



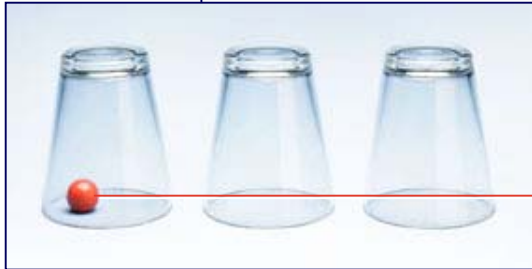
**DEXIA**

Employee Benefits

# Fifth European Meeting of Employee Ownership

## Dexia Employee Benefits

Brussels, 17 June 2005



**Dexia in the world and its activities**



**Dexia Employee Benefits**



**Case study**



**Dexia in the world and its activities**

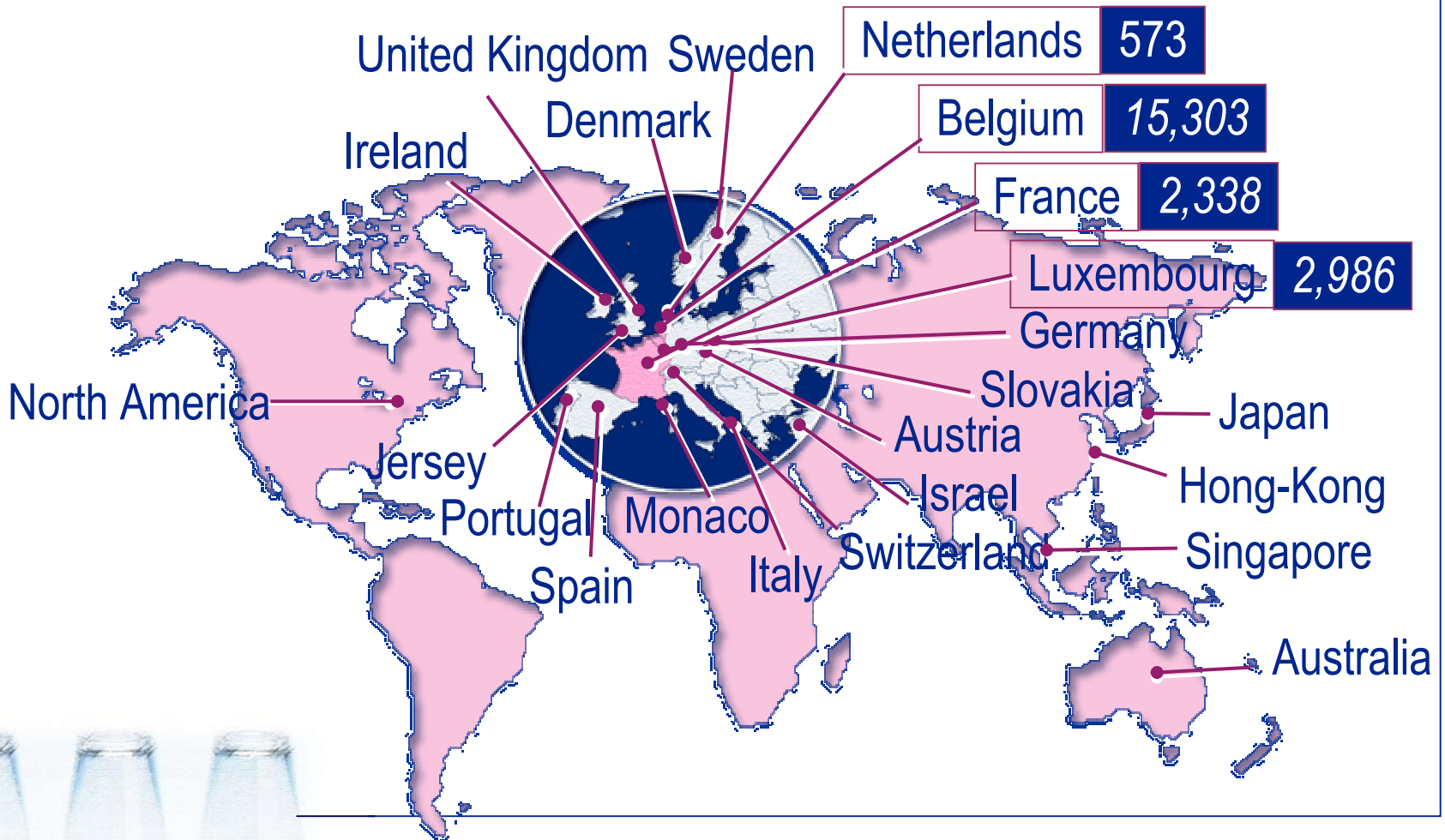


**Dexia Employee Benefits**



**Case study**

## Dexia in the world



## Financing of public equipment

- Market leader
- Market share:
  - Europe: 17%
  - USA: 25%

## Financial services

- Retail banking and assurances
  - Belgium: N° 2
  - Luxembourg: N° 3

## Management of financial assets

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

Treasury & capital markets



## 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



## 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)



## Success of the DESP within Dexia

	Subscriber	Amount (mio EUR)
2000	7/10	120
2001	6/10	170
2002	6/10	130
2003	6/10	110
2004	6/10	110

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

**Impact  
on  
employees**

If  : receives only determined % of increase

If  (→ non-exercise) : doesn't owe anything



## 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...

	ESP	SOP
Underlying share	Share of the company	
Innovating systems 1 <sup>st</sup> in Belgium	Leveraged offers	Financing scheme for tax payment
Objectives	Employee Shareholders Social link Sense of "belonging"	Fidelity Integration Incentive





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:

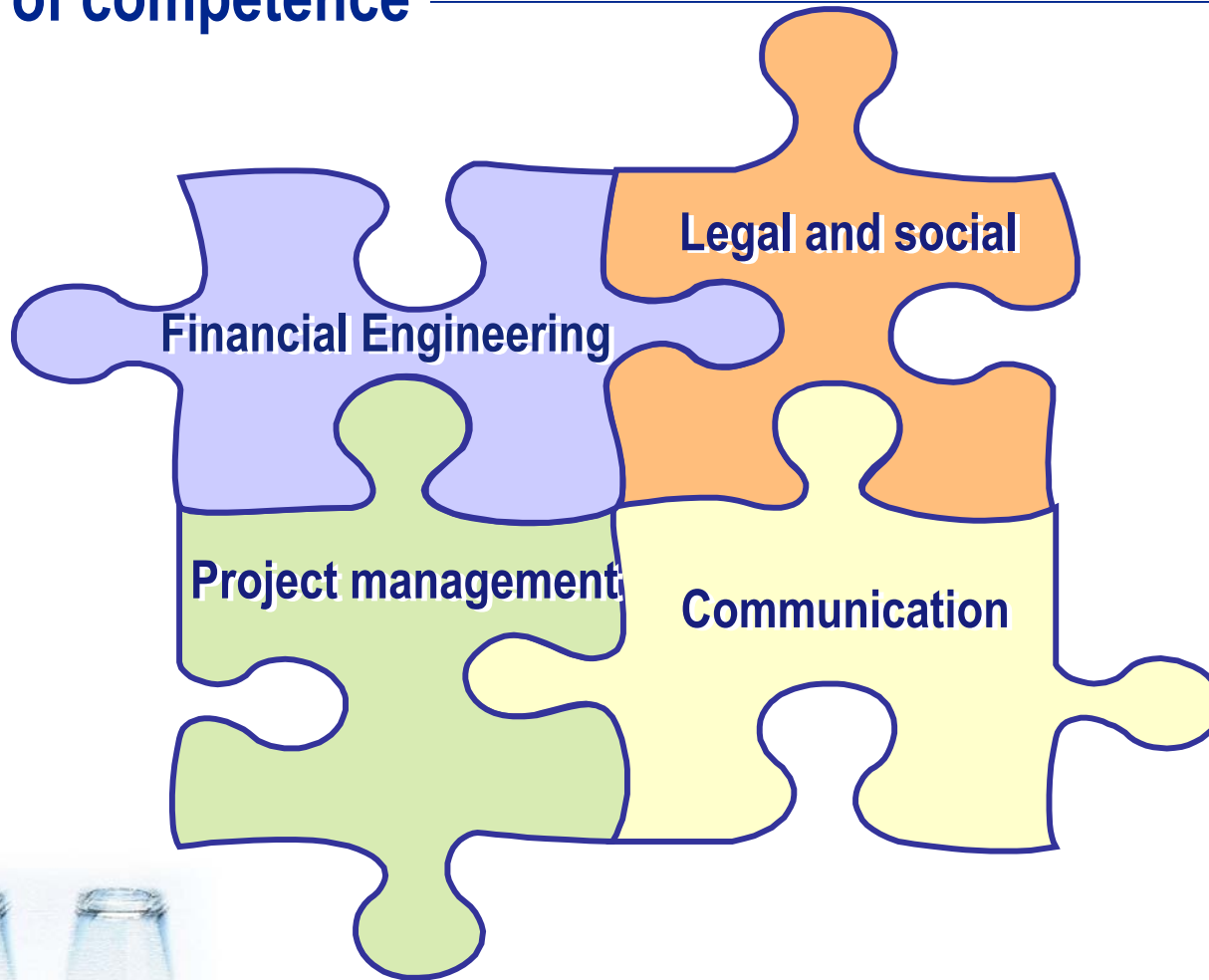
- Employee Share Plans
- Option Plans
- Financial instruments in the field of Compensation & Benefits

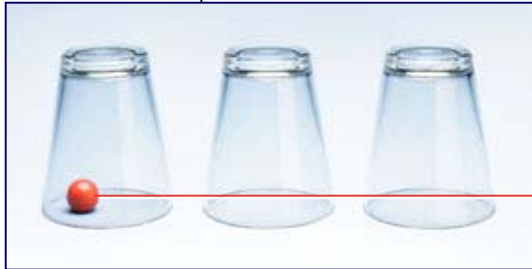
- Target countries

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



## Areas of competence





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Dexia Employee Benefits



**Case study**



### 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

	Beneficiary	Computation method
Value benefit	€ 10.000	
Or assets valued at	€ 60.000	€ 10.000 / (20/120)
Purchase value assets	€ 50.000	€ 60.000 * (100/120)
Reference price	€ 10	
Purchase price	€ 8,33	€10 * (100/120)
Number of shares subscribed	6.000	€ 60.000 / € 10



### Belgium – ESP Circular letter 1995 (continued)

- Taxation at inception

1. Circular letter of 1995 :  
discount of 16,67% is tax-exempt
2. Value of granted benefit not  
submitted to social security  
contributions



Lock-up period of  
(min.) 2 years

- Taxation upon sale of shares after lock-up period

Capital gain on sale of shares is tax-exempt



### 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

	Beneficiary	Computation method
Value benefit	€ 10.000	
Or assets valued at	€ 60.000	€ 10.000 / (20/120)
Purchase value of assets	€ 50.000	€ 60.000 * (100/120)
With		
- personal contribution (1/50)	€ 1.000	
- leveraged effect (49/50)	€ 49.000	
Reference price	€ 10	
Purchase price	€ 8,33	€10 * (100/120)
Number of shares subscribed	6.000	€ 60.000 / € 10



### Belgium - Incentive 1667

- Example – possible investment profile

#### Standard Leveraged Offer

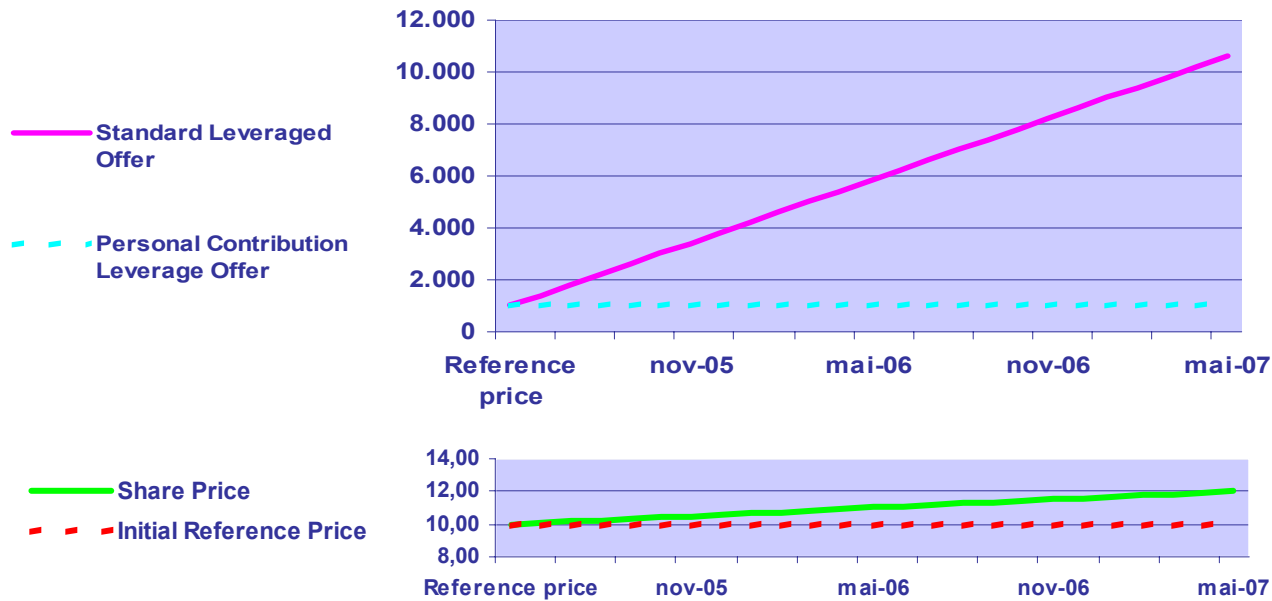
Personal contribution + 80% of the added value of all shares acquired

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

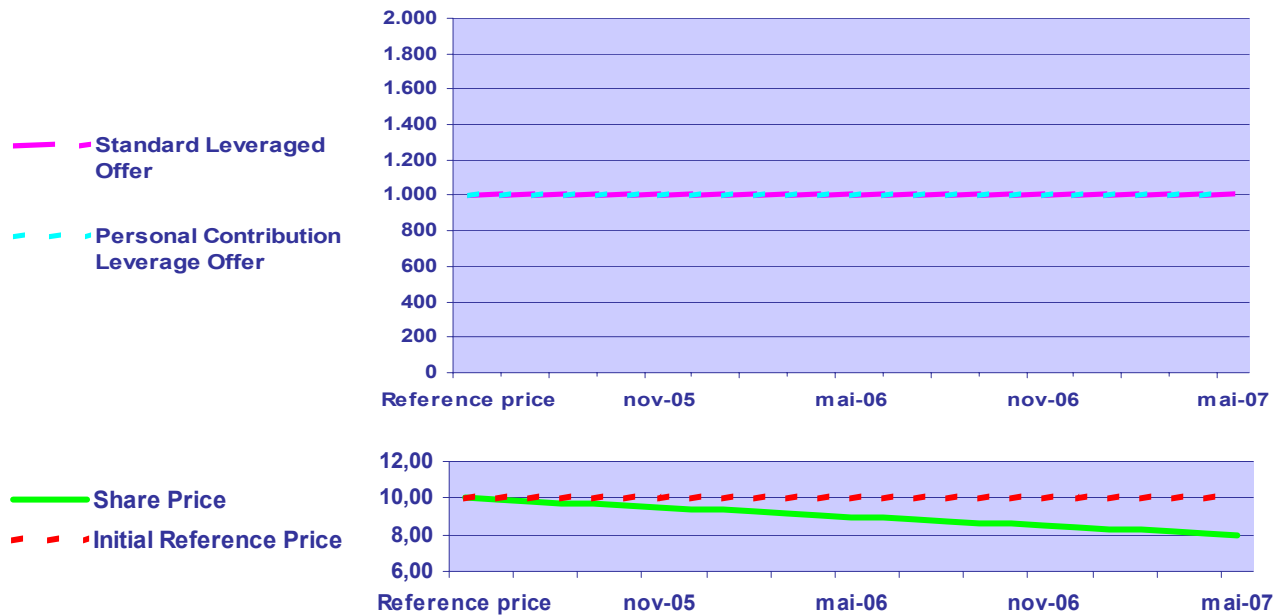
- Constant increase of share price (+20%)





### Belgium - Incentive 1667 – example (continued)

- Constant decrease of share price (-20%)



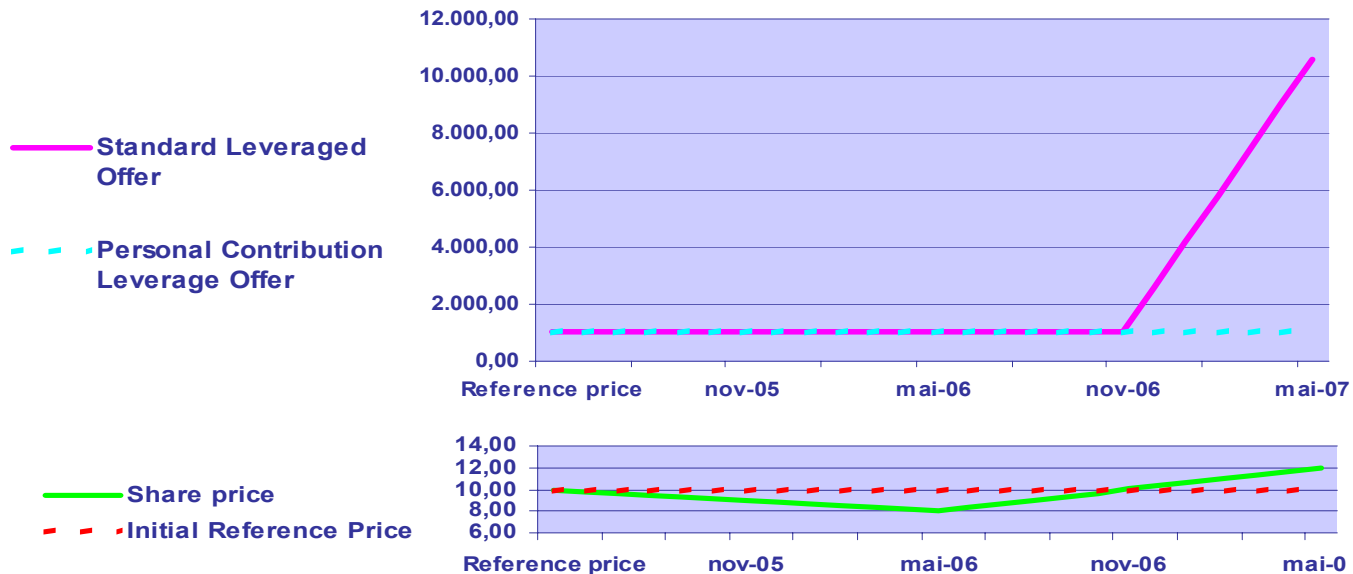
### Belgium - Incentive 1667 – example (continued)

- 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

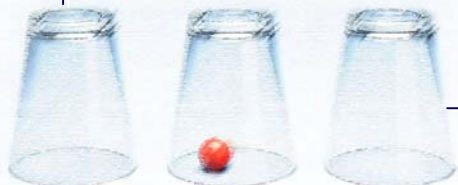
If certain conditions are fulfilled, no social security contributions (employer – employee) are due.



## France – Grant of free shares (continued)

		Taxation free shares	
<b>Grant Acquisition</b>	Amount taxed	Value of shares granted	
	%	At choice of beneficiary: 30% + 11% (social withdrawals) (*) or % based on tax on revenue (progressive tariff) + 11% (social withdrawals)	
	When	Year sale of the shares	
<b>Sale</b>	Amount taxed	Value shares at moment of sale – value of shares at acquisition	
	%	16% + 11% (social withdrawals)	
	When	Year sale of the shares	

(\*) 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)

	Beneficiary	Computation method
Value shares at grant (€ 10)	€ 10.000	1.000 shares * € 10
Value shares at acquisition (€12)	€ 12.000	1.000 shares * € 12
Taxes due “gain d’acquisition”	€ 4.920	(30% + 11 %) * € 12.000
Sale of shares at € 14	€ 14.000	1.000 shares * € 14
Taxes due “plus-value de cession”	€ 540	(16% + 11 %) * (€ 14.000 - € 12.000)
Total taxes due in year of sale	€ 5.460	€ 4.920 + € 540
Net result *	€ 8.540	€ 14.000 – 5.460

\* Not taking into account fees...





**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.**



# Conclusion



Questions?



Ludovic Wolff  
Managing Director

 +32 2 222 09 10

 [ludovic.wolff@dexia-eb.com](mailto:ludovic.wolff@dexia-eb.com)

Brigitte Lossy  
Project Manager

 +32 2 222 09 12

 [brigitte.lossy@dexia-eb.com](mailto:brigitte.lossy@dexia-eb.com)

 [www.dexia-eb.com](http://www.dexia-eb.com)