Executive summary

Dexia in the world and its activities

Dexia Employee Benefits

Case study
Executive summary

Employee Ownership

Dexia in the world and its activities

Dexia Employee Benefits

Case study
Dexia in the world

United Kingdom 573
Sweden

Denmark 15,303

Netherlands

Belgium

France 2,338

Luxembourg 2,986

Germany

Austria

Slovakia

Japan

Hong-Kong

Singapore

Monaco

Switzerland

Italy

Spain

Portugal

Jersey

North America

Australia

Employee Ownership

Employee Benefits
4 complementary activities

- **Employee Ownership**

**Financing of public equipment**
- Market leader
- Market share:
  - Europe: 17%
  - USA: 25%

**Financial services**
- Retail banking and assurances
  - Belgium: No 2
  - Luxembourg: No 3

**Management of financial assets**
- Management of assets
- Private banking
- Funds administration
- Advice & brokerage

**Treasury & capital markets**
Dexia’s Employee Share Plan

Definition and philosophy of an ESP (Art. 609)

- Offer to subscribe new shares
  - Discount: Max. 20% of the market price (non taxable in principal)
  - Lock-up: Shares are non-transferable during 5 years
  - Target group: all employees

- Objectives
  - Participation of all employees in company performance
  - Creation of social link (international and regarding the Group)
  - Enhancing sense of “belonging”
  - Specific objective of Dexia: 5% of shares owned by the employees
### Dexia’s Employee Share Plan

**Employee Ownership**

#### Characteristics of the DESP (Art. 609)

- **2 offers**
  - Classic offer: total personal contribution by employee
  - Leveraged offer

- **Characteristics of a leveraged offer**
  - 1 share subscribed by employee
  - 9 additional shares financed by third party
  - Capital invested by employee is guaranteed
  - Return: 6 times increase of 1 share (= 60% increase of 10 shares)
### Dexia’s Employee Share Plan

#### Employee Ownership

#### Success of the DESP within Dexia

<table>
<thead>
<tr>
<th>Year</th>
<th>Subscriber</th>
<th>Amount (mio EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>7/10</td>
<td>120</td>
</tr>
<tr>
<td>2001</td>
<td>6/10</td>
<td>170</td>
</tr>
<tr>
<td>2002</td>
<td>6/10</td>
<td>130</td>
</tr>
<tr>
<td>2003</td>
<td>6/10</td>
<td>110</td>
</tr>
<tr>
<td>2004</td>
<td>6/10</td>
<td>110</td>
</tr>
</tbody>
</table>

- In Belgium and France: 8 employees out of 10 since 2000
- In 2004: 4.8% of capital in hands of employees worldwide
Definition and philosophy of a SOP

- Free grant of options
  - Options granted with lock-up period (at least 3 years)
  - Strike determined at grant
  - Exercise period: 2 to 7 years
  - Several sub-plans due to different tax regulations worldwide

- Objectives
  - Fidelity (retention) of a specific target group
  - Incentive for better future performance
  - Link with performance: Bonus = compensation for past performance
  - SOP = stimulus for future performance
Stock Option Plan

- Philosophy put into practice
  - Objective: simplify diffusion and acceptance
  - Example: financing tax due by beneficiaries (upon acceptance)

- Practical example: financing advance tax payment (B)
  - Tax Law: tax withheld upon express acceptance of options
  - Offer: exchange part of performance for financial flux = advance tax

<table>
<thead>
<tr>
<th>Impact on employees</th>
<th>If 🔄 : receives only determined % of increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>If 🔄 (→ non-exercise) : doesn’t owe anything</td>
</tr>
</tbody>
</table>
Stock Option Plan

- Result within Dexia
  - All granted options are accepted, also in Belgium
  - About 90% of the in Belgium granted options enter in the tax financing scheme

- Conclusion

Also in Belgium a SOP can be
- without upfront burden of taxation via tax financing scheme
- accessible for the entire eligible target
## In brief...

<table>
<thead>
<tr>
<th></th>
<th>ESP</th>
<th>SOP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying share</td>
<td>Share of the company</td>
<td></td>
</tr>
<tr>
<td>Innovating systems</td>
<td>Leveraged offers</td>
<td>Financing scheme for tax payment</td>
</tr>
<tr>
<td>1\textsuperscript{st} in Belgium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Objectives</td>
<td>Employee Shareholders</td>
<td>Fidelity</td>
</tr>
<tr>
<td></td>
<td>Social link</td>
<td>Integration</td>
</tr>
<tr>
<td></td>
<td>Sense of “belonging”</td>
<td>Incentive</td>
</tr>
</tbody>
</table>

Dexia’s Stock Option Plan

Employee Ownership

Underlying share = share of the company
Executive summary

- Dexia in the world and its activities
- Dexia Employee Benefits
- Case study
Creation of Dexia Employee Benefits

- In-house experience

  International experience in set-up of:
  - Employee Share Plans
  - Option Plans
  - Financial instruments in the field of Compensation & Benefits

- Target countries

  Belgium, France, Luxemburg, Germany, Spain, Ireland, Italy, the Netherlands, Switzerland ...
Dexia Employee Benefits

Areas of competence

- Financial Engineering
- Project management
- Legal and social
- Communication
Executive summary

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Case study

Employee Ownership

Context

Company

- International company
- Present mostly in Belgium and France
- Looking for new innovative tools to motivate and hold on to top management in fiscal friendly way
**Belgium – ESP Circular letter 1995**

- Possibility for a company to sell company shares to employees with tax-exempt discount of 20/120 (or 16.67%)
- Beneficiaries and amount chosen at discretion of company

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<thead>
<tr>
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<th>Beneficiary</th>
<th>Computation method</th>
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<tr>
<td><strong>Value benefit</strong></td>
<td>€ 10,000</td>
<td></td>
</tr>
<tr>
<td><strong>Or assets valued at</strong></td>
<td>€ 60,000</td>
<td>€ 10,000 / (20/120)</td>
</tr>
<tr>
<td><strong>Purchase value assets</strong></td>
<td>€ 50,000</td>
<td>€ 60,000 * (100/120)</td>
</tr>
<tr>
<td><strong>Reference price</strong></td>
<td>€ 10</td>
<td></td>
</tr>
<tr>
<td><strong>Purchase price</strong></td>
<td>€ 8.33</td>
<td>€10 * (100/120)</td>
</tr>
<tr>
<td><strong>Number of shares subscribed</strong></td>
<td>6,000</td>
<td>€ 60,000 / € 10</td>
</tr>
</tbody>
</table>
Belgium – ESP Circular letter 1995 (continued)

- **Taxation at inception**
  2. Value of granted benefit not submitted to social security contributions

- **Taxation upon sale of shares after lock-up period**
  Capital gain on sale of shares is tax-exempt

- **Lock-up period of (min.) 2 years**
Belgium – ESP + Incentive 1667

**Inconveniences**

Circular letter of 1995 has many advantages but also some inconveniences on the level of individual beneficiaries:

- Financing issue (liquidity problem)
- Guarantee of invested capital?

**Solution**: New Dexia product: “**Incentive 1667**”
Belgium - Incentive 1667

Objectives

Incentive 1667 helps to:
- finance the amount to be invested by the employee
- guarantee the amount of the employee’s invested capital
- give the company a variety of options as to the yield calculation
## Belgium - Incentive 1667

### Example

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<td>Purchase value of assets</td>
<td>€ 50,000</td>
<td>€ 60,000 * (100/120)</td>
</tr>
<tr>
<td>With</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- personal contribution (1/50)</td>
<td>€ 1,000</td>
<td></td>
</tr>
<tr>
<td>- leveraged effect (49/50)</td>
<td>€ 49,000</td>
<td></td>
</tr>
<tr>
<td>Reference price</td>
<td>€ 10</td>
<td></td>
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Belgium - Incentive 1667

Example – possible investment profile

**Standard Leveraged Offer**

Personal contribution + 80% of the added value of all shares acquired

With added value = surplus value established with regard to the initial reference price after the lock-up period of 2 years
Belgium - Incentive 1667 - example

- Constant increase of share price (+20%)
Belgium - Incentive 1667 – example (continued)

- Constant decrease of share price (-20%)
Belgium - Incentive 1667 – example (continued)

- Increase followed by decrease of share price (+20%, -20%)
Belgium - Incentive 1667 – example (continued)

- Decrease followed by increase of share price (-20%, +20%)
France – Grant of free shares

Description

Art. 83 of Law of Finance regarding the year 2005 describes the grant of free shares to employees.
- Acquisition period of min. 2 years
- Conservation period of min. 2 years

Beneficiaries are employees but also “mandataires sociaux” (upon condition that they do not own more than 10% of the capital)
France – Grant of free shares (continued)

- Foreign companies

If certain conditions are fulfilled, foreign companies with branches in France may also grant free shares to French employees.

- Social security contributions

If certain conditions are fulfilled, no social security contributions (employer – employee) are due.
<table>
<thead>
<tr>
<th>Grant Acquisition</th>
<th>Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amount taxed</strong></td>
<td><strong>Amount taxed</strong></td>
</tr>
<tr>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td><strong>Value of shares granted</strong></td>
<td><strong>Value shares at moment of sale – value of shares at acquisition</strong></td>
</tr>
<tr>
<td>At choice of beneficiary:</td>
<td></td>
</tr>
<tr>
<td>30% + 11% (social withdrawals) (*)</td>
<td>16% + 11% (social withdrawals)</td>
</tr>
<tr>
<td>or</td>
<td></td>
</tr>
<tr>
<td>% based on tax on revenue (progressive tariff) + 11% (social withdrawals)</td>
<td></td>
</tr>
<tr>
<td><strong>When</strong></td>
<td><strong>When</strong></td>
</tr>
<tr>
<td>Year sale of the shares</td>
<td>Year sale of the shares</td>
</tr>
</tbody>
</table>

(*) Due at moment of sale of the shares in contrary to taxation based on tax on revenue
## France – Grant of free shares - example

### Constant increase of share price (+10% per year)

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<tr>
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<th>Beneficiary</th>
<th>Computation method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value shares at grant (€ 10)</td>
<td>€ 10,000</td>
<td>1,000 shares * € 10</td>
</tr>
<tr>
<td>Value shares at acquisition (€12)</td>
<td>€ 12,000</td>
<td>1,000 shares * € 12</td>
</tr>
<tr>
<td>Taxes due “gain d’acquisition”</td>
<td>€ 4,920</td>
<td>(30% + 11%) * € 12,000</td>
</tr>
<tr>
<td>Sale of shares at € 14</td>
<td>€ 14,000</td>
<td>1,000 shares * € 14</td>
</tr>
<tr>
<td>Taxes due “plus-value de cession”</td>
<td>€ 540</td>
<td>(16% + 11%) * (€ 14,000 - € 12,000)</td>
</tr>
<tr>
<td>Total taxes due in year of sale</td>
<td>€ 5,460</td>
<td>€ 4,920 + € 540</td>
</tr>
<tr>
<td>Net result *</td>
<td>€ 8,540</td>
<td>€ 14,000 – 5,460</td>
</tr>
</tbody>
</table>

* Not taking into account fees...
Remark

The tax analysis is realised by our external consultant. Dexia Employee Benefits and Dexia Bank Brussels do not give any tax advice regarding these products.
Questions?
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