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Summary of Government Interventions
Luxembourg

Overview

In addition to the steps undertaken by the ECB, the Luxembourg government has provided support to the Luxembourg financial system by:

- government investments;
- government guarantees; and
- increase of the depositor protection scheme.

Investments/recapitalisation

Fortis

On 29 September 2008, the Belgian, Luxembourg and Dutch governments bailed out the Fortis Group. As part of this bail-out, the Luxembourg government invested EUR 2.5bn in Fortis Banque Luxembourg S.A. in the form of a mandatory convertible loan. On 15 December 2008, the Luxembourg government became holder of 49 per cent. of the shares in Fortis Banque Luxembourg (following conversion of its loan).

On 6 October 2008, an agreement was reached between the Luxembourg government and BNP Paribas on the sale of 16.57 per cent. of the shares held by the Luxembourg government in Fortis Banque Luxembourg to BNP Paribas (effectively reducing the shareholding of the Luxembourg government in Fortis Banque Luxembourg and Fortis Bank to 67 per cent. and 33 per cent. respectively) in exchange for BNP Paribas shares representing 1.1 per cent. of the capital of BNP Paribas. Fortis Banque Luxembourg would become BGL-BNP Paribas and the Luxembourg state would hold the presidency of the board of directors of this bank in Luxembourg. The Luxembourg government would undertake to hold 50 per cent. of the shares in BGL-BNP Paribas for 1 year. However, the 19 December 2008 shareholders' meeting of BNP Paribas that was convened to issue shares to (*inter alios*) the Luxembourg government was cancelled by BNP Paribas following the ruling of the Court of Appeals of Brussels of 12 December 2008.

Given that the general meeting of shareholders of Fortis SA/NV held on 11 February 2009 rejected the proposed transactions with the Belgian state and BNP Paribas and the Belgian state and BNP Paribas reached a revised agreement on 7 March 2009 (which remains subject to shareholders' approval), it remains to be seen whether the agreement that was reached in October 2008 between the Luxembourg government and BNP Paribas will complete.

Dexia

On 30 September 2008, Dexia SA raised EUR 6.4bn from the governments of Belgium, France and Luxembourg and from existing shareholders. The Luxembourg government invested EUR 376m in Dexia Banque Internationale à Luxembourg S.A. in the form of convertible bonds.

Dexia's capital increase was completed on 3 October 2008.

State guarantees

On 9 October 2008, the Belgian, Luxembourg and French governments undertook to guarantee up to EUR 150bn of new interbank and institutional deposits and financing, as well as new bond issuance intended for institutional investors, with a maximum maturity of 3 years, raised by Dexia SA, Dexia Banque Internationale à Luxembourg S.A., Dexia Bank Belgique SA and Dexia Crédit Local S.A.

Following the European Commission's authorisation on 19 November 2008, the Belgian, French and Luxembourg governments and Dexia signed a formal agreement on 9 December 2008 pursuant to which the Luxembourg government agreed to guarantee obligations up to EUR 4.5bn (out of EUR 150bn). In accordance with this agreement, the 3 governments have jointly undertaken to set up a guarantee mechanism covering borrowing by Dexia SA, Dexia Banque Belgique SA, Dexia Crédit Local S.A. and Dexia Banque Internationale à Luxembourg S.A.

The guarantee covers Dexia's liabilities towards credit establishments and institutional counterparties, as well as bonds and other debt securities issued to the same counterparties, provided that these liabilities, bonds or securities fall due before 31 October 2011 and have been contracted, issued or renewed between 9 October 2008 and 31 October 2009. Depending on the length and nature of the obligations guaranteed, the guarantee fee is either (i) 25 bps, (ii) 50 bps or (iii) 50 bps plus either the median of the Dexia CDS 5 years spreads calculated on the period beginning on 1 January 2007 and ending on 31 August 2008 (provided that these spreads are representative), or the median of the 5 years CDS spreads of all credit institutions with a long-term credit rating equivalent to that of Dexia, calculated over the same period.

The guarantee agreement dated 9 December 2008 was supplemented on operational and procedural aspects by an operational memorandum dated 18 December 2008. Notably, this operational memorandum provides for (i) a monitoring process of the guaranteed amounts on a daily basis and (ii) with respect to guaranteed bond issues of Dexia, a system of eligibility certificates whereby the 3 governments will issue, on request from Dexia, certificates confirming for each bond issue that it is covered by the guarantee agreement. The aggregate guaranteed amount (as published on a daily basis) and a list of all certified bond issues (together with unofficial translations of the guarantee agreement and the operational memorandum) can be found on http://www. nbb.be/DOC/DQ/warandia/index.htm.

As at 20 April 2009, the total amount of Dexia's liabilities guaranteed by the 3 governments equalled EUR 87,391,228,394.46.

Notable developments with commercial banks (and other key financial players)

Dexia

Please see above.

On 4 February 2009, Dexia launched its EUR 3bn inaugural government guaranteed (see above) public benchmark. The issue was priced at mid-swaps plus 85 bps.

Other guaranteed bond issues by Dexia can be found on http://www.nbb.be/DOC/DQ/warandia/index.htm.

Fortis

Please see above.

Landsbanki Luxembourg S.A.

On 8 October 2008, the Luxembourg financial regulation (**"CSSF"**) announced that administrators had been appointed in respect of Landsbanki Luxembourg S.A.

On 13 October 2008, the CSSF announced that the intervention of the Luxembourg deposit guarantee scheme operated by the Association pour la garantie des dépôts, Luxembourg (AGDL) had been triggered in respect of Landsbanki Luxembourg S.A. (so that customers could claim up to EUR 20,000).

On 12 December 2008, the CSSF informed the public that District Court of Luxembourg ordered the dissolution and the winding-up of Landsbanki Luxembourg S.A. and that accordingly liquidators were appointed.

Glitnir Luxembourg S.A.

On 8 October 2008, the CSSF announced that administrators had been appointed in respect of Glitnir Luxembourg S.A.

On 13 October 2008, the CSSF announced that the intervention of the Luxembourg deposit guarantee scheme operated by the Association pour la garantie des dépôts, Luxembourg (**"AGDL"**) had been triggered in respect of Glitnir Luxembourg S.A. (so that customers could claim up to EUR 20,000).

On 14 November 2008, Nordea Bank S.A. (Luxembourg) announced that it had come to an agreement with Glitnir Bank Luxembourg S.A. to take over its private banking clients. Non-private banking clients would not be taken over and remain subject to the administration of Glitnir Luxembourg S.A.

Kaupthing Luxembourg S.A.

On 9 October 2008, the CSSF announced that administrators had been appointed in respect of Kaupthing Luxembourg S.A.

On 13 October 2008, the CSSF announced that the intervention of the Luxembourg deposit guarantee scheme operated by the AGDL had been triggered in respect of Kaupthing Luxembourg S.A. (so that customers could claim up to EUR 20,000). On 20 November 2008, the AGDL agreed to start reimbursing Kaupthing Luxembourg S.A. as from December 2008.

On 19 December 2008, a declaration of intent was signed by the Luxembourg government and a consortium of investors from several Arab countries (led by the Libyan Investment Authority). Under the declaration of intent and subject to the approval by Kaupthing Bank Luxembourg's creditors, those investors would buy Kaupthing Luxembourg S.A. and enable the bank to resume its operations. The bank would receive a loan under the terms of the agreement. Press reports suggest that Luxembourg itself will invest EUR 400m in the acquisition of the Kaupthing Luxembourg operations, whilst Belgium will issue a EUR 160m loan to Luxembourg in order to guarantee the pay out of the savings of 20,000 Belgians at Kaupthing Luxembourg S.A.

On 16 January 2008, it was announced that, subject to approval by Kaupthing Bank Luxembourg's creditors, the Belgian customers of Kaupthing Luxembourg S.A. would be taken over by Landbouwkrediet and its subsidiary Keytrade Bank.

However, on 16 March 2009, Kaupthing Bank Luxembourg's creditors rejected the proposed restructuring, so the position of Kaupthing Bank Luxembourg remains uncertain: either a buyer for Kaupthing Bank Luxembourg is found by 9 June 2009 or Kaupthing Bank Luxembourg will be put into bankruptcy. Press reports suggest that the group of investors that signed the declaration of intent on 19 December 2008 have put forward a new proposal to buy Kaupthing Luxembourg.

Summary of proposed key legislation/regulation

On 29 October 2008, the Law of 24 October 2008 pertaining to the improvement of the legislative framework for financial services in Luxembourg was published. This law authorises the Finance Minister to issue loan(s) for an aggregate amount of EUR 3bn. The proceeds of these loan(s) are to be used to reinforce the financial strength of financial institutions (by subscribing to shares in such institutions, granting loans to such institutions or by depositing these funds with such institutions).

Other developments

Depositor protection scheme

On 17 October 2008, the Luxembourg Finance Minister announced that Luxembourg will increase its deposit guarantee scheme from EUR 20,000 to EUR 100,000 (per depositor and member institution of the AGDL). However, the increase is only effective as from 1 January 2009 (so as not to apply to Landsbanki Luxembourg S.A., Glitnir Luxembourg S.A. and Kaupthing Luxembourg S.A.).

Short selling

In light of the current market situation, the CSSF considers that naked short sales are incompatible with the regulatory requirements governing market conduct, in particular where such sales distort or manipulate the market.

On 19 September 2008, the CSSF issued a ban on naked short sales where the underlying assets are stocks of a credit institution or insurance undertaking traded on a regulated market, irrespective of whether such sales are on own account or on behalf of clients. The ban came into effect on 19 September 2008 for indefinite period and was further clarified by the CSSF on 29 September 2008.

For further information, please see:
http://www.cssf.lu/uploads/media/pressrelease__short_selling190908.pdf
http://www.cssf.lu/uploads/media/pressrelease__short_selling290908__01.pdf

Additional liquidity

On 14 October 2008, the Luxembourg Prime Minister Jean-Claude Juncker stated that the Luxembourg government together with the Luxembourg Central Bank will take all necessary steps to secure the liquidity of money market funds established under Luxembourg law. This can be done through the temporary provision of special liquidity for the benefit of such funds against the supply of eligible collateral to the Central Bank.

General plan to revive the Luxembourg economy

On 6 March 2009, the Luxembourg government announced a plan to support the Luxembourg economy. The plan provides for a number of socio-economic, tax and environmental measures aimed at battling the negative effects of the economic crisis. These measures allow the Luxembourg government to, amongst other, provide financial assistance to businesses by (1) giving any business up to EUR 500,000 of capital support and/or (2) guaranteeing under certain circumstances up to 90 per cent. of bank loans entered into by the relevant businesses. The total amount of guarantees available under (2) will be limited to EUR 500m.

The Luxembourg support plan also includes additional export credit insurance to be made available through the national export credit agency (*Ducroire Luxembourg*). Under this export credit insurance scheme, *Ducroire Luxembourg* will provide export credit insurance to complement insurance policies taken out with private insurance companies as necessary cover is currently unavailable in the private insurance market. The budget earmarked for this scheme amounts to EUR 25m. The additional export credit insurance scheme was authorised by the European Commission on 20 April 2009.

Contact us

For further information, please contact

Bruce Bloomingdale

Partner
T: +44 20 3130 3211
E: bbloomingdale@mayerbrown.com

Kevin Hawken

Partner
T: +44 20 3130 3318
E: khawken@mayerbrown.com

Ed Parker

Partner
T: +44 20 3130 3922
E: eparker@mayerbrown.com

Michèle Daelemans

Senior Associate
T: +44 20 3130 3523
E: mdaelemans@mayerbrown.com

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