investment Management and Insurance Services, and +15.4 per cent. in Treasury and Financial Markets. Of note, the currency exchange impact on net income was very limited in 2005 (EUR 1 million positive impact).

### Income

Total income amounted to EUR 5,976 million in 2005, EUR 353 million higher than in 2004 (+6.3 per cent.). At constant scope of consolidation, the increase was EUR 377 million (+6.8 per cent.) in one year, largely stemming from the growth of underlying revenues in all the business lines: respectively, EUR +216 million in Public Finance (+10.6 per cent.); EUR + 69 million in Personal Financial Services (+3.2 per cent.); EUR +71 million in Investment Management and Insurance Services (+11.2 per cent.); and EUR +38 million in Treasury and Financial Markets (+8.5 per cent.). For the rest, the combined revenues of Central Assets and non-operating items went down EUR 15 million.

This overall revenue growth was however mitigated by several technical factors. Some are linked to the application for the first time of IAS 39 in 2005 which has brought an accounting change for revenues that were taken upfront in the past and are now accrued over a long time span. Others concern arbitrage strategies engineered by Treasury and Financial Markets which have mitigated both the revenues and the tax charge in 2005. The last one stems from the change introduced in 2005 in the fee structure and conventions of asset management activities. Without these various items, the year-on-year revenue growth would have been EUR 75 million higher (1.3 percentage point of growth).

### Costs

Costs stood at EUR 3,229 million in 2005, up 5.6 per cent. (or EUR +172 million) compared with 2004.

By nature, the expenses increased as follows: staff expenses, which represent about half of the total cost base, went up EUR 43 million (or +2.8 per cent.) in the year; network commissions went up 3.7 per cent. (or EUR 13 million), a relatively modest increase when put in perspective with the good commercial performance of the network in 2005; and other costs went up 10.0 per cent. or EUR 116 million.

By type there were two 'non-operating' items in 2005 (none in 2004): the EUR 13 million related to the liquidation of Rekord and EUR 3 million for the setting up of RBC Dexia Investor Services. Excluding those, and on a pro forma basis, the variation of costs was +5.8 per cent., or EUR +176 million, explained by a number of factors of varying importance but stemming from three main reasons: (i) EUR 30 million linked to the geographic expansion of the Dexia Group; (ii) EUR 33 million linked to the business development



programs of the various entities, such as higher network commissions, the cost of advertising campaigns etc.; and (iii) EUR 111 million for several specific reasons (e.g. EUR 29 million on IT programmes put in place, as well as higher amortisation under IFRS; EUR 14 million cost increase at FSA; EUR 6 million adjustment of IAS 19 pension provisions; EUR 10 million for the implementation of the “Duisenberg” mediation in the Netherlands etc.).

Of important note is the fact that in Personal Financial Services, which represents about half of total costs, and where the cost-income ratio is the highest, the underlying cost base was up only 1.8 per cent., in line with the objectives set at the beginning of the year in this business line, and substantially below the underlying revenue progression thereof.

The cost-income ratio was 54.0 per cent., in the full year 2005, below that of 2004 (54.4 per cent.). The underlying cost-income ratio stood at 55.8 per cent. (down compared with 56.1 per cent. in 2004). This reduction is satisfactory when considering the expenditure engaged in developing the business and franchise of the Dexia Group both domestically and internationally during the year, and the number of items discussed herein, which have borne on the cost base in 2005.

### **Gross operating income**

The **gross operating income** amounted to EUR 2,747 million in 2005 (up 7.1 per cent). On the underlying basis, the growth was +6.9 per cent. (+6.8 per cent. at constant exchange rate). Taking aside the effects of the non-operating items, one can see the very satisfactory underlying performances in the business lines, particularly in Public Finance, where a +11.1 per cent. growth year on year was achieved, in Personal Financial Services which delivered a +6.9 per cent. progression, in Investment Management and Insurance Services (+10.6 per cent.) and in Treasury and Financial Markets (+8.5 per cent.). Overall, the exchange rates fluctuations in 2005 had a small influence on the gross operating income (EUR 2 million positive impact).

### **Cost of risk**

The cost of risk (impairments on loans and provisions for credit risks) was very low, amounting to EUR 52 million in 2005 (compared with EUR 226 million in 2004). Excluding the provision movements at Dexia Bank Nederland, the underlying cost of risk increased slightly (EUR 59 million in 2005 against EUR 48 million in 2004), but remained however at a very low level (1.6 basis points on average outstanding banking commitments).

### **Taxes**

Tax expense (comprising both current and deferred tax) amounted to EUR 602 million in 2005 (up 40.3 per cent. compared with 2004). These amounts include non-operating items (net credits of respectively EUR 40 million in 2005 and EUR 230 million in 2004). If those are excluded, the underlying tax charge went down, from EUR 658 million in the full year 2004 to EUR 642 million in 2005, but this variation of EUR -16 million is partly due to the positive impact of the arbitrage products discussed above (EUR 21 million within the variation) and partly due to an adjustment made in 2004 of the tax charge (on account of derivative products), with no equivalent in 2005 (EUR 13 million within the variation). The tax rate in 2005 evolved as follows: it was 23.1 per cent. (compared with 19.0 per cent. in 2004) on the basis of reported earnings, and it was 26.8 per cent. (compared with 29.1 per cent. in 2004) on the basis of underlying earnings.

### **Focus on the main non-operating items**

In 2005, the contribution of non-operating items to the net income – Group share amounted to EUR +251 million while it was EUR +214 million during the previous year. Over the year, the main evolutions are as follows:

*In the income.* Interest payments were collected on the share-leasing contracts of Dexia Bank Nederland, from those clients who have accepted the Dexia Commercial Offer. This offer included interest discounts, whose value was included in the total generic provision decided in 2002. Since this provision was treated as a non-operating item, its utilisation is treated in the same manner related non-operating revenues amounted

to EUR 31 million in 2005 (EUR 41 million in 2004), or a EUR -10 million variance for the full year. Capital gains were crystallised in 2005 in the amount of EUR 166 million, (compared with EUR 141 million in 2004). The main ones are a EUR 70 million gain on the sale of Eural, EUR 27 million on the sale of a participation in SPE, and EUR 13 million on the sale of a participation in Veolia. The marking to market of the credit default swap (CDS) portfolio insured by FSA amounted to EUR 9 million in 2005, with no equivalent in 2004.

*In the costs.* The closure of Rekord in Germany in 2005 has caused a charge of EUR 13 million. The creation of the joint venture with RBC had an effect of EUR 3 million.

**Cost of risk** at Dexia Bank Nederland, treated as non-operating item, amounted to a total net reversal of EUR 7 million over the year. An additional charge of EUR 97 million was made during the first quarter of 2005 in the context of the Duisenberg mediation. Besides the net new charges and reversals amounted to EUR +104 million. This compares with a charge of EUR 177 million in 2004.

**Non-operating taxes** amounted to a credit of EUR +40 million in 2005 (compared with EUR +230 million in 2004) and stemmed, aside from the tax impacts of the non-operating items discussed above, from various events, the main ones being the settlement of a tax dispute (EUR +28 million) and the positive tax incidence of impairments made on a subsidiary of Dexia BIL (EUR +17 million).

### **Overall financial performance**

The **profit margin** (net income before minority interests related to total revenues) stood at 35.0 per cent. in 2005, higher than in 2004 (33.6 per cent.).

**Return on equity** (ROE) stood at 20.0 per cent. (compared with 17.2 per cent. in 2004), well above the Dexia Group's medium-term objective, partly under the influence of the non-operating items.

**Earnings per share** (EPS) reached EUR 1.87 in 2005 (non diluted), up 14.5 per cent. over the previous year. Of note, the share buyback program was pursued, with 32,707,600 shares purchased during the year, amounting to nearly EUR 600 million.

**Dexia Group Tier 1 ratio** continued to go up and stood at 10.3 per cent. at year end 2005 (10.0 per cent. at 1 January , 2005). This stems from the combined effects, in opposite directions, of several factors, the main ones being: the increase of risk-weighted assets (+11.3 per cent. in the year); the issuance of hybrid Tier 1 capital by Dexia Crédit Local in the fourth quarter of 2005, and finally the share buybacks discussed above.

## **OUTLOOK**

A strategic review carried out during the first half-year 2006 by all the entities of the Dexia Group enabled a development plan to be carried out on a ten-year horizon, approved by the Board of Directors on 5 September 2006.

### **– An ambition of balanced and robust development**

The banking sector will see many major structural developments in the near future. Dexia Group intends to play its role and to affirm its place among the soundest and most profitable banking institutions and intends to remain an actor of the European banking consolidation.

The ambition of Dexia Group is both to anchor its position as leader in Public/Project Finance at a world level and to continue enlarging the operational and commercial base of its activities as a universal bank in Europe. This second strategic line will not only enable it to grasp the significant growth potential particular to this activity, but also to take greater advantage of the opportunities which exist in the Public/Project Finance sector.

The energetic development of these two markets reflects Dexia Group's desire to build a well-balanced and profitable portfolio of activities, which will:

- optimise the management of its capital by virtue of a good level of diversification, and thus sustainably reinforce its good financial rating;
- further widen its access to long-term resources both on the capital markets and from network clientele;
- by virtue of its greater proximity on the ground, increase commercial penetration of a clientele which includes local public institutions and similar operators,; and
- ultimately to open up even better development prospects for the entire Dexia Group.

#### **– Ambitions on a five-year horizon**

The strategic review also included an analysis of the competitive environment on a more distant horizon and led to the definition of Dexia Group ambitions on three levels:

- Geographic:
  - to acquire a much larger international presence than at present in the Public/Project Finance business line. Historical markets (France and Belgium), which represent one half of the business line's results today, should then only represent one third; and
  - to significantly expand the position of Dexia Group as a universal bank in Europe.
- Positions:
  - to confirm Dexia Group's world leadership in the Public Finance field;
  - to maintain a position among the top 10 world institutions in infrastructure project finance;
  - to capitalise on a multi-channel distribution banking model, relying on high-performance production units, for the extension and deepening of the retail and private banking franchises;
  - to become a reference player in Europe in asset management, including a strategic presence at an international level (products and distribution); and
  - to maintain a position among the top 10 world institutions in the field of investor services.
- Financial strength:
  - to maintain, or even to improve, the Group's financial ratings.

#### **– Prospects on a ten-year horizon**

The strategic review carried out by the Dexia Group teams during the first part of the year also considered the prospects on a ten-year horizon.

The very nature of Dexia Group's businesses enables it to enjoy very good visibility as regards market growth and the future needs of its clientele. The local public debt market worldwide is currently estimated at US\$5,000 billion and should increase by US\$ 1,500 billion (in constant currency) in the next ten years, a new business volume equal to more than three times the current size of the commitments of the Dexia Group in that field.

In the developed regions of the world, demographic evolutions will lead to significant hospital, education and energy infrastructure projects as well as others. In the developing regions, it will be a matter of constructing or renovating the essential infrastructures (water, sewage systems, transport, energy, etc.). The volumes involved will be considerable, and the sophistication of financial solutions will be ever increasing. As world leader in this market, Dexia Group is already strongly positioned, and by virtue of its size and its capacity for innovation will be able to grasp the many opportunities which will arise.

Furthermore, Dexia Group has particularly good knowledge of its customers, their solvency levels and their future requirements. On that basis, its capacity on the market is unequalled in the conception and distribution

of long-term savings and investment products, based on extremely high quality underlying assets relating to the field of local public finance and essential infrastructures.

In the field of universal banking, the growth of the European markets will be robust, as it will be fuelled by several factors: convergence across Europe of equipment levels and penetration of banking services; scale benefits and synergies linked to the consolidation of the banking industry, which is wanted both by the European Commission and the consumers. This growth will be sustained by the demographic evolutions which will deeply influence the nature and scope of the banking services in the retail and private banking segments. Benefiting from a leading position in the wealthy markets of Belgium and Luxembourg, and of a key position in the strongly developing market of Turkey, Dexia Group enjoys a unique position to pursue its development and capitalise on its know-how and skills in this growing market.

## LITIGATION

Dexia SA and Dexia Bank Belgium S.A. (**Dexia Bank**) are involved in various proceedings relating to the bankruptcy of Lernout & Hauspie Speech Products (**LHSP**). Furthermore, the former Bank Labouchere (now Dexia Bank Nederland NV; hereinafter to be referred to as **DBnl**) is also involved in various proceedings, linked to difficulties in respect of share-leasing activities. The detailed disclosures are described on page 6 and pages 93 to 97 of the Dexia Group annual report "Accounts and Reports 2004" and on page 6 and pages 86 to 88 of the Dexia Group annual report "Accounts and Reports 2005". Reference is also made to the detailed disclosure on pages 117 to 119 of the Dexia Group Activity Report Year & Q4 2005, dated 2 March 2006, on pages 58 and 59 of the Dexia Group Activity Report Q1 2006 dated 25 May 2006 and on page 63 of the Dexia Group Activity Report Q2 2006 dated 5 September 2006. It should be noted that the disclosure set out in the "*Recent Developments*" section below does not contain a description of the procedural steps in the various proceedings referred to in the Dexia Group's annual report and Activity Report. Set out below is a description of recent developments relating to these proceedings.

### Share-leasing activities

The difficulties linked to the share-leasing activities of DBnl appeared at the time of the fast and severe fall of the Amsterdam stock market in late 2001. The value of the securities used as collateral against the loans granted by DBnl proved insufficient in a large number of contracts, thus potentially ending with a residual debt instead of the gain initially hoped for.

As at 11 August 2006 nearly 60,000 clients holding more than 100,000 contracts have accepted settlements based on the Duisenberg Arrangements. This figure does not include approximately 200,000 contracts for which clients had already signed a waiver, and of which some also potentially benefit from the Duisenberg Arrangement.

In May 2006, the Amsterdam Court of Appeal held four days of public hearing in respect of the joint petition of DBnl and the foundations Leaseverlies and Eegalease, the *Consumentenbond* – Consumers Association – and the *Vereniging van Effectenbezitters* – Dutch Association of Securities holders (VEB) – to grant binding force to the Duisenberg Arrangement, based on the newly-introduced "Law on Collective Settlement of Mass Damage". Over 60 interest groups and individual clients had put up a defence. On 20 June 2006 this court rendered an intermediate decision, including an assignment to the *Autoriteit Financiële Markten* – the Dutch regulator of the financial markets (**AFM**) – to report on the issue of whether DBnl has actually bought and held the shares necessary in respect of the share-leasing contracts. The final report of AFM is expected to be revealed around the beginning of November 2006. The Amsterdam Court of Appeal will subsequently render the definitive decision a number of weeks later, after giving all parties the opportunity to respond to the report of AFM. From then on, the suspended court cases will be resumed.

On 12 July 2006, the District Court of Amsterdam rendered an important judgment, stating that the waiver included in the so-called Dexia Offer (the 2003 settlement offer of DBnl) is binding. However, the plaintiffs in this case have lodged an appeal. Leaseproce B.V., a profit driven organisation that recruits clients on a "no cure, no pay" basis, represented on 11 August 2006 more than 21,000 clients. For approximately 1,700 of these clients, Leaseproce B.V. actually started proceedings. Other organisations, attorneys at law and other lawyers continue to summon DBnl on behalf of their clients in civil courts. However, in 2006 a number

of other court cases have been settled as well, a vast majority on the basis of the Duisenberg Arrangement. Therefore, the total number of clients in proceedings continues to remain at the same level.

### **Lernout & Hauspie**

In June 2006, the investigating magistrate in charge of the LHSP matter in Belgium announced that his investigation was complete and that he would transmit the file to the public prosecutor. In July 2006, Dexia Bank was informed of the public prosecutor's intention to start criminal proceedings against 22 indicted parties, which includes Dexia Bank. Dexia Bank has received a draft "subpoena" enumerating the charges that are likely to be made against the defendants. The subpoena has not been served officially on the defendants and is still subject to changes. According to the public prosecutor, the procedure could start in autumn 2007 at the earliest.

On 8 August 2006, the United States District Court of Massachusetts denied Dexia Bank's Motion to Dismiss against the Third Amended Complaint, and has also denied Dexia Bank's Motion to Recertify certain questions of law on which the District Court had rendered a judgment on 9 February 2005, which was not in favour of the bank.

### **Inheritance duties**

An investigation was opened by the judicial authorities on 28 September 1999 with Dexia Bank concerning a possible fraud with regard to inheritance duties. This investigation resulted in accusations against three former directors of Dexia Bank, one of whom is a current member of the Executive Committee of Dexia Bank, at the end of March 2004. This accusation does not however mean the guilt of the persons concerned, in whom Dexia SA and Dexia Bank still have the utmost confidence. No major evolution occurred since then.

### **RECENT DEVELOPMENTS**

The acquisition of a majority stake in DenizBank (Turkey) in 2006, represents a remarkable opportunity for Dexia Group. Turkey represents for Dexia Group a unique case of a country where the growth prospects in universal banking are strong in the near-term and where the needs for essential infrastructures open promising horizons in the area of Public/Project Finance. With approximately 1.4 million retail customers and strong niches in SME or corporate segments (in the health sector, agricultural, tourism, energy etc.) the bank represents the best possible platform to develop Dexia Group's strategy in Turkey. In September 2006, for the purpose of financing part of the acquisition of DenizBank, Dexia SA did a capital increase through an accelerated bookbuilt offering (ABB). 62,176,166 new ordinary shares were placed by Dexia SA with institutional investors at a price of EUR 19.30 per share. The capital increase allowed Dexia SA to raise EUR 1,200,000,000.

## SUMMARY FINANCIAL INFORMATION OF THE GUARANTOR

The selected consolidated financial information is extracted from the audited consolidated financial statements of the Guarantor for the year ended 31 December 2005.

### CONSOLIDATED BALANCE SHEET

As at 31 December 2005 and 31 December 2004

	Without IAS 32&39 and IFRS4*		With IAS32&39 and IFRS4*	
	1 January 2004	31 December 2004	1 January 2005	31 December 2005
<i>in millions of EUR</i>				
<b>ASSETS</b>				
I. Cash and balances with central banks .....	4,488	3,717	3,717	3,444
II. Due from banks .....	27,812	40,431	43,305	70,531
III. Loans and advances to customers .....	164,424	167,951	169,547	192,402
IV. Loans and securities held for trading .....	17,488	14,752	10,054	15,655
V. Loans and securities designated at fair value....	0	0	7,140	13,865
VI. Loans and securities available for sale.....	108,036	126,088	126,776	166,204
VII. Loans and securities held to maturity .....	833	2,819	3,295	3,217
VIII. Positive value of derivatives.....	18,182	20,719	27,264	28,632
IX. Fair value revaluation of portfolio hedge .....	0	0	982	1,659
X. Investments in associates .....	701	757	769	778
XI. Tangible fixed assets .....	1,516	1,633	1,633	2,185
XII. Intangible assets and goodwill .....	697	717	717	735
XIII. Tax assets .....	617	746	723	602
XIV. Other assets .....	5,852	8,435	8,693	8,816
XV. Non current assets held for sale .....	64	22	22	36
<b>Total assets .....</b>	<b>350,710</b>	<b>388,787</b>	<b>404,637</b>	<b>508,761</b>

\* In accordance with IFRSs as adopted by the EU

		Without IAS 32&39 and IFRS4*		With IAS32&39 and IFRS4*	
		31		31	
		1 January 2004	December 2004	1 January 2005	December 2005
<i>in millions of EUR</i>					
<b>LIABILITIES</b>					
I.	Due to banks .....	68,233	88,830	87,471	134,793
II.	Customer borrowings and deposits .....	85,079	89,356	87,066	97,379
III.	Liabilities held for trading .....	5,514	2,088	2,069	3,813
IV.	Liabilities designated at fair value .....	0	0	12,209	18,022
V.	Negative value of derivatives .....	20,061	24,353	35,991	37,652
VI.	Fair value revaluation of portfolio hedge .....	0	0	1,152	966
VII.	Debt securities .....	136,466	145,369	144,164	175,685
VIII.	Subordinated and convertible debt .....	5,520	5,042	5,277	4,985
IX.	Technical provisions of insurance companies ..	10,010	12,518	7,456	9,846
X.	Provisions and other obligations .....	1,140	1,246	1,246	1,320
XI.	Tax liabilities .....	891	1,002	1,224	1,377
XII.	Other liabilities .....	5,927	6,383	6,561	7,223
XIII.	Non current liabilities held for sale .....	0	0	0	0
<b>Total liabilities .....</b>		<b>338,841</b>	<b>376,187</b>	<b>391,886</b>	<b>493,061</b>
<b>EQUITY</b>					
XIV.	Subscribed capital.....	4,786	4,825	4,825	4,888
XV.	Additional paid-in capital.....	8,915	8,993	8,993	9,137
XVI.	Treasury shares .....	0	0	(584)	(356)
XVII.	Reserves and retained earnings .....	(2,320)	(3,421)	(2,740)	(4,219)
XVIII.	Net income for the period .....	0	1,822	0	2,038
<b>Core shareholders' equity.....</b>		<b>11,381</b>	<b>12,219</b>	<b>10,494</b>	<b>11,488</b>
XIX.	Gains and losses not recognised in the statement of income .....	0	(103)	1,594	2,596
<b>Total shareholders' equity .....</b>		<b>11,381</b>	<b>12,116</b>	<b>12,088</b>	<b>14,084</b>
XX.	Minority interests .....	488	484	439	1,183
XXI.	Discretionary participation features of insurance contracts .....	0	0	224	433
<b>Total equity .....</b>		<b>11,869</b>	<b>12,600</b>	<b>12,751</b>	<b>15,700</b>
<b>Total liabilities and equity .....</b>		<b>350,710</b>	<b>388,787</b>	<b>404,637</b>	<b>508,761</b>

\* In accordance with IFRSs as adopted by the EU



## CONSOLIDATED STATEMENT OF INCOME

For the years ended 31 December 2005 and 31 December 2004

	Without IAS 32&39 and IFRS 4* 31 December 2004	With IAS 32&39 and IFRS 4* 31 December 2005
	<i>in millions of EUR</i>	
I. Interest income .....	57,188	56,049
II. Interest expense .....	(53,582)	(52,399)
III. Dividend income .....	94	129
IV. Net income from associates.....	65	89
V. Net trading income and net result of hedge accounting .....	177	154
VI. Net income on investments .....	307	502
VII. Commission income .....	1,275	1,397
VIII. Commission expense .....	(227)	(225)
IX. Technical margin of insurance activities .....	290	208
X. Other net income .....	36	72
<b>Income .....</b>	<b>5,623</b>	<b>5,976</b>
XI. Staff expense .....	(1,543)	(1,586)
XII. General and administrative expense .....	(886)	(975)
XIII. Network costs .....	(353)	(366)
XIV. Depreciation & amortisation .....	(225)	(247)
XV. Deferred acquisition costs .....	(50)	(55)
<b>Costs.....</b>	<b>(3,057)</b>	<b>(3,229)</b>
<b>Gross operating income .....</b>	<b>2,566</b>	<b>2,747</b>
XVI. Impairment on loans and provisions for credit commitments.....	(226)	(52)
XVII. Impairment on tangible and intangible assets .....	(1)	0
XVIII. Impairment on goodwill .....	(19)	0
<b>Net income before tax.....</b>	<b>2,320</b>	<b>2,695</b>
XIX. Tax expense .....	(429)	(602)
<b>Net income .....</b>	<b>1,891</b>	<b>2,093</b>
Attributable to minority interest.....	69	55
Attributable to shareholders of the company .....	1,822	2,038
	<i>in EUR</i>	
Earnings per share		
– basic .....	1.63	1.87
– diluted .....	1.62	1.85

\* In accordance with IFRSs as adopted by the EU

## CONSOLIDATED CASH FLOW STATEMENT

For the years ended 31 December 2005 and 31 December 2004

	31 December 2004	31 December 2005
	<i>in millions of EUR</i>	
<b>Cash flow from operating activities</b>		
Net income after income taxes .....	1,891	2,093
<i>Adjustment for:</i>		
– Depreciation, amortisation and other impairment.....	253	258
– Impairment on bonds, equities, loans and other assets .....	117	(44)
– Net gains on investments .....	(246)	(295)
– Charges for provisions .....	2,263	2,945
– Unrealised gains or losses .....	2	(30)
– Income from associates .....	(67)	(89)
– Dividends from associates .....	47	42
– Deferred taxes.....	(37)	64
– Other adjustments <sup>(1)</sup> .....	24	242
Changes in operating assets and liabilities.....	2,094	11,883
<b>Net cash provided (used) by operating activities.....</b>	<b>6,341</b>	<b>17,069</b>
<b>Cash flow from investing activities</b>		
Purchase of fixed assets .....	(561)	(625)
Sales of fixed assets .....	195	115
Acquisitions of unconsolidated equity shares .....	(1,651)	(1,415)
Sales of unconsolidated equity shares .....	1,421	1,341
Acquisitions of subsidiaries .....	(10)	(70)
Sales of subsidiaries .....	(230)	21
<b>Net cash provided (used) by investing activities .....</b>	<b>(836)</b>	<b>(633)</b>
<b>Cash flow from financing activities</b>		
Issuance of new share <sup>(2)</sup> .....	120	933
Issuance of subordinated and convertible debt .....	24	7
Reimbursement of subordinated and convertible debt.....	(400)	(328)
Purchase of treasury shares .....	(694)	(600)
Sales of treasury shares .....	3	4
Dividends paid .....	(656)	(703)
<b>Net cash provided (used) by financing activities .....</b>	<b>(1,603)</b>	<b>(687)</b>
<b>Net cash provided .....</b>	<b>3,902</b>	<b>15,749</b>
<b>Cash and cash equivalents at the beginning of the period .....</b>	<b>24,066</b>	<b>27,956</b>
Cash flow from operating activities .....	6,341	17,069
Cash flow from investing activities .....	(836)	(633)
Cash flow from financing activities .....	(1,603)	(687)
Effect of exchange rates changes and change in scope of consolidation on cash and cash equivalents.....	(17)	92
<b>Cash and cash equivalents at the end of the period .....</b>	<b>27,951</b>	<b>43,797</b>
<b>Additional information</b>		
Income tax paid .....	(298)	(513)
Dividends received .....	140	171
Interest received .....	55,952	54,174
Interest paid .....	(52,704)	(51,284)

1 Includes EUR 218 million paid by Aegon in 2005.

2 In 2005, issuance of undated deeply subordinated non-cumulative notes included in minority interest for EUR 700 million.

The selected consolidated financial information set out below is extracted from the consolidated financial information of the Guarantor for the period ended 30 June 2006 that has been the subject of a Review Report by the auditors of the Guarantor.

## CONSOLIDATED BALANCE SHEET

As at 30 June 2006, 30 June 2005 and 31 December 2005

	30 June 2005	31 December 2005	30 June 2006
	<i>in millions of EUR</i>		
<b>ASSETS</b>			
I. Cash and balances with central banks .....	4,048	3,444	5,727
II. Due from banks .....	60,615	70,531	66,031
III. Loans and advances to customers .....	177,485	192,402	196,230
IV. Loans and securities held for trading .....	16,370	15,655	14,954
V. Loans and securities designated at fair value .....	10,307	13,865	16,008
VI. Loans and securities available for sale .....	157,469	166,204	175,753
VII. Loans and securities held to maturity .....	3,296	3,217	2,522
VIII. Positive value of derivatives .....	36,974	28,632	24,848
IX. Fair value revaluation of portfolio hedge .....	2,218	1,659	530
X. Investments in associates .....	780	778	811
XI. Tangible fixed assets .....	1,780	2,185	2,036
XII. Intangible assets and goodwill .....	768	735	838
XIII. Tax assets .....	680	602	735
XIV. Other assets .....	10,621	8,816	7,497
XV. Non current assets held for sale .....	11	36	132
<b>Total assets .....</b>	<b>483,422</b>	<b>508,761</b>	<b>514,652</b>

	31		
	30 June	December	30 June
	2005	2005	2006
	in millions of EUR		
<b>LIABILITIES</b>			
I. Due to banks .....	119,961	134,793	146,334
II. Customer borrowings and deposits .....	103,268	97,379	100,587
III. Liabilities held for trading .....	551	3,813	748
IV. Liabilities designated at fair value .....	4,681	18,022	18,728
V. Negative value of derivatives .....	46,884	37,652	28,393
VI. Fair value revaluation of portfolio hedge .....	1,612	966	373
VII. Debt securities .....	168,396	175,685	177,941
VIII. Subordinated and convertible debt.....	5,304	4,985	4,860
IX. Technical provisions of insurance companies .....	8,536	9,846	11,134
X. Provisions and other obligations .....	1,350	1,320	1,288
XI. Tax liabilities .....	1,426	1,377	1,244
XII. Other liabilities.....	7,662	7,223	7,722
XIII. Liabilities included in disposal groups held for sale .....	0	0	93
<b>Total liabilities .....</b>	<b>469,631</b>	<b>493,061</b>	<b>499,445</b>
<b>EQUITY</b>			
XIV. Subscribed capital .....	4,837	4,888	4,889
XV. Additional paid-in capital .....	9,021	9,137	9,139
XVI. Treasury shares.....	(111)	(356)	(8)
XVII. Reserves and retained earnings .....	(4,021)	(4,219)	(3,365)
XVIII. Net income for the period .....	982	2,038	1,351
<b>Core shareholders' equity .....</b>	<b>10,708</b>	<b>11,488</b>	<b>12,006</b>
XIX. Gains and losses not recognised in the statement of income .....	2,183	2,596	1,762
<b>Total shareholders' equity .....</b>	<b>12,891</b>	<b>14,084</b>	<b>13,768</b>
XX. Minority interests .....	496	1,183	1,186
XXI. Discretionary participation features of insurance contracts ..	404	433	253
<b>Total equity .....</b>	<b>13,791</b>	<b>15,700</b>	<b>15,207</b>
<b>Total liabilities and equity .....</b>	<b>483,422</b>	<b>508,761</b>	<b>514,652</b>

## CONSOLIDATED STATEMENT OF INCOME

For the quarter and six months ended 30 June 2006 and 30 June 2005

		Quarter ended		Year to date	
		30 June 2005	30 June 2006	30 June 2005	30 June 2006
		<i>in millions of EUR</i>			
I.	Interest income .....	14,134	17,308	27,109	33,441
II.	Interest expense .....	(13,214)	(16,360)	(25,288)	(31,559)
III.	Dividend income .....	81	106	92	117
IV.	Net income from associates .....	24	26	50	52
V.	Net trading income and net result of hedge accounting .....	(45)	104	(5)	229
VI.	Net income on investments .....	122	129	239	455 <sup>(1)</sup>
VII.	Commission income .....	359	397	706	781
VIII.	Commission expense .....	(66)	(77)	(123)	(135)
IX.	Technical margin of insurance activities .....	32	21	81	41
X.	Other net income .....	16	24	35	42
<b>Income .....</b>		<b>1,443</b>	<b>1,678</b>	<b>2,896</b>	<b>3,464</b>
XI.	Staff expense .....	(394)	(408)	(771)	(814)
XII.	General and administrative expense .....	(241)	(274)	(480)	(530)
XIII.	Network costs .....	(89)	(89)	(178)	(177)
XIV.	Depreciation & amortisation .....	(56)	(57)	(112)	(113)
XV.	Deferred acquisition costs .....	(13)	(11)	(25)	(25)
<b>Costs .....</b>		<b>(793)</b>	<b>(839)</b>	<b>(1,566)</b>	<b>(1,659)</b>
<b>Gross operating income .....</b>		<b>650</b>	<b>839</b>	<b>1,330</b>	<b>1,805</b>
XVI.	Impairment on loans and provisions for credit commitments .....	40	(61)	(50)	(61)
XVII.	Impairment on tangible and intangible assets ..	1	0	1	0
XVIII.	Impairment on goodwill .....	0	0	0	0
<b>Net income before tax .....</b>		<b>691</b>	<b>778</b>	<b>1,281</b>	<b>1,744</b>
XIX.	Tax expense .....	(171)	(173)	(272)	(352)
<b>Net income of continuing operations .....</b>		<b>520</b>	<b>605</b>	<b>1,009</b>	<b>1,392</b>
XX.	Discontinued operations (net of tax)				
<b>Net income .....</b>		<b>520</b>	<b>605</b>	<b>1,009</b>	<b>1,392</b>
Attributable to minority interest .....		13	21	27	41
Attributable to shareholders of the company .....		507	584	982	1,351
Earnings per share					
– basic .....				0.89	1.24
– diluted .....				0.89	1.23

(1) Of which EUR 227 million result on Dexia's net asset contribution to the joint venture RBC Dexia Investor Services (booked in Q1 2006).

## CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006 and 30 June 2005

	30 June 2005	30 June 2006
	<i>in millions of EUR</i>	
<b>Cash flow from operating activities</b>		
Net income after income taxes .....	1,009	1,392
<i>Adjustment for:</i>		
– Depreciation, amortisation and other impairment .....	128	118
– Impairment on bonds, equities, loans and other assets .....	(11)	(61)
– Net gains on investments .....	(75)	(390) <sup>(1)</sup>
– Charges for provisions .....	1,518	1,385
– Unrealised gains or losses .....	56	23
– Income from associates .....	(50)	(52)
– Dividends from associates .....	37	36
– Deferred taxes .....	27	120
– Other adjustments .....	219 <sup>(2)</sup>	3
Changes in operating assets and liabilities .....	(97)	(1,475)
<b>Net cash provided (used) by operating activities .....</b>	<b>2,761</b>	<b>1,099</b>
<b>Cash flow from investing activities</b>		
Purchase of fixed assets .....	(300)	(324)
Sales of fixed assets .....	26	77
Acquisitions of unconsolidated equity shares .....	(708)	(512)
Sales of unconsolidated equity shares .....	523	742
Acquisitions of subsidiaries and of business units .....	0	(45)
Sales of subsidiaries and of business units .....	1	17
<b>Net cash provided (used) by investing activities .....</b>	<b>(458)</b>	<b>(45)</b>
<b>Cash flow from financing activities</b>		
Issuance of new shares .....	63	14
Issuance of subordinated debt .....	1	218
Reimbursement of subordinated debt .....	(178)	(144)
Purchase of treasury shares .....	(350)	(50)
Sale of treasury shares .....	2	4
Dividends paid .....	(700)	(789)
<b>Net cash provided (used) by financing activities .....</b>	<b>(1,162)</b>	<b>(747)</b>
<b>Net cash provided .....</b>	<b>1,141</b>	<b>307</b>
<b>Cash and cash equivalents at the beginning of the period .....</b>	<b>46,003</b>	<b>43,797</b>
Cash flow from operating activities .....	2,761	1,099
Cash flow from investing activities .....	(458)	(45)
Cash flow from financing activities .....	(1,162)	(747)
Effect of exchange rate changes and change in scope of consolidation on cash and cash equivalents .....	72	(949) <sup>(3)</sup>
<b>Cash and cash equivalents at the end of the period .....</b>	<b>47,216</b>	<b>43,155</b>
<b>Additional information</b>		
Income tax paid .....	(261)	(302)
Dividends received .....	129	153
Interest received .....	26,662	35,142
Interest paid .....	(25,825)	(34,707)

(1) Includes EUR 227 million result on Dexia's net asset contribution to the joint venture RBC Dexia Investor Services. It is a non cash item.

(2) Includes EUR 218 million paid by Aegon.

(3) Includes impact on cash and cash equivalents of joint venture RBC Dexia Investor services (EUR - 770 million).

## **TAXATION**

The statements herein regarding taxation are based on the laws in force in the European Union, the Kingdom of Belgium and the Grand Duchy of Luxembourg as of the date of this Prospectus and are subject to any changes in law. The following summary does not purport to be a comprehensive description of all the tax considerations which may be relevant to a decision to purchase, own or dispose of the Securities. Each prospective holder of Securities should consult its tax advisor as to the tax consequences of any investment in or ownership and disposition of the Securities under the laws of the European Union, the Kingdom of Belgium and the Grand Duchy of Luxembourg, and/or any other jurisdiction. All prospective Securityholders should seek independent advice as to their tax positions.

### **EUROPEAN UNION DIRECTIVE ON THE TAXATION OF SAVINGS INCOME**

On 3 June 2003, the EU Council of Economic and Finance Ministers adopted a new directive regarding the taxation of savings income. The directive is, in principle, applied by Member States as from 1 July 2005. Under the directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a paying agent within the meaning of the EU Savings Directive to an individual or certain types of entities called “residual entities” established in that other Member State. For a transitional period, however, Austria, Belgium and Luxembourg are permitted to apply an optional information reporting system whereby if a beneficial owner does not comply with one of two procedures for information reporting, the Member State will levy a withholding tax on payments to such beneficial owner. The withholding tax system will apply for a transitional period during which the rate of withholding will be of 15 per cent. from 1 July 2005 to 30 June 2008, 20 per cent. from 1 July 2008 to 30 June 2011 and 35 per cent. as from 1 July 2011. The transitional period is to commence on the date from which the directive is to be applied by Member States and to terminate at the end of the first fiscal year following agreement by certain non-EU countries (Liechtenstein, San Marino, Monaco and Andorra) to exchange of information and to introduce a withholding tax.

Also with effect from 1 July 2005, a number of non-EU countries (Switzerland, Andorra, Liechtenstein, Monaco and San Marino), and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an individual or a residual entity in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories (Jersey, Guernsey, Isle of Man, Montserrat, British Virgin Islands, Netherlands Antilles and Aruba) in relation to payments made by a paying agent in a Member State to, or collected by such a paying agent for, an individual or a residual entity resident in one of those territories.

### **TAXATION IN BELGIUM**

#### **Individual investors**

Interest payments made to Belgian resident individuals holding the Securities other than in the course of their business activities, will be subject to a 15 per cent. Belgian withholding tax if the payment is made through a financial institution or other intermediary established in Belgium. In that case the investors need not report the interest income in their annual tax return.

If the payment is not made through a Belgian intermediary and withholding tax is not withheld, the investors must report the interest income in their annual tax return and pay tax thereon at the rate of 15 per cent. plus additional local taxes.

Capital gains realised on the sale of Securities on the secondary market are not taxable; the accrued interest component included in the sale price, however, has to be reported in the investor's annual tax return. Capital losses are not tax deductible.



## **Corporate investors**

Interest payments made to Belgian resident companies (or to Belgian branches of foreign companies) will be exempted from Belgian withholding tax provided that the investor delivers to its financial intermediary an appropriate certificate of exemption.

Interest income, calculated on an accrual basis, as well as capital gains realised on secondary market sales of the Securities will be included in the taxable income of the investor. Conversely, capital losses may be deducted from its taxable income.

## **Non-profit investors**

In the case of Belgian resident investors subject to the non-profit legal entities tax (*impôt des personnes morales / rechtspersonenbelasting*), interest payments will be subject to a 15 per cent. Belgian withholding tax if the payment is made through a financial institution or other intermediary established in Belgium. If the payment is not made through a Belgian intermediary and withholding tax is not withheld, the investor is itself liable for the withholding tax of 15 per cent.

Capital gains realised on the sale of Securities on the secondary market are not taxable; the accrued interest component included in the sale price, however, will be treated as interest income and the investor is itself liable for withholding tax.

## **Non-resident investors**

Interest payments made to investors who are not residents of Belgium (unless these investors have a permanent establishment in Belgium through which they hold the Securities) will not be subject to Belgian withholding tax if the payments are not collected through a Belgian financial intermediary. Interest collected through regulated financial intermediaries is exempt provided that the investor delivers to its financial intermediary an appropriate certificate of exemption.

No Belgian inheritance duties will be due in respect of the Securities if the deceased holder of the Securities was not a Belgian resident at the time of his or her death, even if the Securities were held in custody in Belgium.

## **Stamp duties**

A 0.07 per cent. tax (capped at EUR 500 per trade) will be payable on secondary market trades in the Securities effected through a financial intermediary in Belgium. This tax, however, is not payable by non-resident investors nor by various categories of institutional investors.

The physical delivery on secondary market operations in Belgium of bearer Securities in definitive form will be subject to a tax of 0.6 per cent.

## **Implementation of the EU Savings Tax Directive**

Belgium has implemented the EC Council Directive 2003/48/EC on the taxation of savings income. Interest paid through a paying agent in Belgium to individual investors or certain investors that do not have separate legal personality, resident in another EU member state or in associated and dependent territories is subject to withholding tax at the rate of 15 per cent. until 30 June 2008, then 20 per cent. until 30 June 2011, and then 35 per cent. This tax will not apply if the investor submits to the paying agent an appropriate certificate of the tax authorities of his jurisdiction of residence.

## **TAXATION IN THE GRAND DUCHY OF LUXEMBOURG**

All payments of interest and principal by the Issuer under the Securities can be made free and clear of any withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein, in accordance with applicable Luxembourg law and administrative practice, subject however to the application of the

Luxembourg law of 21 June 2005 implementing the EU Directive 2003/48/EC (see section named “*European Union Directive on the taxation of savings income*”).

Luxembourg has implemented the EU Council Directive 2003/48/EC on the taxation of savings income by the law of 21 June 2005. Interest paid through a paying agent in Luxembourg to individual investors resident or “residual entities” established in another EU member State or in certain dependent or associated territories is subject to withholding tax at the rate of 15 per cent. until 30 June 2008, 20 per cent. from 1 July 2008 until 30 June 2011 and 35 per cent. thereafter. This tax will not apply if the investor submits to the paying agent an appropriate certificate of the tax authorities of his jurisdiction of residence (see “*European Union Directive on the taxation of savings income*” above).

In addition, as regards Luxembourg resident individuals, the Luxembourg law of 23 December 2005 has introduced a 10 per cent. final withholding tax on savings income (i.e. with certain exemptions, savings income within the meaning of the Luxembourg law of 21 June 2005 implementing the European Union Savings Directive), to the extent such income is paid or allocated by a Luxembourg paying agent within the meaning of the law.

A Securityholder who derives income from a Security or who realises a gain on the disposal or redemption of a Security will not be subject to Luxembourg taxation on such income or capital gains (subject to the laws dated 21 June 2005 and 23 December 2005 set out above) or unless:

- (a) such Securityholder is, or is deemed to be, resident in Luxembourg for Luxembourg tax purposes (or for the purposes of the relevant provisions); or
- (b) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg.

Luxembourg net wealth tax will not be levied on a Securityholder unless:

- (a) such Securityholder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
- (b) such Security is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed base of business in Luxembourg.

As regards individuals, the Luxembourg law of 23 December 2005 abrogated the net wealth tax starting with the year 2006.

Where the Securities are transferred for no consideration:

- (a) no Luxembourg inheritance tax is levied on the transfer of the Securities upon death of a Securityholder in cases where the deceased Securityholder was not a resident of Luxembourg for inheritance tax purposes; or
- (b) Luxembourg gift tax will be levied in the event that the gift is made pursuant to a notarial deed signed before a Luxembourg notary or registered in Luxembourg.

There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any enforcement of a foreign judgment in the courts of Luxembourg) of the Securities or the performance of the Issuer’s obligations under the Securities, except that in the case of court proceedings in a Luxembourg court or presentation of any documents relating to the Securities, to an “*autorité constituée*”, such court or “*autorité constituée*” may require registration thereof, in which case the documents will be subject to registration duties depending on the nature of the documents.

There is no Luxembourg value-added tax payable in respect of payments in consideration for the issue of the Securities or in respect of the payment of interest or principal under the Securities or the transfer of a Security.

A Securityholder will not become resident, or deemed to be resident, in Luxembourg by reason only of the holding of a Security or the execution, performance, delivery and/or enforcement of a Security.

## SUBSCRIPTION AND SALE

ABN AMRO Bank N.V., Citigroup Global Markets Limited, Dexia Banque Internationale à Luxembourg, société anonyme, acting under the name of Dexia Capital Markets and UBS Limited (the **Managers**) have, pursuant to a Subscription Agreement dated 31 October 2006 (the **Subscription Agreement**), jointly and severally agreed with the Issuer, subject to satisfaction of certain conditions, to subscribe or procure subscribers for the Securities. The total expenses related to the admission to trading are estimated at €17,600 (comprising the CSSF approval tax of €2,000 and the Luxembourg Stock Exchange's admission fee and maintenance fees of €600 and a total €15,000, respectively).

In addition, the Issuer, the Guarantor and the Managers have entered into separate arrangements in respect of their legal and other expenses respectively incurred in connection with the issue of the Securities. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Securities.

### United States

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Securities are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Securities (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons. Each Manager has further agreed that it will send to each dealer to which it sells any Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of such Securities within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

### United Kingdom

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of the Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Securities in, from or otherwise involving the United Kingdom.

### General

Each Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Securities or possesses or distributes this Prospectus and will obtain any consent, approval or permission

required by it for the purchase, offer, sale or delivery by it of Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Guarantor nor any of the other Managers shall have any responsibility therefor.

None of the Issuer, the Guarantor and the Managers represents that the Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

No action has been taken in any jurisdiction that would permit a public offering of any of the Securities, or possession or distribution of the Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Neither the Issuer nor the Guarantor nor any of the Managers represents that the Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction or pursuant to any exemption available thereunder or assumes any responsibility for facilitating such sale. There will be no public offering of the Securities.

## GENERAL INFORMATION

### Authorisation

1. The issue of the Securities was duly authorised by a resolution of the Board of Directors of the Issuer dated 19 October 2006 and the giving of the Guarantee was duly authorised by a resolution of the Management Board (*Comité de Direction*) of the Guarantor dated 17 October 2006.

### Listing and admission to trading

2. Application has been made to list the Securities on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange.

### Clearing Systems

3. The Securities have been accepted for clearance through Euroclear, Brussels and Clearstream, Luxembourg. The ISIN for this issue is XS0273230572 and the Common Code is 027323057.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### No significant change

4. There has been no significant change in the financial or trading position of the Issuer which is material in the context of the issue and offering of the Securities and there has been no material adverse change in the financial position or prospects of the Issuer in each case since its date of incorporation.

Save as disclosed on page 61 in “Recent Developments”, there has been no significant change in the consolidated financial or trading position of the Guarantor or the Dexia Group which is material in the context of the issue and offering of the Securities since 30 June 2006 and there has been no material adverse change in the financial position or prospects of the Guarantor or the Dexia Group since 31 December 2005.

### Litigation

5. Save as described on pages 60 and 61 in “Litigation”, neither the Issuer, the Guarantor nor any other member of the Dexia Group is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer, the Guarantor or any member of the Dexia Group is aware) which may have or have had in the 12 months preceding the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer, the Guarantor or the Dexia Group nor so far as the Issuer, the Guarantor or the Dexia Group is aware is any such governmental, legal or arbitration proceeding pending or threatened.

### Accounts

6. The Issuer is newly established and no financial statements of the Issuer have yet been prepared. The Issuer will publish audited annual accounts.

The Guarantor publishes (a) audited annual consolidated and non-consolidated accounts and (b) semi-annual consolidated accounts, which have been the subject of a Review Report by the auditors of the Guarantor. The Guarantor does not currently publish semi-annual non-consolidated accounts.

The auditors (*réviseur d'entreprise*) of the Issuer are PricewaterhouseCoopers S.à.r.l., a member of the *Institut des Réviseurs d'Entreprises*.

The auditors of the Guarantor are PricewaterhouseCoopers Réviseurs d'Entreprises SCCRL, a member of the *Institut des Réviseurs d'Entreprises* and Mazars & Guérard SCCRL, a member of the *Institut des Réviseurs d'Entreprises*, who have audited the Guarantor's accounts, without qualification, in accordance with generally accepted auditing standards in Belgium for each of the three financial years ended on 31 December 2005.

## **7. U.S. tax**

The Securities and Coupons will contain the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

## **Documents**

8. For so long as any of the Securities are outstanding, copies of the following documents may be obtained free of charge during normal business hours at the specified office of the Fiscal Agent and at the registered office of the Guarantor:

- (a) the most recently published annual audited financial statements of the Issuer;
- (b) the audited consolidated financial statements of the Guarantor in respect of the years ended 31 December 2005 and 31 December 2004;
- (c) the consolidated financial statements of the Guarantor in respect of the period ended 30 June 2006, which have been the subject of a Review Report by the auditors of the Guarantor;
- (d) the most recently published annual audited consolidated and non-consolidated financial statements of the Guarantor and the most recently published interim consolidated financial statements of the Guarantor;
- (e) the constitutional documents of the Issuer and the Guarantor;
- (f) copies of this Prospectus together with any supplement to this Prospectus;
- (g) the Subscription Agreement;
- (h) the Agency Agreement; and
- (i) the Guarantee.

The Prospectus and all documents incorporated by reference are also available on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

9. The re-offer yield of the Securities is equal to 4.892 per cent. which corresponds to the 10 year midswaps spot rate on the pricing date, 24 October 2006 (namely 4.112 per cent.) plus a spread of 78 basis points.
10. At the date of this Prospectus, there is no interest, including conflicting ones, that is material to the issue.

**REGISTERED OFFICE OF THE ISSUER**

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69 route d'Esch  
L-2953 Luxembourg

**REGISTERED OFFICE OF THE GUARANTOR**

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B-1210 Brussels

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