

Public/Project Finance and Credit Enhancement

WORLD LEADER. Recognized for its expertise and savoir-faire in the field of local authority financing, project financing, credit enhancement and, more broadly, financial services to the public sector, in this market Dexia is the world leader. The Group carries on this activity on its own domestic market, in Belgium and France, and also internationally, through subsidiaries, branches and holdings in Australia, Austria, Germany, Israel, Italy, Luxembourg, North America, Poland, Portugal, Slovakia, Spain, Sweden, the Netherlands and the United Kingdom. Elsewhere in the world, Dexia runs its business development from its head office in Paris. In 2004, the geographic expansion of the Group continued with Dexia opening new offices in Japan, Mexico and Canada.





No. 1

**World leader in the financing
of local authorities**

*EUR 193
billion⁽¹⁾*

**Total outstanding amount
in long-term loans, up 8.6%**

*EUR 34.4
billion⁽²⁾*

**Global production of long-term
loans**

*USD 927
million*

**Total of insurance margins and
gross present value premiums
collected by FSA**

(1) Excluding companies accounted
for by the equity method.

(2) Excluding Germany and companies
accounted for by the equity method.

Presentation, strategy and outlook

Presentation

Dexia is the world leader in Public Finance. The first business line of the Group covers several activities: Municipal Finance, Project Finance and Credit Enhancement.

Municipal Finance consists of financing the needs of local public authorities or other public service organizations, in the form of direct loans, signed commitments, liquidity guarantees or purchase of securities issued by the customers. Dexia offers its clients a whole range of products, including structured loans as well as debt management.

Dexia is also an active player in Project Finance and deploys its expertise on a global scale. Dexia uses a selective approach, in line with the Group's low risk policy: priority is given to essential infrastructures (transportation, environment...) and the renewable energy sector.

As the second largest bank in Belgium, Dexia also finances mid-sized and large corporate clients.

Through its New York based AAA-rated subsidiary, Financial Security Assurance (FSA), Dexia insures municipal bonds and infrastructure deals, as well as asset-backed securities (ABS) in the corporate, consumer loans and mortgage sectors.

In addition to lending and credit enhancement, Dexia provides its clients with a broad range of other financial services and products – such as capital

market solutions, insurance services, asset management and payment services – leveraging the expertise of the Group in these activities (Dexia Capital Markets, Dexia Insurance, Dexia Asset Management etc.). The Dexia Group is present in most countries of the European Union – where it holds a 16% share of the local sector financing market – as well as in the United States.

■ In its historical markets, France and Belgium, Dexia's market share amounts to 42% and 80%, respectively. More recently, Dexia has developed its activity in these two countries with new clients in the local public sector, such as public hospitals, social housing and other non-profit organizations. France and Belgium represent roughly 50% of the business line's earnings. The range of clients is very wide in these countries, from the largest to the smallest local authority. Innovation is permanent and may usually easily be transposed in other countries where the Group is active.

■ Dexia is present in many other countries in Europe (Italy, Spain, the United Kingdom, Germany, Luxembourg, Central and Eastern Europe, the Nordic countries and the Netherlands). Business in these countries consists of financing mid-sized and large local authorities. On the strength of its established reputation, Dexia has managed to increase its share in all markets by offering innovative products and applying a targeted

commercial approach. This will result in a greater contribution by these countries to the business line's earnings.

■ In the United States, Dexia operates through both its New York branch and its wholly-owned subsidiary, Financial Security Assurance (FSA) – one of the major players in the credit enhancement of US municipal bonds market (24% market share in 2004). In the United States, where the long-term local government debt is almost exclusively desintermediated, the Group has been able to grow at a fast pace in this large market thanks to its powerful offer, which combines credit enhancement and banking solutions (liquidity facilities).

■ Dexia and FSA are also active worldwide in Project Finance. A significant part of the activity is located in the UK and in Italy where the markets have been growing significantly over years.

A vast and growing market

In Europe, the local authorities debt market (totaling more than EUR 500 billion) should increase in the coming years due to the ongoing process of devolution and hence the transfer of new responsibilities from central governments to local and regional authorities, and also due to the need for new infrastructures.

Regarding the municipal market in the United States (more than EUR 1,200 billion), total debt rose in



2004 and it should continue to do so in the coming years at a higher pace than in Europe.

Geographic expansion

The Group is engaged in developing the business in Europe, and will focus primarily on Central and Eastern Europe. In 2004, Dexia created a new bank in Vienna, teaming up with its historical Austrian partner Kommunalkredit Austria. This new bank will operate either through local presence – such as in Poland, in the Czech Republic, and in Slovakia (where Dexia owns Dexia banka Slovensko, which is also active in the retail business) – or directly through its Austrian headquarters.

The Group has also started to develop its operations in Canada, a very vast market, fully decentralized, and largely desintermediated, where there is a strong demand for infrastructures – and in Mexico, another market greatly in need of new infrastructures (water treatment, transport...). Finally, Dexia looks towards Australia, one of the largest markets in Project Finance, and Japan, the world's largest market in Public Finance (total debt of EUR 1,500 billion).

Outlook for the Group

First of all, Dexia benefits from the public debt market that should grow by 1.5% p.a. in Europe and by 4% in the United States and in Japan in the coming years.

Beyond this growth, Dexia's strategy is based on:

- the on-going drive to provide its clients with more innovative products;
- broadening its client base in the local public sector;
- expanding its operations into new countries.

This strategy proved efficient and has enabled Dexia since its creation to produce sustained growth in earnings in Public Finance, whilst operating at low risk.

Local finances in the countries of the European Union

1998-2003: local public finances in balance in the Europe of the Fifteen

_Local expenditure contained in 2003

Between 1998 and 2003, local public expenditure (EUR 1,165 billion) saw sustained evolution in the Europe of the Fifteen (+4.2% year-on-year in volume). This momentum is to a large extent the consequence of major transfers of competences in favor of local authorities in different countries (for example in Italy, France and above all in Spain).

In 2003, the evolution of local public expenditure was lower than the trend (+2.7% in volume), despite the continuation of movements towards decentralization and the upward trend of current expenditure, such as those of a social nature.

_Investment effort maintained in 2003

Local public investment expenditure evolved year-on-year in volume by +3.5% within the Europe of the Fifteen between 1998 and 2003. It saw two major phases of evolution during that period: a phase of dynamic growth until 2001, and then slow evolution, against a background of general economic slowdown.

In 2003, local public investment expenditure remained almost stable (+0.5% in volume), at a still high level: it was EUR 141 billion, or 62.5% of public investment expenditure and the equivalent of 1.5% of the GDP of the European Union of the Fifteen.

_Financial balances preserved

Over the period from 1998 to 2003, the budget balance in the local public sector remained very close to balanced. In 2003, local deficits of the Europe of the Fifteen only represent 0.05% of GDP and half the countries even present surpluses. As a consequence, local debt (EUR 516 billion) remains stable.

The new member states: the growing local public sector

Local finances in the ten new member states were characterized in 2003 by:

- a development of decentralization over the last decade: local expenditure now represents 12% of their GDP, or a figure very close to that of the Fifteen (12.5%);
- the importance of the investment effort made by their local authorities: on average in these countries, local investment represents 2% of GDP, against 1.5% in the Fifteen, which demonstrates the now active role of the local public sector in the new member states in bringing their infrastructures up to standard.

Trends in 2004

_The evolution of local expenditure and investment differs according to the country

The development of local public expenditure remains dynamic in Belgium, France, Germany and Sweden. The reasons are diverse: good progress by local receipts in Belgium,

the impact of decentralization in France, the progress of expenditure of a social nature in Sweden, easing of pressures on expenditure in Germany through the reform of local business tax. In other countries, local expenditure evolved more moderately, as in Italy or Portugal, to respond to the imperatives of balancing public finances.

Local investment evolved in a particularly sustained manner in the United Kingdom and France, but was rather slow in other countries, especially the Nordic countries.

_Many reforms launched or programmed

In France, the situation among local authorities will see some significant movements: new transfers of competences in 2004, 2005 and 2006, new subsidy architecture, re-examination of the local business tax, grant of new taxes to departments and regions. In Italy, provisions intended to contain the advance of local expenditure were reinforced in 2004 with the adoption of the *taglia spese* decree and the continuing freeze on the rates of regional corporation tax and the surcharge on income tax. In Spain, a new system for financing towns with more than 75,000 inhabitants as well as provincial capitals or autonomous communities came into force in January 2004, and is reflected by the increase in transfers of state tax and by a reduction of subsidies. In Germany, a modification to the conditions for sharing the proceeds from local business tax was implemented.

The new member states also undertook reforms of local finances. In Poland, for example, the proportion of state tax receipts transferred in part to local authorities was increased in return for a reduction of state subsidies.

Promoting exchanges of experiences, at a world level, among local actors

Taking advantage of its contacts and establishments in numerous countries, Dexia is keen to promote exchanges of experiences within the vast geographic zone which is Europe, but also at a world level, in partnership with the United Nations and international financial institutions.

So in February 2004, Dexia participated in the organization in Vienna of a first congress dedicated to financing local investments in Central and Eastern Europe. The Group also took part in the inaugural congress of the world organization "Cities and Local Governments United", held in Paris in May 2004. This was the occasion to organize technical seminars with major local actors from Europe and also North America and South Africa.

Dexia continued in its efforts to promote an international right to access to essential urban services (water, electricity, public transport), in partnership with international organizations. In September 2004, the Group also took part in a workshop on essential services within the context of

the International Urban Forum in Barcelona. It also participated in the creation and financing of the new International Center for Training Local Actors intended for those in Central and Eastern Europe. Established in Poland, this new establishment welcomes the heads of urban services from that geographic zone. Members of staff in the Group provide the training on local finances and on public-private partnerships (PPP).



Business review

The **total outstanding amount** at Dexia in the public/project finance business line was EUR 193 billion at the end of December 2004, up 8.6% in comparison to the end of December 2003 (+9.8% excluding the exchange effect). This progress, perceptible in almost every establishment, reaches or even exceeds 30% in several entities including those in Spain, the United Kingdom, Slovakia and the international office. It is also to be seen in the net capital insured at FSA, which is up 11% in comparison to the end of December 2003.

In 2004, **global production of long-term loans** amounted to EUR 34.4 billion, excluding Germany and Austria, in line with production achieved in 2003 despite a globally

unfavorable exchange effect. In Europe, production was particularly dynamic. In North America, after two exceptional years, activity is down 29% (22.5% excluding the exchange effect).

In the **Public sector**, activity outside Germany amounts to EUR 28 billion, down 4.1% against that recorded for the year 2003. Activity achieved in 2004, up 3.6%, is contrasted in the European zone and down in America (-27.7%).

In the **structured financing sector**, the production volume was EUR 6.4 billion, or an increase of 28.9% in comparison to the activity recorded over the year 2003.

Dexia's "sustainable development" commitment comes to the fore in this sector of activity. In fact, Dexia is now world leader in financing renewable

energies. In 2004, the Group "arranged" financing for and financed wind farms in Spain, Italy, the United Kingdom and the United States. Furthermore, mandates obtained in the United Kingdom and France position Dexia among the premier banks specializing in Public-Private Partnership financing in the fields of health and education.

Financial Security Assurance, the North American subsidiary of Dexia specializing in the credit enhancement of municipal bonds and security-backed loans, achieved an excellent production volume of USD 927 million in interest margins and converted gross premiums, representing a gain of 3.6% in comparison to 2003, which was already a record.

Dexia Finance, the subsidiary specializing in organizing and putting in place financial packages for major European local authorities, was particularly active. In 2004, the transaction volume amounted to EUR 14.3 billion, up 11.7% against 2003 (EUR 12.8 billion). The activity of Dexia Finance relates to France, Belgium, Italy, Germany, Spain, Austria and Sweden.

GEOGRAPHIC BREAKDOWN OF TOTAL OUTSTANDING LOANS ⁽¹⁾

	(in millions of EUR)
Italy	3,079
France & international office ⁽²⁾	2,628
United Kingdom	1,498
United States (excluding FSA)	978
Spain	650
Asia / Pacific	228
Belgium	212
Slovakia	161
Sweden	80

(1) Excluding asset financing.

(2) In countries where Dexia does not have an establishment.

	NEW LONG-TERM LOANS IN 2004 (in billions of EUR)		TOTAL OUTSTANDING LOANS AS OF DECEMBER 31, 2004 (in billions of EUR) ⁽¹⁾	
France	10.2	+17.0%	57.7	+4.4%
Belgium	4.9	+18.0%	27.8	+3.2%
Italy	5.7	-17.6%	28.5	+15.0%
America ⁽²⁾	6.8	-29.0%	26.8	+11.3%
Spain	1.4	+13.9%	4.9	+28.3%
United Kingdom	1.7	+27.1%	4.6	+29.4%
Sweden	0.8	+70.7%	3.4	+7.7%
Luxembourg	0.2	-31.7%	1.2	+6.5%
Netherlands ⁽³⁾	0.3	+125.8%	0.7	-2.7%
Slovakia	0.3	+68.4%	0.6	+44.1%
Israel	0.1	-29.3%	0.3	+1.8%
Asia Pacific	0.1	+63.0%	0.4	+11.6%
Paris Head Office	1.9	+96.3%	4.5	+36.3%
Total excluding Germany and Austria	34.4		161.5	
Germany	9.4	+162.6%	31.5	+5.7%
Austria ⁽⁴⁾	2.9	+22.9%	9.9	+32.4%

(1) Including off-balance sheet products.

(2) Excluding FSA.

(3) Banque Artesia Nederland in the Netherlands.

(4) Corresponding to new lending/outstanding loans of Kommunalkredit Austria which has been 49% owned by Dexia since 2001.

Sharing knowledge

Dexia, world leader in providing financial services to the local public sector and expert in local finances, shares its knowledge of the European local public sector.

Each year, Dexia publishes a note on the economy entitled *Local Finances in the European Union*. It presents the evolution of the local finance situation over a period of five years. In 2004, Dexia extended the scope of its analysis to the ten new member states of the European Union. For the fourth consecutive year, this study is a reference tool for the principal local decision-makers in Europe. Published in French and English, it can be consulted on the Group's website www.dexia.com.

Dexia also follows an important editorial policy. Through its subsidiary Dexia Editions⁽¹⁾, the Group in particular publishes specialist works dedicated to local finances in Europe. In 2004, Dexia published two books in this field. The first, *Local Finances in the 25 Countries of the European Union*, presents a first comparative analysis of the organization, expenditure and resources of local authorities. In French and English, this work also contains a CD-ROM presenting this comparative analysis in twenty languages of the European Union. The second, *Local Public Companies in the 25 Countries of the European Union*, fruit of a partnership between Dexia and the French Federation of Semi-Public Companies, consists of a comparative study of local public companies and similar structures, and more particularly companies where the capital is totally or partially held by local authorities.

(1) www.dexia-editions.com.



“ Money, how wonderful.
What would our towns do without it?”
(2004 campaign - Dexia Bank Belgium).



Belgium

At public sector level, long-term loans amounted at the end of December 2004 to EUR 24.5 billion, up EUR 1.7 billion (+7.5%) on the end of 2003. This growth is observed on the three client segments: a rise of more than 4% at local authority level, a rise of almost 13% for other local actors and 10% on the social profit segment.

In 2004, the volume of asset management transactions represented a total amount of EUR 2.9 billion.

Long-term production amounted in the public sector to EUR 3.2 billion⁽¹⁾ against EUR 2.6 billion in 2003. It recorded an increase of 22.9%, principally sustained by activity on the “other local actors” and “social profit” (health and social) segments, where production amounted to EUR 863 million and EUR 398 million respectively. In Belgium, Dexia’s market share reaches 80%.

On the one hand, production generated by local authorities amounted to EUR 1.6 billion⁽²⁾ (-9.5% in comparison to 2003). Nonetheless, during the fourth quarter 2004, there was production growth due in particular to a more sustained demand for financing on the part of major cities and also intercommunal actors in the energy sector.

On the other hand, the increase of production for other public clients is due to the transfer of management of the federal social housing debt to regional authorities, or an increase of 86%.

As regards **social profit** (which relates principally to care and education institutions, unions and National Health Services *mutuelles*, but also to the entire associative world of a non-profit-making status), growth was essentially observed in the public and private hospital sector. Market shares amounted to more than 50%.

From a social profit point of view, the following can be highlighted: the recovery of investment for the hospital sector in Wallonia sustained by the voluntarist policy of the Region, which *inter alia* permitted this 43% increase of production, and an issue of EUR 50 million by the St Luc University Hospitals, attributed to Dexia. Finally this year, Dexia celebrates 10 years of uninterrupted appearance of its analysis of the financial situation in the hospital sector: MAHA.

As regards structured products, Belgian activity is sustained and on this market Dexia recorded a total production volume of EUR 543.6 million.

BELGIUM

NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS⁽¹⁾ _ (in millions of EUR)



(1) All subsidiaries included.

(2) Excluding a transaction with our subsidiary in New York, since if account is taken of cross-border transactions carried out, production on Belgian local authorities is up slightly, knowing that 2003 was stimulated by the exceptional consolidation of a major client.

(1) Including off-balance sheet items.



“Money, how wonderful.
Would there be hospitals without it?”
(2004 campaign - Dexia Bank Belgium).

Focus on social products

As a bank for sustainable development and market leader, Dexia thinks it right to leave the beaten track when it comes to means of payment, so as to provide its clients charged with social tasks with the appropriate products, capable of integrating the concerns of the public operator, the bank and the citizen calling for aid from the public social services. Within that context we have developed an original range of services intended to fulfill this task.

■ **Social accounts:** 50,000 accounts opened in the name of physical persons, on the initiative of the Public Social Assistance Center (PSAC), intended to receive integration allowances; this enables the more deprived to integrate into social life with banking services similar to those enjoyed by the average banking client.

■ **Budget management:** a mechanism of centralized accounts, which authorizes a PSAC to manage the domestic budget of a person incapable of assuming that responsibility. Today Dexia Bank has more than 27,000 such accounts.

■ **Debt mediation accounts:** within the same context as above, on the basis of a court decision, it enables assistance to be given to a person in severe debt to discharge his or her liabilities within the framework of a normalized social life.

■ **System I accounts:** which allow budget management for people housed in rest homes! Dexia Bank has 25,000 such accounts.

■ **Rental guarantees:** a system allowing bank guarantees to be issued on the order of a PSAC in favor of persons seeking housing who are unable to pay the amounts necessary to provide a guarantee to a landlord. As regards social housing, Dexia Bank has perfected a specific system which enables us to manage more than 100,000 guarantees.

All in all, there are therefore **more than 100,000 accounts** which Dexia provides to public social institutions, specially intended to aid the more deprived. These products are an illustration of Dexia as the reference banker for public bodies.

In Belgium Dexia also looks after all the banking tasks for its public clientele, and 2004 will remain a special year, marked by renewals of all the cash contracts the various Communities and Regions had entrusted to Dexia Bank until then; this was the crown of loyalty after 14 years without interruption. Furthermore, with outstanding amounts maintained, Dexia Bank followed a deliberate policy of increasing client services by dedicating a proportion of the client reception teams to deal with public clients, above all with regard to social products.

For two years now, Dexia Bank has been involved in the insurance market and it achieved its first significant successes in 2004.

Over the last twelve months there has been a growing number of clients taking on Dexia products, which demonstrates the already solid foundation laid by the Bank. In 2003 60 clients, and in 2004 139 clients, created some EUR 70 million in various premiums.

In social profit, the presence of Dexia is longer established, and this enables us to maintain a very sound position in that market segment.

As regards **Corporate Banking** activity, production for the year 2004 was EUR 1.7 billion, up 17.2% in comparison to 2003. In Belgium, accumulated production was EUR 964 million, a rise of EUR 227 million (+30.8%) on 2003.

2004 was a year of transition for corporate banking in Belgium.



2004 campaign - Dexia Crédit Local.

The reorganization of points of sale, and the project to improve the quality of the credit portfolio ran perfectly. Consequently, the time has come to relaunch this strategic activity in Belgium, within the context of standards of acceptable risk.

In this specific segment two remarkable operations should be mentioned, which generated gains of EUR 39 million for the sale of BIAC securities but above all EUR 55 million for the Belgacom operation.

In March 2004, for the IPO of Belgacom, Dexia Bank was joint global coordinator and joint lead manager of the retail quota. This stock market launch was until then the largest ever in Belgium and the most important in Europe since 2001. The total amount placed reached a figure of more than EUR 3.5 billion. This operation ran perfectly.

The decisive factor in that success was certainly the enthusiasm of retail clients, and in fact approximately 143,500 people bought Belgacom shares on that occasion, or 1.5% of the Belgian population.

France

In 2004, the marketing activity of Dexia in France was extremely dynamic. Global outstanding assets at the end of 2004 were EUR 57.7 billion, a level never previously achieved. Production reached a historic level and for the first time exceeded the symbolic threshold of EUR 10 billion in new activity.

The latest amounted to EUR 10.2 billion, up 17% in comparison to 2003.

These excellent results have three origins:

- growth of the French market for local public sector financing sustained by the investment of French local authorities (+10% in 2004) and by several plans to revive public investment in the sectors of social habitat and hospitals;
- a historically low interest rate environment, enabling very attractive rates to be fixed for longer terms;
- the dynamism and innovation of marketing teams which enable market share to be won and innovative financial solutions to be offered to local clients.

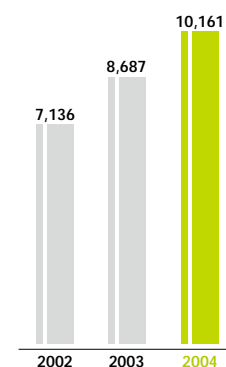
As a consequence, Dexia's market share in France was reinforced among local authorities (42%) and up sharply in comparison to 2003 for public hospitals (> 45%). At the end of 2004, total outstanding amounts for local authorities were EUR 43.7 billion. In addition, Dexia strengthened its position as leader in financing the social housing market, as a complement to that of the Caisse des Dépôts.

More precisely, marketing activity was extremely dynamic in 2004.

■ The volume of activity achieved by Dexia Crédit Local among **local authorities** rose 17% in comparison to 2003 to EUR 9.8 billion. This evolution is confirmed with regard to all clients. It was in particular the large authorities, the Departments and Regions (+9.2%)

FRANCE

NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)



(1) Including off-balance sheet items.

2004 campaign - Dexia Crédit Local.



which confirmed their return to borrowing. In January 2004, for the region of Nord-Pas-de-Calais, Dexia launched a EUR 50 million bond issue. This illustrates the voluntarist investment policies of the region, and also the desire of Dexia to accompany its clients in the diversification of their modes of financing. Dexia also signed an agreement with the Urban Community of Bordeaux relating to a reserve of EUR 100 million intended for financing the second phase of its tramway (18 km), which will come into service by 2007. That agreement was signed within the extension of the partnership undertaken with the Ministry of Public Transport, which entrusted Dexia Crédit Local with the distribution of EUR 500 million in long-term loans to French local authorities for their own public transport projects.

■ The volume of activity achieved among **other local actors** is up sharply, with a rise of 32% in 2004. This client segment now represents more than 35% of the long-term activity of Dexia in France and reinforces the voluntarist strategy of the Group to develop on new markets.

■ With EUR 1.3 billion of new commitments, the **public health** sector rose 67.3% to reach a record level of production resulting from the momentum of the market benefiting in particular from the positive impact of the “Hospital 2007” plan, aimed at the

modernization of the French hospital sector.

■ The **social housing** sector grew 41.7% with a production volume of EUR 1.5 billion. It is in this context that Dexia and Crédit Immobilier de France signed a partnership agreement aimed at offering a global financing solution to benefit the development of the system of lease-ownership. An innovative housing product, the social lease-ownership loan responds to the demand for ownership of property by low-income households with or without any personal contribution.

■ The **social economy** sector (Chambers of Commerce and Industry, associations and foundations, National Health Service *mutuelles*) grew strongly in 2004 and significant lease credit transactions were carried out. Dexia CLF Banque offers a complete range of asset management products and services to local institutional clients. Despite strong competition on this market, assets under management by the bank recorded a rise of 19% and amounted to EUR 4.3 billion, of which EUR 2 billion in UCITS.

As regards **structured financing**, activity reached EUR 397 million at the end of December 2004. In this field, Dexia concentrates on project and asset financing. It plays the role of financial adviser, arranger or lender in the infrastructure sector (principally transport, car parks and health), the environment sector (waste disposal)

and, more generally, in delegation of public service.

Among the significant operations carried out, note should be taken of the role of financial adviser to those tendering in current calls for tenders for new motorway projects (A41 and A65). Moreover, Dexia advises the Highways Department and the Regional Equipment Department of the Nord-Pas-de-Calais on the various schemes to be envisaged for rebuilding the A25 motorway.

Dexia is participating in calls for tenders in relation to three major PPP projects, as financial adviser as well as potential investor and arranger. These are the hospitals in Caen and Corbeil-Essonnes as well as all four new prisons. Finally, Dexia arranged the financing of new police stations and schools on a PPP basis.

In France, Dexia has for some years been developing a range of **insurance** products especially aimed at local actors and their staff. This successful diversification of the bancassurance range confirms Dexia in its role as global banker to major institutional clients.

This activity developed essentially through two entities. The first, Dexia Sofaxis, is the only French operator specializing in the provision of financial cover for the statutory obligations of local authorities and hospitals with regard to their staff. In 2004, in a hardly dynamic market, the

activity of Dexia Sofaxis grew by 15.2% to EUR 343 million in issued premiums. The second, Dexia Epargne Pension, a group life insurance company in France, markets collective life insurance products to local institutional clients (social housing associations, semi-public companies, consular chambers): end-of-career indemnities, supplementary pensions, save as you earn. In this client segment, the company recorded very good results: EUR 63 million in premiums collected from more than 200 clients. Furthermore, the sum collected by Dexia Epargne Pension, via its associated networks, is up 17.9% at more than EUR 100 million.

Germany

At the end of 2004, the total outstanding amount for the subsidiary was EUR 31.5 billion, up 5.7% in comparison to the end of 2003. The global activity volume over the year 2004 was EUR 9.3 billion.

In Germany, Dexia Hypothekbank Berlin operates from its two establishments: its head office in Berlin and its office in Frankfurt. This operates on the one hand in the field of brokering long-term financing and on the other hand in putting financial engineering products in place for German local authorities.

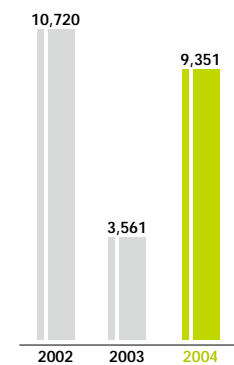
In 2004, the activity of the Frankfurt office was particularly concentrated on

an activity of origination and marketing of tailor-made structured operations of the Dexia Finance type to major authorities like the City of Frankfurt-am-Main. The total outstanding amount from this type of production is up 61.0% in comparison to 2003.

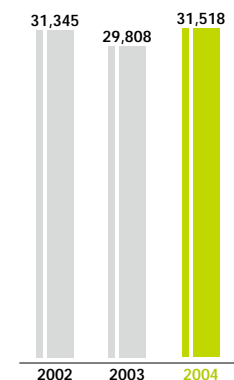
In Berlin, Dexia essentially develops its financial activity and proceeds with the purchase of “sovereign” and “sub-sovereign” securities as well as bond issues in the German public sector, on both the primary and the secondary market. Within this context the German subsidiary proceeded in 2004 with work to optimize its assets whilst ensuring their maintenance at a low degree of risk.

GERMANY

NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)

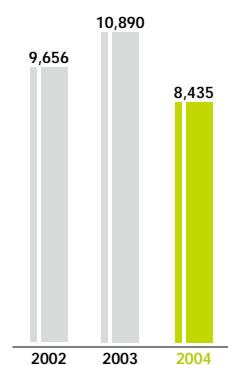


(1) Including off-balance sheet items.

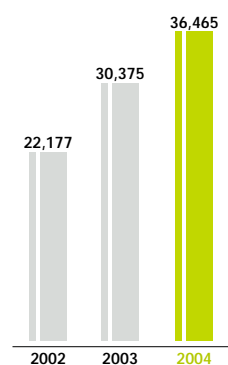


NORTH AMERICA
Dexia Crédit
Local New York
Branch

NEW LOANS
 _ (in millions of USD)



OUTSTANDING COMMITMENTS ⁽¹⁾
 _ (in millions of USD)



(1) Including off-balance sheet items.

North America

Dexia is present on the American continent through Dexia Crédit Local New York Branch and Financial Security Assurance (FSA).

_Dexia Crédit Local New York Branch

The branch operates in two fields: on the one hand the public sector where it offers liquidity guarantees for variable-rate municipal bond issues and bond purchases, and on the other hand structured financing.

At the end of 2004, the total outstanding amount for this branch was USD 36.5 billion, up 20% on the end of 2003. Production realized over the year 2004 from the public sector was USD 8.3 billion, down 21% against 2003, and that from structured financing reached USD 144 million, down 63%.

The public sector

Against the global background of a declining market for municipal issues (-6.1%/USD 360 billion in 2004), the low level of interest rates favoring recourse to fixed-interest products to the detriment of variable-rate issues, off-balance sheet production was USD 6.3 billion in 2004, down 29%. Among the liquidity guarantee transactions carried out, note should be taken of those granted for issues by the State of California intended for its Economic Recovery program (USD 732 million), that for the City of Chicago (USD 530 million) and that for the Dormitory Authority of the State of New York

insured by FSA (USD 483 million).

Within the context of its investments in tax-exempt bonds, in June the branch launched the new "Tender Option Bonds" program. It was inaugurated by the first purchase of securities issued by the States of California and Massachusetts. At the end of 2004, the total volume of purchases was USD 572 million.

Structured financing

Production at the end of December 2004 was EUR 116 million. In 2004, activity was concentrated on the renewable energies sector. The New York branch arranged the financing for wind farms in Texas and in Tennessee. Moreover, Dexia advised Japanese companies on the acquisition of gas-fired power stations in Texas and California. As for asset financing, a bill of law considerably reducing the feasibility of US Lease operations led Dexia to decide on the quasi-cessation of advisory activity in that field.

_Financial Security Assurance

Financial Security Assurance (FSA) carries on the activity of credit enhancement of municipal bonds and securitized debts, in North America and also in Europe. The credit enhancement of municipal bonds consists of guaranteeing bond issues by issuers that are principally municipal corporations. Giving them the benefit of AAA ratings, FSA enables them, by way of a premium, to access the bond market under more advantageous

conditions. The credit enhancement of securitized debts or asset-backed securities (ABS) is a guarantee of the same sort granted to bond issues refinancing different classes of assets (consumer credits and so on).

The net par insured at the end of December 2004, amounted to USD 325.8 billion against USD 294.4 billion at the end of 2003. In 2004, FSA achieved total production of USD 927.2 million in interest margins and discounted gross premiums, which represents growth of 3.6% in comparison to 2003.

The municipal sector

In 2004, in the North American municipal sector, FSA recorded an amount of USD 561 million in discounted gross premiums, down 8.4% on 2003. The rate of enhancement penetration on this market was 54% against 50% in 2003. This slowdown of activity is due to the 6.1% fall in volume (USD 360 billion) of North American municipal bond issues, but also to strong competitive pressure. FSA insured issues for a nominal (gross) amount of USD 49 billion, which establishes its market share at 24% against 27% in 2003, and generated USD 433.5 million in discounted gross premiums.

In the United States, the hospital sector was the most dynamic in matters of origination, 29 transactions were carried out in 2004, totaling USD 139 million in discounted gross premiums.

In the transport sector, FSA signed several significant transactions, including those for the airport at Dallas-Fort Worth, the airport in Atlanta (Hartsfield-Jackson Atlanta International Airport), which recorded the greatest amount of traffic in the world, the Maryland Transportation Authority and the Metropolitan Washington Airports Authority. FSA also enhanced bond issues by the State of California, the City of Philadelphia, to finance the investment projects of its subsidiary in the gas sector, and also the City of Atlanta, intended to finance the program for renovation of its water network.

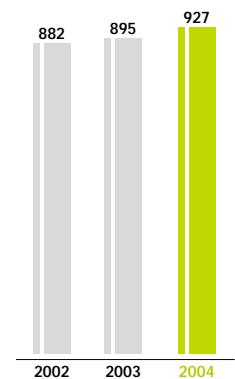
Internationally, production for the year reached USD 127.5 million in discounted gross premiums, of which more than half was in the United Kingdom. Among these transactions mention should be made of a bond issue for a water company operating in southern England. In continental Europe (ex-United Kingdom), the activity of FSA was affected by the cancellation of two of its mandates (on Spanish and Portuguese motorways). It should be pointed out, however, that a very important transaction was carried out with an Italian water company in the region of Puglia.

Asset-backed securities

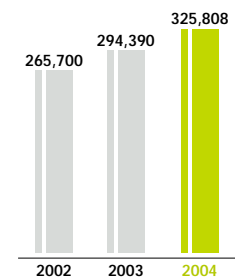
With an amount of discounted gross premiums of USD 292.5 million, the production of FSA in this field saw significant growth at 22.9%.

**NORTH AMERICA
Financial Security
Assurance**

**GROSS PRESENT
VALUE PREMIUMS**
_ (in millions of USD)

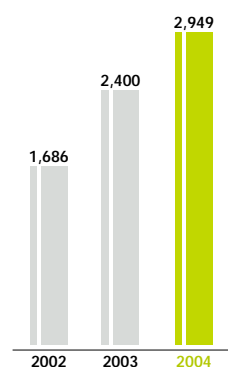


**NET PAR
INSURED
(NOMINAL)**
_ (in millions of USD)

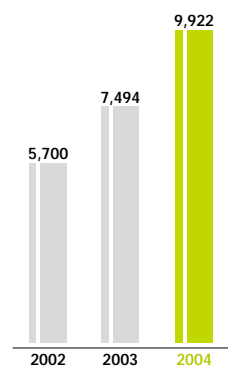


AUSTRIA
Dexia via
Kommunalkredit
Austria

NEW LOANS
_ (in millions of EUR)



OUTSTANDING COMMITMENTS ^{(1) (2)}
_ (in millions of EUR)



(1) Including off-balance sheet items.
(2) Corresponding to total new lending/outstanding loans of Kommunalkredit Austria which has been 49% owned by Dexia since 2001.

The greater proportion of that production was realized in the United States, and in particular in the residential property sector. Internationally, the most important transaction related to a guarantee for an operation with the airport in Sydney.

Austria

Dexia has a minority (49%) holding in the capital of Kommunalkredit Austria, a bank specializing in the financing of Austrian local authorities.

The Austrian partnership had an excellent year 2004. In fact, the total outstanding amount reached EUR 9.9 billion and its new long-term production amounted to EUR 2.9 billion, or a rise of 22.9% on 2003. Outside Austria, the activity of the Austrian bank developed in Switzerland and in Germany on certain operations in partnership with Dexia Hypothekenbank Berlin.

Central and Eastern Europe

In this zone, the development of the Group is led jointly by Dexia Crédit Local and Kommunalkredit Austria through a joint holding, Dexia Kommunalkredit Holding, 51% held by Dexia Crédit Local and 49% by Kommunalkredit Austria. This parent company maintains the holdings of Dexia in Central Europe, and in particular that of Dexia banka Slovensko, in Slovakia. It was decided in 2004 to transform this holding into a fully-fledged bank, Dexia Kommunalkredit Bank Central & Eastern Europe.

Announced in 2003, the opening of a branch in Poland materialized with the launch of Dexia Kommunalkredit Polska. Established in Warsaw, the new entity employs a dozen staff and develops its activity through local actors in Poland. In 2004, several transactions were carried out in collaboration with the team in the Paris office, one with the City of Warsaw for an amount of EUR 88 million. At the same time, an application for a banking license was lodged with the supervisory authorities in Poland.

Dexia and Kommunalkredit Austria also launched a new partnership in the field of asset management. In 2004, a joint subsidiary, Kommunalkredit Dexia Asset Management, was created so as to develop this activity among local actors in Austria and Central Europe.



Spain

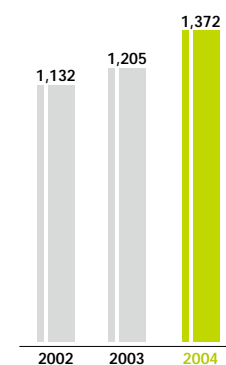
At the end of 2004, the bank's total outstanding amount was EUR 4.9 billion, up 28.3% on 2003. New production of long-term loans by Dexia Sabadell Banco Local reached EUR 1.4 billion, up 13.9%.

Although the demand for new financing on the part of Spanish **local authorities** remained low in 2004, in particular by virtue of the electoral situation and the implementation of the Budget and Stability Pact, production by the subsidiary rose by 13.5% to reach EUR 1.1 billion at the end of 2004. Several significant transactions were carried out, among them a loan of EUR 94 million to the City of Madrid, financing put in place for the Autonomous Community of Catalonia in the amount of EUR 99 million, participation in a syndicated loan to the Region of Valencia of EUR 75 million, and participation in a bond issue of EUR 500 million by the Autonomous Community of Catalonia.

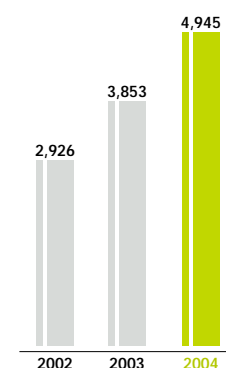
In the field of **structured financing**, production also rose by 15.9% to EUR 225 million. The extremely dynamic activity of Dexia Sabadell Banco Local is concentrated in financing projects in the sectors of transport, the environment and renewable energy, especially wind energy. Among these projects, the Olivo operation involving the acquisition by a financial investor of several wind parks developing total

SPAIN

NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)



(1) Including off-balance sheet items.

Dexia, the “Renewables Arranger of the Year 2004”

Dexia was awarded the prize “Renewables Arranger of the Year 2004” by the specialist magazine *Infrastructure Journal*.

This distinction is a reward for all the renewable energy operations carried out by Dexia during the year 2004. Among these, in particular, were the arrangements for financing wind parks in Spain, Italy and the United States.

Today, Dexia’s *savoir-faire*, experience and capacity for innovation enables it to enjoy an excellent reputation among the principal developers of projects in the renewable energy sector.

Relying on the *savoir-faire* of its multinational teams based in Paris, Brussels, London, Madrid, New York, and Sydney, Dexia wishes actively to develop this type of operation.

The prize also confirms the strong global commitment of the Dexia Group to sustainable development.

power of 158 MW, is the most noteworthy. Dexia arranged the financing for a total amount of almost EUR 200 million, operation marked by an innovative acquisition structure, a first for a foreign investor. The operation confirms the *savoir-faire* of Dexia in the sector as well as its leading position on this market.

A major part of production was achieved in the field of transport. The Spanish subsidiary played the role of arranger and underwriter for major motorway projects, among them the link between Alicante and Elche and also the inter-urban motorway from Madrid to the airport. As regards public transport, Dexia arranged the financing of electronic and telecommunications equipment for the new line 9 of the metro in Barcelona. Finally, Dexia arranged the financing of a new waste incineration plant covering all the needs of the Region of Cantabria.

Israel

Against a difficult economic and political background, all the restrictive measures taken by Dexia to maintain a low risk profile in the financing operations carried out by the Israel bank are reflected by a sharp fall in activity in 2004. Assets at the end of 2004 were EUR 324 million, and production of long-term loans during the year 2004 remained

voluntarily extremely limited at EUR 74 million, down 29.3% on 2003.

Italy

After a record year in 2003, Dexia’s activity in Italy in 2004 marked a fall in a declining market of 21%, but nonetheless remained at a high level. At the end of 2004, its total outstanding amount was EUR 28.5 billion, up therefore by 15%. Dexia Crediop recorded a total production of EUR 5.8 billion against EUR 7 billion in 2003.

In the **public sector**, total production reached EUR 3.7 billion against EUR 6.5 billion in 2003. Nevertheless, in this declining context, Dexia increased its market share to 39% in 2004, against 32% in 2003. The activity of Dexia was particularly sustained in the field of international issues by major Italian local authorities, which represented 40% of new production, corresponding to a market share of 53%. Dexia Crediop obtained numerous mandates for the principal operations carried out by the Italian regions, among them Piemonte, Puglia, Lazio, Abruzzo, Friuli Venezia Giulia, Sardinia, Campania and Liguria.

In addition, within the context of reopening its international issue of November 2003, the City of Rome gave Dexia Capital Markets the mandate as joint book runner and joint lead manager of a new quota of EUR 400 million, maturing in 2033. For Dexia Crediop, the operation involved a new



investment of EUR 100 million. In the field of securitization, the most noteworthy operation was the participation in the debt securitization operation commenced by the Lazio region: Dexia Capital Markets intervened as joint book runner and joint lead manager in the issue of asset-backed securities for a total of EUR 193 million, entirely subscribed by Dexia Crediop.

In 2004, major Italian local authorities, clients of the bank, proceeded with their debt restructuring. These operations run by Dexia Finance Italia represent a total amount of EUR 1.2 billion, and principally relate to the regions of Tuscany, Puglia and Piemonte as well as the City of Milan. This activity is completed by production of swaps in the amount of EUR 481 million, slowed throughout the first half of 2004 by the delay in promulgation of a new Decree regulating the access of Italian local authorities to derivatives.

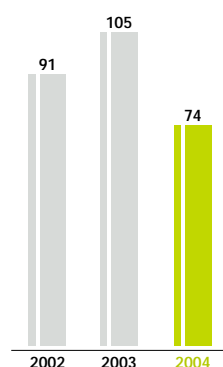
In the field of **structured financing**, Dexia Crediop had an exceptional year 2004. Production was EUR 2 billion, or almost five times the volume recorded in 2003.

Activity was marked by a considerably increased presence on the primary bond market and developed in the fields of transport, renewable energy and water.

Among the more noteworthy operations, note should be taken of the financing of the high-speed train (TAV)

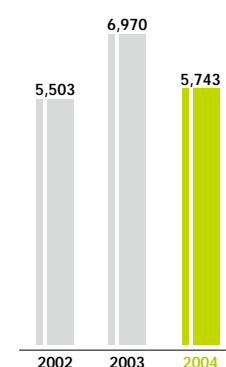
ISRAEL

NEW LOANS _ (in millions of EUR)



ITALY

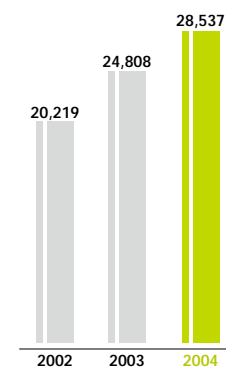
NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)



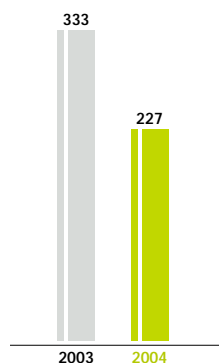
(1) Including off-balance sheet items.



LUXEMBOURG

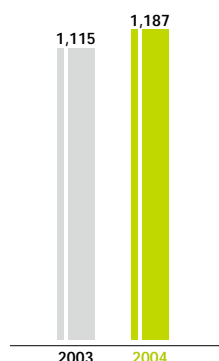
NEW LOANS

– (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾

– (in millions of EUR)



(1) Including off-balance sheet items.

project for which Dexia co-arranged two bond issues, of EUR 1 billion and EUR 600 million. Dexia participated in the issue of asset-backed securities in the amount of EUR 830 million launched by the Italian national railway company, Ferrovie dello Stato.

In the field of renewable energy, Dexia Crediop arranged the financing of the Andretta Bisaccia wind energy project developed by the French company EDF Energies nouvelles.

As regards water, Dexia was involved in two transactions. The financing of the distribution company Nuove Acque in Tuscany is particularly innovative since in Italy it is the first Public-Private Partnership operation in this sector. In addition, Dexia was joint lead arranger for a bond issue raised by the public company in the Region of Puglia in charge of water management.

In the asset management field, the outstanding amount was EUR 1.7 billion, up 11% in comparison to the end of December 2003.

Luxembourg

Against a favorable economic background sustained by major state investment, Dexia Banque Internationale à Luxembourg is the second bank after the state bank in the market for financial services to the public sector.

As a profit center on its own account since the end of 2003, the activity of providing financial services to the public sector in Luxembourg, carried on through Dexia Banque Internationale à Luxembourg, saw considerable assets growth in 2004 with the result of earnings rising significantly.

At the end of 2004, the total outstanding credit amount remained stable at EUR 1.2 billion, with new credit production amounting to EUR 227 million against EUR 333 million in 2003. Nonetheless, this fall in production is entirely relative, considering the signature in 2003 of an exceptional transaction relating to the financing of the new terminal for Luxembourg airport, for an amount of EUR 200 million.

In 2004, priority was successfully given to increasing the total outstanding amount from local authorities (close to 20% market share) and the development of earnings from financial flows and commissions. The other major line of development was the financing of national infrastructures (new terminal for Luxembourg airport, the Gabriel Lippmann National Research Center) and the hospital sector, where the bank is national leader (Kirchberg Hospital, National Rehabilitation Center).

United Kingdom

At the end of 2004, total assets of the subsidiary were EUR 4.6 billion, up 29.4% in comparison to the end of 2003. In 2004, long-term financing production by Dexia in the United Kingdom rose sharply. At EUR 1.7 billion it was up 27.1% on 2003.

The activity of the London establishment developed particularly in the **local authority** sector with a production of EUR 1.2 billion, up 72.3% on 2003.

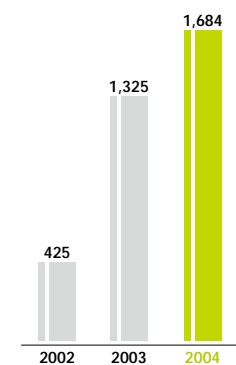
Launched in 2003, the success achieved in the marketing of the LOBO (Lender's Option, Borrower's Option) product was confirmed. Its extremely innovative characteristics, in certain configurations of the rate curve, enable clients to be offered more interesting rates than those offered by the public body known as the PWLB (Public Work Loan Board), during the first years of the loan. It was within this context that Dexia acquired a significant portfolio of LOBOs for a total amount of EUR 265 million. The subsidiary also provided financing to major municipal authorities, including Glasgow for EUR 44 million and Camden London Borough Council for EUR 63 million.

In 2004, activity on the social housing market was extremely limited.

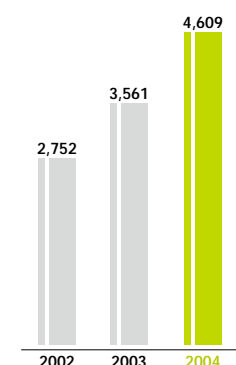
In the field of **structured financing**, production achieved at the end of December 2004 was EUR 513 million. The activity was well sustained in the field of Public-Private Partnership (PFI/Project Finance Initiative). Teams in London arranged a significant volume of financing in the education and health sectors. Eight arranger mandates relating to the financing of schools and hospitals, principally in the London region, enabled Dexia to gain fifth place among PFI arranger banks in the United Kingdom. Furthermore, Dexia took a mandate as financial advisor to the company retained on a PFI basis to rebuild the entire road network (road surfaces and also lighting and signposting) of the City of Portsmouth. It is a first in this field.

UNITED KINGDOM

NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)

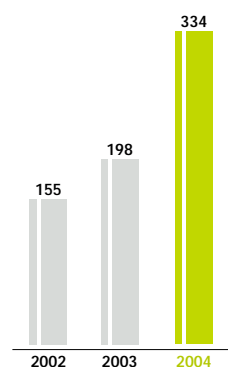


(1) Including off-balance sheet items.

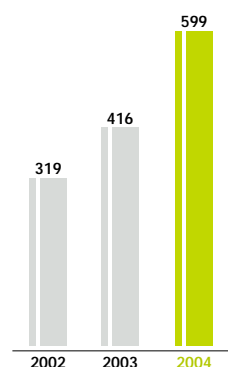


SLOVAKIA

NEW LOANS _ (in millions of EUR)

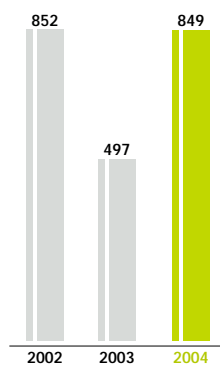


OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)



SWEDEN

NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)



Slovakia

In Slovakia, through its subsidiary Dexia banka Slovensko, Dexia works with two types of clientele: on the one hand local authorities to which it provides financing, and on the other hand private individuals to whom it offers retail banking services (this activity is dealt with in the chapter Retail Financial Services, page 109).

At the end of 2004, the subsidiary's total outstanding amount was EUR 599 million against EUR 416 million at the end of 2003, and new long-term production was EUR 334 million, up 68.4%. Among **public clients**, activity was extremely dynamic and the total amount of long-term loans was EUR 246 million, or a rise of 50.8% in comparison to 2003. It is important to note that the proportion of production from direct loans to local authorities (excluding purchases of state securities) more than doubled in comparison to 2003, to reach EUR 157 million.

Dexia won the call for tenders launched by the City of Bratislava, involving major Slovakian and international banks, for a loan amounting to EUR 85 million, principally intended to finance transport infrastructure projects. Through this, Dexia has its first important operation for the Slovakian capital.

(1) Including off-balance sheet items.

Production from **structured financing** also developed strongly, to EUR 88 million against EUR 35 million in 2003. The most important operation involved putting a loan in place for EUR 20 million intended for the public company in charge of commercial activities for the Slovakian rail network.

Sweden

In 2004, despite the wait-and-see approach adopted by local authorities, new long-term financing production grew strongly. The subsidiary's total outstanding amount rose to EUR 3.4 billion against EUR 3.2 billion at the end of 2003. New production was EUR 849 million against EUR 497 million in 2003 and marked a rise of 70%. Dexia Public Finance Norden carried out several transactions with the City of Göteborg. The subsidiary also developed new operations in Finland for a total amount of EUR 79 million.

In 2004, production from structured products, put together by Dexia Finance, also developed, to reach EUR 75 million. These products are particularly appreciated by Finnish local actors.

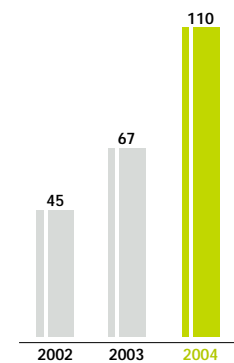
Asia - Pacific

Opened in 2003, the representative office of Dexia Crédit Local in Australia changed status at the beginning of 2004 and became a full subsidiary (finance company).

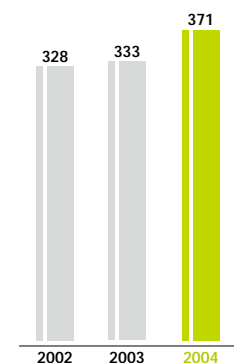
At the end of 2004, its total outstanding amount was EUR 371 million against EUR 333 million at the end of 2003, and long-term production was EUR 110 million, up 63%. From Sydney, Dexia's activity in this vast geographic zone was concentrated on financing Australian projects. Dexia signed an underwriting agreement for the financing of a toll motorway in the suburbs of Melbourne. In the State of Victoria, Dexia participated in the financing of two prisons on a Public-Private Partnership basis, as well as in the refinancing of the coal-fired power station Loy Yang A.

ASIA - PACIFIC

NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)

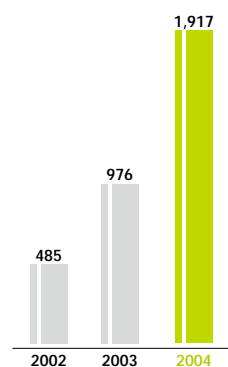


(1) Including off-balance sheet items.

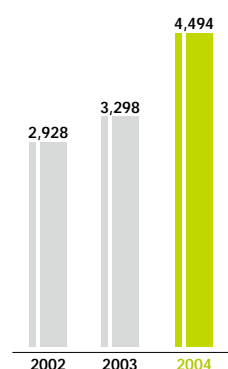


OTHER GEOGRAPHIC ZONES

NEW LOANS _ (in millions of EUR)



OUTSTANDING COMMITMENTS ⁽¹⁾ _ (in millions of EUR)



(1) Including off-balance sheet items.

Other geographic zones

It is from Paris that the specialist teams of Dexia Crédit Local operate in countries where Dexia is not established, giving support to representative establishments or offices. In 2004, Dexia was involved in Switzerland, Japan, Poland, Portugal, Turkey, Hungary and Germany.

In 2004, the Paris team recorded excellent results. Total long-term financing production almost doubled to EUR 1.9 billion against EUR 976 million in 2003. At the end of 2004, the total outstanding amount was EUR 4.5 billion against EUR 3.3 billion at the end of 2003.

The activity of providing financing to the **public sector** was particularly dynamic. Production was EUR 1 billion against EUR 376 million in 2003, or almost three times the volume recorded the previous year.

Dexia operates with major local authorities. In Switzerland, the activity was extremely dynamic (EUR 461 million) and Dexia in particular granted three loans to the Canton of Geneva.

In Japan, where Dexia commenced activity (EUR 289 million) with the opening of a representative office, the Group signed up to two loan transactions with the City of Tokyo for a total amount of EUR 124 million.

In Portugal, through its representative office in Lisbon, Dexia was involved in three loan transactions for the Ports of Açores, all guaranteed by the Autonomous Region.

As regards **structured financing**, 2004 was a very good year, with production at EUR 876 million against EUR 376 million in 2003. Dexia's activity related to telecommunications in Germany, Austria, Poland and Hungary, road infrastructures in Austria, Hungary and Croatia and also energy. In this latter sector, Dexia was involved as co-arranger of the financing of the oil pipeline from Azerbaijan on the Turkish Mediterranean coast and of a new terminal for liquefying natural gas in Qatar, which will export its production to the United Kingdom.



Dynamic geographic expansion

The expansion strategy followed by Dexia on the world market for the provision of financial services to the public sector developed on the one hand by virtue of its ability to export its *savoir-faire* and to adapt rapidly to new markets, and on the other hand thanks to its determination to establish the best local partnerships or to create its own bases for development. The security and maintenance of a low risk profile for each of its growth operations remains at the heart of the Group's priorities. Today Dexia is a world leader and occupies first-class positions in countries where it is established.

In 2004, Dexia's geographic expansion saw new developments in Asia, North America and Central America.

In **Japan**, Dexia opened a representative office in Tokyo. For the Group, this country should have significant development potential in the medium and long term. In fact, the market for the financing of Japanese local authorities is extremely important, in the same order of magnitude as that in the United States. Japan represents a market for public sector debt of EUR 1,500 billion. Various studies and analyses are in progress to determine the model and the conditions of intervention for a local banking establishment.

In **Canada**, Dexia decided to open a branch. This new establishment based in Montreal will enable Dexia, which until now operated on the Canadian market from its New York office, to develop more actively on this very important market. Canada represents a market for public sector debt of EUR 375 billion and demand for infrastructure financing and especially on a PPP basis is significant there.

In **Mexico**, the decision was also taken to open a representative office. Mexico, the ninth economy in the world, closely linked to that of the United States and the investment needs of which are extremely high, presents Dexia with an advantage of strong growth associated with a measured risk in the development of banking activity. Mexico represents a market for public sector debt currently limited to EUR 8.3 billion but with investment needs in terms of infrastructure, especially in the field of water treatment and transport that are significant.

Financial results of the business line

The analysis hereafter is based on the underlying data (i.e. excluding nonrecurring items) for this business line, in order to allow a better understanding of the fundamental trends of the business line. Items considered nonrecurring are detailed in the financial results on pages 62 and 63.

In 2004 Public/project finance & credit enhancement has experienced a robust growth of its gross operating income (+8.7% and even +12.0% at constant exchange rate), whilst net income was boosted by a record low risk charge.

Net income for the full year 2004 amounted to EUR 902 million (+14.2% compared to 2003 and +17.9% at constant exchange rate).

The main contributors to the business line net income are FSA (29%), France (27%), Belgium (24%), United States excluding FSA (7%) and Italy (6%). It should be noted that the earning streams of FSA and Dexia New York branch have been negatively impacted by the unfavorable evolution of the euro/dollar exchange rate. These entities performed indeed very well: in particular, FSA operating earnings (in USD and US GAAP) increased by 22% in 2004 compared to 2003.

The evolution of **revenues** reflects the very good commercial performance of the business line. For the whole year, they amounted to EUR 2,013 million, up 7.3%, or up 10.0% at constant exchange rate.

Growth was observed in all categories of revenues:

- net interest and related income were up 7.5%, reflecting the increase in outstanding assets;
- net commissions and other income were up 8.7%, thanks to a higher activity in Project Finance;
- technical and financial margin of insurance activities (where FSA revenues are booked) was up 5.7%, despite the decrease of the US dollar vs. the euro. At constant exchange rate, the progression was 14.6%.

Costs were up 4.5% for the whole year (+6.4% at constant exchange rate), resulting from the expansion of the activity.

Gross operating income amounted to EUR 1,340 million for the full year (+8.7% and +12.0% at constant exchange rate).

The **cost-income ratio** further improved in 2004, at 33.5% for the full year against 34.3% in 2003.

Cost of risk decreased substantially over the year (-64.1%) and amounted to EUR 31 million for the full year 2004, partially under the effect of write-backs, notably at FSA.

Operating income (after cost of risk) of the business line progressed strongly during the year (+14.1% at EUR 1,309 million).

The business line's **return on economic equity⁽¹⁾** (ROEE) continued to improve, reaching 24.4% in 2004 (22.8% in 2003).

(1) Net income before minority interests as a percentage of allocated equity at the end of the period.

UNDERLYING STATEMENT OF INCOME ⁽¹⁾

(excluding nonrecurring items)

(in millions of EUR)	2003	2004	Evolution
Revenues	1,877	2,013	+7.3%
- Net interest and related income	1,246	1,340	+7.5%
of which interest on EEA ⁽²⁾	184	192	+4.3%
- Net commissions and other income	225	245	+8.7%
- Technical and financial margin of insurance activities	405	429	+5.7%
Costs	(645)	(674)	+4.5%
Gross operating income	1,232	1,340	+8.7%
Cost of risk	(85)	(31)	-64.1%
Operating income	1,147	1,309	+14.1%
Nets gains & recoveries on long-term investments	(5)	11	n.s.
Corporate income tax	(318)	(391)	+22.9%
Income from equity-accounted companies	11	15	+39.1%
Net income before minority interests	835	944	+13.1%
Minority interests	45	42	-6.2%
Net income	790	902	+14.2%
Cost-income ratio	34.3%	33.5%	
ROEE ⁽³⁾	22.8%	24.4%	
Allocated equity (end of period)	3,663	3,869	

(1) Pro forma for full year 2003.

(2) Economic Equity Allocated.

(3) Return on Economic Equity.

