

Message from the chairmen



MESSAGE FROM
FRANÇOIS NARMON,
Chairman of the Board of Directors

The economic rebound that began in 2003 continued throughout 2004. In 2004, in fact, the world economy saw stronger growth than it had for thirty years, which enabled the majority of companies, and financial companies in particular, to record excellent results. This trend was powerfully sustained by the two motors of world growth, the United States and China, enabling us to approach the year 2005 in a climate of relative confidence.

Among the significant international events in 2004, we should also note the enlargement of the European Union to 25 countries and the entry into the Union, on 1 May 2004, of 10 new members, facing Europe with new challenges and demonstrating its dynamism.

In view of the accelerating growth of the world economy, it is necessary to be cautious: the evolution of the price of oil and the dollar will doubtless be two major variables influencing world growth in 2005.

This should not make us forget the earthquake and tidal wave of 26 December in Asia, which brought about such human drama, and which invoked such a formidable display of world solidarity, with which Dexia of course associated itself with a donation of EUR 200,000, adding to the personal contributions of many of the company's employees.

2004 was an excellent stock market year for Dexia, with its share rising 24%, posting a performance above that of the majority of European stock market indices. Since the creation of the Dexia Group in 1996, the performance of the share has been an average 13.2% rise per annum.

The excellent results enable Dexia to finance the development of its activities and to remunerate its shareholders in a very satisfactory manner through a high dividend. Today Dexia is not only a leading banking group in Belgium, France and Luxembourg, a recognized actor in Europe in asset management, but also a world leader in providing financial services to the local public sector.

The Board of Directors of Dexia met seven times in 2004. The attendance rate of directors at those meetings was 81.7%. The Board examined the Group's strategic alignments and its evolution, in the light of its economic and financial environment. Against that background, it in particular examined the suggested merger with Sanpaolo IMI. On a proposal from the strategic committee, it decided not to continue to study that project. The Board of Directors also monitored the case of Dexia Bank Nederland, the development of the first business line in Japan and in Mexico and the transfer of Kempen & Co.

For the third time, the Board of Directors made a self-assessment of its operation during the year 2004. All in all, the rate of satisfaction may be considered most pleasing, as it reached 87% (against 82% the previous year). A reflection was also undertaken with the Board of Directors on the occasion of the entry into force of the Belgian Code of Corporate Governance. That reflection will continue in 2005 and in particular will tackle the publication of a Dexia Group Corporate Governance Charter by the end of 2005.

Dexia is a robust banking group which can look towards the future calmly, by virtue of its continuing development. Dexia is a profitable banking group, a creator of value. The Board of Directors will put a proposal to the shareholders at the Shareholders' Meeting on May 11, 2005 to distribute a dividend up 17% on 2004, at EUR 0.62 per share.

Message from the chairmen



MESSAGE FROM
PIERRE RICHARD,
Chief Executive Officer,
Chairman of the Management Board

Our economic environment in 2004 saw some considerable contrasts in comparison to 2003: GDP growth recovered in the United States, while that indicator generally remained modest in Europe. Interest rates evolved differently from one region of the world to another. Euro/dollar parity continued to put pressure on European exports. Despite recent turbulences in the price of oil, the world economy progressed in fits and starts.

Against that background, Dexia applied itself to delivering good performances, in terms both of activity and results.

Our Group achieved excellent results in 2004, and I congratulate all the teams at Dexia which contributed effectively to that performance.

The net income grew by 23.8%, to EUR 1,772 million. This favorable evolution occurred in all our business lines, each having an excellent year. I congratulate all the Dexia teams around the world for their dynamism and their contribution to these good results.

Two principal factors explain these performances: firstly, the positive evolution of our revenues, which are the structural source for the creation of value. They are up 5.6% on a comparable framework and excluding non-recurrent revenues, and even 6.1% at a constant exchange rate. Secondly, we continued to control operating expenses, which are down 1.4%, to EUR 3,012 million. Gross operating income, at EUR 2,380 million, grew strongly. This leads to a noteworthy improvement in our cost/income ratio, which went from 59.2% in 2003 to 55.9% in 2004.

Our principal financial ratios place Dexia in the leading group of European banks: our ROE (return on equity) moved from 16.5% in 2003 to 19.8% in 2004. Our earnings per share went from EUR 1.24 in 2003 to EUR 1.58 in 2004, an increase of 28.1%, almost triple our objective for annual average growth. Despite repurchases of shares in an amount of approximately EUR 700 million this year, Tier 1 is still very high, at 10.7%.

So our development model has been a winner since the creation of Dexia in 1996 and we continue to follow it. Dexia is characterized by a strong capacity to generate cash-flow

year after year, which is a fundamental advantage enabling it to ensure a very high return to shareholders, through a recurrent policy of paying high dividends. The dividend per share has more than doubled over the period 1997 to 2004.

Our perennial plan for 2005 to 2007 rests on four principal objectives supporting the model of Dexia since its creation.

- *To confirm our position as a European banking group with an international vocation.* Dexia is in fact a very international group, established in 22 countries. Although current results essentially originate from Belgium, France, Luxembourg and North America, its unceasing geographic development gives it significant levers for future growth. Our first business line, public/project financing, is in rapid geographic expansion: we are already present in almost every country in the European Union. To this we add the acceding countries such as Poland, as well as Switzerland, then Canada and Mexico, which complete our important "North America" pole, and finally Japan. We undeniably benefit from the process of decentralization which affects the majority of developing countries and gives greater responsibilities to local authorities, thus enlarging our scope of intervention.

As regards our second market, retail clientele, which includes private banking, we have clearly strengthened our position and our legitimacy is now well established by virtue of the successful integration of Artesia BC in Belgium. Hence we can now explore any opportunity to develop our activities which in turn would enable us to widen our client base.

- *To accelerate our development, by continuing to innovate everywhere for our clients.* In my view this is where the key to Dexia's success is to be found, continuing more actively than ever in a policy of innovation in the creation of products and services through our recognized expertise in our different business lines, which enables us to offer clients the most competitive products and services in an extremely competitive world.

- *To create value by virtue of an ambitious policy of organic growth in all business lines and only to accept investments releasing sufficient profitability on a sustainable basis.* In the medium term, namely on a horizon to 2007, the Group has fixed four objectives: average annual growth of profit per

share above 10%; growth of dividend per share of at least 10% per annum; continuing to cut the operating coefficient, to reach 52.7% in 2007 through control of the evolution of operating costs kept below inflation; a level of profitability on equity of 16.5% in 2007 according to IFRS norms.

- *To rest on a base of values in phase with what is at stake for our company.* Attentive to the basic developments of our companies, we have made sustainable development and ethical values both the signature of Dexia and the touchstone of our entire strategy. The signature of "Dexia, the bank for sustainable development" is signal both internally with a mobilization of all the teams and the development of social issues within the company, and vis-à-vis our clients who these days attach ever greater importance to ethical values and in particular sustainable development.

The dynamism shown by our commercial business lines is a root of the continuing growth of earnings, despite increased competitive pressures. As regards general costs, the effort to control them and the search for synergies within the Group will continue.

Although it is always a delicate matter to predict how the year 2005 will pan out, we can already stress how the soundness of our fundamentals and the experience of our teams are the root of our success. We are therefore entirely confident in the ability of our teams to continue in their dynamism to achieve the growth that Dexia has seen since its creation.