



the bank for local development

**DEXIA**

Crédit Local



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The French version of Dexia Credit Local Annual Report was filed with the AMF (Autorité des Marchés Financiers) on March 30, 2005. It is available on request.

# DEXIA GROUP PROFILE

## *A European bank with an international*

Dexia was born out of the 1996 alliance of the two major European players in local public finance: Crédit Local in France and Crédit Communal in Belgium. Both institutions, together with Banque Internationale à Luxembourg (BIL) were united in 1999 under the name of Dexia, thus forming one of the first cross-border mergers in the European banking sector, which is today one of the top fifteen banking groups in the euro zone.

### ● *Serving two markets*

Dexia operates on two principal markets: local public institutions, and private companies and individuals.

On the first market, Dexia occupies a leading position on a world scale, and on the second its field of action is regional.

#### **Financial services to the local public sector**

Since unification in 1999, and the acquisition in 2000 of Financial Securities Assurance (FSA), in the United States, Dexia has been market leader in providing financing to the local public sector. The high level of know-how, long-term perspectives and low risk profile of this activity give Dexia profitability and visibility of the highest class in the banking industry.

#### **Retail financial services**

Dexia is not only a local authority bank but also a leading retail bank in Belgium, where it provides financial services to several million clients, responding to all their needs. Its commercial presence was extended by the acquisition in 2001 of Artesia Banking Corporation. Over the years, and principally from its base in Luxembourg, Dexia has developed private banking services for affluent clients in various European countries.

### ● *Risk culture, savoir-faire and product performance*

The success achieved by Dexia is not only due to its renowned distribution network but also its savoir-faire and its ability to create effective products and develop innovative solutions responding to the financial requirements of its clients. This can be seen in particular in investment management, insurance services and capital market

activities. In these specialist sectors, the Group has attracted and deployed the best professional talents, and it follows the strictest standards in terms of business subscription, risk management, operational discipline and product performance. Dexia has one of the best ratings in the banking sector, two of its subsidiaries being rated AAA.

### ● *An efficient organization*

The organization of Dexia is a unique combination of operational entities and the very strict central management of strategic functions, such as the financial function, audit and compliance, human resources, communication and investor relations. The Chief Executive Officer and the six other members of the Management Board steer the Group. Four members manage their respective business lines and two see on the one hand to the central supervision of financial functions and on the other hand to operational management and technology.

### ● *The four Dexia business lines*

#### **Public/Project Finance and credit enhancement**

Dexia merits its renown as leader in local public sector financing. The Group has several subsidiaries in the principal industrialized countries of the world, all managed by Dexia Credit Local. The considerable size of the market, the quality of borrowers and major requirements in matters of public infrastructures offer Dexia great opportunities to carry on activities creating a high level of added value. Size and innovation are the keys to success in this business line, which contributes approximately one half of the Group's profits.

#### **Retail Financial Services**

In Belgium, Dexia Bank is one of the three principal operators in the field of retail banking. It offers a complete range of banking and insurance services to its domestic clientele as well as small and medium-sized businesses. In Luxembourg, Dexia BIL occupies a similar position among retail banks. Over the years, private banking activity has been developed and extended beyond the frontiers of Belgium and Luxembourg. This business line is carried on by various entities and

# dimension

by partnerships in several European countries like Slovakia, Switzerland, Spain and France.

Note: The private banking segment has been a part of this business line since January 1, 2005 while insurance activity has been transferred to the business line "Investment management and insurance services" (see below).

## **Investment Management Services**

Since its creation, Dexia has capitalized on the know-how and the distribution network of Dexia BIL in Luxembourg in certain specialist sectors such as asset management and fund administration. The acquisition of Artesia in 2001 contributed additional competences and activities, notably in asset management and insurance services, which are now combined in this business line with a view to offering innovative high-performance products and a constant improvement of productivity. These products are distributed through Dexia distribution channels and also offered to institutional clients and third party channels.

## **Treasury and Financial Markets**

The principal activities of Dexia give it an extremely active presence on the capital markets, whether in refinancing, group balance sheet management or the development of sophisticated solutions and products intended for the clients of the various business lines. This activity is both a vital support to the Group as a whole and a major profit center, which applies the Group's cautious risk policy and generates substantial profitability.

For Dexia, this commitment constitutes a vital dimension in the creation of value and is a constant objective in the relations it develops with its members of staff, its clients, its suppliers and its shareholders.

## ● *During the year 2004, Dexia multiplied its socially responsible initiatives:*

- In its terms of financing major projects, the Group applied itself to implementing the so-called "Equator Principles", to which it adhered in 2003;
- Dexia adopted a "Charter of ethics in supplier relations";
- In the field of asset management, and in particular that of socially responsible investment, Dexia is a leader operator;
- At the end of 2004, the magazine Infrastructure Journal awarded Dexia the prize "Bank for Renewable Energies 2004";
- Dexia is committed to promoting good practices and demonstrating what is at stake in sustainable development. In images on [www.dexia.com](http://www.dexia.com), the new Dexia TV deals with important matters of sustainable development as well as the initiatives taken in that field.

## ● *Dexia, the bank for sustainable development*

The very nature of Dexia's activities, the roots and the values to which the Group marks its attachment, confer upon it a distinctive signature in a universe of financial organizations as a "bank for sustainable development".

The activities of Dexia revolve around the management of the environment, the well-being of populations and the management of savings, themes which are promising for the future and which entrench the Group firmly in long-term values of general interest.

# DEXIA CREDIT LOCAL

## *The bank for local development*

*Dexia Credit Local is the Dexia Group subsidiary specializing in public and project finance and financial services for local governments, the Group's first business line. World leader in this sector, the Bank built up its expertise in France, where it holds a 42% share of the market. From its base in France, the bank supervises the activities of its specialized subsidiaries, branches and representative offices throughout the rest of the world, adapting its offer to specific local requirements primarily in Europe and North America. Dexia Credit Local is active in much of the European Union and is developing its operations in the Mediterranean basin, Southern Africa and the Asia-Pacific region.*

*By continuously seeking synergies among its entities, Dexia Credit Local strengthens its leadership position and enhances its expertise in its areas of specialization, the financing of the local public sector and of large infrastructure projects. Dexia Credit Local's transactions with Financial Security Assurance, its U.S.-based subsidiary specializing in credit enhancement of municipal bonds and securitized assets, are a good example of this strategy.*

*Uniting these many talents gives Dexia Credit Local a vital advantage, enabling it to offer its customers innovative financial engineering solutions and a wide range of services, in France and abroad, in areas such as asset-based lending, insurance and savings, banking and asset management services.*

*The growth model adopted when Dexia was first created remains a winning strategy*



## PIERRE RICHARD

*Chief Executive Officer of the Dexia Group  
Chairman of the Supervisory Board  
of Dexia Credit Local*

In 2004, the world economy was more favorable for the Dexia Group than it had been previously, despite the fact that much of this growth was driven by the United States and China.

In Europe, where growth was more moderate, the accession of ten new member states presented the European Union with many challenges, both political - with the debate over the ratification of the European Constitution by the member states - and economic - with the implementation of structural and budget reforms relating notably to the Stability and Growth Pact and the Lisbon reform strategy.

Under these conditions, and mirroring the results of the financial services sector as a whole, the Dexia Group recorded excellent performances in all its business sectors in 2004. These results confirmed that the growth model Dexia adopted at its creation in 1996 remains a winning strategy, and one that the Group will continue to pursue.

Dexia Credit Local, our subsidiary specialized in the financing of local development, once again had especially good results this year, achieving exemplary results in terms of the objectives the Group has established:

- reaffirming our position as a European banking group with an international orientation;
- accelerating growth while continuing to provide our customers with innovative solutions;
- contributing to the creation of value for our customers, our shareholders and our employees through a never-ending drive to achieve ambitious organic growth;
- building our growth firmly on the basis of values we share with today's society, the key challenge in local and regional sustainable development.

While continuing to comply with these strategic orientations, and thanks to the experience and motivation of our staff, Dexia Credit Local will continue to grow in 2005 by expanding and diversifying its offer of products and services for local governments and their partners, in the many countries in which it operates.

A handwritten signature in black ink, appearing to read 'Pierre Richard', written over a horizontal line.

**JACQUES GUERBER***Chairman of the Executive Board  
of Dexia Credit Local*

*This new growth  
has strengthened  
Dexia Credit Local's  
position as the  
world leader*

Dexia Credit Local continued to improve its performances in 2004. Business grew sharply throughout France, Europe and the rest of the world, and the resulting earnings were particularly outstanding.

This additional growth has strengthened Dexia Credit Local's position as the world leader in public and project finance and credit enhancement. This was especially so in the United States where FSA, our subsidiary specialized in credit enhancement, confirmed its dynamic growth with remarkable increases in both volumes and earnings.

Total outstanding loans increased by 10.3% over 2003 to EUR 168.1 billion of which 34% was in France, 47% in the rest of Europe and 16% in the United States. These figures exemplify the effort to achieve continuous growth that has driven Dexia Credit Local ever since the creation of Crédit Local de France in 1987, when practically all of our business was conducted in France.

This growth strategy was pursued with determination in 2004, as Dexia Credit Local opened new locations in Poland, Canada and Japan. The trend toward decentralization that has been set in motion throughout the world, to varying degrees and with different timetables in each country, continues to expand our range of possibilities. The acknowledged expertise of Dexia's staff allows the Group to adapt financial products and services to suit changing local needs and ensure that they can be set in place in the shortest time possible.

In France, Dexia Credit Local confirmed its predominance in all four segments of the local public sector market - local governments, public hospitals, urban development and public housing, and local business and development - while successfully developing a diversified financial services offer for our major institutional customers. Our core market growth was also quite strong in the other countries where Dexia Credit Local is present, and even stronger in several such as, most notably, Italy and the United Kingdom, thanks to our enhanced involvement in project finance deals and, especially, as arranger for public-private partnerships.

Dexia Credit Local has sought synergies among its different entities and mobilized the financial expertise found throughout the Group in a continuous effort to enable it to provide Group-wide solutions to the special needs of the local public sector. Thanks to ambitious efforts to improve the quality of its own procedures, Dexia Credit Local obtained its first ISO 9001 certification in 2004, for its local customer systems in France.

In 2005, Dexia Credit Local will pursue unchanged its strategy combining innovation, organic growth and high-quality management, and the outlook for the coming year is already bright.

A handwritten signature in black ink, appearing to read 'J. Guerber', with a long horizontal line extending from the end of the signature.

## ● SUPERVISORY BOARD

### CHAIRMAN

**Pierre Richard**

Chief Executive Officer and Chairman of the Management Board of Dexia

### VICE-CHAIRMAN

**Rembert von Lowis**

Member of the Management Board of Dexia

### MEMBERS OF THE SUPERVISORY BOARD

Fédération Nationale des Travaux Publics represented by **Patrick Bernasconi**, Chairman

Fédération Française du Bâtiment represented by **Christian Baffy**, Chairman

**Jean-Pierre Brunel**

Advisor to the Executive Committee of Caisse des Dépôts et Consignations

**Philippe Duron**

Chairman of the Regional Council of Basse-Normandie

**Jean-Pol Henry**

Member of Parliament, Municipal Councilor of Charleroi

**Patrick Lachaert**

Member of Parliament, Municipal Councilor of Merelbeke

**Loïc Le Masne de Chermont**

General Councilor of Loire-Atlantique  
Chairman emeritus of Fédération Nationale des SEM

**Claude Piret**

Member of the Management Board of Dexia

**François Rebsamen**

Mayor of Dijon

**Antoine Rufenacht**

Mayor of Le Havre

**Francine Swiggers**

Member of the Management Board of Arco

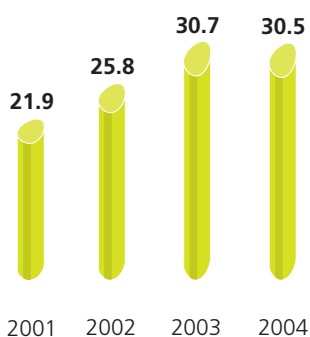
**René Thissen**

Senator, Municipal Councilor of Waimes

## CONSOLIDATED KEY FIGURES

### PUBLIC AND PROJECT FINANCE\*

(EUR billions)



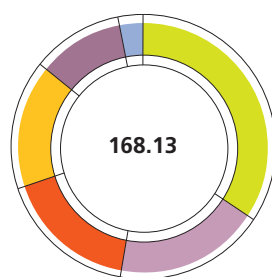
(new loans, excluding Germany, including companies accounted for by the equity method)

\* Commercial data, excluding FSA

\*\* Austria, United Kingdom, Spain, Sweden, Slovakia

### OUTSTANDING MEDIUM- AND LONG-TERM LOANS BY COUNTRY\*

(EUR billions)

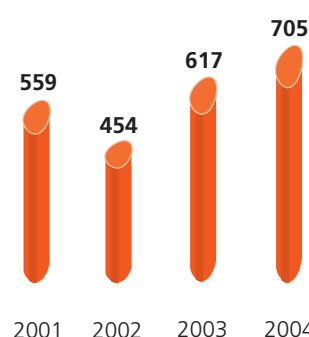


57.66 France  
31.52 Germany  
28.54 Italy  
26.77 North and South America  
18.78 Rest of Europe\*\* and Israel  
4.86 Asia and operations conducted from headquarters

(including Germany and companies accounted for by the equity method)

### CONSOLIDATED NET INCOME

(EUR millions)



● EXECUTIVE BOARD

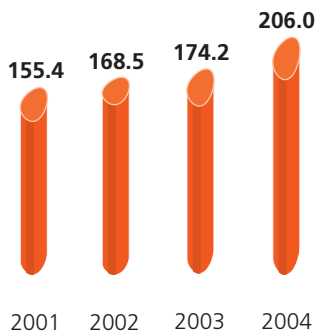


From left to right: Daniel Caille, Bruno Deletré, Jacques Guerber, Philippe Valletoux

- Jacques Guerber**, Chairman
- Philippe Valletoux**, Vice-Chairman
- Daniel Caille**, Chief Executive Officer
- Bruno Deletré**, Chief Executive Officer

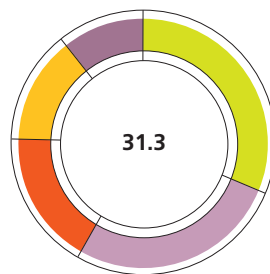
**TOTAL ASSETS**

(EUR billions)



**LONG-TERM FUNDING**

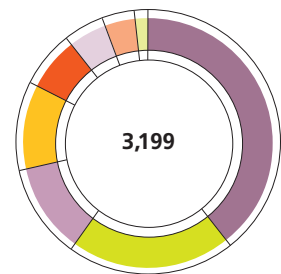
(EUR billions)



- 9.8 Dexia Hypothekenbank Berlin
- 8.4 Dexia Municipal Agency
- 5.4 Dexia Crediop
- 4.4 FSA
- 3.3 Dexia Credit Local

**DEXIA CREDIT LOCAL GROUP EMPLOYEES**

At December 31, 2004



- 1,257 Dexia Credit Local
- 668 Dexia banka Slovensko
- 370 Dexia Sofaxis
- 349 FSA
- 221 Dexia Crediop
- 158 Other - Europe
- 131 Other - outside Europe
- 45 Dexia CLF Banque

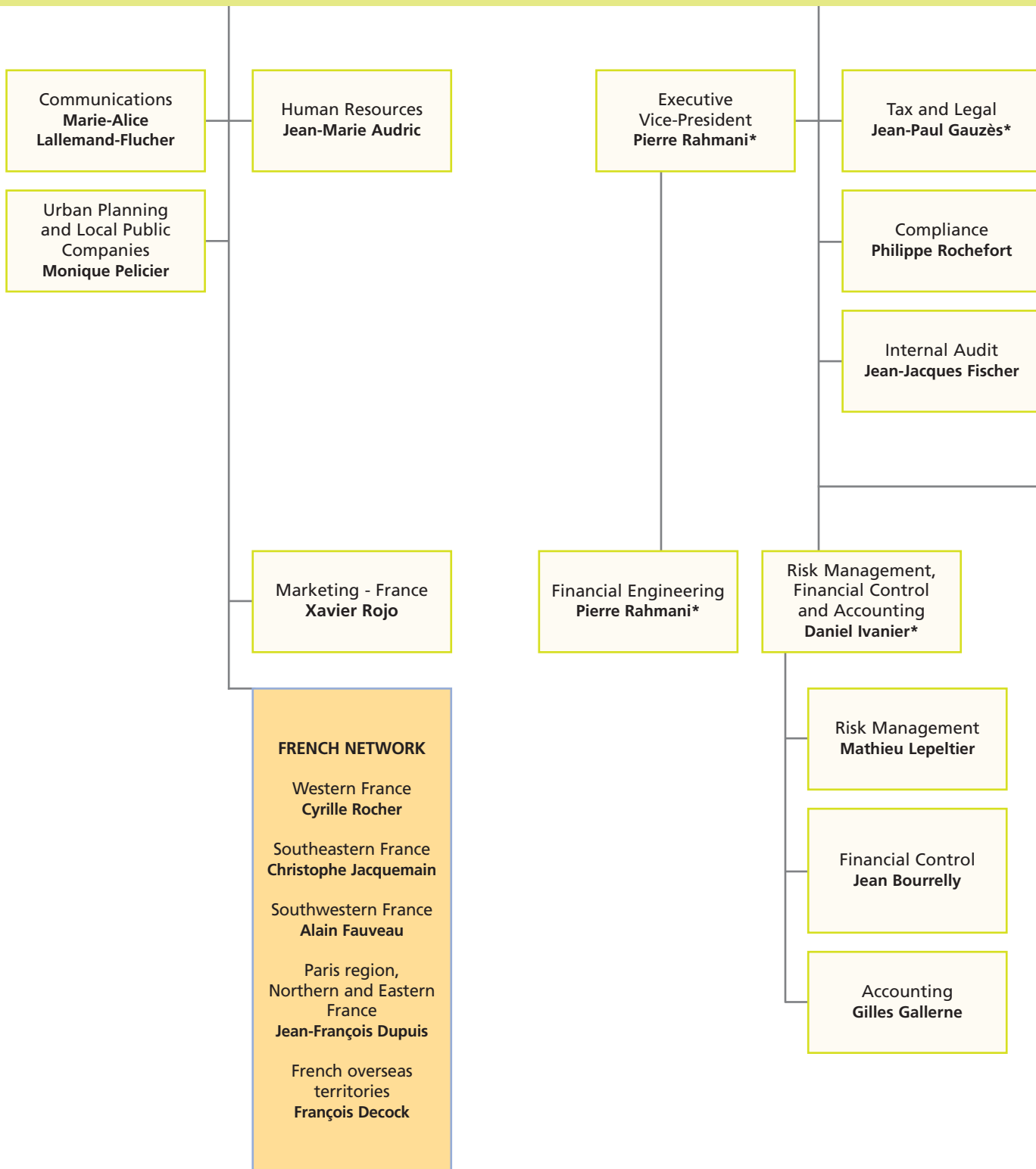
# ORGANIZATION

*Member of the Executive Board  
Chief Executive Officer*

**Daniel Caille\***

*Chairman  
of the Executive Board*

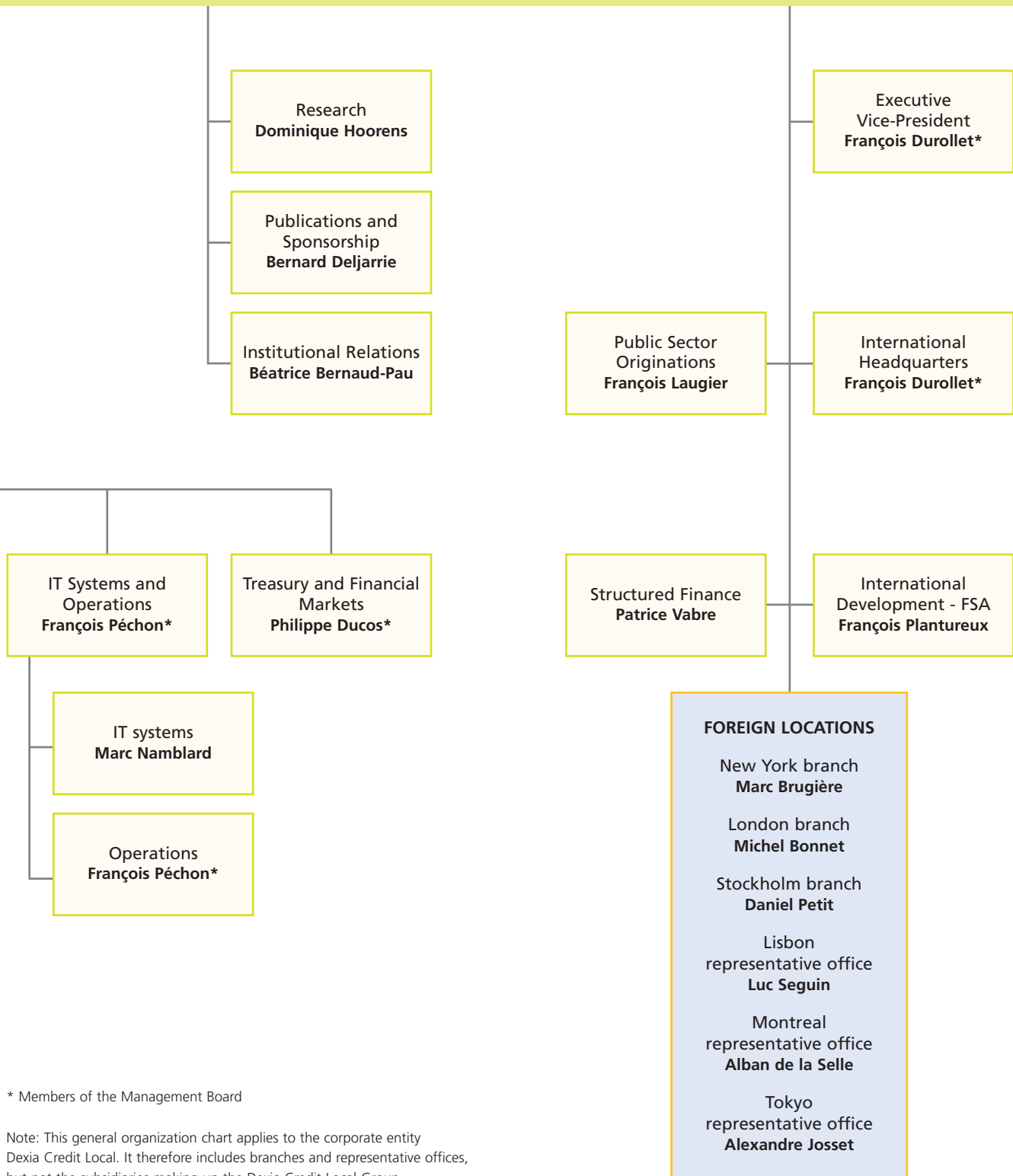
**Jacques Guerber\***



(March 2005)

*Vice-Chairman  
of the Executive Board*  
**Philippe Valletoux\***

*Member of the Executive Board  
Chief Executive Officer*  
**Bruno Deletré\***



\* Members of the Management Board

Note: This general organization chart applies to the corporate entity Dexia Credit Local. It therefore includes branches and representative offices, but not the subsidiaries making up the Dexia Credit Local Group.

# PRINCIPAL SUBSIDIARIES AND AFFILIATES

## ● SUBSIDIARIES AND AFFILIATES IN FRANCE

### SUBSIDIARIES

#### Dexia Bail

Equipment lease financing

Chairman: Jacques Le Franc

Chief Executive Officer:

Florence Bugault

#### Dexia CLF Banque

Banking services for

the local public sector

Chairman: Daniel Caille

Chief Executive Officer:

Jean-Yves Bousseau

#### Dexia CLF Régions Bail

Real estate lease financing

for the public sector

Chairman and Chief Executive Officer:

Pierre Vérot

#### Dexia Finance

Financial engineering

Chairman and Chief Executive Officer:

Pierre Rahmani

#### Dexia Flobail

Lease financing of local investments

Chairman: Pierre Vérot

Chief Executive Officer:

Jacques Le Franc

#### Dexia Location Longue Durée

Long-term leasing and management

of public sector vehicle fleets

Chairman: Pierre Vérot

Chief Executive Officer:

Jean-Loup Savigny

#### Dexia Municipal Agency

Dexia Credit Local's

*société de crédit foncier*

Chairman of the Executive Board:

Philippe Ducos

Chief Executive Officers:

Sylvie Vadé, Jean-Claude Synave

#### Dexia Sofaxis

Employer risks insurance

and management advisory services

for local governments (Sofcap)

and hospitals (Sofcah)

Chairman of the Executive Board:

Jean-Luc Guitard

### AFFILIATES

#### Achatpublic.com

Internet site specializing

in public sector procurement

Chairman of the Executive Board:

Thierry Lajoie

#### Créatis

Banking, finance, credit

and advisory services

Chairman of the Executive Board:

Jean-Luc Delannoy

#### Crédit du Nord

Federation of regional banks,

second network of the

Société Générale group

Chairman and Chief Executive Officer:

Alain Py

### OTHER DEXIA GROUP COMPANIES IN FRANCE

#### Dexia Asset Management

Management of mutual funds

Chairman: Hugo Lasat

Chief Executive Officer:

Henri-Michel Tranchimand

#### Dexia Banque Privée France

Private banking

Chairman: Philippe Jouard

Chief Executive Officer: Francis Coulon

#### Dexia Epargne Pension

Insurance company providing asset

optimization and social engineering

services et l'ingénierie sociale

Chairman: Guy Roelandt

Chief Executive Officer: Yves Bidet

#### Dexia Habitat

Acquisition of holdings in *sociétés*

*anonymes* in the area of public

housing and development

Chairman: Rembert von Lowis

Chief Executive Officer: Jean-Paul Gauzès

#### Dexia Investor Services Bank France

Management of securities accounts,

institutional investors and mutual funds

Chairman: José Luis Velasco

Chief Executive Officer: Carlos Sanchez

#### Dexia Prévoyance

Personal risk insurance products for

private and semi-private companies

Chairman and Chief Executive Officer:

Guy Roelandt

## ● INTERNATIONAL SUBSIDIARIES AND AFFILIATES

### SUBSIDIARIES

#### Germany - Dexia

##### Hypothekenbank Berlin

Chairman of the Executive Board:

Giselbert Behr

Members of the Executive Board:

Arnold Sedlmayr, Patrick Giacobbi

#### Australia - Dexia Crédit

##### Local Asia Pacific Pty Ltd

Chairman: Jean-Christophe Levens

#### Austria - Dexia

##### Kommunalkredit Bank

Chairman of the Executive Board:

Reinhard Platzer

#### Spain - Dexia Sabadell

##### Banco Local

Chairman: Bruno Deletré

Chief Executive Officer: José Luis Castillo

#### United States of America

##### Astris Finance

Chairman: Marc Brugière

Executive Director: Terry A. Powers

#### Dexia Delaware LLC

Entity managed by the New York branch

#### Dexia Municipal Leasing

##### & Finance LLC

Chairman: Marc Brugière

#### Financial Security Assurance Inc

Chairman-Chief Executive Officer:

Robert Cochran

Chief Operating Officer: Sean Mc Carthy

#### Israel - Otzar Hashilton

##### Hamekomi (OSM)

Chairman: Roland Hecht

Chief Executive Officer: David Kapah

#### Italy - Dexia Crediop

Chairman: Mauro Cicchiné

Chief Executive Officer: Gérard Bayol

#### Poland - Dexia Kommunalkredit

##### Polska

Chairman of the Executive Board:

Jacek Rynski

#### Slovak Republic - Dexia banka

##### Slovensko

Chairman of the Executive Board:

Marc Lauwers

Vice-Chairman of the Executive Board:

Gernot Daumann

### BRANCHES

#### United States of America - Dexia

##### Credit Local New York Branch

Chief Executive Officer: Marc Brugière

#### United Kingdom - Dexia Public

##### Finance Bank

Chief Executive Officer: Michel Bonnet

#### Ireland - Dexia Credit Local

##### Dublin Branch

Director: Jean-Marie Boudet

#### Sweden - Dexia Public Finance

##### Norden

Chief Executive Officer: Daniel Petit

### REPRESENTATIVE OFFICES

#### Canada - Dexia Credit Local

##### Canada

Representative: Alban de La Selle

#### Japan - Dexia Credit Local

##### Japan Representative Office

Representative: Alexandre Josset

#### Portugal - Dexia Credit Local

##### Portugal

Representative: Luc Seguin

### AFFILIATES

#### South Africa - Infrastructure

##### Finance Corporation (INCA)

Chairman: Éric Molobi

Chief Executive Officer: Attie van Zyl

#### Austria - Kommunalkredit Austria

Members of the Executive Board:

Reinhard Platzer, Pascal Becker,

Claudia Schmied

# FINANCIAL REPORT

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# Management and corporate governance

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# Management report

## 1 Business review

### 1.1 OVERVIEW

New long-term lending, excluding Germany and subsidiaries accounted for by the equity method, came to EUR 29.0 billion, in line with 2003 in spite of an overall unfavorable currency effect. New long-term lending was especially strong in Europe, posting a 7% increase over 2003, thanks notably the particularly outstanding results achieved in France. After two remarkable years in North and South America, business was down 29% in 2004, and by 22% in local currency terms.

- New loans to the public sector, excluding Germany, came to EUR 24.6 billion, down 7% compared with 2003. Performances were mixed depending on the region: new lending increased by 8% in Europe, especially in France, which was up 21.6% on an already noteworthy 2003, and the United Kingdom, which was up 72.3%, but fell 28% in North and South America after several years of outstanding results. It should be noted that the year-on-year decrease observed at June 30 shrank continually during the second half, in part thanks to the tax-exempt bond business.
- In structured finance, new lending of EUR 4.4 billion was up 47% over 2003. The strong increase reflects primarily the impact of several large transactions in the transportation sector in Italy. Dexia Credit Local also obtained several mandates in the United Kingdom, placing it among the leading Private Finance Initiative (PFI) banks (the UK equivalent of French PPP Public-Private Partnerships).

In 2004, Dexia Credit Local carried out EUR 10.9 billion in structured transactions in France, Italy, Germany, Spain, Austria and Sweden. Dexia Finance continued to expand abroad, especially in Germany. In France, Dexia reorganized

the way it processes transactions at the beginning of the year, allowing it to carry out transactions with large customers more efficiently while delegating more day-to-day transactions to the sales network.

FSA generated 3.7% more interest margin and present value (PV) premiums than in 2003, which was itself a record year for the company.

Outstanding loans (including Germany and excluding subsidiaries accounted for by the equity method) came to EUR 163.3 billion at December 31, 2004, up 9.7% over the previous year; holding exchange rates constant, the increase would have been 11.1%. Nearly every Dexia entity posted an increase, and Spain, the United Kingdom, the Slovak Republic and the International Headquarters each recorded gains of over 30%. At FSA, net insured capital increased by 11.1% over December 31, 2003.

As part of its international development program, as presented to the Supervisory Board meetings of May 6 and August 31, 2004, Dexia Credit Local opened representative offices in Japan and Canada during the third and fourth quarters, respectively, and began to examine the possibility of opening a location in Mexico. It should be noted that the Dexia Credit Local Sydney subsidiary, created in the first quarter of 2004, brought in its first transactions in 2004 for a total of EUR 85 million. Lastly, Dexia Credit Local finalized its request for a banking license in Poland, and on September 23 the Supervisory Board of Kommunalkredit Austria AG approved the creation of a bank specializing in Central Europe; Dexia Credit Local bank will be the majority shareholder of that subsidiary.

### 1.2 LOCAL PUBLIC SECTOR MARKET

#### a. Long-term lending

##### General comment (excluding Germany)

Total new lending came to EUR 24.6 billion at December 31, 2004, including EUR 5.2 billion under off-balance sheet commitments (primarily in the United States).

The 7.3% decrease versus 2003 was heightened by the overall unfavorable impact of exchange rates; holding exchange rates constant, new lending fell by only 5.2%.

#### Business review by location

##### FRANCE

In 2004, Dexia Credit Local confirmed its leadership in lending to all four segments of the local public sector market: local governments, public health, urban development and public housing, local business and social development.

- New lending reached a new historically high level, close to EUR 10 billion, and was up by nearly 40% over the past two years;
- Dexia Credit Local confirmed its share of its local government market at over 42%, and increased its share of the public health sector to over 45%;
- With EUR 43.7 billion in outstanding loans to local governments at December 31, 2004, Dexia Credit Local market share rose to over 42%;
- Dexia is a leader in lending to the public housing market, alongside Caisse des Dépôts et Consignations;
- Dexia Credit Local has successfully diversified its global financial service offer, confirming its position as a global bank specializing in large institutional customers.

Dexia Credit Local's French sales activity was very strong in 2004:

- Business with **local governments** increased by 16.4% over 2003, to EUR 6,302 million. This increase touched all of our customer segments, and major customers - the French administrative departments and regions in particular - demonstrated a return to borrowing, posting a 9.2% increase. Under these market conditions and despite intense competition in this segment, Dexia Credit Local was able to secure its share of the market at 40%. The core target segment increased by 11% over 2003 thanks to the performances achieved on innovative products that were delivered to the sales network during the year. Having commenced operations in 2003, the sales departments in charge of the local customer segment posted an excellent 37% increase over 2004. This segment is considerably more fragmented and is less subject to swings in borrowing needs, permitting this new organization to prove its true capacity to take market share.
- Business with the other **local public sector** borrowers continued to increase sharply, rising 32% in 2004. Other local public sector borrowers now represent more than 35% of Dexia Credit Local's long-term business and confirm our strategy of growing new markets. With EUR 1,308 million in new lending, the public health sector increased by 67.3%. This record level was driven by the general buoyancy of the market, including the impact of the Hospital 2007 project, and by Dexia Credit Local increasing its market share to over 46%. The urban development and public housing sector was up by 41.7%, with EUR 1,509 million in new lending. Lastly, the local business market was stable in 2004, despite the effect of a EUR 400 million non-recurring transaction carried out at the end of 2003 with the financing of special French assistance allowances to the elderly (FAPA). Dexia Credit Local also carried out several large leasing transactions in this sector.

#### NORTH AND SOUTH AMERICA

New lending came to USD 8,291 million in 2004, down 1% over the previous year, as the strong volumes recorded during the second half of the year partially offset the drop recorded during the first six months. The market for variable-rate

bond issues experienced a mild recovery in 2004 after having fallen by 10% the previous year, and new off-balance sheet financing came to USD 6,231 million, including credit enhancements on several notable issues such as the New York State Dormitory Authority (USD 483 million, provided by FSA), Economic Recovery Bonds for the State of California (USD 732 million, provided by FSA and XLCA) and Water Systems for the city of Chicago (USD 530 million, provided by MBIA). Investments made in tax-exempt bonds under the new Tender Option Bonds program that began in June amounted to USD 572 million at December 31, 2004.

#### ITALY

After a record year for local public sector lending in 2003, results in 2004 were slightly less favorable, yet new lending remained high at EUR 3.7 billion. Business was particularly strong on international issues, which represented 40% of the new financing provided, and Dexia Crediop played leading roles and obtained numerous mandates in the principal transactions carried out by the Italian regions, including Piedmont (Dexia Crediop share equaled EUR 217 million), Puglia (EUR 243 million), Lazio (EUR 100 million), Abruzzi (EUR 250 million), Friuli Venezia Giulia (EUR 220 million), Sardinia (EUR 200 million), Campania (EUR 100 million) and Liguria (EUR 200 million). Moreover, as part of the reopening of the international issue carried out in November 2003, the city of Rome entrusted Dexia Capital Markets with the mandate of Joint Bookrunner and Joint Lead Manager for a new EUR 400 million tranche maturing in 2033, in which Dexia Crediop invested an additional EUR 100 million. The most noteworthy securitization transaction carried out this year was for the Lazio region's public health receivables, in which Dexia Capital Markets acted as Joint Bookrunner and Joint Lead Manager of the issue of EUR 193 million asset-backed securities (ABS), subscribed entirely by Dexia Crediop.

#### SPAIN

Although local government demand remained low throughout the year, new lending rose to EUR 1,147 million in 2004, up 13.5% over the previous year. Dexia Credit Local was involved in several large transactions during the year, including a 9-year EUR 94 million loan to the city of Madrid (on which the bank was up against a consortium comprising BBVA, SCH and Caja Madrid), a EUR 99 million loan for the Autonomous Community of Catalonia and a EUR 75 million participation in a syndicated loan for the Region of Valencia. Dexia Sabadell Banco Local also participated alongside DEPPA and Calyon in a 30-year EUR 500 million bond issue for the Autonomous Community of Catalonia (Cooke ratio 0), taking a EUR 125 million quarter share of the entire issue.

#### UNITED KINGDOM

New lending came to EUR 1,171 million at December 31, 2004, up 72% over 2003. Business in London was focused primarily on the local government sector throughout the

year, with EUR 1,134 million in new lending, up 83% over 2003. Of note are the transactions carried out with the Camden London Borough Council and the city of Glasgow for EUR 63 million and EUR 44 million respectively, as well as the acquisition of Barclays' LOBO portfolio for a total of EUR 265 million. In the public housing sector, the only transaction carried out in 2004 was a EUR 7 million loan for the Hanover Housing Association.

#### SLOVAKIA

New lending came to EUR 246 million at December 31, 2004, up 50.8% over 2003. The increase was even more notable in the purely commercial business, with new lending to local governments (excluding purchases of sovereign issues) totaling EUR 157 million in 2004, nearly twice the amount achieved the previous year. The larger transactions carried out in 2004 include the EUR 5 million increase in outstanding loans to the city of Zilina and the restructuring of the debt of the city of Kosice. Lastly, Dexia banka Slovensko (DBS) set in place a EUR 85 million loan with Bratislava to finance primarily transportation infrastructure-related projects. This was DBS's first major transaction with the capital of the Slovakia, and the company faced stiff competition from Slovakian and multinational banks.

#### INTERNATIONAL HEADQUARTERS

New lending came to EUR 1,041 million in 2004, nearly three times the volume recorded in 2003.

- In Switzerland, new lending of EUR 461 included three loans to the Canton of Geneva for a total of EUR 177 million.
- In Japan, new lending of EUR 289 million included two transactions with the city of Tokyo for a total of EUR 124 million.
- New lending in the rest of the world came to EUR 291 million, including three loans to Ports of the Azores, guaranteed by the Autonomous Region, for EUR 18.5 million. Moreover, Dexia Credit Local actively developed its business in Poland in partnership with Kommunalkredit Austria (KA). The major transactions carried out in 2004 included a EUR 88 million long-term lending transaction for Warsaw and a score of transactions with other cities of varying sizes.

#### ISRAEL

Given the extremely tense political and economic environment, the restrictive measures taken by Otzar Hashilton Hamekomi (OSM) and Dexia Credit Local resulted in a sharp decrease in the subsidiary's business throughout the year. New long-term lending was limited by choice in 2004, and at EUR 74 million was down 29.3% versus the previous year. It should be noted that Dexia and the Israeli government have begun negotiations for lending to Israeli towns, allowing for a more favorable outlook in 2005.

#### SWEDEN

New lending came to EUR 849 million in 2004, up 87.7%

over 2003. The year was marked by a higher proportion of structured transactions in both the Swedish and Finnish markets as well as the acquisition of EUR 27 million in securities for the Gothenburg county public transit authority.

#### AUSTRIA (49%-HELD COMPANY ACCOUNTED FOR BY THE EQUITY METHOD)

Total originations came to EUR 2,950 million in 2004, up 22.9% over 2003.

- In Austria, new lending of EUR 514.5 million included EUR 42 million in public health loans for the Upper Austria region;
- In Switzerland, new lending of EUR 186.3 million included EUR 19.5 million for the Canton of Bern and EUR 57.8 million in transactions with the Canton of Geneva.
- In Central Europe, new lending was up sharply at EUR 923 million, with an especially large part in the form of bond issues in Poland, including transactions with the cities of Warsaw, Plock and Bydgoszcz for EUR 88 million, EUR 5.8 million and EUR 7.6 million, respectively. These transactions were shared with International Headquarters. Several transactions were also carried out in the Czech Republic, Hungary and Croatia.
- Lastly, total new lending includes assets relating to the temporary investment of part of the EUR 1 billion jumbo issue carried out by KA in March 2004, pending the use of the funds in long-term loans.

#### GERMANY

Total originations came to EUR 9,351 million in 2004:

- The EUR 1.2 billion in total new lending signed by the Frankfurt office consisted primarily of EUR 1 billion in structured loans (175% over 2003), including loans for the cities of Hagen and Frankfurt-am-Main;
- EUR 3.4 billion excluding Germany. Among the principal transactions, it is worth mentioning EUR 88 million in purchases of Japanese sovereigns, the joint acquisition with Dexia Credit Local of a bond issued by Infrastruttura S.p.A., the acquisition of EUR 500 million in Italian sovereigns and EUR 150 million in Greek sovereigns;
- The remaining balance of new loans corresponds to purchases of securities with no commercial significance.

### b. Outstanding loans

#### Changes in outstanding loans

In 2004, outstanding long-term public sector loans were up 9.4% over the previous year, reaching EUR 152 billion at December 31. At constant exchange rates this growth figure would have reached 10.8%.

The 8% total increase for all European locations was particularly important in the United Kingdom, Spain, and Italy.

In France, outstanding loans grew by only 4.7%, due to the cumulative impact of the slowing down of the amortization of local government debt resulting from refinancing transactions and extensions of maturities in recent years and an increase in competition from other local participants in the sector. In Italy (10%), Spain (27%) and the United Kingdom (51%), the increase in outstanding loans was driven by the high levels of new lending attained during the previous twelve months.

In North and South America, outstanding loans increased by 15% over December 31, 2003, and by 24% at constant exchange rates, despite the slowdown in new lending observed in 2004.

### Debt restructuring

In France, Dexia's debt restructuring business was down 18% in 2004, which remained an extraordinary year nonetheless. The slowdown observed with major customers at the start of the year (especially in the administrative regions and departments at the height of the electoral season) could not

be made up entirely by the end of the year, however it was compensated by a very strong contribution from financially-innovative products.

Several large debt restructurings for a total of EUR 1.2 billion were carried out in Italy in 2004, including EUR 158 million for the Tuscany region, EUR 213 million for the city of Milan, EUR 141 million for the Piedmont region and a transaction whereby the Puglia region replaced bank debt with an international bond issue maturing in 2023, EUR 243 million of which was subscribed by Dexia Crediop.

### c. Short-term lending

Outstanding short-term loans came to EUR 6.2 billion at December 31, 2004. In France, where nearly 95% of these loans are made, the short-term business began to slow during the final quarter of 2003 following the French government's decision to modify regulations relating to payment facilities on new loans. Most of the outstanding short-term loans outside France are in Germany, Spain and Israel.

## 1.3 STRUCTURED FINANCE

### a. Summary by location

Total originations for the structured finance activity came to EUR 4,386 million in 2004, up from EUR 2,992 million the previous year. The strong increase reflects several large transactions in the Italian transportation sector.

#### FRANCE

Total new structured finance arranged was down 39.5% to EUR 397 million in 2004. Among the major transactions concluded during the year were a EUR 200 million innovative high added-value structure for Vinci Park and its subsidiaries and a new EUR 20 million line of financial guarantees for SITA set in place under regulations concerning the operation of final waste disposal sites. We arranged EUR 10 million in financing for two *gendarmeries* using a PPP model under the Orientation and Planning of Domestic Security Act (LOPSI), took part in a tax-structure transaction to finance locomotives for the Belgian national railroad company and took a EUR 22 million participation as Lead Arranger for the financing of the 3i investment fund's acquisition of Keolis. It is also worth mentioning our success in advisory services: Dexia is acting as financial advisor to the bidding parties on two of the three very large highway concession projects currently up for tenders and is also acting as financial advisor to the bidding parties on new PPPs for the three largest projects currently under way: the first installment of a building program for prisons and hospitals for the cities of Caen and Corbeil-Essonnes.

#### NORTH AND SOUTH AMERICA

Structured finance originations were down 66% to EUR 116 million in 2004, due to a cautious environment in the electrical power industry. The New York branch signed its first mandate as Sole Lead Arranger and underwrote 100% of the financing for a 27 MW wind power generation farm near Oliver Springs, Tennessee. This transaction was syndicated successfully, and Dexia ended up with a USD 11.2 million share. Dexia New York was also named Lead Arranger for the refinancing of a 160 MW wind power generation project sponsored by Shell and Mitsui, taking a final share of USD 11 million. Lastly, Dexia New York signed the financing of two letters of credit for a total of USD 36 million in favor of tax-exempt bonds issued on behalf of the Northeastern Power Company (subsidiary of Tractebel), a coal-fueled cogeneration plant in Pennsylvania. The New York branch also obtained two financial advisor mandates, one with Osaka Gas for the acquisition of a natural gas-powered electric power station in Texas from Shell and the other with Diamond Energy (a Mitsubishi company) for the acquisition of two gas-powered electrical power stations in California from Interger.

In the asset-based lending area, the emergence of a bill that would greatly reduce the feasibility of U.S. lease transactions prevented Dexia Credit Local New York Branch from carrying out any such business during the first three quarters and prompted the decision to shut Dexia GSF down for practical purposes. Dexia nonetheless participated in the financing of the acquisition of the international airport in Brussels (BIAC) by issuing a USD 25 million letter of credit.

**ITALY**

Dexia Crediop generated EUR 2,061 million in originations in 2004, nearly five times the volume the company achieved the previous year. Dexia Crediop was much more active in the primary bond market, including as Co-Arranger on ISPA's EUR 1 billion bond issue to finance its TAV high-speed train project (Dexia Crediop ended up with a EUR 365 million share) and its EUR 600 million participation, in collaboration with Dexia Finance Italia, in two ISPA bond issues. Dexia also took a EUR 415 million participation in the Italian national railroad's EUR 830 million ABS issue.

Dexia Crediop also acted as Sole Arranger for the EUR 82 million financing of the Andretta Bisaccia wind power generation project led by EDF Energies Nouvelles (final share equaled EUR 25.5 million), for the Nuove Acque project, the first PPP-type financing in the Italian water industry, and for the EUR 150 million loan (guaranteed by the region) on behalf of Fira Spa, a financial company controlled by the Abruzzi region. Dexia Crediop acted as Joint Lead Manager of a bond issue raised by Acquedotto Pugliese, a public sector water distribution company in the Puglia region. Dexia Crediop also acquired EUR 190 million in bonds issued by Autostrade, the highway operating company. Lastly, Dexia Crediop obtained nine new financial advisory mandates, with local governments privatizing certain activities and with private parties submitting bids under invitations to tender for various infrastructure projects.

**SPAIN**

Total originations rose 15.9% to EUR 225 million in 2004. Dexia Sabadell Banco Local (DSBL) arranged and underwrote the entire EUR 39 million tranche guaranteed by the EIB set in place for the Meruelo project, a waste-treatment plant in the Cantabria region whose chief sponsor is a subsidiary of the ACS Dragados group. DSBL also arranged the financing (under the so-called "German system") for the highway linking Alicante to Elche in the Valencia region and for Almeria City's service centers project. A significant share of the business was carried out in the transportation sector, with DSBL obtaining three underwriting mandates (Barcelona subway system and Madrid and Vitoria Eibar tollroads) for a total of EUR 87 million. It should also be noted that DSBL participated in ten transactions totaling EUR 134 million in the infrastructure and wind power generation sectors, and participated for the first time in the financing of a biofuel plant.

**UNITED KINGDOM**

Originations were down 20.5% to EUR 513 million in 2004. The PFI business remained particularly strong, with notably the arrangement of four school financing projects (Exeter, Waltham Forest, Barking and Dagenham and Derby School) for a total of GBP 221 million before syndication, the GBP 37 million financing of the construction and maintenance of

a hospital in Roehampton in the southwest section of London, and the financing of University Lewisham Hospital, in which Dexia Credit Local ended up taking a GBP 38.5 million share. These six mandates placed Dexia among the leading PFI banks in England. Dexia also signed six participations during the year for a total of GBP 88 million.

**SLOVAKIA**

New long-term loan originations came to EUR 88 million in 2004, two and one-half times the volume recorded in 2003. The most significant long-term financing was for a EUR 20 million loan to ZS, the entirely state-owned corporation responsible for the national railroad's sales-related activities.

**INTERNATIONAL HEADQUARTERS**

New long-term lending was up 46% to EUR 876 million in 2004. In the energy sector, Dexia consolidated its presence with important customers and sponsors by arranging the financing for Babcock's acquisition of Oviedo's 158 MW wind power generation farm and the financing for the Cabezo San Roque wind power generation farm in Aragon: the trade magazine *Infrastructure Journal* acknowledged Dexia's transactions in the renewable energies sector in 2004 (in Italy and the United States as well as in Spain) by honoring Dexia as "2004 Renewables Arranger of the Year". Dexia also underwrote a total of USD 350 million, including USD 120 million (final share equaled USD 67 million) on the financing of the oil pipeline between Baku and Ceyhan on the Turkish coast, USD 130 million on the Qatargas II LNG project (currently being syndicated) and USD 100 million on the pre-financing of Gazprom's sales to Transgaz. In the telecommunications sector, Dexia was mandated Lead Arranger in the EUR 165 million syndicated loan on behalf of Invitel, the second-largest telephone operator in Hungary, and underwrote EUR 50 million in the refinancing of One, the third-largest cellular telephone operator in Germany. In the infrastructure sector, Dexia participated for a total of EUR 41 million in the financing of Terminal II of the Warsaw airport, a section of the toll road between Zagreb and the Slovenian border, the M5 highway in Hungary, and Europass, which operates the concession for an electronic toll system for trucks in Austria, the last three of which alongside Kommunalkredit.

Moreover, the financial advisory mandate from Colas on the restoration project for the road system for the city of Portsmouth was successfully completed when all contractual and financial documents were signed at the end of July. This EUR 100 million project is the first of its kind ever to be structured under a PFI.

**ASIA-PACIFIC**

Created in the first quarter of 2004, the Dexia Credit Local Sydney subsidiary carried out its first transactions, notably underwriting a AUD 114 million loan for a freeway between

Mitcham and Frankston. Dexia Credit Local Asia Pacific Pty also took two participations, an AUD 30 million PFI-type loan for two prisons and an AUD 35 million loan in the refinancing of the LOY YANG A coal-fueled electrical power plant subsequent to its acquisition by a consortium led by AGL and Tepco.

#### **AUSTRIA (49%-HELD COMPANY ACCOUNTED FOR BY THE EQUITY METHOD)**

New lending was down 77.1% to EUR 60 million in 2004,

including notably KA's participation in the financing of the TAV high-speed train project for ISPA and its EUR 14 million participation in the Europass electronic toll project.

#### **b. Long-term lending**

Total outstanding long-term structured finance loans rose 13.7% year-on-year to EUR 11.3 billion at December 31, 2004. Strong increases in Italy and Spain more than compensated the decline in North and South America.

## **1.4 INSURANCE**

### **a. Dexia Sofaxis**

The year was marked by positive signs from companies announcing a cautious return to underwriting, paired with increased vigilance with regard to generating profitable business. Under these conditions, EUR 343 million in premiums were issued in 2004, up 15.2% over 2003. Commissions earned are valued at EUR 40.4 million. The statutory insurance market continued to languish, and the first signs of a technical recovery are expected to be confirmed in 2005.

### **b. Dexia Épargne Pension**

The public sector life insurance activity was very active, with EUR 63 million in funds collected in 2004 including EUR 24 million in social engineering and EUR 39 million in capitalization pension plans. At December 31, 2004, over two hundred of our customers had public sector insurance, including some 50 public housing bodies, more than 40 public-private joint ventures (SEM) and 10 consular offices. The funds collected by the associated networks, Vœux Funéraires, Nortia Créatis, Crédit Social des Fonctionnaires, which were joined by Mutuelle Générale de l'Équipement et des Territoires in late 2004, were up 17.9% over the previous year to EUR 105 million.

## **1.5 FINANCIAL SECURITY ASSURANCE**

FSA originated USD 927 million of new business in interest margin and PV premiums in 2004, up 3.6% over the previous record set in 2003.

The very high level of originations recorded during the year drove net insured capital 11% higher to USD 454 billion at December 31, 2004

### **a. Municipal finance**

FSA recorded USD 558 million in PV premiums in 2004, down 8.9% compared with 2003.

In the United States, municipal bond issue volumes continued to trend downward in the fourth quarter (down 2.2% versus the fourth quarter of 2003). On total municipal issues of USD 360 billion in 2004, FSA's year-on-year decline amounted to 6.1%, while the penetration rate for credit enhancement increased to 54% from 50% in 2003. Stronger competitive pressure, notably from XLCA and FGIC (subsequent to its being acquired by American investors) which are penetrating market segments in which they had never before been present, and the aggressive levels of premium offered customers, notably by MBIA and AMBAC, induced FSA to reduce its market share. During the year, FSA

insured issues with a (gross) par value of USD 49 billion, giving it a 24% market share, up from 27% in 2003, and generating USD 434 million in PV premiums.

The hospital sector generated the most originations, with twenty-nine transactions totaling USD 139 million in PV premiums. Four large transactions in this market are worth noting, namely credit enhancement on USD 350 million in bond issues for Kaiser Permanente, the Oakland, California-based healthcare provider (USD 10 million in premiums), USD 170 million for Fletcher Allen Health Care, a network of hospitals located in Vermont and New York State (USD 11 million in premiums), USD 250 million for Methodist Healthcare of Tennessee (USD 11 million in premiums) and USD 111 million for the Blanchard Valley Regional Health Center in Ohio, to finance construction of a new six-story building (USD 11 million in premiums). It should also be noted that in 2004 the company signed major transactions in the transportation sector with the Dallas Fort Worth Airport, Hartsfield-Jackson Atlanta International Airport - the busiest airport in the world - the Maryland Transportation Authority and the Metropolitan Washington Airports Authority, generating a total of USD 16 million in PV premiums for USD 1 billion in total insured par value.

Four important transactions carried out in other sectors in 2004 are worth citing, namely a transaction with Citizens Property Insurance (an insurance company created by the State of Florida for providing insurance coverage to those who cannot obtain commercial insurance) for an insured par value of USD 350 million, which generated USD 5 million in premiums; credit enhancement of a USD 102 million bond issue for the city of Philadelphia to finance the proposed investments of its Philadelphia Gas Works subsidiary specialized in the storage and distribution of natural gas, which generated USD 7.3 million in premiums; enhancement of a USD 474 million share of the USD 11 billion in total bonds issued by the State of California, which generated USD 3.3 million in premiums; and enhancement of a USD 849 million share of the USD 3.2 billion in total bonds issued by the city of Atlanta to finance the renovation program of its water company, which generated USD 4.9 million in PV premiums.

**Outside France**, originations generated USD 124 million in PV premiums, more than half of which in the United Kingdom. Among these transactions it is worth mentioning the enhancement of a GBP 149 million bond issue for the Artesian Finance Program to finance Southern Water (water company operating in the south of England), which generated USD 12 million in PV premiums. On the European continent (excluding the United Kingdom), although FSA's business was impacted by the cancellation of two of its mandates (for Spanish and Portuguese highways), the company did close a significant transaction with the Italian water company Acquedotto Pugliese, generating USD 11 million in premiums.

## 1.6 DEPOSITS AND ASSETS MANAGED

Assets managed in connection with Dexia Credit Local's first line of business continued to rise, and were up 20% year-on-year at EUR 7,044 million at December 31, 2004.

**In France**, assets managed increased by 25% to EUR 4.3 billion at December 31, 2004. Mutual fund assets broke the EUR 2 billion mark.

## 1.7 FUNDING AND FINANCIAL MARKETS

### a. Funding

The Dexia Credit Local Group raised EUR 31.3 billion from long-term markets in 2004, up from EUR 22 billion in 2003. Total funds raised excluding FSA came to EUR 27 billion, significantly higher (38%) than the previous year. The average cost of funding came to 3-month Euribor + 0.5 bp (Euribor + 1.7 bp in 2003), on an average maturity of 7.5 years (6.3 years in 2003).

### b. Asset-backed securities

FSA generated USD 369 million in interest margin and PV premiums in the ABS sector in 2004, a 31.0% year-on-year increase.

ABS origination in the **United States** came to USD 311 million, with residential real estate proving to be the most active market: FSA carried out numerous transactions involving the enhancement of AAA tranches and Net Interest Margin (NIM) transactions, along with an important transaction (USD 12 million in premiums) with Fannie Mae (Federal National Mortgage Association), and the real estate market as a whole generated total premiums of USD 94 million.

The Collateralized Debt Obligation (CDO) market also enjoyed high growth in 2004, generating USD 96 million in PV premiums.

In the consumer finance sector, two important transactions with car loan provider AmeriCredit are worth mentioning, each for a par value of USD 750 million and giving rise to USD 5.0 million and USD 5.6 million in premiums, respectively.

The Guaranteed Investment Contracts (GIC) business continues to grow nicely: deposits reached USD 6.0 billion in 2004 and this activity generated USD 74 million in discounted interest margin.

**Outside France**, FSA originated USD 58 million in new business, USD 34 million of which was on CDOs and, more particularly, Credit Default Swap (CDS) synthetic securitization transactions. The largest transaction of the year was in Australia, where FSA guaranteed a transaction with the airport of Sydney, already enhanced by MBIA (USD 6.7 million in premiums).

**In Italy**, assets managed increased by 11% to EUR 1.7 billion at December 31, 2004. It should be noted that a significant share of these deposits are related to the contract Dexia Crediop obtained in early 2003 to manage the entire, nearly EUR 650 million asset portfolio of INAIL, the institution responsible for injury-related workman's compensation payments.

The funding program included the following:

- **Public issues:** EUR 7.9 billion (up 9% over 2003)

Access to public issues is restricted to the Group's AAA-rated issuers. Dexia Municipal Agency, the Group's largest issuer in this segment, continued to develop its euro yield curve and pursue its international diversification strategy. Thus, in more than three transactions similar to existing benchmarks for a total of EUR 1.4 billion, Dexia MA created

three new yield curve benchmarks, each with EUR 1.0 billion in assets (2.5 and 7 years). In foreign currencies, Dexia MA rounded out its Australian dollar yield curve with two domestic issues at 5 years and 10 years and created new benchmarks in Swiss francs and pounds sterling on maturities of between two and seven years. Lastly, Dexia MA targeted investors in Hungarian forints and New Zealand dollars. Total funding in foreign currencies other than euro amounted to the equivalent of EUR 1.2 billion. Dexia Hypothekbank Berlin (DHB) launched two benchmarks, one at 3 years (EUR 1.25 billion) and the other at 6.5 years (EUR 1 billion) in order to refinance large Jumbo CD maturities.

- **Private placements:** EUR 14.3 billion (up 60% over 2003)

Use of this method of funding increased quite significantly for all Group issuers. Dexia MA raised EUR 2.6 billion (up 176% over 2003), representing more than 30% of its total annual funding. DHB turned to the deep German market to raise EUR 7.5 billion (up 35% over 2003). Dexia Crediop took advantage of a highly active Italian market that is often problematic for foreign issuers to raise EUR 2 billion (up 83% over 2003), representing more than 37% of its total annual funding. Dexia Credit Local benefited from investors' appetite for structured products to leverage up a record volume of EUR 2.2 billion (up 60% over 2003) in funding. Overall, although average maturities remain long for AAA companies (Dexia MA at 12.8 years and DHB at 9.2 years), they are getting longer in the approximately 5-to-7-year range for AA companies as investors seek higher returns.

- **Retail issues:** EUR 3.5 billion (up 107% over 2003)

Dexia MA's retail issues with the Dexia Group amounted to EUR 133 million. Retail issues with non-Group customers increased significantly to EUR 3.4 billion, primarily under the impetus of Dexia Crediop. Through partnerships with retail banking networks, Dexia Crediop was able to meet significant demand from Italian private investors by distributing 48 issues for a record total of EUR 2.9 billion (up 110% over 2003), representing 54% of its total annual funding program. Dexia Credit Local targeted Japanese private investors with a 3-year AUD 715 million issue (EUR 421 million).

- **Specific resources:** EUR 1.3 billion (down 21% from 2003)

Dexia Crediop and Dexia Credit Local each made several drawings in relation to specific large projects. Dexia Crediop drew down EUR 475 million, 35% less than in 2003, and Dexia Credit Local drew down EUR 699 million, 7% more than the previous year. For the fourth consecutive year, Dexia MA issued an EMTN program for the European Investment Bank (EIB), in a 10-year USD-denominated transaction worth EUR 100 million.

## b. Financial Markets

In 2004, all the activities of Dexia's fourth line of business profited from positive expectations for financial market trends marked by:

- a flattening of the yield curve: uncertainties regarding U.S. employment, the European economy's strong reliance on high exports and the euro's gain against the dollar led to a drop in European long-term interest rates and a flattening of the short end of the EUR and USD yield curves;

- the fall in credit spreads that began in 2003 continued in an environment marked by a fall-off in bankruptcies, good bank earnings and a strong demand for credit-related financial assets.

Under these conditions, the earnings on Dexia Credit Local's fourth line of business in 2004 were excellent and well above budget.

- **Credit Spread Portfolio** (Paris, Dublin, Rome and New York): Dexia Credit Local's total Credit Spread Portfolio increased 1% during the year to around EUR 21 billion, despite an unfavorable dollar effect and in spite of the sale of a large share of the credit default swap portfolio prior to the adoption of IFRS. The average maturity of outstanding loans remained stable at 7.4 years at December 31, 2004. The acquisition strategy concentrated primarily on bank debt, on issues secured by credit default swaps and on sovereign issues.

- **Long Term Funding** (Paris, Rome, Berlin): record funding volumes (see above).

- **Fixed-Income** (Rome): sharp increase in bond originations, in the Italian banking and public sectors.

- **Financial Engineering and Derivatives** (Rome and Paris): the fourth quarter 2004 was marked by the launch of the macro hedging desk in Paris, an activity which allows us to internally hedge certain small structured loans made to French local governments by Dexia's first line of business. Several similar transactions were also carried out with Dexia Banque for customers in Belgium. We also increased our distribution of derivatives to banks and Italian institutional customers in Rome considerably in 2004.

- **Money Market** (most locations): the Paris and New York desks were able to protect the gains they made on dollar positions, despite the rise in U.S. rates.

Management and control procedures have not changed noticeably. The Treasury and Financial Markets (TFM) committees that started up in 2004 have all been working satisfactorily, as are the Financial Markets committees of the different Dexia Credit Local Group entities.

Dexia Credit Local's consolidated VaR in interest rates is well below the limit.

## 1.8 ORGANIZATION OF THE COMPANY

### **a. Absorption of Ifax by Dexia Credit Local**

Ifax was set up solely as the holding vehicle for Dexia Credit Local's shares in Dexia Sofaxis. After Dexia Credit Local acquired the shares of Ifax that it did not already own from Guillon in 2003 it decided to eliminate the legal entity, which had no employees and no longer served any purpose.

All Ifax assets were transferred to Dexia Credit Local at the end of 2004 under the French global transfer of assets system (TUP).

### **b. Creation of a municipal lease company in New York**

As part of the diversification of its Asset & Structured Finance business, Dexia Credit Local New York Branch launched a new product, the municipal lease, targeted at American local governments. This tool, which is broadly used for small asset-based lending and equipment finance requirements, represents an alternative to municipal bond issues. Dexia Credit Local is providing a new service to its current customers, using a profitable instrument whose risks are equivalent to those of the American municipal market.

The growth of this new business required that a special purpose vehicle be created: Dexia Municipal Leasing and Finance Company will be a legal entity without any employees, managed by Dexia Credit Local New York Branch. Its capital (USD 75 million) will be held entirely by Dexia Credit Local. From an accounting standpoint, the company will be fully consolidated in the financial statements of Dexia Credit Local.

### **c. Launch of a study for creating a location in Mexico**

Studies performed in 2004 convinced us of the existence of a market for local public sector lending in Mexico, as well as the pertinence of creating a sales vehicle. The local public and project finance market is indeed experiencing high growth in this country, owing to a major decentralization down to the federal state and municipal levels and tremendous needs in the water services, waste management and transportation sectors. Moreover, loans to the local public market are guaranteed by the collateralization of *participaciones*, transfers from the federal government to federal states, and from federal states to town councils.

The Mexican entity is expected to take the form of a financial company (Sofol), a light structure that will be a subsidiary of Dexia Credit Local and will begin operations in 2005.

### **d. Opening of a representative office in Canada**

On December 15, 2004, Dexia Credit Local obtained authorization to open a representative office in Canada. At the same time, Dexia Credit Local is currently submitting an application to create a branch to the Canadian authorities, and expects to be able to open a branch by the third quarter of 2005.

This branch will report operationally to the New York branch.

## 2 Sustainable development

The Group's first line of business, centered on public and project finance, directly supports major social policies with regard to facilities and infrastructure. Local public authorities develop their projects over the long - or even very long - term, which has helped establish Dexia as the world leader in the financing of local and regional sustainable development.

### 2.1 ENCOURAGING BEST PRACTICES AND EXPERIMENTATION

Dexia is firmly committed to sustainable development, and in 2004 the Group participated in the dissemination of best practices within the local sector.

**In France**, the second "Sustainable development awards" ceremony was held in October 2004 in the lower house of the French parliament, at the same time that the *Local government practical guide to sustainable development* was handed out. This occasion was designed to recognize exemplary measures taken by local governments that have contributed to anchoring sustainable development firmly in their jurisdiction.

For the first time, Dexia Credit Local, in partnership with BMJ CoreRatings, carried out a survey of 200 large French cities that is intended to analyze and test their "sustainable development profile" based on a 31-point reference system.

**In Italy**, Dexia Crediop helped the inter-university Center for the Study of Local and Regional finance at the Catholic University of Milan with a study of local governments and sustainable development. The research led to the establishment of a Center for the Study of Local Organizations and Sustainable Development. Dexia Crediop has also partnered with the Italian coordination center for local Agenda 21 initiatives.

### 2.2 HELPING MANAGE CHANGE WITHIN THE LOCAL SECTOR

As local governments' biggest partner, Dexia Credit Local helps all local decision-makers in Europe monitor local political issues and puts its financial expertise to work for them. The advisory business was particularly rewarding in 2004, thanks to an important political and legislative trend which has, for the past two years, contributed to a considerable remodeling of the local sector in Europe. Most Dexia Credit Local subsidiaries assist local governments with their decisions. For example Dexia banka Slovensko organized its fifth annual conference of town councils on the topic of public and project finance in May 2004 after the Slovakia accession to the European Union. Similarly, in Italy in December 2004, Dexia Crediop came out in support of an agreement on social lending organized by the city and the province of Rimini.

The enlargement of the European Union prompted the updating of several different industry and macroeconomic studies to include information for the 10 new member states, in view of the publication of the economic report on local finance in the European Union and of two works on local finances and local public sector companies in the 25 countries of the European Union.

In France, for example, the 2004 elections brought about an important reshuffling of local executive bodies; Dexia Credit Local helped out through different measures including publishing manuals (Financial analysis of departments 1987-2003, Financial analysis of regions 1986-2003), providing individual adaptations of these studies for each department or region, and forecasting.

### 2.3 IMPROVING ACCESS TO BASIC NECESSITIES

Dexia Credit Local participates in an international work-group and supports various supra-national initiatives to guarantee access to basic necessities, the principles of which were presented in 2002 at the World Summit on Sustainable Development in Johannesburg and championed, in France, in the local public services charter drawn up at the initiative of the French Institute for Delegated Management. Dexia Credit Local participated in the World Urban Forum in Barcelona in September 2004 and developed a partnership

with CIFAL (International Training Centre for Local Authorities/Actors, an entity created under the aegis of the United Nations) to organize during the second half of 2004 a first training seminar specifically developed for territorial officials of Central and Eastern European countries in Plock, Poland. The main objective of this project is to create conditions for sustainable urbanization and to improve access to basic services in an environment where local authorities have increasing responsibilities.

## 2.4 RULES OF CONDUCT FOR DEVELOPMENT FINANCE

In 2004, Dexia strengthened the implementation of the Equator Principles that it had begun since adhering to them in September 2003. This body of rules, which was designed to improve the management of social and environmental issues related to the financing of development projects in an amount equal to or greater than USD 50 million, was drafted by a group of banks using criteria set down by the International Finance Corporation (IFC), a subsidiary of the World Bank. To date, 27 major international banks have

committed to observing the Equator Principles along with the World Bank. These banks consult regularly to implement these principles and to ensure that they are appropriately modified, while discussing changes in benchmark standards with the IFC and various NGOs. Dexia Credit Local has set a suitable organization and procedures in place, reflecting its commitments and allowing some 50 projects to be considered in 2004 (training seminars, regular monitoring procedures, etc.).

## 2.5 EXEMPLARY PROJECT FINANCE TRANSACTIONS

**In Europe**, Dexia Credit Local possesses true expertise and authority in project finance, and notably for those projects related to the environment. It lends either directly to local governments or to public-private partnerships. The staff of Dexia Credit Local and its subsidiaries has been mobilized on several projects involving various sustainable development issues across all sectors (energy, waste management, transportation, water, education, etc.).

For example, in 2004 Dexia confirmed its position as leader in lending for the renewable forms of energy, notably by concluding twelve wind power generation transactions in four countries (Spain, the United States, Italy and the United Kingdom). Four of these transactions in which Dexia participated as Arranger of the bank debt are of particular interest:

- **In Spain**, Dexia extended a EUR 196 million loan to Global Wind Partners for the acquisition of a portfolio of six wind power generation farms (167 turbines), representing total electrical generation capacity of nearly 160 MW;
- **In Italy**, Dexia provided EUR 82 million for a new 70 MW wind power generation farm developed in Campania by EDF Energies Nouvelles;
- **In the United States**, Dexia provided a total of USD 120 million for two new wind power generation farms, a 160 MW farm developed by Shell Wind and Mitsui on Texas and a 27 MW farm developed by Invenergy in Tennessee;

- Moreover, **in Spain**, Dexia successfully landed the financing for the first electricity-generating waste processing and incineration center (10 MW capacity) to service the Cantabria region, which also uses biomass to produce bioethanol (cogeneration capacity of 25 MW).

In 2004, after syndicating the bank debt, Dexia Credit Local loaned nearly EUR 250 million for its own account to these projects.

The trade magazine *Infrastructure Journal* acknowledged Dexia's transactions in the renewable energies sector in 2004 by honoring Dexia as "2004 Renewables Arranger of the Year".

In order to better serve the needs of those countries whose local players have access to the bond market, Dexia Credit Local decided in August 2004 to combine all its expertise and knowledge in one structure which would be able to serve all of the European countries, creating a Public Sector Origination department. Bond issues may be used especially for large PFI-type projects, or for securitizations carried out by public players. In the United States for example, where the Group is quite present in terms of credit enhancement, the Financial Engineering unit of FSA's Public Finance department allows local governments to optimize their borrowing costs and contributes to the creation and long-term operation of public services.

## 2.6 CLIMATIC CHANGE

Dexia Credit Local has rallied strongly to the issue of reducing greenhouse gasses through various European initiatives.

**In France**, Dexia, Veolia Environment, its subsidiary Dalkia and Caisse des Dépôts et Consignations signed a memorandum of understanding designed to assist French local governments in reducing their emissions of CO<sub>2</sub> and in taking advantage of the creation of an emissions quota exchange on January 1, 2005. As part of its partnership with the French Association on the High Quality of the

Environment (HQE), Dexia Credit Local published the HQE Guide to raise local government awareness, in addition to running workshops organized around this topic at local decision-makers' finance-themed events.

**In Austria**, Kommunalkredit Austria assumed responsibility for the new climate protection program set in place by the Austrian government. To meet the objectives for 2008-2012 set at the Kyoto Summit, 35 million tons of CO<sub>2</sub> from environmental projects in other countries will be acquired

through the Austrian Joint Implementation and Clean Development Mechanism, a program managed by Kommunalkredit Public Consulting, a fully-owned subsidiary of Kommunalkredit Austria. Several projects were financed in 2004 under the program.

**In Slovakia**, Dexia banka Slovensko won a public offer for the government of the Slovak Republic to manage the Slovakian national register of emissions quotas. Dexia banka Slovensko's system is fully operational, and will be used to manage the Slovakian register starting January 1, 2005.

In 2004, Dexia Credit Local continued to develop the activities of the Dexia FondElec Energy Efficiency & Emissions Reduction Fund, co-founded with the EBRD to finance the reduction of energy consumption and greenhouse gases in Central and Eastern Europe over a ten-year period. One of the Polish companies held by the fund, ECP Mielec, obtained a PLN 14.5 million loan at a preferred rate from the Polish government through the National Fund for Environmental Protection and Water Management.

## 2.7 HIGH-PERFORMANCE SOCIAL ENGINEERING

In France, Dexia Credit Local offers various social engineering products and services designed to support projects carried out in the public interest by local public players.

Public housing bodies are quite involved in sustainable development issues, notably by improving their renters' sense of neighborhood, the quality of their buildings and the adequacy of their supply of housing units to meet the needs of the population. The quest for greater socio-economic integration in neighborhoods and access to home ownership are important aspects of sustainable development. In October 2004, Dexia Credit Local and Crédit Immobilier de France formed a partnership to provide innovative rent-to-buy loans, an inclusive lending solution that allows households with modest incomes to become homeowners, with or without providing a down payment.

Dexia Credit Local sells various Dexia Épargne Pension social engineering and insurance products and services to local government market customers. Already over 200 public housing bodies, public-private joint ventures (SEM) and other local public sector bodies have subscribed to retirement policies, employee savings plans (PEE), time savings accounts or retirement indemnity policies. Dexia Credit Local and Dexia Épargne Pension won the national bid launched by the National Association for Professional Adult Education

(AFPA) to outsource the management of its EUR 130 million in employee commitments. An innovative pioneer, in 2004 Dexia Épargne Pension created "Diverséo", the first popular retirement savings plan (PERP) with a diversified euro fund based, moreover, on the principles of socially responsible investment. Dexia Épargne Pension also created a specific PERP for the Crédit Social des Fonctionnaires network.

Dexia Sofaxis is a brokerage specializing in statutory risk coverage. Several years ago, the company developed a comprehensive approach to the prevention of professional risks and amelioration of public services. Within its field of expertise, Dexia Sofaxis has elected to support the fight against absenteeism and in favor of "productive presence" by providing technical and methodological assistance tailored to the needs of local governments. The agreed objectives proposed under this framework include the validation of a plan of actions to be taken during the current year. The "Point of reference" program provides individual psychological counseling to public employees experiencing professional and/or personal difficulties, helping prevent repetitive absences and leaves and reducing a major cause of absenteeism. This program involves an initial evaluation, followed by a series of 10 sessions with a network of psychologists managed by Dexia Sofaxis.

## 2.8 COMBINING CORPORATE SOCIAL RESPONSIBILITY WITH QUALITY

For the fourth consecutive year, the Group's "sustainable development report" presents and evaluates our corporate sustainable development policy. The report reviews the commitments, the social and environmental reports and the concrete initiatives and projects that were developed in 2004, and especially for Dexia Credit Local (the report can be viewed at: [www.dexia.com](http://www.dexia.com)).

- In late 2004, the Dexia Group proposed a draft "Code of ethics for supplier relationships" whose objective is to improve how we apply our principles of social and environmental responsibility to relationships between Group entities and their suppliers. Adopted by Dexia Credit Local at the end of 2004, this draft code of ethics is just one part of the ongoing commitment the Group made to implement

a sustainable development policy when it signed the Global Compact in December 2002.

- Dexia Credit Local and certain of its subsidiaries are implementing a quality and certification project. In France for example, Dexia Credit Local's processing systems were certified ISO 9001 for an initial portion of the customer base in June 2004 (25,000 customers). This project led Dexia Credit Local to review all its operating processes and to use incidents as a starting point for progress toward increasing customer satisfaction. Dexia Credit Local's goal in 2005 is obtain certification of all its activities in France by March 2006, notably by implementing the Plan-Do-Check-Act continuous improvement cycle during the first quarter of 2005.

## 3 Organization of Dexia Credit Local

### 3.1 CORPORATE GOVERNANCE

Dexia Credit Local has a two-tier management structure with an Executive Board and a Supervisory Board. The Supervisory Board's charter takes into account the recommendations contained in the Code of Ethics. The charter prohibits members of the Supervisory Board from purchasing or selling any shares in Dexia SA, the Group's listed entity, during the month preceding publication of the Group's quarterly, half-yearly and annual results. Outside these periods, they are required to obtain the prior authorization of the Compliance Officer before making any such purchases or sales.

The Supervisory Board met four times in 2004. It appointed an Audit committee composed of three independent members.

#### a. Members of the Supervisory Board and other directorships held by its members in 2004

##### Chairman of the Supervisory Board

###### Pierre Richard

- Chief Executive Officer of Dexia
- Vice-Chairman of Dexia Banque
- Vice-Chairman of Dexia BIL
- Vice-Chairman of Financial Security Assurance Holdings Ltd.
- Director of Crédit du Nord
- Member of the Supervisory Board of Le Monde
- Director of Air France - KLM
- Financial expert, member of the Board of Directors of the European Investment Bank
- Director of Generali France

##### Vice-Chairman of the Supervisory Board

###### Rembert von Lowis

- Director of Dexia BIL
- Director of Dexia Banque
- Vice-Chairman of the Supervisory Board of Dexia Municipal Agency
- Director of Financial Security Assurance Holdings Ltd.
- Director of Dexia Holdings Inc.
- Chairman of the Board of Directors of Dexia Habitat

##### Members of the Supervisory Board

###### Fédération Nationale des Travaux Publics represented by Daniel Tardy\*

- Chairman of Fédération Nationale des Travaux Publics
- Chairman of Ingebat
- Chairman and Chief Executive Officer of CIFE
- Director of ETPO
- Permanent representative of Ingebat, Director of ETPO
- Chairman of FWE Co, Inc.
- Chairman of FW Fund Co, Inc.
- Chairman of SAS Alfred de Musset
- Legal manager of SCI Alindez
- Legal manager of SCI de la Carrière Saint Herblain
- Vice-Chairman of the Supervisory Board of Altair-Nantes
- Chairman of the Board of Directors of Immobilière des Travaux Publics
- Director of SMA BTP

- Director of SMA BTP VIE
- Director of Château des Deux Rives
- Member of the Supervisory Board of Ouest Entreprises
- Permanent representative of the Syndicat Professionnel des Entreprises de Travaux Publics de France et d'Outre-Mer, Legal manager of SCI des Travaux Publics du 90 Champs-Élysées

###### Fédération Française du Bâtiment represented by Christian Baffy\*

- Chairman of Fédération Française du Bâtiment
- Legal manager of SARL Sanitaire, Thermique, électricité (Sanitel) (through November 2004)
- Chief Operating Officer (in a personal capacity) and permanent representative of Fédération Française du Bâtiment, Vice-Chairman of SMA VIE
- Director (in a personal capacity) and Vice-Chairman of Banque du Bâtiment et des Travaux Publics (since October 2004)
- Permanent representative of Fédération Française du Bâtiment, Director of Dresdner RCM Entreeval
- Director (in a personal capacity) and permanent representative of Fédération Française du Bâtiment, Director of SMA BTP
- Chairman and Chief Executive Officer, legal representative of Société Financière Baffy
- Legal manager of Baffy Invest SARL
- Joint legal manager of Société d'Isolation Plafonds Suspendus et Acoustique (ISOPLAC) (through October 2004)
- Legal manager of B J Immobilier SARL
- Legal manager of BD
- Legal manager of SNC Cour des Godrans
- Legal manager of SCI Laurem
- Chairman and Chief Executive Officer of Baffy SA
- Legal manager of l'Orle d'Or
- Legal manager of PIC Transactions
- Legal manager of the SCI Espace Cracovie
- Legal manager of BDCL (since June 2004)

\*Independent member of the Supervisory Board

**Jean-Pierre Brunel\***

- Director of Services Conseil Expertises Territoires
- Director of Iéna Environment
- Chairman of the Board of Directors of SA de HLM Le Nouveau Logis Centre Limousin (since June 2004)
- Member of the Supervisory Board of Compagnie Nationale du Rhône
- Chairman of the Supervisory Board of France Retraite

**Philippe Duron\***

- Permanent representative of the Basse-Normandie region, Director of Société des Autoroutes Paris Normandie (SAPN)

**Jean-Pol Henry\***

Director of Société Le Val d'Heure

**Patrick Lachaert\*****Loïc Le Masne de Chermont\***

- Director of Dexia Banque
- Permanent representative of the of Loire-Atlantique department, Director of Société d'Équipement de la Loire-Atlantique (SELA)
- Chairman of SAS La Juliennais
- Legal manager of SCI Locla and SCI Locla 1-2-3-4-5-6
- Joint legal manager of SCI Lorod
- Managing partner of SCI Racan

**Claude Piret**

- Chairman of the Board of Directors of Société Espace Léopold S.A.
- Director of SCRL Management 14
- Director of Dexia Sabadell Banco Local

**François Rebsamen\*****Antoine Rufenacht\***

- Legal manager of Société Financière Interocéanique
- Chairman of the Board of Directors of Armor
- Director of Ascendi
- Director of Établissement Public Foncier de Normandie

**Francine Swiggers**

- Director of Arcofin
- Director of Arcopar
- Director of Arcoplus
- Director of Auxipar
- Director of Interfinance
- Director of Arcosyn
- Director of Sofato
- Director of Procura
- Director of Aquafin
- Director of VDK - Caisse d'Épargne
- Director of Dexia Insurance
- Director of DVV Verzekeringen/Les AP Assurances

**René Thissen\***

- Chief Executive Officer of SAGI
- Chief Executive Officer of MACOMA
- Director of Centre Hospitalier Chrétien

*\*Independent member of the Supervisory Board*

**Works Council representatives****Régine Fournier****Dominique Bonabosch****b. Compensation paid to members of the Supervisory Board**

In 2004, fees paid to members of the Supervisory Board were as follows: EUR 20,000 paid to Jean-Pierre Brunel, Loïc Le Masne de Chermont, Claudy Lebreton, François Rebsamen, Antoine Rufenacht, Daniel Tardy and Christian Baffy; EUR 15,000 paid to Jean-Pol Henry, Patrick Lachaert, René Thissen and Francine Swiggers. No fees were paid to the Dexia representatives, namely Pierre Richard, Rembert von Lowis and Claude Piret, although they did receive <sup>(1)</sup> respectively, EUR 1,745,000, EUR 756,000 and EUR 710,000 in compensation from Dexia.

**c. Members of the Executive Board and other directorships held by its members in 2004****Jacques Guerber, Chairman**

- Director of Crédit du Nord
- Director of Dexia Insurance
- Director of Financial Security Assurance Holdings Ltd.
- Chairman of the Supervisory Board of Dexia Municipal Agency
- Permanent representative of Dexia Credit Local, Director of Dexia Finance
- Member of the Supervisory Board of Financière Centuria
- Vice-Chairman of the Board of Directors of Dexia Asset Management (through September 2004)

**Philippe Valletoux, Vice-Chairman**

- Chairman and Chief Executive Officer of Floral
- Permanent representative of Dexia Credit Local, Director of Guide Pratique de la Décentralisation (through June 2004)

**Bruno Deletré**

Permanent representative of Dexia Credit Local, member of the Supervisory Board of Dexia Municipal Agency

- Director of Dexia Finance
- Director of Financial Security Assurance Holdings Ltd.
- Chairman of Dexia Holdings Inc.
- Director of Financial Security Assurance UK Ltd.
- Director of Dexia Crediop
- Chairman of the Supervisory Board of Dexia Hypothekbank Berlin
- Vice-Chairman of the Supervisory Board of Kommunalkredit Austria
- Chairman of the Board of Directors of Dexia Sabadell Banco Local

**Daniel Caille**

- Director of Progress
- Chairman of the Supervisory Board of Domus Vi Holding

*(1) Gross value.*

- Member of the Supervisory Board of Dexia Municipal Agency
- Chairman of the Board of Directors of Dexia CLF Banque
- Chairman of the Supervisory Board of Dexia Sofaxis
- Director of Dexia Habitat

#### d. Compensation paid to members of the Executive Board<sup>(1)</sup>

In 2004, Jacques Guerber was paid EUR 799,783, Philippe Valletoux was paid EUR 370,038, Bruno Deletré was paid EUR 591,880\* and Daniel Caille was paid EUR 445,379.

\*Including EUR 84,093 paid by FSA.

#### e. Stock options

##### Options granted during 2004

- To members of the Supervisory Board: Pierre Richard, 120,000 options; Rembert von Lowis, 75,000 options; Claude Piret, 60,000 options.

- To members of the Executive Board: Jacques Guerber, 80,000 options; Philippe Valletoux, 35,000 options; Bruno Deletré, 45,000 options; Daniel Caille, 30,000 options.
- To the 10 employees of Dexia Credit Local receiving the greatest number of options: 385,000 options.

These options were all granted on July 23, 2004 at an exercise price of EUR 13.56.

##### Options exercised during 2004

- By members of the Supervisory Board: Pierre Richard, 75,000 options at an average exercise price of 8.10 euros; Rembert von Lowis, 100,000 options at an average exercise price of 7.03 euros.
- By members of the Executive Board: Jacques Guerber, 60,000 options at an average exercise price of EUR 8.10.
- By the 10 employees of Dexia Credit Local who exercised the greatest number of options: 270,500 options at an average exercise price of EUR 8.87.

## 3.2 RISK MANAGEMENT

The Risk Management department is responsible for monitoring all risks, including credit, market, structural and operational risks as defined by French Banking and Financial Regulatory Committee (CRBF) standard 97-02. The Risk Management department, reports directly to the Chief Financial Officer (CFO), who is a member of the Management Board.

The CFO represents Dexia Credit Local on the Dexia CFO committee which, as the member of the Management Board of Dexia responsible for Group Risk Management, he also chairs.

The Executive Board has entrusted the Risk Management department with guaranteeing that the Bank's risk profile remains low, so that the Bank can secure the high credit rating it requires to obtain funding under the best possible terms.

The Risk Management department adheres strictly to the provisions laid down by Group Risk Management concerning risk measurement methods, limits and reporting tools.

The Risk Management department operates free of any external influence from the front-office function, and has no reporting line to any operating entities.

In order to consolidate the monitoring of risk, the risk management structures in place in each branch and subsidiary all report directly or on a functional basis to the head of the Risk Management department.

#### a. Credit risk

The Risk Management department monitors credit risk with

the help of tools it develops, in compliance with the guidelines established by the Dexia Group and all legal constraints and rules of prudence.

#### Approval process

The organization of the approval process takes into account the fact that most lending and commitment decisions concern customers in the local government sector, which is low risk and also subject to specific controls relating to its public nature. As such, the approval process:

- provides for extensive delegation of decision-making authority to the French sales network and to international entities for customers in the local government sector in euro zone countries and in North America;
- falls within the scope of the limits set by Group Risk Management with regard to lending to banks and sovereign nations;
- requires the approval of the Dexia Credit Local Credit committee (and that of the Dexia Credit committee for very large transactions) for matters concerning private sector financing, project finance, asset-based finance and lending to local government sector customers in regions where no delegation of lending authority exists;
- relies on a system of specific delegations for commitments related to the Credit Spread Portfolio, and involves the Credit Approval Committee organized at the Dexia Group level for all transactions whose amounts exceed the delegated authorities.

(1) Net paid.

## Internal credit ratings

The internal credit rating system, which is placed under the responsibility of the Risk Management department, is of paramount importance to Dexia Credit Local, which has chosen the most advanced method recommended by the regulators in relation to the Basel II reforms to the capital adequacy ratio and capital adequacy requirements.

The Dexia Group has developed internal credit rating systems (SNI) for private companies, project finance, the Western European local government market, banks and sovereigns. Counterparties for whom an SNI has not been established are assigned credit ratings based on the findings of an expert system or on scorings.

The counterparty credit rating scale is defined at the Dexia Group level and comprises 18 classifications, including two for counterparties in default, and many local government counterparties are classified at a grade equivalent to AA.

## Credit limits

Credit limits are determined in accordance with the technical specificities of each type of counterparty, as outlined in the Group guidelines established by Group Risk Management, which have been approved by the CRPC and implemented at Dexia Credit Local. Simply put, the system factors in the internal credit ratings and sizes of counterparties together with Dexia's Tier One capital in order to calculate decreasing credit limits.

Specific rules for private companies have been set at the Dexia Group level, taking into account the internal credit ratings and the terms of the transactions, with a view to limiting the impact on shareholders' equity in the event of default. Limits for each individual transaction are set by the Dexia Credit Local Credit committee in respect of project and asset-based finance transactions and by the Dexia Credit committee for the larger of such deals.

Lastly, under current provisions, there are also country-specific and sector-specific limits, for example, those relating to the wind power generation or oil industries.

## Monitoring and reporting

First-level monitoring is provided by front offices in the head office, branches and subsidiaries as part of their ongoing oversight of their counterparties' activities. They are responsible for ensuring that credit limits are respected each time a new lending decision is presented for local approval or approval by the Credit committee.

Second-level monitoring is provided by the Risk Management department, which monitors all of Dexia Credit Local's exposures, delinquent payments and non-performing loans.

Commitment and credit limit levels are examined quarterly (except interbank limits, which are reviewed monthly) and are reported to the Management Board as part of the documentation required by CRBF standard 97-02.

Every quarter, Loan Monitoring committees examine the continuing state of risky loans and Loan Default committees examine each case that meets the regulatory requirements for default.

## Allowances and reserves

Every quarter, a Reserves committee, chaired by the Risk Management department, reviews movements on non-performing loans and their corresponding allowances, and monitors the cost of risk. General reserves are calculated and maintained in compliance with IFRS regulations.

### b. Basel II reforms

The reform of the bank capital adequacy ratio proposed by the Basel Committee represents a major undertaking for the Dexia Group and Dexia Credit Local. A specialized team in the Risk Management department is responsible for implementing reforms while following the guidelines established by Group Risk Management. The team coordinates the participation of all the Dexia Credit Local entities, working with operational and systems managers who have been designated by each branch, subsidiary and Dexia Credit Local central department concerned.

The Bank's principal accomplishments in 2004 include:

- Implementation of the first internal credit rating systems and continued development of other SNI for all sectors not yet covered. Dexia has created large databases, analyzed defaults in great detail, and based the various SNI on statistical studies and a formalization of the Group's historical experience. Dexia has gradually modified its internal procedures and developed applications that automatically calculate and archive all credit ratings. All of these actions were marked by the careful attention paid to the quality of the information and to the audit trail for the whole process;
- Progressive deployment of the information system used to consolidate the counterparties and the exposures of the Group. All Group counterparties are now described using a standard codification and the various entities continuously update a common counterparty database (the so-called participant database, or AIDA). Similar work is in progress for exposures. Again, we have been very demanding in terms of quality and traceability.

### c. Financial risks

Asset-liability management (ALM) transactions are clearly distinguished from market transactions within the Dexia Credit Local Group.

The distinction is based on highly differentiated management objectives:

- ALM includes all activities related to the management of Dexia Credit Local's structural interest rate, foreign

currency and balance sheet and off-balance sheet liquidity risks. Dexia uses macro hedging transactions to reduce its total risk: the effectiveness of these hedges is measured every month, as required by Banking Commission standard 90-15;

- Market transactions include primarily two types of strategies: locking in of credit margins, primarily on bonds held (Credit Spread Portfolio), and using derivatives to take positions on interest rates (Money Market).

## Asset-liability management (ALM) risk

### SCOPE

ALM includes all activities related to the management of Dexia Credit Local's structural interest rate, foreign currency and balance sheet and off-balance sheet liquidity risks. These structural risks may be defined as i) risks of fluctuations in the Bank's net income subsequent to changes in market conditions (interest rates, exchange rates and the cost of liquidity), with the exception of market risks (as defined in section 3.2), and ii) the risk of insolvency on the part of the Bank.

Dexia Credit Local's various assets, liabilities and off-balance sheet items have different characteristics in terms of interest rates, currencies and amortization: the Dexia Credit Local ALM committee's goal is to hedge these risks that are related to the structure of the balance sheet, either in part or entirely. Residual risks may be retained and managed based upon the Dexia Credit Local ALM committee's recommendations, which are generally made based on a long-term perspective. With the exception of interest rate and currency risks arising on Financial Markets activities, the Dexia Credit Local ALM committee is responsible for managing all substantial interest rate, currency and liquidity risks.

### SUPERVISORY BODIES

The Dexia Credit Local ALM committee meets monthly and carries out its assignments in compliance with Dexia Group policies.

The Dexia ALM committee meets quarterly to ensure the overall cohesiveness of the Group's asset-liability management activities. This committee also rules on the methods and risk-measurement conventions to be employed.

### MEASUREMENT OF TOTAL INTEREST RATE RISK

ALM interest rate risk measurement is standardized throughout the Dexia Group, and is based on several main indicators.

The principal measurement used is that of the interest rate sensitivity of the net present value of assets and liabilities within the ALM scope. The scenario used for fixed rate exposures calculates the effect of a 100 basis point uniform shift in the yield curve. If Dexia Credit Local has too many fixed-rate assets (base case), then its risk increases with an increase in interest rates.

## Market risks

### SCOPE

"Financial Markets" covers the Dexia Credit Local Group's Treasury and Financial Markets (TFM) activities.

TFM activities entail two types of risk:

- credit risk, or the risk of default by the counterparty on a derivative that has been entered into or by the issuer of an acquired asset. In practice, most of the credit risk on TFM activities is centered on the Credit Spread Portfolio line of business;
- market risks, which can be defined as risks of fluctuations in the Bank's net income or in the value of positions taken subsequent to changes in market conditions (interest rates, exchange rates, equity prices, etc.).

### SUPERVISORY BODIES AND RISK MONITORING

Two committees are responsible for monitoring risk relating to Dexia Credit Local's Financial Markets activities:

- **the Market Risk committee** meets quarterly at the Dexia Group level. The MRC is responsible for establishing and monitoring risk policies (guidelines, market risk limits, etc.), and its decisions are enforced throughout the Dexia Group. The MRC decides notably on allocations of limits, for each line of business, all the way down to the trading desk level.

- **the Dexia Credit Local Markets** committee provides monitoring of the implementation of the standards and decisions of the Dexia Market Risk Committee and ensures that information is distributed appropriately to Dexia Credit Local management.

The Risk Management department regularly carries out its risk measurement duties, and presents a quarterly market risks report to the Dexia Credit Local Management Board. The report includes various indicators for monitoring the limits that have been allocated to the different types of risk.

### RISK MONITORING METHODS

The principal risk indicator used by Dexia Credit Local, and in fact by the entire Dexia Group, is value at risk (VaR). The VaR calculated by Dexia measures the potential loss over a 99% confidence interval for a 10-day benchmark period.

The risk monitoring process consists of establishing the following items for each entity and type of Financial Markets activity:

- a list of currencies and instruments that may be traded;
- one limit per currency for each risk indicator (Delta, Gamma, Vega and Theta);
- a VaR limit.

### d. Litigation risks

Dexia Credit Local's activities do not entail any particular risk of litigation. There are no extraordinary events or legal matters

that are likely to have a material impact upon the net worth, financial situation or consolidated earnings of the Group that comprises the Company and its subsidiaries.

### **e. Operational risks**

Operational risks are defined as the risk of a loss resulting from inadequacies or failures in procedures, in staff or in internal systems, as well as those due to external events (catastrophes, fires, etc.).

A specialized team in the Dexia Credit Local Risk Management department is responsible for operational risk, and works with a network of correspondents in each department and entity.

Operational risks are also examined carefully on an ongoing basis as part of the internal control system, and by Internal Audit staff in particular. All weaknesses are addressed by action plans of corrective measures.

### **Compilation, analysis and processing of incidents**

One software application is used throughout the entire Dexia Group to compile data relating to operational losses and incidents. This application enables the Group to create a database of historical losses, as provided for by the terms of Basel II. Operational risk correspondents are responsible for inventorying and analyzing all incidents and monitoring the implementation of any corresponding corrective measures.

### **Risk mapping**

In addition to identifying and analyzing past events, it is vital that this historical data be supplemented by an analysis of potential events that may have a significant impact on the Group. In the first quarter of 2005, Dexia will deploy a Group-wide global operational risk management software application for risk mapping and monitoring risk indicators.

### **f. IT systems security**

IT systems security includes all measures taken to shield data from any threat to its confidentiality, integrity or its availability.

As is the case throughout the Dexia Group, Dexia Credit Local's systems security policy is based on British Standard 77-99 a body of directives, specific operational security policies, rules and procedures covering notably such vital topics as physical security, control over access to systems, databases and applications, compliance with regulatory and ethical constraints and business continuity.

Under the supervision of a specialized steering committee, each operational department participated in preparing a continuity plan. Under the plan, the impacts of a disaster affecting IT equipment or facilities or information systems or of a loss of service are analyzed by line of business. Blocking controls have been set in place to reduce business interruption

risks to an acceptable level. Business continuity procedures have been established to ensure that vital activities may be restored within deadlines acceptable to the company. This plan and these procedures are updated and tested regularly.

Moreover, Dexia Credit Local has placed critical systems for data production with a service provider, in a single center under highly secure physical conditions and connected via high-speed links. Dexia Credit Local has also set up a mirror site to highlight any weaknesses in these systems. Dexia backs data up periodically and can very quickly substitute this site for the main site, if need be.

IT systems security is managed by three parties:

- **the IT Security committee** is responsible for recommending security policies to the Management Board, for establishing specific directives for each area, and for ensuring that they are implemented. The committee comprises representatives from the various parties involved, including the "lines of business", human resources, legal, logistics, audit, etc.;
- **the IT Security manager** is responsible for recommending security policies and directives to the IT Security committee. He validates all specific security policies, rules and procedures, raises employee awareness and provides advice to the various departments. He also validates attributions of systems access authorizations. The IT Security manager is a member of the Risk Management department, which guarantees his independence from the operations area;
- **IT departments** are responsible for designing and implementing all security hardware and software, and for implementing all associated operational rules and procedures. They also perform first- and second-level controls on the correct application of security rules.

### **g. Dexia Credit Local risk management committees**

Several committees are responsible for risk management within Dexia Credit Local:

- the Dexia Credit Local Credit committee (weekly) may choose to set risk limits below those dictated by simple application of the Group guidelines;
- the Dexia Credit Local ALM committee (monthly) determines limits for the NPV of ALM assets and liabilities and for sensitivities, and monitors the hedging of Dexia Credit Local and its subsidiaries' liquidity gap and foreign currency exposure;
- the Dexia Credit Local Markets committee (monthly) adapts the decisions of the TFM committee for implementation;
- the New Products committee (monthly) approves new products for Dexia Credit Local and its branches: each subsidiary has its own committee;
- Loan Monitoring committees (quarterly) monitor changes in sensitive transactions;
- the Loan Default committee (quarterly) classifies loans as being in default based on the applicable regulatory criteria.

### ***h. Payment facilities security***

Dexia Credit Local uses the following types of payment facilities:

- the Swift network is used for interbank settlements on transactions negotiated by the front office traders in the Financial Markets activities department and any funds transfers requested by other Dexia Credit Local departments (especially on the international business managed by the Head Office and on settlements of foreign invoices);
- the French Central Agency of Treasury Accountants (ACCT) network is used for drawings on loans to public sector customers;
- the French Remote Interbank Compensation (SIT) and Interbank Settlement Center (CRI) systems are used for most payments to private sector customers;
- lastly, some payments to private sector customers may be made by check.

Note that Dexia Credit Local does not provide its customers with payment facilities.

The payment facilities security is controlled by a body of procedures and measures:

- Lending and Financial Markets back-offices are responsible for payment processes, and front-office traders are prevented from accessing these systems;
- rules concerning the validation of payments are clearly defined. In particular, all payments must be authorized by two different members of the back-office concerned. The only exception to this rule is for payments of amounts under EUR 100,000 initiated automatically by the market information system, which require only one authorization. Authorization thresholds in foreign currencies are established and updated regularly;
- there is an effective segregation of duties between users and operators. Existing profiles accurately reflect all defined

rules. The process for authorizing access to payment systems has been incorporated into the Bank's user authorization management procedures. More particularly, back-offices and the IT Security manager are all required to perform controls;

- management of messages (technical and functional) from the Swift network has been properly secured;
- hardware used for payments (servers, card readers, cards, etc.) is situated in protected areas, and accessible only to officially authorized persons. These measures are covered by documented procedures;
- the Bank's business continuity plan includes a body of dispositions guaranteeing continuity of payment in the event of a disaster. These measures are operational, and the plan is tested regularly;
- with regard to Compliance, the Financial Markets back-office department is responsible for controlling financial flows, using the blacklists provided by the Dexia Credit Local Compliance Officer.

As provided for by its audit program, the Internal Audit department reviews payment facilities security every year. The last audit was performed in June 2004 and confirmed that controls in place were satisfactory. The remaining points to be improved were all included in an action plan. At December 31, 2004, more than 80% of those corrective measures had been implemented.

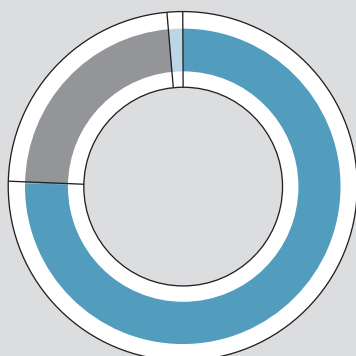
### ***i. Risk monitoring in subsidiaries and branches***

Each subsidiary or branch has a local risk management structure. These structures:

- are stringently segregated from the front-offices, and
- report to the Dexia Credit Local Risk Management department either directly (branches) or functionally (subsidiaries).

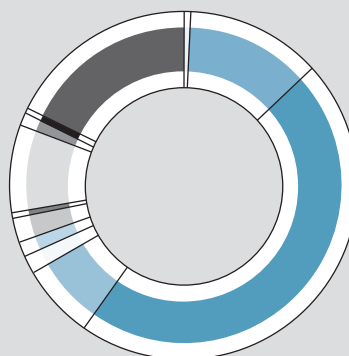
## j. Dexia Credit Local loan portfolio

By type of counterparty - General



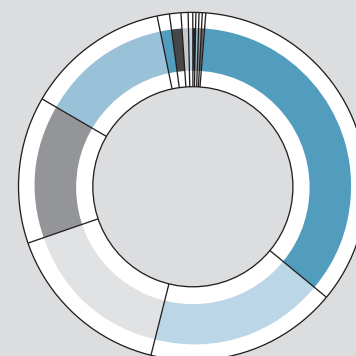
75.9% ■ Public sector  
18.2% ■ Interbank  
5.9% ■ Private sector

By type of counterparty - Specific



12.8% ■ Central governments  
46.4% ■ Local governments  
6.9% ■ Public sector agencies  
1.8% ■ Private sector agencies  
2.1% ■ Project finance  
1.7% ■ ABS  
1.4% ■ Corporate  
8.0% ■ Monoline insurers  
0.6% ■ Supranationals  
0.1% ■ Private individual/sole trader/SME  
17.6% ■ Financial institutions  
0.5% ■ Asset-based finance

By geographical region



34.80% ■ France  
17.80% ■ Italy  
16% ■ North America  
13.60% ■ Other European Union  
13.30% ■ Germany  
1.10% ■ Other Europe  
0.90% ■ Japan  
0.60% ■ Multi-country  
0.50% ■ Belgium  
0.40% ■ Central and South America  
0.30% ■ Southeast Asia  
0.30% ■ Australasia  
0.20% ■ Middle-East  
0.072% ■ Luxembourg  
0.021% ■ Central and Eastern Europe  
0.032% ■ Africa

## k. Dexia Credit Local non-performing loans

Dexia Credit Local maintains a very stringent commitment policy to keep its cost of risk as low as possible, as reflected in its low level of non-performing loans.

(EUR millions)	Dec. 31, 2003	Dec. 31, 2004	Change	Change
Non-performing loans under collection including securities (CDL)	322	343	21	6.6%
Allowances allocated to CDL	135	141	6	4.7%

## l. FSA risk monitoring

FSA restricts its activities to sectors with very low probabilities of loss, on amounts that remain highly limited and with very high probabilities of collection in the [unlikely] event that any of its guarantees is called upon. FSA insures only issues rated Investment Grade or above, and which meet local and structural requirements and whose levels of risk can be ascertained ex-ante.

Before guaranteeing a municipal bond, FSA requests a pledge of tax receipts or a claim on specific revenue streams coming from basic public services. In the ABS sector, FSA guarantees senior structured issues to protect against any substantial decline in the performance of the underlying asset. Most ABS transactions are structured in such a way as to provide collateral protection that increases over time

and to incorporate self-correcting mechanisms which reestablish coverage automatically if the transactions' performances begin to decline. For example, cash flows may be transferred from subordinated issues to insured senior issues or to a reserve fund. Should circumstances so dictate, FSA generally has the option to replace the manager of the insured structure.

Exhaustive due diligence is the rule in the FSA credit enhancement process, and the company carries out onsite visits and analyzes all proposals to verify the information provided by the issuer. In-house legal staff examine all documents and often employ the services of independent experts to ensure that structures will work as intended. Once a transaction is guaranteed, FSA monitors it throughout its life so that any potential problems can be identified and corrective measures taken.

Reinsurance is also used as part of the overall risk management program. Just as banks use loan syndication to reduce individual exposures, FSA reinsures its transactions with AA- or AAA-rated reinsurance companies.

Using this disciplined approach, FSA has built an extremely risk-averse portfolio, as shown by the quality of the underlying assets: 88% of the par value insured is rated A or higher and 53% is rated AA or higher.

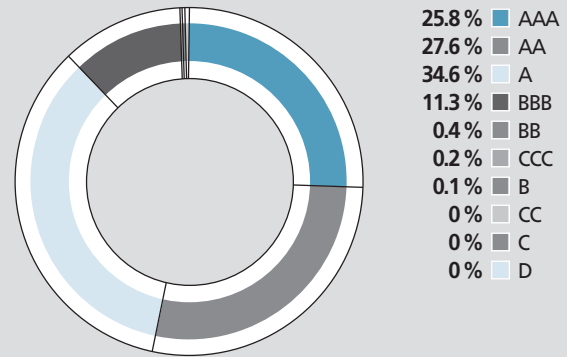
Risk is monitored at two different levels at FSA:

- FSA has a Risk Management department that is segregated from the front-office and is managed by a member of the FSA Management Board;
- Dexia Credit Local has set up a three-pronged risk management system:
  - A quarterly review by the Board of Directors of FSA and two specialized risk committees run by members of Dexia Credit Local:
    - the Underwriting committee provides a detailed review of commitments and examines all issues relating to risk policy,
    - the Investment committee determines the guidelines for investment policies and evaluates investment performance;

- Strict management of the business through the use of delegated approval authorities between Dexia Credit Local and FSA, specifying those lines of business that are authorized and establishing commitment limits for each type of counterparty,

- Close operational control provided by the Dexia Credit Local Risk Management department.

FSA



### 3.3 INTERNAL AUDIT AND INTERNAL CONTROL

Dexia Credit Local and its subsidiaries and branches each have their own internal audit departments:

Dexia Crediop, Dexia Hypothekbank Berlin (DHB), Dexia banka Slovensko (DBS), Financial Security Assurance (FSA), Dexia Credit Local New York Branch and Dexia Sofaxis all have specialized internal audit departments comprising between three and fourteen auditors, depending on the entity's size and activities (except for Dexia Sofaxis, whose activity justifies using only one internal auditor).

The resources devoted to internal audit were increased again in 2004, bringing the total number of auditors from 31 to 33, in addition to another seven bank inspectors (primarily at Dexia banka Slovensko, due to its retail banking activity).

The internal audit department reports directly to the Chairman of the Executive Board of Dexia Credit Local, and day-to-day operations are supervised by the Group Chief Auditor, as specified in the internal audit charter.

At the same time, the managers of the subsidiaries' and branches' audit departments now report directly to the Chairman of the Local Management Board, the Board of Directors or the Supervisory Board, and day-to-day operations are supervised by the Chief Auditor of Dexia Credit Local. The plans for implementing these transversal reporting lines were approved by the administrative and supervisory bodies of the subsidiaries in 2003.

This internal audit structure employs a standard methodology grounded chiefly in the principals espoused by the internal audit charter approved by the Supervisory Board.

The internal control procedures set in place at Dexia Credit Local are now covered in greater detail in the Report of the Chairman of the Supervisory Board that is attached to the present management report, as required by the French Financial Security Act of August 1, 2003.

### 3.4 HUMAN RESOURCES MANAGEMENT

#### a. Employee agreement

The employee agreement for 2004 concerning across-the-board and individual salary increases effective January 1, 2004 was signed by five of the Company's six labor unions.

#### b. Group savings plan

The following agreements are in effect:

- the discretionary profit-sharing agreement of June 26, 2002, for the years 2002, 2003 and 2004, as modified by the amendment of June 28, 2004 which establishes the calculation methods to be used for discretionary profit-sharing for the year 2004;

- the French legal profit-sharing agreement of June 27, 2003, for the years 2003 and 2004.

These two agreements are in force for all employees of Dexia Credit Local and Dexia CLF Banque.

### Discretionary profit-sharing

The final amount of distributable profit depends on the degree to which Dexia Credit Local is able to meet the contractual target agreed to for the year by its management and the labor unions; if the contractual target is met fully, this amount would represent 0.255% of the consolidated operating income before cost of risk of the Dexia Credit Local Group excluding FSA.

Discretionary profit-sharing is paid based on two criteria: 60% is prorated on the length of service of each beneficiary and 40% is proportional to the gross annual compensation paid for the year in question (capped at three times the annual social security ceiling at December 31st of that year).

Employees must have been in the company at least three months to qualify for the discretionary profit-sharing program. The amounts paid out under the discretionary profit-sharing program may be paid directly to the beneficiaries and/or invested in the Group employee savings plan (PEG). The employer makes a 30% matching contribution for profit-sharing that is invested in shares of the employer via a mutual fund.

The following amounts were paid in past years to employees covered by the UES collective bargaining agreement for discretionary profit-sharing (gross amounts excluding matching contribution):

2002 (amount paid):	EUR 2.00 million
2003 (amount paid):	EUR 2.80 million
2004 (amount accrued):	EUR 2.72 million

### French legal profit-sharing

The amount set aside for the special reserve for French legal profit-sharing (RSP) is the higher of the RSP calculated by the statutory formula and the RSP calculated by an extraordinary formula that is capped under the terms of the agreement.

The ceiling is the same as in 2003 (EUR 6.64 million) plus 2.5%, and is indexed on the change in the number of beneficiaries, if the latter is positive, between December 31, 2003 and December 31, 2004.

Employees must have been in the company at least three months to qualify for French legal profit-sharing. The amount due is calculated proportionally to the employee's salary, which is capped at four times the social security ceiling. The total amount paid to an employee within the same year may not exceed three-fourths of this same ceiling.

Employees are required to allocate their individual French legal profit-sharing payment to either the PEG or to a restricted savings account.

The following amounts were paid in past years to employees covered by the UES collective bargaining agreement for French legal profit-sharing (gross amounts):

2002 (amount paid):	EUR 5.96 million
2003 (amount paid):	EUR 6.64 million
2004 (amount accrued):	EUR 7.07 million

### Employee stock ownership program - Early unfreezing

Employees of Dexia Credit Local are also able to participate in an employee stock ownership program that has been set in place for the entire Group. Shares held through in mutual funds or directly by employees through the PEG are those issued by Dexia, the Group's Belgian holding company.

The law of August 9, 2004 provides an extraordinarily derogation allowing employees to unfreeze the amounts normally frozen in their employee savings accounts between October 1 and December 31, 2004, in an amount not to exceed EUR 10,000 net per employee.

As provided for by law, a collective bargaining agreement has expanded this unfreezing to include the amounts invested in restricted savings accounts and certain amounts invested in PEG mutual funds investing in shares of Dexia.

### c. Quality project

In June 2004, Dexia Credit Local obtained ISO 9001 certification for all of its activities related to the design, marketing and management of loans to local governments in the local customer segment. This certification, which was obtained very quickly, allowed the Group to undertake the training procedures required by the decision to broaden the scope of the quality project.

### d. Company rules and regulations

The Company rules and regulations were amended to incorporate provisions relative to professional ethics and the rules of use of the Company's IT and communications resources.

### e. Organization of management bodies

Effective January 1, 2004, the management bodies of Dexia Credit Local are organized in the following manner:

- one member of the Executive Board is named Chief Executive Officer with responsibility for French activities, human resources and communications;
- one member of the Executive Board is named Chief Executive Officer with responsibility for the International department and all locations outside France other than the Dublin branch, the Structured Finance department and the Public Sector Origination department that was later created in August 2004;
- a Chief Financial Officer (CFO) responsible for risk management, accounting, financial planning and financial control;

- a Senior Vice-President, responsible for Treasury and Financial Markets, which was organized by lines of business as requested by the Banking Commission;
- a Senior Vice-President, responsible for Operations and IT Systems.

The Dexia Credit Local Management Board is composed of the Chairman and the Vice-Chairman of the Executive Board; both Chief Executive Officers, who are also members of the Executive Board; the officers cited above, the Executive Vice President, Financial Engineering, the Executive Vice President, International and the Senior Vice President, Tax and Legal Affairs.

### f. Other changes in organization

#### Risk management

Given the state of progress of the Basel II project, the team in charge of the project has been incorporated into the Risk Management department. Responsibility for analyzing credit risks has been split between two like sectors (public and quasi-public sector; private sector and not-for-profit organizations).

#### Accounting

The additional accounting and financial information required due to changes in legislation and requests from regulatory authorities led to an increase in the Accounting department's control over the consolidated financial statements of the Dexia Credit Local Group. The department has also assumed responsibility for processing and accounting control for all Financial Markets and Lending transactions.

#### Financial Markets back office

The organization of the Financial Markets back office was modified to include additional responsibilities for controlling, validating and reconciling structured transactions, and to take account of the reorganization of the Financial Markets front office by distinct lines of business.

#### Lending back office

The Lending back office function made changes to its organization to improve the management of its range of structured products and its one-off contracts.

#### Communications

The Communications - France and International Recognition functions, previously carried out by two separate teams, were combined into a single Communications department.

#### International development

International development is one of Dexia Credit Local's major strategies, as reflected in 2004 by the opening of new locations in Australia, Poland, Japan and Canada.

### g. Key human resources data: participants in the UES (Dexia Credit Local and Dexia CLF Banque)

	2003	2004
<b>Employees at December 31</b>	<b>1,247</b>	<b>1,302</b>
o/w under fixed-term contracts	152	140
o/w under long-term contracts	1,095	1,162
<b>Main movements of the year in long-term contracts</b>		
New hires	84	99
Terminations	(10)	(10)
Resignations	(36)	(25)
<b>Working hours</b>		
The framework agreement for the 35-hour workweek signed on November 14, 2000 has been in effect since January 1, 2001		
Absenteeism rate (all classifications of personnel)	3.56 %	3.62 %
Part-time employees (% of total workforce)	7.20 %	7.50 %
<b>Compensation</b>		
Gross distributed payroll	67,610,321	74,911,944
Employer payroll taxes	39,625,702	43,397,523
Average annual salary - Men	56,432	61,380
Average annual salary - Women	41,930	43,207
<b>Training</b>		
% of gross payroll	4.30 %	4.33 %
Number of days (all training programs)	3,022	3,251
<b>Health and Safety</b>		
Number of times Health and Safety committee met during the year	4	7
<b>Employee welfare programs</b>		
Contribution to the financing of the Works Council	958,928	1,003,925

### h. Social Solidarity Day (Law of June 30, 2004)

The law of June 30, 2004 concerning "public solidarity regarding autonomy for senior citizens and the physically challenged" imposes an additional unpaid workday per year, and an additional 0.3% employer contribution on all compensation paid with effect from July 1, 2004.

In the absence of a collective agreement, the former Pentecostal Monday holiday has been designated as Social Solidarity Day. This measure will take effect May 16, 2005.

### i. Right to Personalized Training (Law of May 4, 2004)

The Right to Personalized Training (DIF) is available to each employee with a CDI long-term employment contract and at least one years' seniority in the company (article L. 933-1 of the French labor code). Qualified employees are entitled to 20 hours per year, which may be accumulated during a period of six years, i.e. a maximum of 120 hours. In the absence of a branch agreement signed by the AFB and in accordance with the law of May 4, 2004, employees' rights will only become vested with effect from May 7, 2005.

## 4 Consolidated financial statements (EUR millions)

### 4.1 CHANGES IN THE SCOPE OF CONSOLIDATION

Details of the scope of consolidation and all changes thereto are presented in the notes to the financial statements in the form of an organization chart. The principal changes to the Group scope of consolidation in 2004 were:

#### Newly consolidated companies

- Dexia Credit Local Asia Pacific Pty, a recently created Australian subsidiary (100%-FC\*).
- Dexia Delaware LLC, a subsidiary acquired from Dexia Banque Belgique (100%-FC\*).

In an effort to simplify Dexia's presence in the United States,

Dexia Credit Local acquired the American activities of Dexia Banque Belgique (DBB): the New York branch purchased several portfolios, and Dexia Credit Local created a branch in the Cayman Islands (as had DBB previously) and acquired Dexia Delaware LLC.

#### Deconsolidated companies

Dexia Asset Management and Dexia Banque Privée France, companies previously accounted for by the equity method, were sold during the first quarter of 2004 (internal reclassification within the Dexia Group).

\* FC denotes fully consolidated.

### 4.2 PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Dexia Credit Local have been presented in accordance with CRC standards 2000-02, 2000-03 and 2000-04 since January 1, 2001.

In accordance with the first-time adoption of CRC standard 2004-06 this year, Dexia Credit Local presents in its notes to the financial statements the fair value of derivatives accounted for off-balance sheet. Moreover, unrecognized losses

on securities available for sale, portfolio securities and investment securities, which are subject to allowances and exclude the impact of hedging, are presented in the corresponding notes to the financial statements.

No material changes were made to accounting policies during 2004.

### 4.3 CONSOLIDATED INCOME STATEMENT

The main components of consolidated net income are presented below for the years ending December 31:

(EUR millions)	2002	2003	2004	2004/2003 in %
Net banking income	1,402	1,606	1,615	+0.6
Total general operating expenses	(471)	(473)	(488)	+3.2
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>931</b>	<b>1,133</b>	<b>1,127</b>	<b>-0.5</b>
Cost of risk	(134)	(52)	(13)	-75.0
<b>OPERATING INCOME</b>	<b>797</b>	<b>1,081</b>	<b>1,114</b>	<b>+3.1</b>
Income and losses from companies accounted for by the equity method	71	23	39	+69.6
Net gains (losses) and changes in allowances on fixed assets	(8)	8	8	-
<b>RECURRING INCOME BEFORE INCOME TAXES</b>	<b>860</b>	<b>1,112</b>	<b>1,161</b>	<b>+4.4</b>
Corporate income tax	(229)	(314)	(307)	-2.2
Amortization of goodwill	(93)	(89)	(78)	-12.4
Minority interests	84	92	71	-22.8
<b>CONSOLIDATED NET INCOME</b>	<b>454</b>	<b>617</b>	<b>705</b>	<b>+14.3</b>
Earnings per share (EUR)	5.22	7.09	8.10	
Diluted earnings per share (EUR)	5.22	7.09	8.10	

### a. Net banking income

Consolidated net banking income increased 0.6% to EUR 1,615 million, from EUR 1,606 million in 2003; at a constant U.S. dollar exchange rate NBI would have increased 3.8%.

Net banking income is divided into three headings: net interest income, other banking income and expense items and underwriting and investment income from insurance activity, with the latter reflecting the activity of FSA.

(EUR millions)	2003	2004	Change	Change in %
Net interest income	951	843	-108	(11.4)
Other banking income and expense items	202	304	+102	+50.5
Underwriting and investment income from insurance activity	453	468	+15	+3.3
<b>NBI</b>	<b>1,606</b>	<b>1,615</b>	<b>+9</b>	<b>+0.6</b>

Please note that compliance with the rules for presentation of the financial statements leads to the following distortions: net interest income includes the cost of funding certain assets for which the corresponding income is recognized under other income statement headings such as net gains (losses) on trading securities, underwriting and investment income from insurance activity, income and losses from companies accounted for by the equity method and dividends, etc.. For this reason, net interest income and the other banking income and expense items are aggregated for analysis purposes.

#### Net banking income (excluding underwriting and investment income from insurance activity)

Net interest income and other banking income and expense items declined by EUR 6 million from EUR 1,153 million to EUR 1,147 million in 2004; at constant exchange rates these items actually increased EUR 3 million.

It should be noted that such income was favorably impacted in 2003 by a EUR 23 million net gain relating to certain major events:

- the improvement in the financial markets situation led the Group to recover nearly all (EUR 19 million) of the reserve created the previous year against credit derivatives;
- a EUR 11.7 million foreign currency gain on a capital repayment from a subsidiary of Dexia Crediop;
- a EUR 7 million loss in net banking income (equalization payment on cancelled swaps used for hedging) was booked on the early repayment of an investment security by the issuer. This was compensated by a EUR 15 million gain on long-term investments.

In 2004, it is worth noting the impact of the discontinuance of the dividend tax credit ("*avoir fiscal*") on dividends received from Dexia Crediop; the dividend tax credit had contributed EUR 7 million to 2003 net income.

Stripped of these major events and exchange rate effects, income would have increased 3.5% to EUR 33 million.

#### Underwriting and investment income from insurance activity

Underwriting and investment income from insurance activity rose 3.3% to EUR 468 million in 2004, versus EUR 453 million the previous year; at constant exchange rates, underwriting and investment income increased EUR 58 million, i.e. 12.8%: reported revenues fell EUR 43 million due to the decline of the dollar against the euro in 2003.

### b. Total general operating expenses

Total general operating expenses increased to EUR 488 million in 2004 from EUR 473 million in 2003; at a constant dollar exchange rate, these expenses increased 5.7% to EUR 500 million.

This EUR 27 million increase includes EUR 14 million on FSA and EUR 15 million on Dexia Credit Local and Dexia Municipal Agency. Expenses reported by Dexia Sofaxis decreased EUR 5 million; in 2003, the company had made a one-time extension of its financial year to 14 months.

The operating efficiency ratio (including the impact of exchange rate movements and the items mentioned above) improved from 33.6% to 29.5%.

(EUR millions)	2003	2004
Payroll costs	237	253
Other general operating expenses	144	140
Depreciation, amortization and allowances for impairment in value of assets	40	45
Amortization of deferred insurance policy acquisition costs	52	50
<b>Total general operating expenses</b>	<b>473</b>	<b>488</b>
<b>NBI</b>	<b>1,606</b>	<b>1,615</b>
<b>Operating efficiency ratio</b>	<b>29.5%</b>	<b>30.2%</b>

## Payroll costs

The payroll costs increased EUR 16 million. At constant exchange rates, these costs rose by 8.9% to EUR 21million, including EUR 8 million on FSA.

## Other general operating expenses

Other general operating expenses amounted to EUR 140 million (EUR 142 million at a constant dollar exchange rate) versus EUR 144 million in 2003, i.e. a 1.4% decrease at a constant dollar exchange rate.

## Deferred insurance policy acquisition costs

This heading was created in order to incorporate the insurance activity of FSA. Certain general operating expenses relating to insurance policy acquisition costs are deferred and amortized over the life of the policies. The premiums relating to these same insurance policies are also amortized over the same period. On a constant exchange rate basis, these costs amounted to EUR 54 million, a 5.9% increase over 2003.

### c. Cost of risk

The cost of risk is fairly low, both in France and for the international activities. The EUR 39 million decrease in 2004 can be analyzed as follows:

(EUR millions)	2003	2004	Change
France	17	1	(16)
International (excluding FSA)	(38)	(2)	+36
FSA	(31)	(12)	+19
<b>Total</b>	<b>(52)</b>	<b>(13)</b>	<b>+39</b>

### France

The very low level of delinquent accounts among French customers allowed us to keep allowances fairly unchanged.

### International (excluding FSA)

In 2003, the cost of risk consisted primarily of EUR 13 million in general allowances and EUR 12 million on increases in allowances against the mortgage portfolio of the German subsidiary. In 2004, reversals of excess reserves in certain countries offset the increase in general allowances in others. Some sector-specific allowances were allocated to specific individual loans in the sectors for which they were originally created (notable the U.S. aerospace and energy sectors).

### FSA

The changes in the company's general allowances arise primarily from the favorable outcome of the restructuring

of certain Collateralized Debt Obligations (CDOs), which allowed FSA to recover that portion of the allowances deemed no longer necessary.

The ratios presented below provide an indication of the quality of the customer loan portfolio and the allowance policy for non-performing loans:

At December 31	2002	2003	2004
<b>Non-performing loans ratio <sup>(1)</sup></b>	<b>0.57%</b>	<b>0.36%</b>	<b>0.34%</b>
<b>Coverage ratio <sup>(2)</sup></b>	<b>43.81%</b>	<b>42.08%</b>	<b>43.22%</b>
<b>Loan loss ratio <sup>(3)</sup></b>	<b>0.25%</b>	<b>0.15%</b>	<b>0.15%</b>

(1) Non-performing loans/total customer loans.

(2) Allowances/non-performing loans.

(3) Allowances/total customer loans.

The coverage ratio remains high at 43%, while the non-performing loans ratio and loan loss ratio are both stable at a very low percentage of total customer loans.

### d. Income and losses from companies accounted for by the equity method

Income contributed by companies accounted for by the equity method came to EUR 39 million, versus EUR 23 million in 2003. This EUR 16 million increase included primarily good performances by Crédit du Nord and Kommunkredit Austria for EUR 9 million and the disposal of the shares of Dexia Asset Management and Dexia Banque Privée France, which had contributed a EUR 13 million loss to this line in 2003.

### e. Net gains (losses) and changes in allowances on fixed assets

This heading includes gains and losses on the disposal of property and equipment, intangible assets, long-term investments and investment securities.

In 2003, the EUR 8 million net gain included primarily:

- a EUR 15 million gain on the disposal of an investment security;
- the EUR 41 million gain on the disposal of the shares of Dexia BIL;
- a EUR 38.6 million impairment provision taken against the shares of Véolia Environment;
- a EUR 7.9 million impairment provision taken against the shares of the non-consolidated Dexia Global Structured Finance (GSF) subsidiary.

In 2004, the EUR 8 million gain reflects primarily EUR 10 million in gains on disposals of buildings in Italy and in England, the EUR 10 million unfavorable impact of additional allowances against the shares of GSF, and gains on disposals of certain investment securities and long-term investments.

### f. Corporate income tax

This heading amounted to EUR 307 million, versus EUR 314 million in 2003. This 2.2% decrease includes primarily the reversal in 2004 of a reserve created last year for a tax dispute and reflects the impact of the growing share of net income contributed by locations outside France that is taxed at a rate lower than the French statutory tax rate, and especially in the United States.

### g. Amortization of goodwill

The EUR 11 million decrease in goodwill amortization charges primarily reflects the progressive reversal through income of EUR 20 million in negative goodwill that was recognized on the acquisition of the minority interests in the German subsidiary in 2003 and was amortized through the end of 2004. Amortization of goodwill pertains mainly to FSA and Dexia Crediop, and results in annual charges of EUR 71 million and EUR 9 million, respectively.

### h. Net income

Consolidated net income for the year increased 14.3% to EUR 705 million from EUR 617 million in 2003. Minority interests fell from EUR 92 million to EUR 71 million, reflecting the impact of the Group's acquisition of minority interests in the German and Italian subsidiaries in late 2003.

Return on equity (ROE) for the past three years:

(EUR millions)	2002	2003	2004
Return on equity	12.28%	16.43%	18.63%

ROE is the ratio of consolidated net income to average consolidated shareholders' equity: excluding the Group's share of the general banking risks reserve and after appropriation of net income for the year. Average consolidated shareholders' equity was stable over the last three years at EUR 3.7 billion, hence changes in the ROE are due solely to changes in consolidated net income.

## 4.4 CONSOLIDATED BALANCE SHEET AND SHAREHOLDERS' EQUITY AT DECEMBER 31, 2004

Total consolidated assets amounted to EUR 206 billion at December 31, 2004, up 18.4% over the EUR 174 billion recorded the previous year.

### a. Interbank transactions

At December 31, 2004, the Group was a net borrower on the interbank market for an amount of EUR 39.8 billion, versus EUR 34.0 billion at December 31, 2003. The increase resulted primarily from the acquisition of the American activities of Dexia Banque Belgique.

### b. Customer loans

At December 31, 2004, total customer loans increased 8% to EUR 95.5 billion, versus EUR 88.4 billion in 2003.

### c. Securities portfolio

The total portfolio of government securities, bonds and other fixed-income securities and equities and other variable-income securities rose 31.4% year-on-year, from EUR 62.2 billion to EUR 81.7 billion at December 31, 2004. The increase reflected primarily the acquisition of the American activities of Dexia Banque Belgique.

### d. Shareholders' equity and ratios

Dexia Credit Local's consolidated shareholders' equity, net of minority interests and the general banking risks reserve but including net income for the year, came to EUR 4.32 billion at December 31, 2004, up EUR 0.09 billion (2.2%) from the EUR 4.23 billion figure the previous year.

This change includes a EUR 705 million increase from net income for the year, and a EUR 501 million decrease on the payment of the annual dividend. Other movements include a EUR 96 million decrease in cumulative translation adjustments and the reversal of EUR 15 million in net negative goodwill.

A detailed statement of changes in consolidated shareholders' equity is presented in the notes to the consolidated financial statements.

Dexia Credit Local Group consolidated regulatory own funds were calculated in accordance with CRB standard 95-02, and are presented below:

(EUR millions)	2002	2003	2004
Total regulatory own funds	3,503	4,447	4,898
o/w Tier One capital	3,395	3,380	3,602

On January 12, 2000, the French Banking Commission decided that as FSA is not a financial institution, Dexia Credit Local's interest in the insurance company should be deducted from regulatory own funds for the calculation of its capital adequacy ratio. Similarly, the risks relating to FSA's insurance business are excluded from the capital adequacy ratio calculations to which the Group is subject in its capacity as a financial institution. Taking into account the 12.1% increase in risk-weighted assets, the Group's Tier One ratio contracted from 8.35% to 8.03% and its total capital adequacy ratio went from 10.98% to 10.93%.

## 5 Company financial statements (EUR millions)

### 5.1 INCOME STATEMENT

	2002	2003	2004	2004/2003 (in %)
Net banking income	581	650	810	24.6
Total general operating expenses	(182)	(178)	(182)	2.2
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>399</b>	<b>472</b>	<b>628</b>	<b>33.0</b>
Cost of risk	(64)	(19)	(30)	57.9
<b>OPERATING INCOME</b>	<b>335</b>	<b>453</b>	<b>598</b>	<b>32.0</b>
Net gains (losses) and changes in allowances on fixed assets	8	12	9	(25.0)
<b>RECURRING INCOME BEFORE INCOME TAXES</b>	<b>343</b>	<b>465</b>	<b>607</b>	<b>30.5</b>
Corporate income tax	(35)	(130)	(88)	(32.3)
<b>NET INCOME FOR THE YEAR</b>	<b>307</b>	<b>335</b>	<b>519</b>	<b>54.9</b>
Earnings per share (EUR)	3.53	3.85	5.97	
Diluted earnings per share (EUR)	3.53	3.85	5.97	

The net income of Dexia Credit Local increased 54.9% to EUR 519 million in 2004 from EUR 335 million in 2003. Net banking income increased 24.6%, including notably the effect of the Dexia Municipal Agency subsidiary's first dividend for EUR 120 million.

The cost of risk remains low. Excluding regulated reserves, which represented charges of EUR 17 million and EUR 10 million in 2003 and 2004 respectively, the cost of risk increased

from EUR 2 million to EUR 20 million due primarily to the impact of recoveries of excess sector-specific allowances in 2003.

Corporate income tax fell EUR 42 million from EUR 130 million to EUR 88 million in 2004. The decrease includes the favorable settlement in 2004 of a dispute with the tax authorities that arose in 2003 and the impact of the increasing proportion of income contributed by overseas branches.

### 5.2 BALANCE SHEET

Total assets at December 31, 2004 increased 15.5% to EUR 97.0 billion, versus EUR 84.0 billion the previous year; the increase is explained by the acquisition of the American activities of Dexia Banque Belgique, which increased the balance sheet of the New York branch, and by the creation of a new Grand Cayman branch.

#### a. Assets

##### Customer loans

Total outstanding customer loans, excluding those made to credit institutions, amounted to EUR 27.3 billion at December 31, 2004, versus EUR 27.0 billion the previous year. Dexia Municipal Agency, a wholly-owned subsidiary of Dexia Credit Local, is responsible for most of the new lending to these customers.

##### Trading securities, securities for sale and investment securities

The total value of the securities portfolio was EUR 37.6 billion at December 31, 2004, compared with EUR 25.1 billion the previous year. Changes in the various portfolios are presented in the notes to the financial statements. The bulk of the portfolio is invested in French and foreign bonds, negotiable debt securities and government securities, with the balance consisting of units in mutual funds.

##### Long-term investments

Long-term investments came to EUR 4.6 billion, nearly the same as at the end of 2003. The major acquisitions of long-term investments and controlling interests were:

Investments acquired in 2004	Name, legal form and capital
Investments representing interests of over 5%	- Publications Professionnelles Holding. Capital: EUR 9,850,840 - Publications Professionnelles SAS. Capital: EUR 37,000
Investments representing interests of over 10%	
Investments representing interests of over 20%	
Investments representing interests of over 33%	
Investments representing interests of over 50%	
Investments representing interests of over 66%	- Société d'Économie Mixte de l'Arc de Seine. Capital: EUR 230,000 - Dexia Delaware LLC. Capital: USD 50,000 - Dexia Credit Local Asia Pacific Pty Ltd. Capital: AUD 3,340,000 - Dexia Sofaxis (after TUP of Ifax assets to Dexia Credit Local). Capital: EUR 735,499

## b. Liabilities and shareholders' equity

### Interbank loans and deposits

Dexia Credit Local's interbank debt, in an amount of EUR 45.3 billion at December 31, 2004, consists primarily of medium- and long-term borrowings. With EUR 5.8 billion of that total, the European Investment Bank remains the principal third-party lender to Dexia Credit Local.

### Debt securities

Debt securities traditionally represent a significant proportion of Dexia Credit Local's liabilities. At December 31, 2004, they amounted to EUR 34.4 billion, versus EUR 36.0 billion the previous year. The bulk of the Group's long-term funding is now raised by Dexia Municipal Agency through bond issues.

## 6 Capital stock

Capital stock remained unchanged during the year.

(en euros)	2000	2001	2002	2003	2004
Capital stock	1,327,004,846	1,327,004,846	1,327,004,846	1,327,004,846	1,327,004,846
Number of shares	87,045,757	87,045,757	87,045,757	87,045,757	87,045,757
Par value	/	/	/	/	/

### Ownership structure

Substantially all of the capital of Dexia Credit Local is held by Dexia, a holding company. There have been no material movements in the capital stock account during the past three years.

At February 21, 2005, each of the members of the Supervisory Board held one registered share.

## 7 Appropriation of net income

The Supervisory Board recommends that the Shareholders' Meeting appropriate the sum of EUR 579,724,741.62 to pay the annual dividend. This amount comprises EUR 519,268,420.41 in net income for the year, EUR 4,183,682.91 in retained earnings and EUR 56,272,638.30 recovered from general reserves (which consequently decrease from EUR 73,716,821.31 to EUR 17,444,183.01).

The dividend per share will amount to EUR 6.66.

The dividend will be paid on May 25, 2005.

The Extraordinary session of the Shareholders' Meeting of November 9, 2004 approved a non-recurring allocation of EUR 1.95 per share.

In 2003 the dividend per share was EUR 3.80.

In 2002 the dividend per share was EUR 3.86.

In 2001 the dividend per share was EUR 3.14. The Extraordinary session of the Shareholders' Meeting of December 27, 2001 approved the payment a non-recurring allocation of EUR 2.30 per share.

## 8 Outlook and significant events subsequent to the year-end

### 8.1 OUTLOOK

The local government sector remains in the foreground in the European Union. Local government budgets now represent EUR 1,300 billion, nearly 13% of total European gross domestic product (GDP) and over one-fourth of all public spending, and the EUR 150 billion in local government investment represents on average nearly two thirds of all public-sector capital spending.

In most countries, local governments now help central governments manage public policies, or are directly responsible for them, in such areas as education, social welfare and aid and local public services. Their authority continues to increase with the implementation of decentralization policies, especially in France and the new member states of the European Union. In recent years, local government has become very active in the environment, an area that is certain to continue to develop in light of public needs and increasingly stringent quality standards.

Moreover, European authorities' strategy to make Europe financially competitive requires a new effort in terms of com-

munications and telecommunications infrastructures. This should incite local governments to increasingly turn to debt financing and public-private partnerships to accelerate their projects.

The U.S. and Japanese local government sectors also play an important role in public-sector capital spending, and local debt has grown in recent years. In 2005 it is likely that the borrowing market will cool down, given the expected improvement of local tax revenues and, in certain cases, due to the impact of specific budget-reduction policies.

Under these conditions, Dexia Credit Local will continue to expand its product and service offer in Europe and the United States and should assist numerous countries with the development of public-private partnership projects. A new geographical growth phase will moreover be launched, with new front offices opened in Central and Eastern Europe, Japan, Mexico and Canada.

In light of this outlook, Dexia Credit Local expects its business and earnings to continue to grow in 2005.

### 8.2 SIGNIFICANT EVENTS

As part of its strategy of diversifying its business, Dexia Credit Local's New York Branch created a municipal lease company for small asset-based lending and equipment finance transactions; the company is fully-held by Dexia Credit Local and will be fully consolidated.

Dexia is currently studying the possibility of opening a location in Mexico. This non-bank financial institution would be a subsidiary of Dexia Credit Local, and is expected to

commence operations in 2005.

At the same time that the Canadian authorities authorized Dexia's opening of a representative office in Canada, the Company submitted an application to open a branch, and expects to be able to open one during the third quarter of 2005.

The employee agreement for 2005 was signed with five of the Company's six labor unions, and takes effect January 1, 2005.

## 9 Adoption of new European accounting standards (IFRS)

### 9.1 ORGANIZATION OF THE TRANSITION

Effective January 1, 2005, all quoted European companies issuing equity shares are required to present their consolidated financial statements in compliance with the International Financial Reporting Standards (IFRS) that have been adopted by the European Union. Companies issuing only debt securities are not required to comply with IFRS until January 1, 2007.

A project organization was set in place in mid-2002 to prepare the transition to the new financial reporting standards, and the Chief Financial Officer of Dexia chaired the steering committee to manage the project. During the three previous years, the project had studied and supervised the implementation of all the systems and procedural changes required to implement the adoption of the new standards. Dexia SA

worked closely together with the principal Group entities, Dexia Credit Local, Dexia Banque Belgique and Dexia BIL, who participated in the Dexia steering committee and set their own project management structures in place.

The Dexia Credit Local project team carried out several initiatives aimed at guaranteeing the continuity of the preparation of the financial statements and the quality of the new financial statements, namely:

- presenting the 2004 financial statements on the basis of the rules available at the time and whose application by the European Union was expected to take place with effect from January 1, 2005;

- providing transition-related assistance to each of its subsidiaries and branches and monitoring their progress;
- analyzing all major official Interpretations related to the implementation of any new rules together with the Statutory Auditors.

The Group elected to apply accounting practices options that limit the volatility of the income statement, even if they increase the volatility of reserves (reserves for securities available for sale or reserves for cash flow hedges).

Dexia Credit Local will begin publishing its financial statements under the new standards for the year starting January 1, 2005.

## 9.2 PRESENTATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of Dexia Credit Local are prepared in accordance with the principles of European accounting standards (EU standards).

On July 19, 2002, the European Commission published its standard EC 1606/2002 requiring quoted corporate groups to adopt IFRS as of January 1, 2005. This standard has been amended several times since 2002, and all standards published by the IASB have been validated, with the exception of IAS 39.

The European Commission removed several sections of IAS 39 to achieve the following:

- preclude entities from evaluating liabilities at the fair value of their choice;
- permit European financial institutions to properly reflect all hedges entered into as part of their interest rate risk management activities in their consolidated financial statements.

ment activities in their consolidated financial statements.

The Group financial statements have therefore been prepared in compliance with all published International Financial Reporting Standards and all Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC, which replaced the Standing Interpretations Committee (SIC) through March 31, 2005, with the exception of the presentation of interest rate-hedged portfolios. It is for this reason that the financial statements cannot be said to be compliant with IFRS in the sense of IAS 1, but are compliant with European Union standards.

Dexia Credit Local adopted the new accounting standards on January 1, 2005 and consequently restated its 2004 consolidated financial statements. The Group decided to apply IAS 32, IAS 39 and IFRS 4 with effect from January 1, 2005 and not earlier, as authorized by IFRS 1.

## 9.3 IMPACT OF CHANGES IN ACCOUNTING POLICIES FOLLOWING THE FIRST-TIME ADOPTION OF IAS

### a. Dates

The Group decided to apply all IAS/IFRS standards and SIC/IFRIC Interpretations, as approved by the European Commission on January 1, 2004, with the exception of the following, which will be applied with effect from January 1, 2005:

- IAS 32 and related SIC/IFRIC;
- AS 39 and related SIC/IFRIC;
- IFRS 4.

### b. Presentation

The Group decided to standardize its presentation by presenting financial assets and liabilities in the manner described in IAS 32 and 39 in 2004 and 2005. Financial assets and liabilities are, however, valued under Dexia standards in 2004 and under IFRS in 2005, as authorized by IFRS 1.

### c. Analysis of IFRS I options

#### Business combinations

Dexia Credit Local does not apply IFRS 3 retrospectively to business combinations performed before January 1, 2004.

#### Employee benefit plans

Dexia Credit Local has elected to book all cumulative actuarial gains and losses to reserves at the transition date.

#### Cumulative translation adjustments

Dexia Credit Local elected to take the option that allows the Company to eliminate cumulative translation adjustments by incorporating them into reserves at the transition date.

#### Share-based payment transactions

As of January 1, 2004, Dexia Credit Local applies IFRS 2 to share-based payments granted after November 7, 2002.

## 9.4 RECONCILIATION OF THE BALANCE SHEET AT DECEMBER 31, 2003

This section presents a reconciliation of the financial statements published by Dexia Credit Local at December 31, 2003 under Dexia standards and the opening balance sheet at January 1, 2004 under EU standards.

The information contained in this section cannot yet be considered definitive. However, Dexia Credit Local believes that any remaining differences would not have a material impact on the information that is presented. Moreover, new Standards and Interpretations may yet be issued prior to the first publication of the financial statements in May 2005.

<i>Assets</i>	Dec. 31, 2003 Dexia standards	Change EU/ Dexia standards	Jan. 1, 2004 EU standards	<i>Assets</i>
I. Cash, central banks and postal checking accounts	325	0	325	I. Cash, central banks and postal checking accounts
II. Government securities eligible for central bank refinancing	3,461	(3,461)		
III. Interbank loans and advances	9,755	608	10,363	II. Interbank loans and advances
IV. Customer loans	88,434	2,099	90,533	III. Customer loans
V. Bonds and other fixed-income securities	58,511	1,098	59,609	Total IV + V + VI + VII
A. Banking activity and other	51,175		5,226	IV. Financial assets held to maturity
1. Government bonds	19,945		0	V. Financial assets recognized at fair value
2. Other bonds	31,230		53,997	VI. Financial assets available for sale
B. Insurance activity	7,336		386	VII. Financial assets held to maturity
VI. Equities and other variable-income securities	194	(194)		
A. Banking activity and other	194			
B. Insurance activity	0			
		6,732	6,732	VIII. Positive net value of derivatives
			0	IX. Revaluation difference on interest rate-hedged portfolios
VII. Long-term investments	671			
A. Companies accounted for by the equity method	303	98	401	X. Investments in associates
B. Investments at cost	368	(368)		
1. Banking activity and other	359			
2. Insurance activity	9			
VIII. Intangible assets	1,532	(101)	1,431	XII. Intangible assets and goodwill
A. Organization expenses and intangible assets	46			
B. Goodwill arising on consolidation	1,486			
IX. Property and equipment	147	22	169	XI. Property and equipment
XII. Treasury stock	0	0	0	
XIII. Other assets	3,981	600	4,581	Total XIII, XIV, XV
A. Banking activity and other	3,655		147	XIII. Tax assets
B. Insurance activity	326		4,434	XIV. Other assets
			0	XV. Non-current assets held for sale
XIV. Accruals and other assets	7,153	(7,153)		
<b>TOTAL ASSETS</b>	<b>174,164</b>	<b>(20)</b>	<b>174,144</b>	<b>TOTAL ASSETS</b>

<i>Liabilities</i>	Dec. 31, 2003 Dexia standards	Change EU/ Dexia standards	Jan. 1, 2004 EU standards	<i>Liabilities</i>
I. Interbank loans and deposits	44,084	49	44,133	I. Interbank loans and deposits
II. Customer deposits	10,235	(1,615)	8,620	II. Customer deposits
		0	0	III. Financial liabilities held for trading
		0	0	IV. Financial liabilities at fair value
		0	0	VI. Revaluation difference on interest rate-hedged portfolios
III. Debt securities	99,157	934	100,091	VII. Debt securities
IV. Other liabilities	1,941	1,008	2,949	XII. Other liabilities
V. Accruals and other liabilities	9,512	(256)	9,256	V. Negative net value of derivatives
VI. Provisions for contingencies and charges, deferred taxes				
A. Provisions for contingencies and charges	279	(78)	201	X. Provisions and other contingencies
B. Deferred taxes	484	93	577	XI. Tax liabilities
C. Insurance activity	155	(155)	0	IX. Insurance underwriting reserves
VII. General banking risks reserve	478	(478)	0	
VIII. Subordinated debt	2,925	(2)	2,923	VIII. Subordinated and convertible debt
			0	XIII. Non-current liabilities held for sale
<b>TOTAL LIABILITIES</b>	<b>169,250</b>	<b>(500)</b>	<b>168,750</b>	<b>TOTAL LIABILITIES</b>
IX. Capital stock	1,327		1,327	XIV. Capital stock
X. Additional paid-in capital	1,087		1,087	X. Additional paid-in capital
XI. Reserves (retained earnings and net income for the year)	1,965	328	2,293	XVII. Reserves and retained earnings
XII. Revaluation reserve	0		0	XVI. Treasury stock
XIV. Goodwill arising on consolidation	15	(15)	0	XVIII. Net income for the period
Sub-total	4,394	313	4,707	<b>Core shareholders' equity</b>
			0	XIX. Net gains (losses) on securities not recognized in profit and loss
			0	XX. Net gains (losses) on derivatives not recognized in profit and loss
			0	XXI. Net gains (losses) on related parties not recognized in profit and loss
			0	XXII. Unrealized gain on assets held for sale
XV. Translation gains (losses)	(166)	166	0	XXIII. Translation adjustments
Consolidated shareholders' equity	4,228	479	4,707	<b>Consolidated shareholders' equity</b>
XVI. Minority interests	686	1	687	XXIV. Minority interests
Total shareholders' equity	4,914	480	5,394	<b>Total shareholders' equity</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>174,164</b>	<b>(20)</b>	<b>174,144</b>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>

## a. Assets

The explanations given below are intended to indicate which modifications are major and what should be looked at in particular, and not to provide details of the reclassifications and adjustments that were performed.

In order to facilitate comprehension of the distinctions between Dexia standards and EU standards, the headings of the Dexia financial statements begin with a "D", and those of the EU standards begin with an "E".

### **E-I: Cash, central banks and postal checking accounts**

This heading is unchanged from the previous format.

### **E-II: Interbank loans and advances**

This heading is unchanged from the previous format. Various reclassifications of miscellaneous assets were incorporated in this category during the transition to the new standards.

### **E-III: Loans and customer loans**

The increase in this heading is due primarily to the reclassification of bonds that had been recognized in D-V Bonds and other fixed-income securities: unquoted but are considered customer loans under IAS 39.

### **E-IV-VII: Financial assets**

Financial assets include the reclassification of the following headings under Dexia standards:

- D-II: Government securities eligible for central bank refinancing;
- D-V: Bonds and other fixed-income securities;
- D-VI: Equities and other variable-income securities;
- D-VII B: Long-term investments: Investments at cost;
- D-XII: Treasury stock.

Financial assets are divided into different sub-headings:

- E-IV: Financial assets held for trading purposes, which includes the trading activities defined under Dexia standards;
- E-V: Financial assets recognized at fair value, which sub-heading may only be used after January 1, 2005, as this will only be possible once IAS 39 takes effect;
- E-VI: Financial assets available for sale, which includes most of the items mentioned above that were reclassified from Dexia standards;
- E-VII: Financial assets held to maturity, which includes primarily bonds that will be held to maturity.

### **E-VIII: Positive net value of derivatives**

This heading includes primarily the accrued interest and premiums on derivatives, which represent the largest part of items D-XIII Other assets and D-XIV Accruals and other assets under Dexia standards.

### **E-IX: Revaluation difference on interest rate-hedged portfolios**

This heading was not used in 2004 given that IAS 39 will only take effect January 1, 2005. It will be used to revalue instruments used for interest rate-hedged portfolios at their fair value, other than financial assets available for sale that are hedged which will remain in heading E-VI Financial assets available for sale, as the latter are recognized at their fair value.

### **E-X: Investments in associates**

Investments accounted for by the equity method currently included in D-VII A Companies accounted for by the equity method and in D-VIII B Intangible assets: Goodwill arising on consolidation (for their net goodwill) will now be included in this heading.

### **E-XI: Property and equipment**

The adjustment concerns the reclassification of leases qualified as finance leases under Dexia standards to operating leases under EU standards. Various adjustments were recorded on building values.

### **E-XII: Intangible assets and goodwill**

Goodwill on companies accounted for by the equity method was transferred to the value of those companies accounted for by the equity method.

### **E-XIII: Tax assets**

This heading includes all tax and deferred tax assets that had been included in D-XIII Other assets, as well as the adjustments made to deferred taxes under EU standards.

### **E-XIV: Other assets**

Other assets includes primarily accrued income (non interest-related), deferred charges and other pre-paid income.

### **E-XV: Non-current assets held for sale**

This heading includes the assets held for sale as defined by IFRS 5.

## b. Liabilities

### E-I: Interbank loans and advances

Issue discounts and premiums recognized in D-XIV Accruals and other assets and D-V Accruals and other liabilities in the financial statements under Dexia standards are reclassified under this heading.

### E-II: Customer deposits

The increase in debt securities under EU standards is explained by the fact that some liabilities issued by FSA were considered D-II Customer deposits under Dexia standards but are considered E-VII Debt securities under EU standards.

### E-III: Financial liabilities held for trading

Dexia Credit Local does not currently use this heading.

### E-IV: Financial liabilities recognized at fair value

This heading can only be used after January 1, 2005 when IAS 39 takes effect, and will include notably all financial liabilities with embedded derivatives that cannot be identified separately. European regulations do not authorize the recognition of liabilities at their fair value unless otherwise provided by European directives and regulations, which is the case presented above.

### E-V: Negative net value of derivatives

Similar to the point mentioned for Assets in E-VIII Positive net value of derivatives.

### E-VI: Revaluation difference on interest rate-hedged portfolios

This heading will only be used in 2005 and will include the fair value revaluation of interest rate-hedged instruments used to hedge portfolios.

### E-VII: Debt securities

Premiums and discounts that were included in D-XIV Accruals and other assets and D-V Accruals and other liabilities under Dexia standards are now allocated to their respective assets and liabilities, primarily in E-VII Debt securities.

This heading also includes liabilities issued by FSA that were considered D-II Customer deposits under Dexia standards.

### E-VIII: Subordinated and convertible debt

This heading includes the D-VIII Subordinated debt.

### E-IX: Insurance underwriting reserves

Dexia Credit Local does not use this heading.

### E-X: Provisions and other contingencies

This heading increased subsequent to the setting aside of reserves relative to employee benefits (IAS 19) and decreased subsequent to the reversal of provisions that were not acceptable under IAS 37 and due to the fact that several provisions for credit risk were deducted from the corresponding assets.

FSA's provisions are still classified under this heading. Deferred tax liabilities were reclassified in E-XI Tax liabilities.

### E-XI: Tax liabilities

This heading encompasses both current taxes due, included in D-IV Other liabilities, and deferred taxes, which were in D-VI B Deferred taxes.

### E-XII: Other liabilities

The increase arises primarily on the reclassification of D-V Accruals and other liabilities.

### Consolidated shareholders' equity

This item includes both shareholders' equity under Dexia standards and all adjustments generated by the first-time adoption of EU standards. The principal impact is from the reclassification of D-VII General banking risks reserve to shareholders' equity in 2004.

The first-time adoption of EU standards on January 1, 2004 (with the exceptions of IAS 32, IAS 39 and IFRS 4) resulted in a EUR 479 million increase in consolidated shareholders' equity (capital and reserves), which rose from EUR 4,228 million under Dexia standards to EUR 4,707 million under the new standards. This increase incorporated the following changes:

(EUR millions)	
General banking risks reserve	+478
Employee benefits	-7
Adjustments to property and equipment	+4
Recognition of income	-2
Deferred taxes	+1
Other adjustments	+5
<b>TOTAL</b>	<b>479</b>

#### Comments

- General banking risks reserve (EUR 478 million increase)  
This amount was transferred to shareholders' equity due to IAS 30.
- Employee benefits (EUR 7 million decrease)  
The Group hired the Mercer actuarial group to review the Company's employee benefits commitments, calculate the value of certain plans and ensure the consistency of the methods used when other actuaries performed the actuarial calculations. The actuarial assumptions for the discount rate, inflation rate and performances were standardized throughout the Group by geographical region. The Group will use the "corridor" to decrease the volatility of the income statement.
- Adjustments to property and equipment (EUR 4 million increase)  
Impairment tests performed on the buildings held by the Group resulted in the recognition of EUR 3 million in impairment. Certain assets' depreciable bases were reviewed, leading to the reversal of EUR 7 million in accumulated depreciation (positive impact on shareholders' equity). The Group chose to value its office buildings and investment properties at their historical cost and hence, in the future, will not revalue them in profit and loss or through shareholders' equity.
- Recognition of income (EUR 2 million decrease)  
The adjustment pertains to a Group company whose debit card revenues must be recognized over the life of the contract under EU standards.
- Deferred taxes (EUR 1 million increase)  
In 2003, the Group decided to apply IAS 12 for the calculation of deferred taxes under Dexia standards. The impact of deferred taxes at January 1, 2004 is thus solely the consequence of the other adjustments related to the change of standards. This adjustment also comprises the constitution of a provision on the undistributed reserves of companies accounted for by the equity method.

## 9.5 IMPACT OF THE FIRST-TIME ADOPTION ON JANUARY 1, 2005 OF IAS 32/39 AND IFRS 4

### a. Impact of IAS 32/39

In order to ensure comparability and to comply with the provisions of IAS 30, the presentation of the financial statements under IAS 32 has been applied with effect from January 1, 2004, although financial instruments were still valued at their value under Dexia standards in 2004.

The main impacts at January 1 will arise on:

- the valuation of financial assets and liabilities at fair value, with contra-entries to allowances on financial assets available for sale or to retained earnings in cases of hedging or impairment;
- the revaluation of derivatives at their market value;
- the adjustment of allowances for impairment of financial assets (specific and general);
- the use of the effective interest rate.

### b. Impact of IFRS 4

Under IFRS 4, certain products sold by insurance companies are considered to be financial instruments, and subject to IAS 39. The Group will apply IFRS 4 with effect from January 1, 2005 to be consistent with the date at which IAS 32 and IAS 39 are to be applied.

Under the provisions of IFRS 4, companies may elect to continue using local accounting standards to account for insurance products, as they are defined by IFRS 4. The insurance activity of the Group is carried out by Financial Security Assurance (FSA) in the United States (credit enhancement of local government and corporate bonds and loans). The financial guarantees given by FSA are expected to be treated like insurance products, and their accounting treatment will remain unchanged.

# Report of the Chairman of the Supervisory Board

prepared in accordance with article L. 225-68 of the French Commercial Code, on corporate governance and internal control procedures

## Regulatory environment

The French Financial Security Act of August 1, 2003 was voted to promote the protection of private investors and insured parties by improving the quality of the financial information available to them. One particularly important aspect of this objective concerns internal control procedures, as covered by article 117 of the law, coded to article L.225-68 of the French Commercial Code relative to *sociétés anonymes* with an Executive Board and a Supervisory Board.

With respect to the aforementioned article, the Chairman of the Supervisory Board is called on to report to the

Shareholders' General Meeting on the corporate governance provided by the Supervisory Board, with particular attention being paid to the internal control procedures established by the Company.

Article 120 of the law coded in article L.225-235 of the French Commercial Code relative to *sociétés anonymes* with an Executive Board and a Supervisory Board also requires the Statutory Auditors to present their findings on the report of the Chairman of the Supervisory Board, particularly as concerns the preparation and processing of accounting and financial information.

## 1 Corporate governance

Dexia Credit Local strives to use best practices as concerns corporate governance, particularly in the operations of the Supervisory Board and its specialized committees.

### 1.1 THE SUPERVISORY BOARD

The Supervisory Board is responsible for supervising the management of Dexia Credit Local as provided by its Executive Board. It acts out of concern for the Company, including its shareholders, customers and employees.

The Supervisory Board is composed of 14 members, who are elected by the Shareholders' Meeting in the light of their individual expertise and the contribution that they may make to the supervision of the Company. Four of the members are named by the Company's virtually exclusive shareholder, Dexia. The ten independent members include four French and three Belgian locally elected officials. The criterion used to ascertain independence is based on the recommendations contained in the so-called "Bouton" report on corporate governance.

The members of the Supervisory Board are required to obey a charter defining their responsibilities, which that has been drawn up in accordance with the principles espoused by Dexia Credit Local's code of ethics. This charter reminds members in particular how important it is that they participate actively in the work undertaken by the Board.

The charter also reminds members of the Supervisory Board that they fill sensitive roles, and therefore are subject to the

strictest requirements regarding trading in the shares of Dexia. All transactions must be signaled in advance to the Compliance Officer of Dexia Credit Local, and receive his prior approval.

The Supervisory Board meets at least once every quarter. In 2004, the average attendance rate for all four meetings came to 81.8%. The Chairman of the Supervisory Board and the Chairman of the Executive Board make available to members of the Supervisory Board all the information - strategic information in particular - they require to carry out their duties. Members receive an agenda prior to each meeting, along with all reports and documents relating to items appearing on the agenda.

All statutory appointments are submitted for the approval of the Supervisory Board. At each Meeting, the Executive Board reviews the activity and the accounts for the preceding period. The Board also reviews the work of the audit committee, internal control, risk monitoring and progress on major projects (such as Basel II) on an ongoing basis.

In 2004, in addition to the recurring subjects for which it is responsible, the Board also examined the outlook for and growth strategies of the Public Finance line of business,

funding, the monitoring of Banking Commission reports on operational risks of our financial markets activities, structured finance and the Financial Markets Authority (AMF) report on compliance with professional standards applicable to investment services.

To analyze the work that is performed and in line with the segmentation of the Group by line of business, the Supervisory Board of November 25, 2003 conferred the title

of Chief Executive Officer upon the two members of the Executive Board responsible respectively for the French activities and International and structured finance activities. The Chief Executive Officers have been granted all the powers provided for by law and by the Company's by-laws.

As provided for by law, the Supervisory Board verifies the decisions of the Chairman of the Executive Board and the two Chief Executive Officers.

## 1.2 SPECIALIZED COMMITTEES OF THE SUPERVISORY BOARD

The Supervisory Board may create specialized committees of the Board, comprising between two and five members of the Supervisory Board, including a Chairman. Committee meetings may be held in the absence of the Chairman of the Supervisory Board. The Chairman of the specialized committee presents a report on its actions to the Supervisory Board.

An Audit committee was created at the meeting of the

Supervisory Board on September 9, 2003. It is composed of three members of the Supervisory Board and meets at least twice yearly; the committee met three times in 2004. Given the importance of the Audit committee in verifying and monitoring the preparation of the financial statements, its assignments and resources are discussed in detail in the second part of the present report, which addresses internal control.

## 2 Corporate internal control objectives

### 2.1 THE MISSIONS OF INTERNAL CONTROL

Like all credit institutions, the objectives and organization of the internal control function at Dexia Credit Local are defined by Banking and Finance Regulatory Committee (CRBF) standard 97-02, and compliance with this ruling is verified regularly by the Audit department.

Internal control is generally intended to prevent and manage major risks of error and fraud. Like every control process, it is designed to reduce these types of risk to a level that is acceptable to the Company, but it is not possible to guarantee the complete absence of risk.

The internal control responsibilities in force at Dexia Credit Local can be divided into four main categories:

• **Verification that the risk management process in place is sound and effective.**

Risk management is the very heart of banking. Given the nature of its business and its desire to favor the rules of prudence, diversification and quality with regard to its lending, Dexia Credit Local has made its approach to risk a key priority in how it is perceived by the financial markets. The internal control function is designed to provide the Executive Board with a guarantee that the risks assumed by the Group respect this priority and are compatible with the performance targets that have been set.

• **Ensuring that the accounting and financial information produced is accurate and relevant.**

The main objective of financial information is to present true and fair view of the financial situation of Dexia Credit Local in a consistent, exhaustive and transparent fashion. The internal control process is centered around attaining this objective.

• **Ensuring that laws, regulations and, more generally, codes of ethics are respected, both within the Company and externally.**

The proper functioning of the Dexia Credit Local Group requires strict compliance with all legal and regulatory obligations, in addition to the internal standards of the Dexia Group. The Group's commitment to sustainable development has resulted in the elaboration of rules of conduct which transcend these legal obligations. The internal control process must ensure that all these principles are respected.

• **Improving the smooth running of the Group while ensuring that available resources are managed efficiently.**

The decisions made to this effect by the Executive Board of Dexia Credit Local must be put into practice quickly throughout the Group. Internal control procedures will ensure the integrity of information flows, the coherence of the actions taken and the tracking of results.

## 2.2 GENERAL ORGANIZATION OF THE INTERNAL CONTROL MECHANISM

The internal control mechanism of the Dexia Credit Local Group relies on a clear segregation of duties. It has been designed to maintain and ensure a clear separation between those employees who initiate transactions and those who are responsible for approving, monitoring and arranging settlement of such transactions.

In this spirit, the internal control system of Dexia Credit Local has been organized into four different levels:

- **First-level monitoring is performed by each employee.**

The actual controls performed vary depending upon the responsibilities that have been explicitly delegated to the employee, the procedures in place for the activity he performs and any instructions that have been issued by his superiors.

- **Second-level monitoring is performed by the employee's superiors,** as part of the regular supervisory process, as outlined in the procedures that have been defined for that activity. Managers of operations departments are hence involved in the smooth running of the internal control system.

- **Third-level monitoring is provided by specialists** who are independent from those activities being monitored and who report directly to the Management Board. This third level may also be provided by interdepartmental committees, made up of employees from operations and support and control departments, and chaired by a member of the Management Board.

- **Fourth-level monitoring is provided by the internal audit department of the Dexia Crédit Local Group,** whose job it is to maintain a constant vigil over the effectiveness and the proper enforcement of the three levels of internal control previously cited, in the parent company and all its subsidiaries and branches.

Whenever possible, software applications are used to automate these controls.

### Internal reference documents

To ensure that everyone participating in the internal control system has access to the same relevant information and instructions, the Dexia Credit Local Group has compiled a standard reference system of instructions.

These reference documents can be divided into four major categories:

- **Charters** have been drafted for each business line or activity, detailing the objectives and reference policies that the Group has established and creating a conceptual framework for the organization and running of the area concerned. Two examples are the Internal Audit and Compliance charters that have been set in place by the Dexia Group.

- **Codes** provide a set of rules of conduct, or best practices to be observed by all employees in each given activity, regardless of their direct and functional reporting lines. With respect to this, in 2002 the Group adopted a code of ethics which was then distributed to all employees of the Head Office and in the subsidiaries and branches.

- **Rules of conduct** - also called directives - are the first-level operating impact of these charters and codes. They spell out the practical implications of the quality standards that have been set, define limits and organize the system whereby authority is delegated. In this manner, the rules of conduct established by Group Risk Management specify how all credit limits are to be determined throughout the Dexia Credit Local Group.

- **Procedures** define - in compliance with all relevant charters, codes and directives - the organization, tasks and monitoring necessary for the performance of any given activity. Each employee must have access within his or her department or area to a procedure manual covering his or her function. Similarly, service contracts allow two departments with a customer-supplier relationship to formalize their relationship by establishing the level of service expected.

## 3 Main participants in the monitoring of internal control (organization, roles and resources)

### 3.1 OPERATIONS STAFF

As provided for by the policies of the Dexia Group, managers and employees of areas involved in operations are responsible for the application and smooth running of internal control procedures within their areas of activity. They are responsible namely for analyzing the risk on each transaction they initiate, and for verifying that such transactions are in

compliance with the internal control procedures in their department. In the event that a change in the internal or external conditions under which they work should affect internal control, they must propose or implement - depending upon their level of responsibility - any changes required in order to maintain risk management at the desired level.

## 3.2 RISK MANAGEMENT DEPARTMENT

The Executive Board has entrusted the Risk Management department with guaranteeing that the Bank's risk profile remains low, so that the Bank can secure the high credit rating it requires to obtain funding under the best possible terms and achieve its expected ROE targets.

The head of the Risk Management department reports directly to the CFO, who is the member of the Management Board responsible for risk management, accounting and financial control. The CFO reports directly to the Chairman of the Executive Board. The Risk Management department has no reporting lines to any other unit, and is entirely independent from the operational functions.

The Risk Management department's duties are quite extensive, as they include the monitoring of all the main risks inherent to banking as defined by CRBF standard 97-02 (credit, market, structural and operational risks).

The Risk Management department adheres strictly to the provisions laid down by Group Risk Management concerning risk measurement methods, credit limits and reporting tools for the entire Group.

The CFO of the Dexia Credit Local Group represents it on the Dexia CFO committee which, as the member of the Management Board of Dexia responsible for Group Risk Management, he also chairs.

In order to consolidate the monitoring of risk in the Dexia Credit Local Group, the risk management structures in place in each branch and subsidiary all report directly (branches) or functionally (subsidiaries) to the head of the Risk Management department.

## 3.3 INTERDEPARTMENTAL COMMITTEES

A number of committees form an integral part of the internal control mechanism of Dexia Credit Local and contribute in particular to the definition and smooth running of the system. The purpose of these committees is to allow several departments to confer on the management of the various activities, in order to take each area's constraints into account and to benefit from the sharing of experience and promote the dissemination of best practices. Decisions are taken collectively, and in the event of a persistent disagreement, it is the Chairman, himself a member of the Management Board, who makes the final decision.

These interdepartmental committees intervene in several aspects of internal control:

### Credit risk

- The Credit committee (weekly) approves those credit proposals for which it is responsible, such responsibility being based on the degree of complexity and the credit limits involved.
- The Loan Monitoring committee (quarterly) examines sensitive loans.
- The Loan Default committee (quarterly) is responsible for ranking the potential severity of delinquencies in accordance with the Dexia Group's classification system for non-performing loans and identifying the measures to be taken to limit any losses.
- The Reserves committee (quarterly) decides on the appropriate allowances to be allocated to non-performing loans.

### Market risk

- The ALM committee (monthly) determines risk acceptance limits within the framework established by the Dexia Group

- including the NPV of ALM assets and liabilities and sensitivities  
- and manages the liquidity gap, interest rate gap and foreign currency exposure hedging of Dexia Credit Local and those of its subsidiaries and branches for whom this activity is significant.

- The Financial Markets committee (monthly) monitors compliance with the limits set by the Dexia Group or Dexia Credit Local, analyzes operations and defines operational guidelines.

The roles of these committees are developed in the paragraphs devoted to market risk and ALM.

### French sales network

- The French Sales Network committee (bi-weekly) assists the Chief Executive Officer with responsibility for French activities with the management and evaluation of the performances of the Bank's French businesses.

### International sales network

- The International Management Board (weekly) assists the Chief Executive Officer with responsibility for the International department with the management and evaluation of the performances of the foreign branches and international transactions handled at the Head Office, and monitors the performances of the foreign subsidiaries.

### New products

- The New Products committee (monthly) provides verification prior to the launch of any new activities or products that the corresponding risks have been correctly analyzed, measured and managed, and that adequate risk management systems have been put in place. Each subsidiary has its own new products committee.

The Commercial Risk Evaluation Committee (quarterly) follows sales activity and analyzes commercial risks in connection with sales of structured products and operations. It guides sales planning of these operations on this basis.

### Major IT systems projects, both regulatory and organizational

- Project Steering committees (usually held monthly) monitor the progress of projects, provide the corresponding resource planning, make all final decisions and organize reporting to the Management Board of the Dexia Credit Local Group.
- The IT Steering committee (monthly) submits general policies and budgets to the Management Board and makes all changes, arbitrations and elaborations that are required to manage the IT function.

- The IT Security committee (bimonthly) is responsible for managing the security of the Group's IT systems, drawing up action plans in the event of changes in the systems or their environment and ensuring that these measures are carried out. The IT Security manager is responsible for the implementation of these measures. He reports to the Risk Management department, thereby guaranteeing his independence. An IT Security manager position has also been created within the IT department, in order to ensure the actual operational implementation of all security-related measures.

The performances of these various bodies and the procedures followed are reviewed every quarter by the Management Board.

## 3.4 SUBSIDIARIES AND BRANCHES

The Dexia Credit Local Group employs many tools to monitor and verify the operations of its subsidiaries and branches, depending upon the degree of their autonomy from the parent company. French subsidiaries that have been created to house a specific activity (so-called "*filiales outils*") have a very low degree of autonomy and employ few or no staff directly. They depend on the services provided by the different departments at Head Office, and are included within the scope of the latter's internal control system - hence monitoring is quite well integrated. The leasing companies and Dexia Municipal Agency are examples of these *filiales outils*.

Other French subsidiaries, such as Dexia Sofaxis and Dexia CLF Banque, have a far more extensive scope of activity and operate using their own staff. These subsidiaries have, consequently, established their own internal control systems within their organizations. These systems are modeled on the best practices developed at Head Office, while taking into account the special characteristics of these subsidiaries' own activities.

Foreign subsidiaries and branches each have their own staffs and engage in a broad range of activities, depending on their local markets. They are granted varying degrees of autonomy depending upon their size, and rely to a greater or lesser extent on the services provided by the different departments at Head Office. Like the French subsidiaries, foreign subsidiaries and branches have set up internal control systems that are adapted to their size, their activities and the specificities of the local market.

The International Headquarters\* department is specifically charged with monitoring these internal controls. This depart-

ment is organized into geographical regions and includes risk management correspondents from each subsidiary and branch. These correspondents are responsible for day-to-day risk monitoring in their entities, and for liaising with the appropriate departments at Head Office. They participate in the organization of the International Management Board, and ensure that its decisions are carried out.

Dexia Credit Local expanded its international coverage in 2004, creating a subsidiary in Sydney and opening representative offices in Tokyo and Montreal.

Like the Dexia Group, the Dexia Credit Local Group has established a transversal network for the risk management, audit and compliance functions for each of the entities for which it is directly responsible. Under this setup, the manager of each of these functions in a subsidiary or branch reports either functionally (subsidiaries) or directly (branches) to the manager of the same department at Head Office. The latter participates in the recruitment, career development, compensation and target setting of his counterpart in each subsidiary and branch.

For all entities, monitoring is based on a system of delegation of authority and regular reviews provided to the appropriate departments at Head Office and the Management Board of the Dexia Credit Local Group, and the participation of the members of the Board in the various administrative and decision-making bodies within each subsidiary. When warranted by its size and the activities in which it engages, a subsidiary may replicate locally the corporate governance structures used at Head Office.

\* Excludes the Dublin branch which, because of its specific activity, is monitored directly by the Financial Markets department.

## 3.5 COMPLIANCE

The Dexia Credit Local Group participates in highly regulated sectors, and must at all times be in a position to verify that it remains in compliance with all laws, regulations and securities exchange rules. In addition to the aforementioned constraints, the Group has also developed its own internal rules: rules of good conduct have been drawn up in a general integrity policy, a compliance charter and a code of ethics, which were provided to all employees in 2002. A specific trading code of ethics was drawn up and distributed to all concerned employees.

As part of its fight against money laundering, the Dexia Group honors all French rules as well as the local rules in each of its international locations. In addition to these basic conditions, the Group has also implemented even stricter standardized criteria in terms of the acceptability and respectability of its customers. The Group strives to secure relationships only with counterparties whose identities are clearly established and who meet its own criteria in terms of integrity and responsibility. All employees in France and in all of the subsidiaries and branches have received a general position paper regarding anti-terrorist measures and the prevention of money laundering and have been required to attend training seminars on the subject.

The compliance function is organized transversally, from the holding company of the Dexia Group to the foreign subsidiaries of Dexia Credit Local. It is independent, and ultimately reports to the Chief Executive Officer, Chairman of the Management Board of Dexia. For Dexia Credit Local, the

Compliance Officer reports to the Chairman of the Executive Board

Each of the entities comprising the Dexia Credit Local Group has a Compliance Officer (or at a minimum a compliance correspondent for the smaller entities). Their role is to ensure that the Group's general integrity policy and the compliance charter are respected in each of the entities, to update the rules in response to changes in the local activities or environment (legal or economic) and to inform managers and employees about compliance and remind them of its importance. They report functionally to the Dexia Credit Local Compliance Officer.

In 2004, in response to Dexia Group policy and the recommendations of the Financial Markets Authority (AMF), the Compliance action plan was successfully completed. The Compliance department was expanded. The regulatory scope was established for the entire Dexia Group. A very thorough inventory was made of all legal and regulatory texts included in the scope encompassed by the compliance function, in France and in each country where Dexia Credit Local has a location. The Compliance department performs a regulatory watch by updating this inventory on a continuous basis. An exhaustive manual of compliance procedures has been compiled and is kept up to date. A control plan was organized and implemented in collaboration with the Internal Audit department.

New "Know Your Customer" files were established and are centrally compiled regularly.

## 3.6 INTERNAL AUDIT

Internal Audit is responsible for promoting internal control within the Group and providing ongoing verification of the efficiency and correct application of the internal control systems in place.

In order to do so and through its assignments, Internal Audit notably assesses whether the risks assumed by the Dexia Credit Local Group in the performance of its various activities and in all the entities which it comprises are identified and sufficiently hedged.

It is also responsible for verifying that ongoing improvements are made to the running of the Group.

A Group-wide internal audit charter lays out the fundamental principles governing the internal audit function within the Dexia Credit Local Group, by describing its aims, role, responsibilities and operating procedures.

The Internal Audit department of Dexia Credit Local evaluates the functioning of the internal control system for all entities that make up Dexia Credit Local, including the Head Office, the French sales network, branches and French and foreign subsidiaries.

The Internal Audit department is held accountable for the

performance of its assignments by the Supervisory Board and the Chairman of the Executive Board of Dexia Credit Local.

Internal Audit reports to the Chief Auditor, who in turn reports directly to the Chairman of the Executive Board of Dexia Credit Local and functionally to the Group Chief Auditor, as provided for by the internal audit charter. The Chief Auditor also has direct access to the Chairman of the Supervisory Board.

The managers of the Internal Audit departments of the subsidiaries report directly to the Chairman of the local Management Board, the Board of Directors or the Supervisory Board (or to the Audit committee), and report functionally to the Chief Auditor of Dexia Credit Local. The procedures for putting this transversal functional structure in place were approved by the management and supervisory bodies of the subsidiaries in 2003.

The New York branch Internal Audit department reports directly to the Chief Auditor of Dexia Credit Local.

In all, there were 40 auditors and inspectors working in the internal audit and bank inspection areas in 2004. This level of staffing is considered sufficient in the banking sector.

All methods have been standardized, from risk analysis to the performance of audit assignments. These methods were developed in collaboration with the Dexia Group and are employed in all Group entities.

The frequency with which activities are audited (every one, two or four years at Dexia Credit Local, and at least once every three years in the United States and for certain subsidiaries) is determined by an analysis of the degree of risk they each present. The annual audit plan is established based upon these frequencies and submitted to the Management Boards of the entities concerned, and subsequently to their Audit committees for approval.

Each audit gives rise to a list of recommendations, which are incorporated into action plans. These are intended to correct any vulnerabilities discovered during the audits, in order to strengthen the internal control mechanism. Each action plan

is approved by the Management Board and is monitored regularly to ensure it is correctly implemented.

Action plans are monitored as part of the two management reports provided for by CRBF standard 97-02 in the section on "monitoring of risk" to highlight all changes in internal control systems. In 2004, Internal Audit monitored the notable progress made within the implementation of the action plans established subsequent to the two audits performed by the Banking Commission (operational risks on financial markets, and structured finance) and an audit by the AMF (Compliance). The department confirmed that all of the actions provided for in response to the AMF audit had been implemented and that satisfactory progress had been made with those related to the Banking Commission reports, and that the Group's internal control systems had consequently improved.

### 3.7 THE EXECUTIVE BOARD AND THE MANAGEMENT BOARD

To guarantee the smooth running and growth of the Dexia Credit Local Group, its Executive Board has ultimate responsibility for the implementation and maintenance of appropriate internal controls. It defines and coordinates the internal control policies of the Dexia Credit Local Group. It also allocates resources and establishes deadlines for implementation of the actions that have been decided upon with respect to these policies. The Board verifies that the objectives that have been set are attained, and that the internal

control system meets all requirements. Lastly, it modifies these requirements whenever warranted by internal and external changes.

To assist it in this assignment, the Executive Board relies on the Management Board, whose members are continuously involved in the internal control system through their operational functions, their participation in various supervisory committees and the audit and other reports that are systematically provided to them.

### 3.8 THE DEXIA GROUP

The organization of the Dexia Credit Local Group mirrors that of the Dexia Group. To aid it in its role as the overall manager of the Group, the Management Board of Dexia relies on 14 departments, each with a very extensive role.

Within their own areas of expertise, these departments are notably responsible for defining and coordinating plans for the implementation of the policies that have been decided upon by the Management Board of the Dexia Group, following up on this implementation, managing the different departments involved and developing synergies within the Group. These departments perform their assignments in collaboration with the corresponding departments of the different entities comprising the Dexia Group. The departments most specifically concerned by internal control are:

- **the Group Internal Audit department**, which reports directly to the Chief Executive Officer, Chairman of the Management Board and defines the methods to be employed in the Group, coordinates and participates in the performance of audits of transversal functions concerning multiple entities and audits the Group functions and internal audit functions in the various entities;
- **the Risk Management department**, which reports to the Chief Financial Officer of Dexia and, under his tutelage,

supervises the risk management policy. The Risk Management department establishes rules of conduct for credit limits and delegation of authority, verifies and measures the overall risks assumed by the Group and implements standardized processes in each of the different entities.

In matters relating to credit risk, it is assisted by two committees: the Credit Risk Policy committee and the Credit committee. The first committee is responsible for defining the Group's risk profile and all rules regarding risk management, while the second evaluates credit proposals which, due to their size, exceed the authorities delegated to the operating entities. The financial markets activities of the TFM (Treasury and Financial Markets) business are supervised by six committees:

- the Credit Approval Committee (weekly) approves commitments on transactions that are not delegated to the Front-Offices,
- the Credit Review Committee (quarterly) establishes credit risk guidelines and validates loan reviews,
- the Market Risk Committee (quarterly) establishes market risk guidelines,
- the Credit Line Committee (monthly) approves openings of lines to banking counterparties,

- the Underwriting Committee approves commitments on transactions to be placed outside the Group,
- the Long Term Funding Committee (quarterly) establishes the Group's funding policy;
- The Chief Compliance Officer, who reports directly to the

Chief Executive Officer, Chairman of the Management Board, manages the network of Compliance Officers in the different entities and promotes compliance with the integrity policy and development of a moral and ethical corporate culture, which has represented one of the Dexia Group's strengths ever since it was created.

## 4 Preparation and processing of accounting and financial information

### 4.1 FINANCIAL STATEMENTS

The principal goal of the financial statements is to present a true and fair view of a company's net worth, financial position and earnings. This is particularly important for a financial institution, where the unit of measurement - currency - is often confused with the actual business object.

CRBF standard 97-02 concerning internal control stipulates in its section on accounting that the organization put in place must guarantee the existence of a set of procedures called the "audit trail". This audit trail must allow all accounting information provided to be tied back to an original supporting document, and vice versa. This is the basic policy on which the Dexia Credit Local Group bases the organization of its accounting function.

#### a. Assignments and organization of the Accounting department

The Accounting department of Dexia Credit Local plays a central role. It reports directly to the CFO of the company, who is a member of the Management Board.

The Accounting department is responsible for preparing the financial statements of Dexia Credit Local, as well as those of any subsidiaries that do not have their own accounting department. It is also responsible for preparing the consolidated financial statements of the Dexia Credit Local Group. One unit specializes in monitoring compliance with regulatory standards and rules of prudence.

The Accounting department also monitors and verifies the accounting data produced by foreign subsidiaries and branches, as part of the consolidation process. In particular, it verifies that the information provided is consistent and complies with Group rules.

Generally speaking, the Accounting department has various means at its disposal to obtain the information it requires to fulfill its assignment of monitoring the accounting function in the broadest sense of the term. It is represented on all committees that may relate to its assignment, or is at least provided with a copy of the meeting minutes. Accounting staff frequently make site visits to foreign subsidiaries and branches. The department participates in all changes to IT systems in order to ensure that its specific needs are taken

into account, and is naturally fully involved in the management of the Dexia Group's project to adopt IFRS.

In the second half of 2004, the accounting organization of Dexia Credit Local was modified, in order to strengthen the Accounting department's means of verification. The specialized accounting teams, formerly decentralized in the back offices, are now attached to the Vice-President for Accounting, who is also supported through the creation of an independent accounting verification team and a quality assurance team. The accounting system has been adapted to raise the level of quality and efficiency of its processes and to make the consolidated accounting information it produces more reliable, especially in the context of the uniform application of the new IFRS standards throughout the Group.

#### Preparation of the financial statements

In order to prepare the financial statements, data is largely automatically posted to Dexia Credit Local's accounting system by the downstream management systems used to manage customer transactions, financial market counterparties and general operating expenses. By recording a transaction in any of these management systems, automated charts of accounts automatically generate accounting entries.

The completeness and reliability of the source entries are guaranteed by the internal control systems of the management control departments. The team in charge of enforcing standards and policies validates the automated charts of accounts, as well as the processing of complex or unusual transactions. The latter are occasionally entered manually, but they are then covered by specific internal control procedures.

First-level controls are performed by accounting teams specializing by line of business, notably through the analysis of bank reconciliations and technical suspense accounts. Each month, all transactions recorded in the general ledger system are reconciled with those in the management systems, and tests of symmetry are performed on micro hedging transactions. In order to verify the comparability of interest expense and income from one period to another, these items are measured against average outstandings to calculate more easily comparable average rates. Finally, these departments also draft a report summarizing the work performed

and identifying any points requiring special attention or procedural improvements to be made in subsequent closings.

Additional checks are also performed by the financial accounting teams during monthly, quarterly and annual closings. The work done by the business line accounting teams is reviewed periodically to ensure that all controls included in a standardized list have been correctly performed. The summary report issued by these accounting teams is also reviewed. The financial accounts are reconciled with the management accounts every quarter, and comparability between periods is verified using analytical tests. Explanations of the main changes must be provided.

The accounting entries generated during this process are subsequently compiled and aggregated using an automated, standardized process, to form the financial statements of Dexia Credit Local or any of its subsidiaries whose accounting is performed at headquarters. Using these reports, and in certain cases additional data from the management systems, financial accounting constructs the tables in the notes, a crucial part of the annual financial statements.

The Accounting department then performs crosschecks between the summary reports and the notes to the financial statements. Throughout the entire process, reviews and tests of reasonableness and of compliance with the established procedures are conducted in accordance with the reporting delegations that have been established.

The same work is performed in each of the entities that make up the Dexia Credit Local Group, although the degrees of complexity may vary with the size of these entities and the activities they engage in.

### Preparation of the consolidated financial statements

The financial statements of the international entities that are prepared under local standards are restated to ensure consistency with the accounting policies of the Dexia Credit Local Group. These policies, which are based on generally accepted French accounting practices, are compiled into a consolidation manual that is provided to each of the entities of the Dexia Credit Local Group. Operational instructions are also provided to the entities at each closing date by the head office financial accounting consolidation team. These instructions set out improvements to be made to the process in the light of remarks evinced during preceding periods, and provide details of any changes (systems, new data to be provided, etc.) to be taken into consideration during the period. The French entities receive the same documents, which provide a frame of reference for preparing their own accounts.

Should an entity experience any difficulty interpreting these policies, it may request help from the consolidation team who, in collaboration with the accounting standards team, will provide an appropriate reply. Members of these teams make periodic trips to the entities in France and abroad in order to undertake a regular review and to identify any changes in internal or external conditions which may have an accounting impact.

Using their company financial statements that have been restated to Group norms, each of the entities of the Dexia Credit Local Group fills in a consolidation package which is incorporated automatically into the consolidation system.

Checks are performed on the information collected every quarter (or every month, for the larger entities) as well as on data relating to intercompany transactions, the accounts and the notes to the financial statements. These checks are aimed at ensuring the comparability of the information provided and its compliance with Group rules, and gaining a better understanding of the principal changes that have taken place in comparison with prior periods.

The consolidation team performs specific adjustments intended notably to eliminate intercompany transactions and incorporate any changes in the scope of consolidation.

In 2005, a specialized team will begin performing additional checks to ensure the quality of the control procedures of the various Accounting teams in the Head Office and the subsidiaries, suggesting improvements to enhance the effectiveness and standardization of these procedures and incorporating all of the best practices found within the Group.

### Closing process

Once it has finalized the consolidated financial statements, the Accounting department then presents them for review by the Chief Financial Officer of Dexia Credit Local and the Chief Executive Officer, who is responsible for presenting the financial statements to the Audit committee and the Supervisory Board. The financial statements are then examined by the Management Board.

As required by law, the financial statements and consolidated financial statements are then approved by the Executive Board of Dexia Credit Local and the Group management report is drafted. The financial statements are presented to the Audit committee and then to the Supervisory Board. The latter examines the financial statements and the management report of the Executive Board, after noting any comments that the Audit committee might have made. The Supervisory Board is also apprised of the report of its Chairman on internal control procedures. The Board then shares its comments with the Shareholders' Meeting in a report.

### Publication of the financial statements of Dexia Credit Local

The summary financial statements are then incorporated into the annual report, which is equivalent to the "*document de référence*" (similar to the 10-K filing required by the SEC in the U.S.) required in France by article 211-6 of the General Standard of the Financial Markets Authority (AMF). Using these reports together with information gathered throughout the closing process, the Accounting department also prepares the written comments for the section of the management report that covers the preparation and analysis of the accounts. This accounting and financial information is made public through several means:

- the financial statements are published in BALO, the French official journal of required publications;
- the annual report is lodged in both paper and electronic formats with the AMF as the *document de référence* and with the Clerk of the French Commercial Court, and is posted on the Group website;
- the consolidated financial statements are also presented in detail to financial analysts immediately following the Supervisory Board Meeting, and in a press release.

The Accounting department and the Corporate Communications department perform reciprocal control crosschecks to ensure the consistency of the accounting and financial information published and made available to the public.

### **b. The role of the Statutory Auditors**

Certification of the accounts of Dexia Credit Local is provided by a committee of two Statutory Auditors, who conduct crosschecks of their respective audit files.

The Statutory Auditors are involved throughout the entire process of verifying the financial and accounting information in order to increase efficiency and transparency. As part of their review, they analyze accounting procedures and evaluate the internal control systems in place for the sole pur-

pose of determining the type, period and scope of their tests. Their review is not intended to provide any specific opinions regarding the effectiveness and reliability of the internal controls; however, they may choose to share any recommendations they have with regard to internal control procedures and systems that could improve the quality of the accounting and financial information prepared.

Their evaluation of internal controls is based notably on substantive tests, such as obtaining confirmations from a sample of external counterparties. They issue instructions to the auditors of the subsidiaries and collate all work performed.

They call summary review meetings to present the findings of their audits, and evaluate the interpretation of legal and regulatory statutes as performed by the accounting standards team. They are provided with all accounting and consolidation procedure manuals, as well as the instructions issued by the Accounting department. Lastly, they verify the accuracy and consistency of the management report and the financial accounting statements, as well as the consistency of the overall document with the items they have audited. As part of their audit, which is performed in accordance with the professional standards applied in France, the implementation of internal control procedures contributes to their ability to obtain reasonable assurance that the financial statements they are certifying are free from any material misstatement.

## **4.2 MANAGEMENT AND SECTOR-SPECIFIC INFORMATION**

The financial statements (balance sheet, off-balance sheet, income statement and notes) are not the only quantified analyses released by Dexia Credit Local to its shareholders and the public. They are supplemented by activity reports, results by business line, outlooks and risk assessments, which are all incorporated into the annual report or transmitted at presentations to financial analysts.

Some of these reports are provided directly by the operations departments and the Risk Management department. Their accuracy is therefore guaranteed by each department's internal control system.

Most of this information calls for data from different sources to be mixed and matched or compiled; certain high-level figures must be broken down and accounting data needs to be restated in order to respect management constraints. All this information is provided to the editors of the annual report by the Financial Control department. Like the Accounting department, the latter reports to the CFO of Dexia Credit Local, who is a member of the Management Board. Financial Control contributes to the preparation of financial information in two main ways:

### **a. Preparation of the management activity report for the first line of business**

This monthly management report includes a number of key indicators (new lending and outstanding long- and short-term

loans, commissions, amounts on deposit and assets under management, present value premiums and insured capital on the credit enhancement business, etc.). The report is compiled based on information provided by the French sales network, sourced from its information system, and also by the international entities. Written comments on the various figures are prepared in collaboration with the respective departments.

The Financial Control department also performs checks to verify the accuracy of the information provided, to provide an understanding of the main changes in comparison with previous periods and to ensure compliance of the presentation with the Group-wide standards applied to all Dexia Group entities.

This management report is validated initially by a committee composed of the CFO and the different operations managers concerned. It is then presented for final validation by the Management Board. Every quarter, it is sent to the Financial Control department of the Dexia Group. This report, which provides year-to-date information, and a commentary that is updated each month, is used during the closing of the annual accounts to provide data for inclusion in the annual report.

### **b. Calculation of earnings by business line**

The business lines are defined at the Dexia Group level. Dexia Credit Local is active essentially in the Dexia Group's first line of business (public and project finance and credit enhancement)

- in which it is the Group's sole participant, except for the Benelux countries - and the fourth line of business (treasury and financial markets), a field in which all the entities of the Dexia Group are active.

In order to provide investors with a deeper understanding of the profitability of these different business lines, the Financial Control department is responsible for preparing an income statement for each of them.

The calculation of income by business line relies essentially on two types of management data:

- Loan margins (first line of business) are prepared by the Financial Control department, by compiling data from the accounting system - such as average outstanding loans and the interest margin rate - that is generated automatically in much the same way as the pure accounting data.
- Financial margins (fourth line of business and transformation) are calculated by the Financial Activities Management department, which reports to the Risk Management department, using the internal re-billing system present in each profit center in the financial activities area. Loan margins and financial margins are combined with the other types of income, such as commissions and the like, to calculate the net banking income per business line, and the sum of these net banking income figures by business line is reconciled with the net banking income figure generated by the Accounting department.

The other items in the income statement are also allocated by business line, especially as concerns "general operating expenses" and "depreciation, amortization and allowances".

### 4.3 ADOPTION OF IFRS

Effective January 1, 2005, all quoted European companies issuing equity shares are required to publish consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) that were adopted by the European Union. Companies issuing only debt securities will not be required to apply these standards until January 1, 2007. To maintain consistency of presentation with its parent company, Dexia, Dexia Credit Local decided to adopt the new accounting standards with effect from January 1, 2005.

A project organization was set in place in mid-2002 to prepare the transition to the new financial reporting standards, and the Chief Financial Officer of Dexia chaired the steering committee set in place to manage the project. During the three previous years, the organization had studied and supervised the implementation of all the systems and procedural changes required to implement the adoption of the new standards.

The sum of these business line income statement items is reconciled at sub-total level with the income statement generated by the Accounting department. In sum, all of these procedures allow complete income statements to be prepared for each business line, in order to foster a better understanding of individual profitabilities and contributions to the total net income of Dexia Credit Local.

#### Compilation process

French and foreign entities with their own financial control departments manage the first line of business management report and calculation of earnings by business line processes locally in accordance with the same standards and principles, which may be adapted with respect to each entity's size, organization and systems. This standardized list of instructions - the "Financial Control Procedures and Standards Manual" - is used throughout the Dexia Group.

The Financial Control department of Dexia Credit Local coordinates, monitors and supervises the entire process. It provides all Dexia Credit Local Group entities with standardized, secure data-gathering tools in order to render the data collection process more reliable and effective. Lastly, it compiles all of the data collected.

The process of compiling business line data is carried out at the same time that the Accounting department is overseeing the consolidation process. At each stage of preparation of the consolidated data, the Financial Control department and Accounting departments have established tests of comparability to reconcile the management data with the accounting data.

This project was carried out in close coordination with the other Dexia Group entities, and the CFO, the head of the Accounting department and the Dexia Credit Local project manager all participated in the Dexia steering committee. The Dexia Credit Local project team carried out several actions aimed at guaranteeing the continuity of the preparation of the financial statements and the quality of the new financial statements, namely:

- presented the 2004 financial statements on the basis of the rules available at the time and whose application by the European Union was expected to take place with effect from January 1, 2005;
- provided transition-related assistance to each of its subsidiaries and branches and monitored their progress;
- analyzed all major official Interpretations related to the implementation of any new rules with its Statutory Auditors.

## 5 Internal control - Main risks and specific measures

The banking business generates four main types of risks: credit risk, market risk, structural risk (relating to interest rates, exchange rates and liquidity) and operational risk. Monitoring of all these risks is performed jointly by the appropriate committees and the Risk Management department, with the help of tools that it develops, in compliance with the guidelines established by the Dexia Group and all legal constraints and rules of prudence. As regards the supervision of risks in the subsidiaries and branches, each entity has its own local risk management structure. These structures are strictly independent of the front-offices and reporting to the Dexia Credit Local Risk Management

department either directly (branches) or functionally (subsidiaries).

Each local risk management structure comprises one or more correspondents for the management of operational risk and the implementation of the Basel reforms. In general, all the risk management measures that are present at Dexia Credit Local also exist in each subsidiary and branch. Apart from the general principles described above, the means used by Dexia Credit Local to manage these risks in practice, both on a day-to-day basis and in exceptional circumstances, are described hereafter.

### 5.1 CREDIT RISK

Credit risk is the risk of loss relating to the inability of the Bank's customers or other counterparties to meet their financial obligations.

#### a. Approval process

Any commitment that can give rise to a credit risk must be approved in accordance with a lending approval process organized according to volume, type of counterparty and complexity of the commitment.

The organization of the approval process takes into account the fact that most of the commitment decisions concern customers in the local government sector, which is low risk and also subject to specific controls relating to its public nature. As such, the process is based on extensive delegation of decision-making authority for customers in the local government sector in euro zone countries and in North America. These powers of delegation are granted to the commercial network in France (regional and territorial management) and the foreign subsidiaries and branches, within the framework of the very stringent rules embodied in the rating procedures specific to each market and updated annually under the supervision of the Risk Management department. However, it is mandatory to call upon the Dexia Credit Local Credit committee for matters concerning private sector financing, project finance, asset-based finance and lending to local government sector customers outside the areas covered by delegated authority. This decision-making process also falls within the scope of the limits set by Group Risk Management.

#### b. Credit limits

Credit limits are determined in accordance with the technical specificities of each type of counterparty, as outlined in the Group guidelines established by Group Risk Management, which have been approved by the Dexia Credit Risk Policy committee (CRPC) and implemented at Dexia Credit Local.

Simply put, the system factors the internal credit ratings and sizes of counterparties in with Dexia's Tier One capital in order to calculate decreasing credit limits.

Specific rules for private companies have been set at the Dexia Group level, taking into account the internal credit rating and the term of the transactions, with a view to limiting the impact on shareholders' equity in the event of a default. Limits for each individual transaction are set by the Dexia Credit Local Credit committee in respect of project and asset financing transactions and by the Dexia Credit committee for the larger of such deals.

Lastly, there are limits by country and, under current provisions, there are also sector limits, for example, those relating to the wind power generation and oil industries.

#### c. Monitoring and reporting

First-level monitoring is provided by front offices in the head office, branches and subsidiaries as part of the ongoing monitoring of the financial health of their counterparties. They are responsible for ensuring that credit limits are respected each time a new lending decision is presented for local approval or approval by the Credit committee.

Second-level monitoring is provided by the Risk Management department (RM), which collects and consolidates exposures, delinquent payments, consolidated non-performing loans and consolidated allowances every quarter.

Commitment and credit limit levels are examined quarterly (except interbank limits, which are verified monthly) and are reported to the Management Board as part of the documentation required by CRBF standard 97-02.

Every quarter, Loan Monitoring committees examine the continuing state of risky loans, including any allowances that have been booked against them and their possible disposal and the Default committee, chaired by RM, reviews each case that meets the default criteria set by the regulators,

with the aim of reducing the actual defaults recorded and reclassifying such cases as performing loans.

The consolidated monitoring of risks at the level of the subsidiaries and branches is based on the risk methodology as described above.

#### d. Internal credit ratings

In accordance with the rules applicable to the entire Dexia Group, each counterparty is assigned an internal risk rating. This rating is determined at the start of a relationship or transaction and is subsequently assessed on a regular and formal basis, in principle annually, except for counterparties classified as "watch list", which are reviewed quarterly.

In accordance with its selection of the advanced method under the Basel reform of the liquidity ratio and capital adequacy requirements, Dexia Credit Local develops internal credit rating systems (SNI) for each type of counterparty. At December 31, 2004, SNIs have been developed and are used for private companies, project finance, the Western

European public sector, banks and sovereign risks. Counterparties not currently covered by an SNI are rated based on expert systems and credit scores.

The counterparty credit rating scale is defined at the Dexia Group level and comprises 18 classifications, including two for counterparties in default. This scale is similar to those used by external rating agencies, and mapping tables have been established to enable each counterparty to be placed on the scale: for example, therefore, many of the local government counterparties are classified at a grade equivalent to AA.

The internal credit rating system is the responsibility of RM.

#### e. Allowance and reserve policies

Every quarter, the Reserves committee, chaired by RM, reviews any changes in non-performing loans and the allowances allocated, and monitors the cost of risk. As provided for by IFRS, the Bank uses prospective general reserves to reflect expected losses and hedge itself against any future claims.

## 5.2 MARKET RISKS

### a. Scope

Market risk is the risk of loss relating to fluctuations in market prices and interest rates, their interactions and their level of volatility. Due to the nature of its activity, the Dexia Credit Local Group is prevented from assuming significant exposure to market risk. It does not act as a market maker and therefore has exposure mainly on its short-term cash management and a portfolio of derivative products with customers that is managed on a market value basis.

Dexia Credit Local also manages on a proprietary basis a bond portfolio known as the credit spread portfolio, aimed at building up a liquidity reserve and generating a stable lending margin. This portfolio is managed without any exposure to interest rate risk by means of appropriate hedges, but remains subject to price risk relating to the market's assessment of the issuer's situation.

### b. Monitoring

The monitoring of risks relating to financial markets is organized around two committees:

- **the Market Risk committee** (MRC) meets quarterly at the Dexia Group level, and is responsible for defining and monitoring risk policies (guidelines, market risk limits, etc.). The committee's decisions are applied throughout the entire Dexia Group. The MRC decides notably on allocations of limits, by line of business, all the way down to the "desk" level;

Dexia Credit Local is represented on this committee by the heads of the Financial Markets and Risk Management departments. Dexia Credit Local Management Board representatives on the MRC commit each Dexia Credit Local

entity included in the TFM scope, under the terms of mandates that specify their expected duties as a member of the committee, the term of office, the limits of performance of duties and the types of decisions and sub-delegations that are authorized.

The Dexia Credit Local Risk Management department provides the Management Board of Dexia Credit Local with a quarterly report informing it of all changes in the consolidated risks of Dexia Credit Local (exposures, limits, limits that have been exceeded, etc.) and changes to its monitoring system (modification of measurement methods or guidelines);

- **the Dexia Credit Local Markets committee** meets monthly to provide local monitoring of the correct application of the standards and decisions set down by the Dexia Market Risk committee, and ensures that all information is provided to the appropriate Dexia Credit Local managers.

The Risk Management department's Market Risk Management unit regularly performs risk measurement and presents a quarterly market risk report to the Dexia Credit Local Management Board.

This report is based on various indicators that allow for the limits allocated to the various risks to be monitored. The main risk indicator used by Dexia Credit Local, and across the entire Dexia Group, is Value at Risk (VaR). The VaR calculated by Dexia measures the potential loss within a confidence interval of 99% for a reference period of ten days. In addition to VaR, risks are also measured and limited by the use of other indicators (sensitivity to interest rates and spreads, and sensitivity of options compared with the underlying instruments and time, etc.), calculated by currency.

## 5.3 STRUCTURAL RISKS: INTEREST RATES, EXCHANGE RATES AND LIQUIDITY

### a. Scope

Structural risks are grouped together and designated as ALM risks. The various components making up the assets (loans, financial assets, etc.), liabilities (bonds, etc.) and off-balance sheet items (derivatives, etc.) of Dexia Credit Local do not have the same characteristics in terms of interest rates, currencies, depreciation and amortization and maturity. Structurally, some or all of the future maturities represent residual surpluses or deficits. These differences constitute interest rate or exchange rate positions that generate a market risk. They also constitute an imbalance between future sources and applications of funds by generating a liquidity risk.

The purpose of ALM is to hedge the risks relating to this balance sheet structure, either partially or in full. Apart from interest rate risks and exchange rate risks relating to the financial market activity, all other significant interest rate risks, exchange rate risks and liquidity risks of Dexia Credit Local are the responsibility of the ALM committee.

### b. Monitoring and supervisory bodies

The monitoring of ALM risks is organized around two committees:

- The Dexia ALM committee meets quarterly for the purpose of checking the overall coherence of the Group's asset and liability management. This committee also approves the risk measurement methodologies and conventions. However, except in exceptional circumstances, it is not involved in management decisions, which are the responsibility of each entity given the specific characteristics of their balance sheet structures.
- The Dexia Credit Local ALM committee, which meets monthly and includes the CFO of the Dexia Group among its members, operates within the constraints laid down by the

Group. Residual risks may be retained and managed based on decisions taken by the ALM committee, which bases these management decisions on a long-term horizon. The committee has a dual role:

- For the French entities that present ALM risk and the Dublin, New York and Stockholm branches: it defines risk policy and the methods used to hedge risks. The guidelines set by the ALM committee enable individual hedging decisions to be made, but management authority may also be delegated to the Dexia Credit Local ALM department. In particular, such delegation of authority is granted in respect of "secondary" risk segments (for which specific sub-limits are fixed) and risks that need to be managed on a day-to-day basis (early repayment of loans and reference rate risks on variable rate issues).
- For other entities of the Dexia Credit Local Group that present an ALM risk: the Dexia Credit Local ALM committee shares out the risk limits allocated to Dexia Credit Local by the Dexia Group among the various entities within this scope. It ensures that these limits are used consistently according to its own scenarios for interest rate movements. Subsidiaries are responsible for implementing any recommendations that have been drafted (this concerns mainly Dexia Crediop and Dexia Hypothekenbank); they enjoy operational autonomy and have their own ALM committees. This autonomy, however, remains subject to the supervision of the Dexia Credit Local ALM committee, which, by delegating authority and setting limits, retains the means to control the policies implemented in the subsidiaries.

In any case, it monitors changes in risk on a monthly basis and checks the limits set in accordance with indicators adopted as standard for the Dexia Group. The main indicator is based on the sensitivity of the net present value of the assets and liabilities within the scope of ALM (ALM NPV) to a given change (100 basis points) in market interest rates.

## 5.4 OPERATIONAL RISKS

### a. Scope

Operational risk is defined as the risk of loss arising from the inadequacy or failure of procedures, individuals or internal systems, or even external events (disasters, fires, etc.). It includes risks relating to the security of information systems, litigation risks and reputation risk.

Operational risk is closely and continually monitored as part of internal control procedures, particularly through the internal audit function. Action plans are established for any weaknesses identified to ensure that appropriate corrective measures are taken.

### b. Monitoring

A specialized team in the Dexia Credit Local Risk Management department is responsible for operational risk, and works with a network of correspondents in each department and entity. The team takes a two-pronged approach to operational risk management:

#### Compilation, analysis and processing of incidents

One software application is used throughout the entire Dexia Group to compile data relating to operational losses and incidents. This application was developed in 2003 and implemented on January 1, 2004. It enables the Group to

create a database of historical losses, as provided for by the terms of Basel II. Operational risk correspondents are responsible for inventorying and analyzing all incidents and monitoring the implementation of any corresponding corrective measures.

### Risk mapping

In addition to identifying and analyzing past events, it is vital that this historical data be supplemented by an analysis of potential events that may have a significant impact on the Group. In the first quarter of 2005, Dexia will deploy a Group-wide global operational risk management software application for reporting incidents, risk mapping, risk monitoring indicators and action plans.

### Sustainable development

The issues relating to the Dexia Group's commitment are incorporated into this operational risk assessment process. In April 1998, Dexia signed the United Nations Statement by Financial Institutions on the Environment and Sustainable Development, part of the United Nations Environment Program (UNEP). In December 2002, a new additional commitment was formalized with the signing of the United Nations Global Compact.

In September 2003, the Dexia Group formally adopted the Equator Principles, a set of measures drawn up by a group of international banks aimed at ensuring the sound management of social and environmental issues relating to the financing of development projects. The Dexia Group has undertaken to apply these principles to international project financing transactions over USD 50 million in any industrial sector, and to publish an annual report on their application.

More specifically, Dexia Credit Local assists local decision-makers in Europe in understanding and monitoring the regulations and standards, and through various means, such as the annual awards for sustainable development, encourages the actions taken by local authorities in relation to that end.

### IT systems security

Information systems security includes all measures taken to shield data from any threat to its confidentiality, integrity or its availability.

As is the case throughout the Dexia Group, Dexia Credit Local's systems security policy is based on British Standard 77-99, a body of directives, specific operational security policies, rules and procedures covering notably such vital topics as physical security, control over access to systems, databases and applications, compliance with regulatory and ethical constraints and business continuity.

Under the supervision of a specialized steering committee, each operational department participated in preparing a continuity plan. Under the plan, the impacts of a disaster affecting IT equipment or facilities or information systems or of a loss of service are analyzed by line of business. Blocking

controls have been set in place to reduce business interruption risks to an acceptable level. Business continuity procedures have been established to ensure that vital activities may be restored within deadlines acceptable to the company. This plan and these procedures are updated and tested regularly.

Moreover, Dexia Credit Local has placed critical systems for data production with a service provider, in a single center under highly secure physical conditions and connected via high-speed links. Dexia Credit Local has also set up a mirror site to highlight any weaknesses in these systems. Dexia backs data up periodically and can very quickly substitute this site for the main site, if need be.

IT systems security is managed by three parties:

- the IT Security committee is responsible for recommending security policies to the Management Board, for establishing specific directives for each area, and for ensuring that they are implemented. The committee comprises representatives from the various parties involved, including the "lines of business", human resources, legal, logistics, audit, etc.;
- the IT Security manager is responsible for recommending security policies and directives to the IT Security committee. He validates all specific security policies, rules and procedures, raises employee awareness and provides advice to the various departments. He also validates attributions of systems access authorizations. The IT Security manager is a member of the Risk Management department, which guarantees his independence from the operations area;
- IT departments are responsible for designing and implementing all security hardware and software, and for implementing all associated operational rules and procedures. They also perform first- and second-level controls on the correct application of security rules.

### Litigation and reputation risks

Dexia Credit Local's reputation depends on compliance with an honest and professional approach in conducting its business.

This compliance is one of the primary conditions for maintaining customer confidence. The principles to be applied by all employees in order to guarantee this compliance have been formalized in the prevailing charters and codes.

They must also be reflected in the contracts issued or signed by Dexia Credit Local. This is one of the roles of the Legal and Tax department, which acts on behalf of the entire Group, either directly or via a service contract in the case of the foreign subsidiaries. The head of this department is a member of the Management Board and reports to the Chairman of the Executive Board. He also sits on the Credit committee. This department performs six main functions:

- internal consulting,
- drafting and supervision of legally binding deeds and documents,

- management of amounts under collection,
- maintaining a watch in its areas of specialization,
- legal secretariat services for Dexia Credit Local and its subsidiaries,
- administrative supervision of investments.

This department therefore plays a key role in preventing matters from being taken to litigation, anticipating changes in the law and ensuring compliance with the principles of corporate governance.

### Operational risks insurance

Dexia Credit Local currently has traditional property insu-

rance, including general hardware and facilities multirisk, car and third-party liability. All French subsidiaries are covered under these policies.

Dexia Credit Local has also subscribed policies for the following risks: directors and officers' liability for the members of the management bodies, third-party professional liability, loss of banking operations and so-called "comprehensive bank coverage", which covers fraud and the financial impact of damage to assets and/or documents. These guarantees are likewise in effect for all French and foreign entities controlled by Dexia Credit Local (given its specificity and size, FSA has an appropriately-scaled, specific level of guarantee).

Total premiums came to EUR 924,228 in 2004.

## 6 Assessment of internal control

### 6.1 THE EXECUTIVE BOARD AND THE MANAGEMENT BOARD

The Executive Board, assisted by the Management Board, plays a vital role in the assessment of internal control. It therefore has access to several sources of information to enable it to fulfill all its missions in this area.

The members of the Management Board each have a personal interest in operational responsibilities by business line or by function. They therefore have a comprehensive understanding of the constraints and opportunities in their field of activity, and are thus able to define internal control procedures and to judge their efficacy. The more significant interdepartmental committees are chaired by a member of the Management Board who can subsequently summarize the work involved to all the members. The Management Board has also implemented a system of delegation and reporting that requires the operations departments to present and approve the key indicators, through which it is able to judge the quality and smooth running of the internal control system.

Internal audit is also a preferred source of information for the Executive Board and the Management Board: the latter receives all the audit reports, which are discussed and commented on during meetings. The Management Board determines the frequency for monitoring recommendations and performs regular reviews on this subject. The Executive Board can also request Internal Audit to perform assignments that are not scheduled in the annual audit plan on topics that it deems require immediate attention.

The Statutory Auditors, as part of their audit of the financial statements, and the regulators, as part of their inspections, make ad-hoc recommendations for improving specific internal control issues. The Management Board subsequently takes the necessary actions for these recommendations to be implemented as soon as possible.

### 6.2 THE AUDIT COMMITTEE

At its meeting of September 9, 2003, the Supervisory Board of Dexia Credit Local approved the creation of an Audit committee, in accordance with the principles of corporate governance.

The Audit committee is delegated by the Supervisory Board to assist it in performing its financial control of Dexia Credit Local. The Audit committee focuses specifically on those procedures covering the preparation of the financial statements and risk management, and is also responsible for managing relationships with the Statutory Auditors.

The Audit committee reports on its work and observations to the Supervisory Board.

In performing its assignments, the Audit committee has unfet-

tered access to the Statutory Auditors, the Chief Auditor and the Compliance Officer of Dexia Credit Local. It informs the Chairman of the Executive Board of its contacts immediately.

It is aware of the conclusions drawn from any inspections performed by the regulatory bodies and from any internal audit assignments, and may request copies of the audit reports. It is also empowered to suggest any additional assignments.

The committee may request any information that it deems to be useful.

Each of the foreign banking subsidiaries, as well as FSA, has its own Audit committee with the same role and prerogatives.

## 6.3 THE DEXIA GROUP

The Dexia Group plays a major role in monitoring the internal control systems of the Dexia Credit Local Group. The managerial structure of the latter is identical to that at Group level, thus facilitating the distribution of a common internal control framework and the dissemination of good practices.

Furthermore, the current configuration of the individuals involved in the corporate governance of the Dexia Credit Local Group and the Dexia Group is also a source of opportunity for the managers of the latter to assess the smooth running of this system.

The Chairman of the Dexia Credit Local Supervisory Board is the Chief Executive Officer, Chairman of the Dexia Group Management Board. As such, he receives all the reports pre-

sent to this Management Board. These reports include those issued by Group Internal Audit, the Statutory Auditors and the regulators. He can regularly raise questions on internal control matters with the Chairman of the Executive Board of Dexia Credit Local, who is a member of the Dexia Group Management Board. Lastly, he may expedite, when he considers it necessary, a Dexia Group Internal Audit assignment on a Dexia Credit Local function.

Furthermore, the Vice-Chairman of the Dexia Credit Local Supervisory Board is the Chairman of the Audit committee. He is also Chief Financial Officer of the Dexia Group, and as such, he has responsibility for monitoring risks, the accounting department and financial control.

## 6.4 PREPARATION OF THE REPORT

This report was prepared by the Chairman of the Supervisory Board of Dexia Credit Local.

At his request, the Internal Audit department of Dexia Credit Local obtains all the relevant information from each of the operational and support departments concerned.

All of the analyses and descriptions presented are also based on information obtained from:

- discussions with the Vice-Chairman of the Supervisory Board, who is Chairman of the Dexia Credit Local Audit committee;
- discussions with the Executive Board of Dexia Credit Local;
- consultation of audit reports prepared by Dexia Group Internal Audit and Dexia Credit Local Internal Audit;
- discussions held during Dexia Group Management Board meetings.



Pierre Richard  
Chairman of the Supervisory Board

# Statutory Auditors' report on the report of the Chairman of the Supervisory Board

**on information given on the internal control procedures relating to the preparation and processing of financial and accounting information, as provided for by article L. 225-235 of the French Commercial Code.**

*(This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by French law and this is presented after the Opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessment (1) of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. The report also includes information relating to the specific verification (2) of information in the management report. This report together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with French law and professional auditing standards applicable in France.)*

To the shareholders,

In our capacity as Statutory Auditors of **Dexia Credit Local**, and in accordance with article L. 225-235 of the Commercial Code, we hereby report to you on the report prepared by the Chairman of the Supervisory Board, in accordance with article L. 225-68 of the Commercial Code for the year ended December 31, 2004.

It is the responsibility of the Chairman of the Supervisory Board to give an account, in his report of the conditions in which the tasks and governance of the Supervisory Board are prepared and organized and of the internal control procedures implemented within the Company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We conducted our work in accordance with the professional guidelines applicable in France. These guidelines require that we assess the fairness of information given in the report prepared by the Chairman of the Supervisory Board on the internal control procedures relating to the preparation and processing of financial and accounting information. We have:

- obtained an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report; and
- obtained an understanding of the Company's procedures supporting the information provided in the Chairman's report.

Based on the procedures we have performed, we have no matters to report in connection with the information provided on the Company's internal control procedures relating to the preparation and processing of financial and accounting information, contained in the report of the Chairman of the Supervisory Board, prepared in accordance with article L. 225-68 of the Commercial Code.

Paris, March 8, 2005

## The Statutory Auditors

### CADERAS MARTIN

Daniel BUTELOT  
Partner

Olivier AVRIL  
Partner

### MAZARS & GUÉRARD

Guillaume POTEL  
Partner

Anne VEAUTE  
Partner

# Consolidated financial statements

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# Consolidated balance sheet

(EUR millions)

## Assets

At December 31	Note	2002	2003	2004
<b>I Cash, central banks and postal checking accounts</b>	<b>2.0</b>	<b>644</b>	<b>325</b>	<b>252</b>
<b>II Government securities eligible for central bank financing</b>	<b>2.1</b>	<b>5,503</b>	<b>3,461</b>	<b>8,686</b>
A. Banking activity and other		3,330	3,253	8,420
B. Insurance activity		2,173	208	266
<b>III Interbank loans and advances</b>		<b>7,431</b>	<b>9,755</b>	<b>12,105</b>
A. Sight		526	670	1,568
B. Time	2.2	6,905	9,085	10,537
<b>IV Customer loans</b>	<b>2.3</b>	<b>86,029</b>	<b>88,434</b>	<b>95,506</b>
<b>V Bonds and other fixed-income securities</b>	<b>2.4</b>	<b>55,726</b>	<b>58,511</b>	<b>72,466</b>
A. Banking activity and other		44,768	51,175	62,735
1. Government bonds		17,579	19,945	26,252
2. Other bonds		27,189	31,230	36,483
B. Insurance activity		10,958	7,336	9,731
<b>VI Equities and other variable-income securities</b>	<b>2.5</b>	<b>291</b>	<b>194</b>	<b>505</b>
A. Banking activity and other		291	194	495
B. Insurance activity		0	0	10
<b>VII Long-term investments</b>	<b>2.6</b>	<b>855</b>	<b>671</b>	<b>692</b>
A. Investments in companies accounted for by the equity method		442	303	308
B. Investments at cost		413	368	384
1. Banking activity and other		400	359	377
2. Insurance activity		13	9	7
<b>VIII Intangible assets</b>		<b>1,600</b>	<b>1,532</b>	<b>1,434</b>
A. Organization expenses and other intangible assets	2.9	47	46	56
B. Goodwill arising on consolidation	2.8	1,553	1,486	1,378
<b>IX Property and equipment</b>	<b>2.10</b>	<b>156</b>	<b>147</b>	<b>122</b>
<b>X Unpaid capital</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>XI Uncalled capital</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>XII Treasury stock</b>	<b>2.14</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>XIII Other assets</b>	<b>2.12</b>	<b>2,979</b>	<b>3,981</b>	<b>5,890</b>
A. Banking activity and other		2,617	3,655	5,552
B. Insurance activity		362	326	338
<b>XIV Accruals and other assets</b>	<b>2.11</b>	<b>7,279</b>	<b>7,153</b>	<b>8,373</b>
<b>TOTAL ASSETS</b>		<b>168,493</b>	<b>174,164</b>	<b>206,031</b>

# Consolidated balance sheet

(EUR millions)

## Liabilities and shareholders' equity

At December 31		Note	2002	2003	2004
<b>I</b>	<b>Interbank loans and deposits</b>		<b>41,582</b>	<b>44,084</b>	<b>52,164</b>
	A. Sight		5,911	2,583	2,907
	B. Time	3.1	35,671	41,501	49,257
<b>II.</b>	<b>Customer deposits</b>	<b>3.2</b>	<b>7,833</b>	<b>10,235</b>	<b>14,088</b>
	A. Savings accounts		0	0	0
	B. Other deposits		5,612	5,353	6,627
	1. Sight		995	1,230	1,318
	2. Time		4,617	4,123	5,309
	C. Insurance activity		2,221	4,882	7,461
<b>III.</b>	<b>Debt securities</b>	<b>3.3</b>	<b>100,662</b>	<b>99,157</b>	<b>116,096</b>
	A. Banking activity and other		91,601	98,696	115,801
	1. Notes and bonds		69,419	66,000	75,202
	2. Other		22,182	32,696	40,599
	B. Insurance activity		9,061	461	295
<b>IV.</b>	<b>Other liabilities</b>	<b>3.12</b>	<b>2,625</b>	<b>1,941</b>	<b>2,177</b>
	A. Banking activity and other		1,687	978	1,161
	B. Insurance activity		938	963	1,016
<b>V.</b>	<b>Accruals and other liabilities</b>	<b>3.4</b>	<b>7,277</b>	<b>9,512</b>	<b>11,656</b>
<b>VI.</b>	<b>Reserves and provisions</b>		<b>935</b>	<b>918</b>	<b>876</b>
	A. Contingencies and charges	3.5	298	279	235
	B. Deferred taxes	3.6	451	484	530
	C. Insurance activity	3.5	186	155	111
<b>VII.</b>	<b>General banking risks reserve</b>	<b>3.7</b>	<b>478</b>	<b>478</b>	<b>478</b>
<b>VIII.</b>	<b>Subordinated debt</b>	<b>3.8</b>	<b>2,144</b>	<b>2,925</b>	<b>3,483</b>
<b>IX.</b>	<b>Minority interests</b>	<b>3.10</b>	<b>924</b>	<b>686</b>	<b>693</b>
	Consolidated shareholders' equity	3.10	4,033	4,228	4,320
<b>X.</b>	<b>Capital stock</b>	<b>3.10</b>	<b>1,327</b>	<b>1,327</b>	<b>1,327</b>
<b>XI.</b>	<b>Additional paid-in capital</b>	<b>3.10</b>	<b>1,087</b>	<b>1,087</b>	<b>1,087</b>
<b>XII.</b>	<b>Reserves and retained earnings</b>	<b>3.10</b>	<b>1,231</b>	<b>1,348</b>	<b>1,463</b>
<b>XIII.</b>	<b>Revaluation reserve</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>XIV.</b>	<b>Negative goodwill arising on consolidation</b>	<b>2.8</b>	<b>0</b>	<b>15</b>	<b>0</b>
<b>XV.</b>	<b>Cumulative translation adjustments</b>	<b>3.10</b>	<b>(66)</b>	<b>(166)</b>	<b>(262)</b>
<b>XVI.</b>	<b>Consolidated net income for the year</b>	<b>3.10</b>	<b>454</b>	<b>617</b>	<b>705</b>
<b>XVII.</b>	<b>Interim dividends</b>		<b>0</b>	<b>0</b>	<b>0</b>
	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>168,493</b>	<b>174,164</b>	<b>206,031</b>

## Consolidated off-balance sheet items

(EUR millions)

At December 31	Note	2002	2003	2004
<b>I. Contingencies</b>	<b>4.1</b>	<b>16,236</b>	<b>19,598</b>	<b>23,703</b>
<b>II. Financing commitments</b>	<b>4.2</b>	<b>23,506</b>	<b>25,384</b>	<b>22,376</b>
<b>III. Assets held on behalf of third parties</b>	<b>4.3</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IV. Amounts due on shares in affiliates</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>V. Commitments received</b>		<b>103,717</b>	<b>93,608</b>	<b>103,120</b>
A. Finance commitments received	4.8	7,265	7,041	4,838
B. Guarantees received		8,590	9,732	12,295
C. Commitments received by insurance companies	4.12	87,862	76,835	85,987
<b>VI. Commitments related to foreign currency transactions</b>		<b>111,282</b>	<b>97,202</b>	<b>108,224</b>
A. Amounts receivable		55,275	47,527	52,402
B. Amounts to be delivered	4.4	56,007	49,675	55,822
<b>VII. Commitments related to derivatives</b>	<b>4.4</b>	<b>513,075</b>	<b>547,038</b>	<b>613,473</b>
<b>VIII. Commitments related to securities transactions</b>	<b>4.10</b>	<b>4,385</b>	<b>2,320</b>	<b>4,035</b>
<b>IX. Other commitments given</b>		<b>348,560</b>	<b>317,424</b>	<b>335,691</b>
A. Banking activity and other		7,336	7,501	10,508
B. Insurance activity	4.12	341,224	309,923	325,183

## Consolidated income statement

(EUR millions)

At December 31	Note	2002	2003	2004
<b>I. Interest income</b>	<b>5.0</b>	<b>16,205</b>	<b>14,390</b>	<b>16,440</b>
A. Interbank transactions		2,481	2,583	2,956
B. Customer loans		11,647	9,950	11,456
C. Bonds and fixed-income securities		2,077	1,857	2,028
<b>II. Interest expense</b>	<b>5.0</b>	<b>(15,423)</b>	<b>(13,439)</b>	<b>(15,597)</b>
A. Interbank transactions		(3,492)	(3,243)	(3,671)
B. Customer deposits		(8,125)	(6,965)	(8,855)
C. Bonds and fixed-income securities		(3,806)	(3,231)	(3,071)
<b>III. Income from variable-income securities</b>		<b>18</b>	<b>18</b>	<b>13</b>
A. Equities and other variable-income securities		2	1	0
B. Long-term investments	5.1	16	17	13
<b>IV. Commission income</b>	<b>5.2</b>	<b>67</b>	<b>77</b>	<b>75</b>
<b>V. Commission expense</b>	<b>5.2</b>	<b>(13)</b>	<b>(16)</b>	<b>(19)</b>
<b>VI. Gains (losses) on trading securities transactions</b>	<b>5.3</b>	<b>175</b>	<b>86</b>	<b>189</b>
<b>VII. Gains (losses) on securities available for sale transactions</b>	<b>5.3</b>	<b>(42)</b>	<b>11</b>	<b>5</b>
<b>VIII. Other banking income</b>		<b>136</b>	<b>125</b>	<b>152</b>
<b>IX. Other banking expense</b>		<b>(108)</b>	<b>(99)</b>	<b>(111)</b>
<b>X. Underwriting and investment income from insurance activity</b>	<b>5.12</b>	<b>387</b>	<b>453</b>	<b>468</b>
<b>NET BANKING INCOME</b>		<b>1,402</b>	<b>1,606</b>	<b>1,615</b>

## Consolidated income statement (cont'd)

(EUR millions)

At December 31	Note	2002	2003	2004
<b>XI. Total general operating expenses</b>		<b>(431)</b>	<b>(433)</b>	<b>(443)</b>
A. Payroll costs	5.4	(231)	(237)	(253)
1. Wages and salaries		(156)	(157)	(169)
2. Payroll taxes		(75)	(80)	(84)
B. Other general operating expenses		(143)	(144)	(140)
1. Taxes other than on income		(20)	(17)	(11)
2. Other		(123)	(127)	(129)
C. Deferred acquisition costs		(57)	(52)	(50)
<b>XII. Depreciation, amortization and allowances for impairment in value of assets</b>		<b>(40)</b>	<b>(40)</b>	<b>(45)</b>
<b>OPERATING INCOME BEFORE COST OF RISK</b>		<b>931</b>	<b>1,133</b>	<b>1,127</b>
<b>XIII. Cost of risk</b>	5.5	<b>(134)</b>	<b>(52)</b>	<b>(13)</b>
<b>OPERATING INCOME</b>		<b>797</b>	<b>1,081</b>	<b>1,114</b>
<b>XIV. Income (losses) from companies accounted for by the equity method</b>		<b>71</b>	<b>23</b>	<b>39</b>
A. Income		72	32	39
B. Losses		(1)	(9)	0
<b>XV. Net gains (losses) on fixed assets</b>		<b>(8)</b>	<b>8</b>	<b>8</b>
A. Intangible assets, property and equipment		0	1	10
B. Long-term investments	5.6	(8)	7	(2)
<b>RECURRING INCOME BEFORE INCOME TAXES</b>		<b>860</b>	<b>1,112</b>	<b>1,161</b>
<b>XVI. Non-recurring items</b>	5.7	<b>0</b>	<b>0</b>	<b>0</b>
<b>XVII. Corporate income tax</b>	5.9	<b>(229)</b>	<b>(314)</b>	<b>(307)</b>
A. Current taxes		(221)	(284)	(256)
B. Deferred taxes		(8)	(30)	(51)
<b>XVIII. Amortization of goodwill</b>		<b>(93)</b>	<b>(89)</b>	<b>(78)</b>
A. Consolidated companies		(83)	(80)	(70)
B. Companies accounted for by the equity method		(10)	(9)	(8)
<b>XIX. Net allocation to the general banking risks reserve</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>XX. Minority interests</b>		<b>84</b>	<b>92</b>	<b>71</b>
<b>CONSOLIDATED NET INCOME</b>		<b>454</b>	<b>617</b>	<b>705</b>
Earnings per share (EUR)	5.13	5.22	7.09	8.10
Diluted earnings per share (EUR)		5.22	7.09	8.10

# Notes to the consolidated financial statements

## 1 Basis and scope of consolidation - Summary of significant accounting policies

### 1.1 GROUP COMPANIES - BASIS OF CONSOLIDATION

#### a. Consolidation principles

The basis of consolidation has been determined in accordance with Accounting Regulatory Committee (CRC) standard 99-07 dated November 24, 1999 as applicable to credit institutions and as amended by CRC standard 2004-04 dated May 4, 2004.

The standard states that consolidated financial statements should include all significant companies that are controlled exclusively or jointly by Dexia Credit Local or over which Dexia Credit Local exercises significant influence.

Companies that are controlled exclusively or jointly by Group companies or over which Group companies exercise significant influence are consolidated.

In order to ensure that the Group's accounts are fairly presented, companies which are not material in relation to the consolidated financial statements are excluded from the scope of consolidation.

Companies with total assets equivalent to less than 0.1% of total consolidated assets (EUR 206 million in 2004) are considered as not material. At December 31, 2004, the total assets of non-consolidated companies were below this individual threshold.

#### b. Scope of consolidation in 2004 - Changes compared with 2003

The main changes to the scope of consolidation in 2004 were the following:

##### Newly consolidated companies

- Dexia Credit Local Asia Pacific Pty Ltd, a recently created Australian subsidiary;
- Dexia Delaware LLC, a subsidiary managed by the New York branch;
- A Dexia Crediop subsidiary (Dexia Crediop per la Cartolarizzazione);
- An FSA subsidiary (FSA Credit Protection Ltd);
- Three Kommunalkredit Austria AG subsidiaries in the scope of (Kofis Leasing, Kommunalkredit Depotbank AG and Kommunalkredit Capital I Ltd).

#### Deconsolidated companies

- Dexia Asset Management France and Dexia Banque Privée France were sold during the first quarter of 2004;
- The assets of Ifax were transferred to Dexia Credit Local at the end of November 2004;
- Dexia Sofaxis and Dexia Crediop's respective GIE GRH Informatique and Crediop BV subsidiaries were liquidated;
- Dexia Fund Services Italia, which Dexia Crediop accounted for by the equity method, was deconsolidated following a decrease in the percentage held by the Group.

#### Other changes

- Dexia Holdings Inc. decreased its stake in FSA from 98.1% to 98.09% on March 31, 2004 as part of its program of selling shares to certain former FSA shareholders (with a put option to Dexia);
- FSA increased its stake in Select Portfolio Servicing Inc. (formerly Fairbanks Capital Holding Corp), which is accounted for by the equity method, from 28.9% to 34.06%.

#### c. Impact of changes in the scope of consolidation on the consolidated financial statement

None of the above-mentioned changes in the scope of consolidation had a material impact on the 2004 consolidated financial statements.

#### d. Significant events

The highlights of the year were as follows:

- Pre-tax capital gains of EUR7.3 million and EUR3.6 million were recorded on the sale of buildings in Rome and London respectively;
- An additional allowance of EUR 10.3 million was booked against the shares in and the shareholder's advance to, the American company GSF: the decision was made to discontinue the company's U.S. leasing activity, as the market has been frozen pending regulatory changes;
- The devaluation of the dollar against the euro (a 9% decrease) reduced the contribution of the Group's American

entities. As an example, at a constant rate of exchange, the contributions made by FSA and the New York branch to consolidated net income for the year would have amounted respectively to EUR 201 million and EUR 69 million, rather than the EUR 185 million and EUR 64 million actually reported in the December 31, 2004 financial statements;

- As part of its effort to simplify its structures in the United States, in 2004 Dexia Credit Local created Dexia Credit Local Grand Cayman branch and acquired Dexia Delaware LLC from Dexia Banque. These two entities are used to fund the Dexia Group in USD through short-term issuances and customer deposits. The additional assets of these two entities increased Dexia Credit Local's balance sheet by EUR 9.6 billion at December 31, 2004;

- At the end of 2003 a tax audit identified problems with regard to the timing of tax payments in respect of early repayment fees and equalization payments arising on the cancellation of hedging swaps. Dexia Credit Local amortized early repayment fees over the period comprised between the cancellation and the original maturity date of the prepaid loans, for both accounting and tax purposes. Equalization payments for hedging swaps were also amorti-

zed over the period comprised between the cancellation and the original maturity date of the cancelled transactions. This practice was outlined in the summary of significant accounting policies in the notes to the financial statements in previous years (and is also mentioned in the notes to the 2004 financial statements). By written notification dated November 2004, the tax authorities advised that they did not dispute the methodology used for the years ending prior to January 1, 2005. Once informed that the issue had been resolved, the Company was able to reverse most of the provision created in 2003. However, from 2005 onward the tax and accounting treatment of new transactions concerning early repayment fees and equalization payments on cancelled hedging swaps will be changed;

- In 2004 Dexia Credit Local created a provision of EUR 2.2 million to cover the new tax on the reserve for long-term capital gains introduced by the Retrospective Finance Act of 2004;


- Dexia Hypothekenbank Berlin was the subject of a tax audit in respect of the 1998 to 2000 tax years. The conclusions of the audit, which Dexia Hypothekenbank Berlin intends to challenge, gave rise to the creation a EUR 4 million provision.


## 1.2 DEXIA CREDIT LOCAL SCOPE OF CONSOLIDATION AT DECEMBER 31, 2004

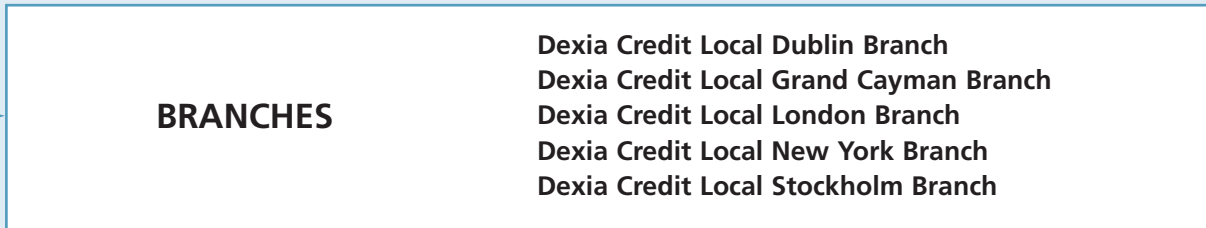
### DEXIA CREDIT LOCAL

#### DOMESTIC

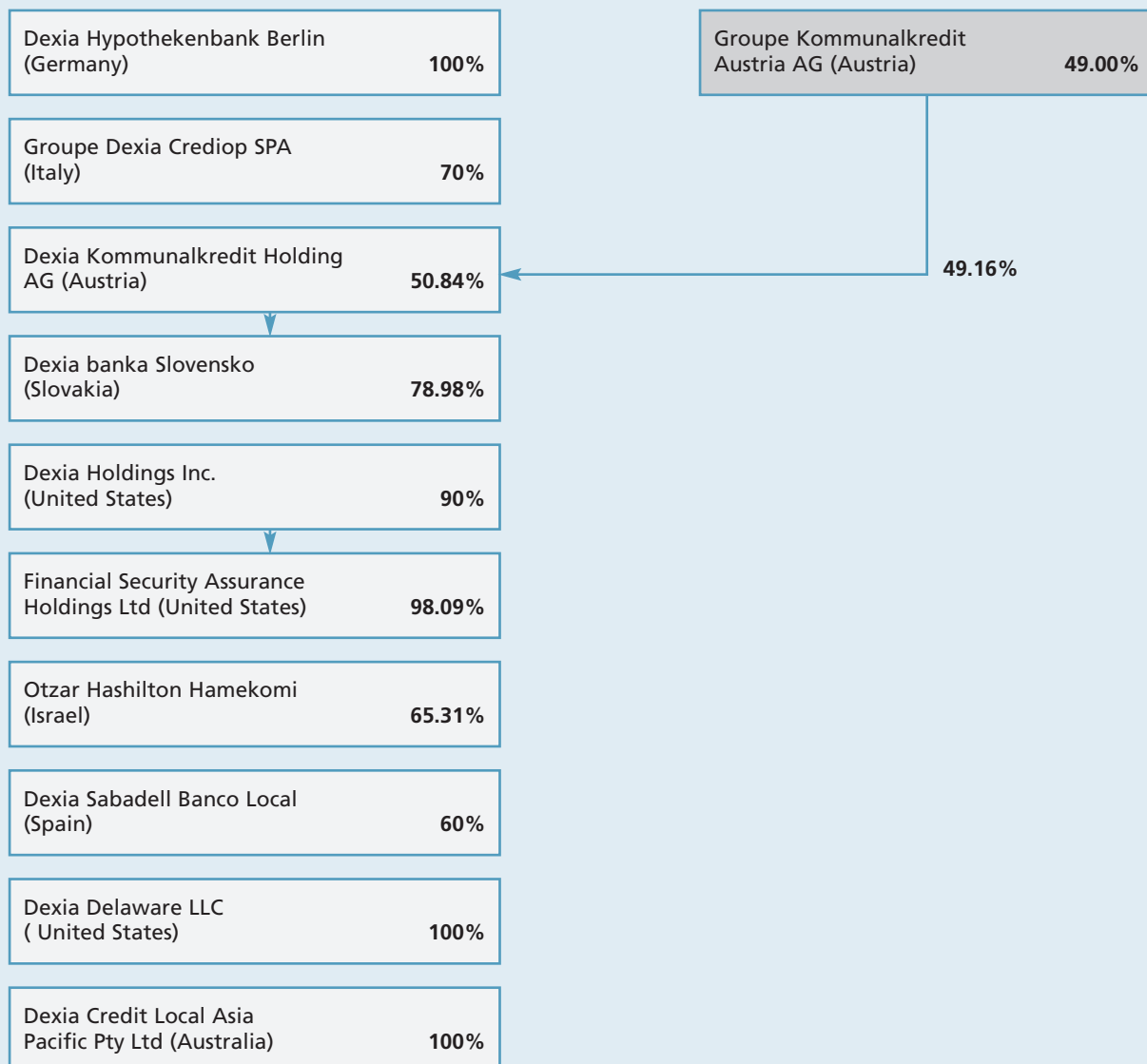
Dexia CLF Banque	80%	Crédit du Nord	10%
Floral	100%	Dexia Location Longue Durée	49%
Dexia Flobail	100%	Dexia Bail	100%
Dexia CLF Régions Bail	100%	Dexia Municipal Agency	100%
Dexia CLF Immo	100%	Dexia Finance	100%
Dexia Sofaxis	100%	CLF Patrimoniale	100%
SISL (Luxembourg)	100%	SCI du 32 avenue de New York	100%

 Subsidiaries accounted for by the equity method

 Fully-consolidated subsidiaries



**INTERNATIONAL**



### a. Fully-consolidated subsidiaries

Name	Head Office	Business code	% interest
<b>Dexia CLF Banque</b>	7 à 11, quai André-Citroën F-75015 Paris	01	80
<b>Dexia Finance</b>	7 à 11, quai André-Citroën F-75015 Paris	20	100
<b>Dexia CLF Immo</b>	7 à 11, quai André-Citroën F-75015 Paris	10	100
<b>Dexia CLF Régions Bail</b>	7 à 11, quai André-Citroën F-75015 Paris	05	100
<b>Dexia Hypothekbank Berlin</b>	Charlottenstrasse 82 D - D-10969 Berlin	01	100
<b>Dexia Crediop</b>	Via Venti Settembre 30 I-00187 Rome	01	70
<b>Dexia Flobail</b>	7 à 11, quai André-Citroën F-75015 Paris	05	100
<b>Floral</b>	7 à 11, quai André-Citroën F-75015 Paris	49	100
<b>SISL (ex Société d'Investissement Suisse Luxembourgeoise)</b>	180, rue des Aubépines L-1 145 Luxembourg	10	100
<b>Crediop Overseas Bank Ltd <sup>(1)</sup></b>	P.O. Box 707 - West Bay Road Grand Cayman - British West Indies	01	100
<b>Dexia Crediop per la Cartolarizzazione <sup>(1)</sup></b>	Via Venti Settembre 30 I-00187 Rome	49	100
<b>Dexia Kommunalkredit Holding AG</b>	Turkenstrasse 9 A-1092 Vienna 07	07	50.84
<b>Dexia banka Slovensko</b>	Hodzova ul. 11 010 11 Zilina - Slovakia	01	78.98
<b>Dexia Sofaxis (ex Sofca)</b>	F-18020 Bourges Cedex France	47	100
<b>SNC SOFCAH <sup>(2)</sup></b>	F-18020 Bourges Cedex France	30	100
<b>SNC SOFCAP <sup>(2)</sup></b>	F-18020 Bourges Cedex France	30	100
<b>Sarl DS Formation France <sup>(2)</sup> (ex Sarl Es Form)</b>	F-18020 Bourges Cedex France	47	100
<b>SNC SOFIM <sup>(2)</sup></b>	F-18020 Bourges Cedex France	47	100
<b>S.A SOFCA Investissements <sup>(2)</sup></b>	F-18020 Bourges Cedex France	47	100
<b>SAS DS Services France <sup>(2)</sup> (ex Dexia Sofaxis Services)</b>	F-18020 Bourges Cedex France	47	100
<b>Dexia Location Longue Durée (ex Dexia CLF Lease Services)</b>	7 à 11, quai André-Citroën F-75015 Paris	05	49
<b>Dexia Bail</b>	7 à 11, quai André-Citroën F-75015 Paris	05	100
<b>Dexia Municipal Agency</b>	7 à 11, quai André-Citroën F-75015 Paris	01	100
<b>Otzar Hashilton Hamekomi <sup>(3)</sup></b>	3 Heftman street 64737 Tel Aviv Israel	01	65.31
<b>Dexia Sabadell Banco Local</b>	Paseo de las doce Estrellas, 4 Campo de las naciones E-28042 Madrid	01	60
<b>CLF Patrimoniale</b>	7 à 11, quai André-Citroën F-75015 Paris	31	100
<b>SCI du 32 avenue de New York</b>	7 à 11, quai André-Citroën F-75015 Paris	31	100

Name	Head Office	Business code	% interest
<b>Dexia Credit Local Asia Pacific Pty Ltd</b>	Level 23, Veritas House 207 Kent Street Sydney NSW 2000, Australia	01	100
<b>Dexia Delaware LLC</b>	15, East North Street, Dover 19901 Delaware, MD U.S.A.	49	100
<b>Dexia Holdings Inc.</b>	350 Park Avenue New York, NY 10022 U.S.A.	10	90
<b>Financial Security Assurance Holdings Ltd</b>	350 Park Avenue New York, NY 10022 U.S.A.	10	98.09
<b>Transaction Services Corporation</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	47	100
<b>CLFG Corp</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	47	100
<b>FSA Portfolio Management Inc.</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	10	100
<b>Financial Security Assurance Ltd</b> <sup>(4)</sup>	167 Macquarie Street Sydney Australia	47	100
<b>FSA Services (Australia) Pty Ltd</b> <sup>(4)</sup>	Level 23, Veritas House 207 Kent Street Sydney NSW 2000, Australia	29	100
<b>Financial Security Assurance Inc.</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	28	100
<b>FSA Insurance Company</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	28	100
<b>Financial Security Assurance (UK) Ltd</b> <sup>(4)</sup>	1 Angel Court London, EC2R 7AE UK	28	100
<b>FSA Services (Japan) Inc.</b> <sup>(4)</sup>	Tokyo Ginko Kyokai Building 17 Floor 3-1, Marunouchi 1 - chome Chiyoda-ku, Tokyo 100-0005 Japan	29	100
<b>Financial Security Assurance International Ltd</b> <sup>(4)</sup>	3 Bermudiana Road PO Box HM 1272 Hamilton, Bermuda	28	80
<b>FSA Asset Management LLC</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	19	100
<b>FSA Capital Markets Services LLC</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	19	100
<b>FSA Capital Management Services LLC</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	19	100
<b>FSA Administrative Services LLC NY</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	10	100
<b>FSA Global Funding Ltd</b> <sup>(4)</sup>	Queensgate house Grand Cayman, Cayman Island British West Indies	10	29
<b>Canadian Global Funding</b> * <sup>(4)</sup>	P.O Box 1984 GT, Elizabethan Square Grand Cayman, Cayman Islands Bristish West Indies	49	0

(1) Companies consolidated by Dexia Crediop.

(2) Companies consolidated by Dexia Sofaxis.

(3) 65.99% of voting rights held.

(4) Companies consolidated by FSA Holdings Ltd.

\* Currently being liquidated.

### a. Fully-consolidated subsidiaries (cont'd)

Name	Head Office	Business code	% interest
<b>R2Co.</b> <sup>(4)</sup>	Queensgate House Grand Cayman, Cayman Islands British West Indies	49	29
<b>Enterprise Co.</b> <sup>(4)</sup>	Queensgate House Grand Cayman, Cayman Islands British West Indies	49	29
<b>Premier International Funding</b> <sup>(4)</sup>	Queensgate House Grand Cayman, Cayman Islands British West Indies	10	0
<b>FSA International Credit Protection Ltd</b> <sup>(4)</sup>	P.O Box 309 GT, Ugland House South Church Street, George Town Grand Cayman, Cayman Islands British West Indies	28	100
<b>FSA Capital Markets Services Ltd</b> <sup>(4)</sup>	P.O Box 1093 GT, Queensgate House South Church Street, George Town Grand Cayman, Cayman Islands British West Indies	19	100
<b>FSA Credit Protection Ltd</b> <sup>(4)</sup>	350 Park Avenue New York, NY 10022 U.S.A.	49	100

(4) Companies consolidated by FSA Holdings Ltd.

### b. Non-consolidated subsidiaries

Dénomination	Head Office	Business code	% interest	Net book value of shares (EUR thousands)	Reason for exclusion
<b>Assuréco</b>	7 à 11, quai André-Citroën F-75015 Paris	22	100	1,798	Below materiality threshold
<b>CLF Marne-la-Vallée Participation</b>	7 à 11, quai André-Citroën F-75015 Paris	10	100	57	Below materiality threshold
<b>Dexia Editions</b>	7 à 11, quai André-Citroën F-75015 Paris	45	100	253	Below materiality threshold
<b>Europrojet Développement</b>	7 à 11, quai André-Citroën F-75015 Paris	20	100	174	Below materiality threshold
<b>CLF Badger</b>	7 à 11, quai André-Citroën F-75015 Paris	10	100	83	Below materiality threshold
<b>Dexint Développement</b>	76, rue de la Victoire F-75009 Paris	20	100	55	Below materiality threshold
<b>Compagnie pour le Foncier et l'Habitat</b>	7 à 11, quai André-Citroën F-75015 Paris	31	100	3,049	Below materiality threshold
<b>Astris Finance</b>	1634 Eye Street NY, Suite 901 Washington DC 2006 U.S.A.	20	55	916	Below materiality threshold
<b>Dexia Global Structured Finance</b>	445 Park Avenue New York NY 10022 U.S.A.	20	75	0	Currently being liquidated
<b>Dexia Kommunalkredit Polska</b>	ul. Sienna 39 00-121 Warsaw - Poland	49	100	500	Below materiality threshold

**c. Joint companies consolidated by the proportional method**

None.

**d. Non-consolidated joint companies**

None.

**e. Affiliated companies accounted for by the equity method**

Name	Head Office	Business code	% interest
<b>Kommunalkredit Austria AG</b>	Turkenstrasse 9 A - 1092 Vienna Austria	01	49
<b>Crédit du Nord</b>	59, boulevard Haussmann F-75008 Paris	01	10
<b>Select Portfolio Servicing Inc</b> (formerly Fairbanks) Capital Holding Corp) <sup>(1)</sup>	3815 SW Temple Salt Lake City UT 84165, U.S.A.	47	34.06
<b>XL Insurance</b> <sup>(1)</sup>	Cumberland House 1 Victoria street Hamilton, Bermuda	28	15
<b>Kommunalkredit International Bank Ltd</b> <sup>(2)</sup>	25 Spyrou Araouzou St. Cy - 3036 Limassol	01	100
<b>Kommunalkredit Beteiligungs und Immobilien Gmbh</b> <sup>(2)</sup>	Türkenstrasse 9, A-1092 Vienna	31	100
<b>Kommunalkredit Finance AS</b> <sup>(2)</sup>	Krakovská 1366/25 CZ - 110 00 Prague	49	100
<b>Kommunalleasing Gmbh</b> <sup>(2)</sup>	Türkenstrasse 9, A-1092 Vienna	05	50
<b>Kommunalkredit Public Consulting Gmbh</b> <sup>(2)</sup>	Türkenstrasse 9, A-1092 Vienna	41	100
<b>Kommunalkredit Depotbank AG</b> <sup>(2)</sup>	Türkenstrasse 9, A-1092 Vienna	01	100
<b>Kommunalkredit Capital I Ltd</b> <sup>(2)</sup>	22 Grenville Street, St Helier Jersey JE4 8PX	17	100
<b>Kofis Leasing</b> <sup>(2)</sup>	Jana Milca 6 010 01 Zilina - Slovakia	05	100

(1) Companies consolidated by FSA Holdings Ltd.

(2) Companies consolidated by Kommunalkredit Austria AG, some fully (100%) and some accounted for by the equity method (50%-owned) (Dexia Credit Local uses the equity method to account for the consolidated financial statements of Kommunalkredit Austria AG).

**f. Affiliated companies not accounted for by the equity method**

Name	Head Office	Business code	% interest	Net book value shares (EUR thousands)
<b>Le Monde Investisseurs</b>	21 bis, rue Claude-Bernard F-75005 Paris	10	35.75	3,291
<b>Fonds Innovation Plus Nord-Pas-de-Calais</b>	7 à 11, quai André-Citroën F-75015 Paris	41	37.5	204
<b>Cypress Point</b>	Queensgate House Grand Cayman, Cayman Islands British West Indies	17	23	17
<b>Istituto per il Credito Sportivo</b>	Via Giovanbattista Vico, 5 I-00192 Rome Italy	01	21.62	24,658

### f. Affiliated companies not accounted for by the equity method

Name	Head Office	Business code	% interest	Net book value shares (EUR thousands)
SPS - Sistema Permanente di Servizi Scpa in liquidazione e concordato preventivo	Via Livorno, 36 I-00162 Rome	46	20.4	0
Sogama Crédit Associatif *	75, rue Saint-Lazare F-75009 Paris	22	16.5	815
SNC du Chapitre *	37, rue Notre-Dame-des-Sept-Douleurs F-84000 Avignon	41	50	4
Créatis *	34, rue Nicolas-Leblanc F-59000 Lille	01	12.5	2,858
Dexia Insurance *	23, avenue des Arts B-1000 Brussels	28	10	5,335
Dexia Fund Services Italia Spa	Via Mesina 38 I-20154 Milan	47	20	1,043

\* These companies were deconsolidated at December 31, 2003 due to their immateriality.

### g. Companies which are neither consolidated nor accounted for by the equity method in which the Group has at least a 10% stake and whose net book value is over EUR 10 million

Name	Head Office	% interest	Shareholders' equity (EUR thousands)	Net book value of shares (EUR thousands)	Year-end
Dexia Fondec Energy Efficiency	Walker house P.O. Box 265 GT George Town, Grand Cayman Cayman Islands, British West Indies	13.33	47,982	(301)	March 31, 2004
Ecofin Water and Power opportunities PLC	77 A High Street Brentwood, Essex CM14 4RR	15.00	141,706	8,481	March 31, 2004

### h. Changes in the scope of consolidation compared with December 31, 2003

#### Companies fully-consolidated for the first time in 2004

Dexia Crediop per la Cartolarizzazione (June 2004)  
Dexia Asia Pacific Pty Ltd (December 2004)  
Dexia Delaware LLC (December 2004)  
FSA Credit Protection Ltd in the FSA sub-group

#### Changes in ownership interest in fully-consolidated companies

Financial Security Insurance Holdings Ltd: from 98.1% to 98.09% (March 2004)

#### Fully-consolidated companies that were deconsolidated in 2004

Crediop BV (liquidation procedures commenced in June 2004)  
Ifax (Global Transfer of Assets (TUP) in November 2004)  
GIE GRH Informatique (liquidated in September 2004)

## Companies accounted for by the equity method for the first time in 2004

Kommunalkredit Depotbank AG (49%, March 2004)  
 Kommunalkredit Capital I Ltd (49%, December 2004)  
 Kofis Leasing (49%, March 2004)

## Changes in ownership interest in companies accounted for by the equity method

Select Portfolio Servicing Inc (formerly Fairbanks Capital Holding Corp): from 28.9% to 34.06% (September 2004)

## Companies accounted for by the equity method that were deconsolidated in 2004

Dexia Asset Management (sold during the first quarter 2004)  
 Dexia Banque Privée France (sold during the first quarter 2004)  
 Dexia Fund Services Italia Spa (partial sale of shares)

## Change of consolidation method

None

## Change of name

SARL Es Form is now called SARL DS Formation France.  
 SOFCA is now called Dexia Sofaxis.  
 Dexia Sofaxis Services is now called SAS DS Services France.  
 Dexia CLF Lease Services is now called Dexia Location Longue Durée.  
 Fairbanks Capital Holding Corp is now called Select Portfolio Servicing Inc.  
 Société d'Investissement Suisse Luxembourgeoise is now called SISL

### *i. Business codes*

- |  |  |
|--|--|
| <b>1.</b> Bank, credit institution   | <b>26.</b> Non-life insurance  |
| <b>2.</b> Private savings bank   | <b>27.</b> Captive reinsurance   |
| <b>3.</b> Government credit institution  | <b>28.</b> General insurance   |
| <b>4.</b> Banking agency   | <b>29.</b> Financial products agency and brokerage                               |
| <b>5.</b> Leasing  | <b>30.</b> Insurance products agency and brokerage                               |
| <b>6.</b> Mortgage loans   | <b>31.</b> Real estate agency (proprietary portfolio)                            |
| <b>7.</b> Development capital  | <b>32.</b> Real estate agency (third party)                                      |
| <b>8.</b> Consumer credit  | <b>33.</b> Health and welfare  |
| <b>9.</b> Other lending activities   | <b>34.</b> IT services   |
| <b>10.</b> Investment company  | <b>35.</b> Banking associations  |
| <b>11.</b> Stockbroking  | <b>36.</b> Other associations  |
| <b>12.</b> SICAV mutual funds  | <b>37.</b> Urban cleaning and waste management                                   |
| <b>13.</b> FCP mutual funds  | <b>38.</b> Leisure activities  |
| <b>14.</b> SICAV management company  | <b>39.</b> Telecommunications  |
| <b>15.</b> Factoring   | <b>40.</b> Transport   |
| <b>16.</b> Infrastructure and construction financing                             | <b>41.</b> Other business-to-business services                                   |
| <b>17.</b> Other specific financing  | <b>42.</b> Energy  |
| <b>18.</b> Financial markets administration                                      | <b>43.</b> Economic development  |
| <b>19.</b> Portfolio management and private banking, financial advisory services | <b>44.</b> Water   |
| <b>20.</b> Financial engineering, consulting and financial research              | <b>45.</b> Publishing and multimedia   |
| <b>21.</b> Other professional services in the financial sector                   | <b>46.</b> Engineering design, research and development                          |
| <b>22.</b> Guarantee company   | <b>47.</b> Other services  |
| <b>23.</b> Trust company   | <b>48.</b> Production, management and distribution of electronic payment systems |
| <b>24.</b> Foreign currency exchange   | <b>49.</b> Funding company   |
| <b>25.</b> Life insurance  | <b>50.</b> Merchant Bank   |

## 1.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are presented in accordance with the standards applicable to banks.

They have been prepared in accordance with the principles and standards contained in European Council Directives governing the consolidated financial statements of banking institutions. Application of these principles and standards has been approved by the different regulatory authorities (Banking and Finance Commission in Belgium, Financial Markets Authority and Banking Commission in France).

### **a. Changes in presentation and valuation methods**

In accordance with the first-time adoption of Bank Regulatory Commission (CRC) standard 2004-06, Dexia Credit Local presents in the notes to the financial statements the fair value of derivatives recorded on the off-balance sheet. Moreover, unrecognized losses on securities available for sale, portfolio securities and investment securities, which are subject to being charged to an allowance and excluding the impact of hedging, are presented in the corresponding notes to the financial statements.

### **b. Valuation methods**

#### **Presentation and valuation methods**

The consolidated financial statements have been prepared in accordance with fundamental accounting principles (prudence, segregation of accounting periods, consistency of methods and the going concern principle).

The general financial statements format applicable to financial institutions has been adapted to take into account the specific nature of the insurance companies' operations by adding sub-headings or specific additional headings relating to the insurance activity. The notes to the financial statements also include new sub-headings or specific headings relating to consolidated non-banking operations.

In order to present more clearly the results of each activity, intercompany operating income and expense between the banking and the insurance activities is not eliminated in the consolidated income statement. In the notes to the consolidated financial statements, the term "related party" refers to affiliates accounted for by the equity method and companies over 10%-owned by the Dexia Credit Local Group, and the term "Dexia Group related parties" refers to companies which are members of the Dexia Group but are not included in the scope of consolidation of Dexia Credit Local.

#### **CUSTOMER LOANS**

Customer loans are stated in the balance sheet net of allowances for possible losses. They are broken out into four separate categories: performing loans, restructured performing loans, non-performing loans under collection and doubtful non-performing loans.

A loan is classified in the second category once it has been restructured under non-market conditions. Restructured loans are performing assets that are broken out in a specific account until such time as they are repaid. The loss arising from the restructuring is determined based on actuarial calculations and booked directly to net charges for allowances for loan losses and off-balance sheet credit risks; this amount is subsequently reversed into interest income over the life of the transaction.

Non-performing loans are considered to be doubtful as soon as their repayment becomes highly uncertain. Non-performing loans are downgraded from "under collection" to "doubtful" either one year after they were initially classified as non-performing or immediately if the loan had previously been classified as a restructured performing loan.

Loans are classified as non-performing when there is a contingent or certain risk of total or partial non-payment. Non-performing loans are defined as follows: local government loans: loans with installments that are more than nine months overdue; real estate loans: loans with installments that are more than six months overdue; other loans: loans with installments that are more than three months overdue. Loans to borrowers that have filed for bankruptcy are classified as loans under collection, this category being analyzed in the notes to the financial statements in the same way as non-performing loans.

Allowances against non-performing loans are computed on the basis of the estimated loss exposure.

Loan agreements signed for which the funds have not yet been disbursed are included in off-balance sheet items.

Interest is accounted for as income from banking operations on an accruals basis, including interest on overdue principal repayments. Interest on doubtful and non-performing loans that is recorded in net banking income is offset by a provision for an equivalent amount.

Commission income is recorded in the income statement on a cash basis.

For both accounting and tax purposes, penalties received from customers for early repayment of loans are amortized over the remaining life of the loans, on the basis of the outstanding interest. This method is also applied to the premiums on loans purchased by Dexia Credit Local.

The lease financing activity of the subsidiaries of Dexia Credit Local specialized in this area are classified under a distinct category at their value as determined by financial accounting policies; assets leased to customers are carried in the consolidated balance sheet on the basis of the value of the future lease payments, rather than at their net book value for tax purposes.

The difference between these two amounts is recorded as an unrealized lease reserve, and the corresponding deferred tax is calculated. The lease reserve is booked to consolidated reserves net of the deferred tax, and movements are booked to the income statement.

#### SECURITIES TRANSACTIONS

Securities held by the Dexia Credit Local Group are recorded on the assets side of the balance sheet under the following headings:

- Government securities eligible for central bank refinancing;
- Bonds and other fixed-income securities;
- Equities and other variable-income securities.

In accordance with CRB standard 90-01, they are analyzed in the notes to the consolidated financial statements under "Trading securities," "Marketable securities available for sale" and "Investment securities".

#### **Trading securities**

Trading securities are securities traded on a liquid market that are purchased or sold with the intention of being sold or repurchased within a short period of time. The Dexia Credit Local trading portfolio consists primarily of adjustable-rate bonds. Trading securities are taken to the balance sheet at cost, including accrued interest and acquisition expenses. At each period end, they are marked to market and the resulting unrealized gain or loss is taken to the income statement.

Prior to each period end, the portfolio is reviewed to ensure that all securities continue to meet the criteria for classification as trading securities. In particular, securities that have been held for over six months are transferred to the "marketable securities available for sale" or the "investment securities" portfolio. The holding period is determined using the first-in first-out (FIFO) method. Securities are transferred out of the portfolio at their market value on the transfer date. Exceptionally, specific securities may be held in the trading securities portfolio for more than six months if they are hedged by a financial instrument that is marked to market or are covered by a sale commitment as part of an arbitrage transaction on an organized financial market or equivalent.

#### **Marketable securities available for sale**

Marketable securities available for sale are securities acquired as a source of liquidity that are intended to be held for more than six months, other than fixed-income securities

intended to be held to maturity. The portfolio consists primarily of fixed- and adjustable-rate bonds but also includes some variable-income securities. Fixed-rate bonds are generally hedged against interest rate risk by means of interest rate and/or currency swaps representing specific, allocated hedges (micro hedges). The use of this technique has the effect of creating synthetic adjustable or variable-rate assets that are immunized against interest rate risk.

Marketable securities available for sale are taken to the balance sheet at cost, excluding acquisition expenses and accrued interest, which are recorded separately. Any premiums or discounts, corresponding to the difference between the acquisition cost and redemption price, are recorded in the balance sheet and amortized to the income statement over the remaining life of the securities. This method is applied to all securities in the portfolio.

At each period end, in keeping with the prudence principle, an allowance is booked for any impairment in value, determined after taking into account any unrealized hedging gains. If the impairment in value of the securities exceeds the related unrealized hedging gain, an allowance corresponding to the difference is deducted from the securities' carrying value. A reserve is booked on the liabilities side of the balance sheet for any unrealized hedging losses that are not offset by an increase in the market value of the hedged securities.

Gains and losses on disposals of marketable securities available for sale are calculated using the FIFO method. In the case of securities transferred from the trading securities portfolio, the FIFO method is applied based on the transfer date and not the original date of acquisition.

Marketable securities available for sale are transferred to the investment securities portfolio at cost and any allowances for impairment in value that are no longer required are released to the income statement over the remaining life of the securities.

#### **Investment securities**

Investment securities are fixed-income securities intended to be held on a long-term basis, generally to maturity. They are either financed with back-to-back resources or hedged in order to neutralize the effect of interest rate fluctuations on earnings. Hedging instruments consist solely of interest rate and/or currency swaps. The use of these specific, allocated hedges has the effect of creating synthetic adjustable- or variable-rate assets that are immunized against interest rate risk.

Investment securities are stated at cost, excluding acquisition expenses and accrued interest at the date of acquisition, which are recorded separately. Premiums and discounts, representing the difference between the cost of the securities, excluding accrued interest and the redemption price, are amortized on a straight-line basis over the remaining life of the securities.

Unrealized gains are not recognized and no allowances are booked for unrealized losses except in cases where the ability of the issuer to honor its repayment obligations appears uncertain or where it is probable that the securities will not be held to maturity due to a change in circumstances.

#### **Portfolio securities**

This category includes variable-income securities purchased on a regular basis with the intention of selling them at a profit in the medium term. At the time of purchase, the company has no intention of investing in the long-term development of the issuer's business or of actively participating in its operational management.

Portfolio securities are taken to the balance sheet at cost excluding acquisition expenses. At each period end, they are stated at the lower of historical cost and fair value to the Group. Fair value is determined based on a range of criteria, including the issuer's future outlook and the estimated holding period. For listed securities, fair value is the average market price determined over a sufficiently long period - in view of the estimated holding period - to eliminate the impact of any unusual swings in market prices. At each period end, and for each line of securities, if the fair value represents less than book value, an allowance is booked for the unrealized loss. For the purpose of determining the allowance, unrealized losses are not netted off with unrealized gains, which are not recognized.

Gains and losses on disposals of portfolio securities are determined using the FIFO method.

#### **Net investments of the insurance activity**

Securities held by the FSA Group, including investments of the Guaranteed Investment Contract activity, are recorded on the assets side of the balance sheet under specific sub-headings of the following main headings:

- Government securities eligible for central bank refinancing;
- Bonds and other fixed-income securities;
- Equities and other variable-income securities;
- Long-term investments.

Debt securities and equities held on a long-term basis are carried at cost. An allowance is booked for any permanent impairment in value.

Bonds acquired as a source of liquidity are stated at the lower of cost and market value.

Bond discounts and premiums are amortized over the remaining life of the bonds, based on actual yield. Redemption assumptions are reviewed periodically. Adjustments made due to changes in actual yield are recognized in operating income.

FSA's portfolio securities were taken to the consolidated balance sheet at their market value in June 2000, when the FSA group was first consolidated. Any subsequent discounts and premiums on FSA's portfolio securities are treated as described above.

Short-term investments, corresponding to securities with a remaining life of less than one year at the time of purchase, are stated at market value, which is generally comparable to cost.

Gains and losses on disposals of short-term investments are calculated on an individual basis.

#### **SECURITIES HOLDING PORTFOLIO**

Securities may be sold under repurchase agreements for the purpose of reducing Dexia Credit Local's short-term liquidity cost. The securities may or may not be physically delivered to the buyer.

When securities are sold under a repurchase agreement, a debt corresponding to the value of the repurchase commitment is recognized in the balance sheet. The interest paid on the funds received is recognized in the income statement on an accruals basis.

Gains and losses on repurchase agreements are calculated using the same method as for outright sales, depending on the portfolio from which the securities were taken. Transactions involving the simultaneous cash sale and forward purchase of the same securities are accounted for in the same way as repurchase agreements.

The cash held in connection with repurchase agreements is periodically adjusted to take account of changes in the market value of the securities during the term of the contract, so as to reduce the credit risk incurred by the buyer as a result of any impairment in value of the collateral represented by the securities.

#### **LONG-TERM INVESTMENTS**

##### ***Investments in companies accounted for by the equity method***

Investments in companies accounted for by the equity method are valued based on the Group's equity in the net assets of the companies concerned, as restated in accordance with Dexia Credit Local Group accounting policies.

##### ***Investments in non-consolidated companies***

Investments in non-consolidated companies represent investments that are intended to be held on a long-term basis for the purpose of exercising influence or control over the issuer or to underpin banking relations with the company concerned.

They are stated at the lower of cost and fair value to the Group. Cost does not include any related acquisition expenses. At the balance sheet date, these shares are valued at the lower of cost or value in use, i.e. the fair value based on the utility of the investment to Dexia Credit Local.

In the case of companies whose net assets are at least equal to their value when the last shares were acquired, fair value to the Group is considered as being at least equal to the historical cost of the investment. The same applies when any impairment in value can reasonably be expected to reverse in the current year. In all other cases, a range of criteria are

applied to determine the possible need to record an allowance for impairment in value in accordance with the prudence principle.

In accordance with CRB standard 89-01, differences arising on retranslation at the year-end rate of investments denominated in foreign currencies that are financed in euro are taken to shareholders' equity, under "Cumulative translation adjustments", and not to the income statement.

In the event of disposal of part of the Group's interest in a non-consolidated company, the resulting gain or loss is determined using the FIFO method.

#### **Other long-term securities**

This category comprises variable-income securities acquired with the aim of developing long-term business ties with the issuer, although Dexia Credit Local is not in a position to influence the management of the issuer due to the small proportion of voting rights held.

Other long-term securities are taken to the balance sheet at cost, excluding acquisition expenses. At each period end, they are stated at the lower of historical cost and fair value to the Group. Fair value to the Group of other long-term securities corresponds to the price that the Group would be willing to pay to acquire them, taking into account the purpose for which they are acquired, irrespective of whether or not the securities are listed.

Gains and losses on disposals of other long-term securities are determined using the FIFO method.

#### **GOODWILL ARISING ON CONSOLIDATION**

Goodwill represents the difference between the cost of shares in consolidated companies and the Group's equity in the fair value of the underlying net assets at the date of consolidation, as restated in accordance with Group accounting policies. When possible, fair value adjustments are recorded to increase or reduce the book value of the assets and liabilities acquired to their fair value to the Group. These assets and liabilities are then amortized, depreciated or written off to the income statement in accordance with the rules applicable to the items concerned.

Positive goodwill representing amounts in excess of EUR 1 million is recorded in the balance sheet under "Goodwill arising on consolidation" and amortized on a straight-line basis. Otherwise it is written off directly to the income statement. The amortization period is based on the duly documented assumptions and objectives governing the acquisition. The maximum amortization period is twenty years. In the event of significant adverse changes in the items used to determine the amortization schedule, this schedule may be modified or a one-off write-down may be booked.

Negative goodwill is recorded on the liabilities side of the balance sheet under the heading "Negative goodwill arising on consolidation". It may be included in shareholders equity if it corresponds to reserves that are definitively established. If the negative goodwill is intended to compensate future

expenses or losses, it is reversed through the income statement over a period comparable with that of the events which generated it.

#### **TANGIBLE AND INTANGIBLE FIXED ASSETS**

Fixed assets are stated at cost and depreciated or amortized using the straight-line method over their estimated useful lives, as follows: furniture and fixtures are depreciated over 10 years and office equipment generally over five years. Software is amortized over three years. Set up costs are fully amortized in the year in which they are incurred.

#### **OTHER ASSETS**

The caption "Insurance activity" under "Other assets" mainly includes FSA's deferred business acquisition costs. Net deferred business acquisition costs include both direct and indirect expenses incurred by the company in securing policies written during the year, as well as reinsurance premiums relating to those policies. These costs are deferred over the life of the policies concerned.

Business acquisition costs of the Guaranteed Investment Contract business are not deferred.

#### **DEBT SECURITIES**

Debt securities include bonds and money market instruments.

##### **Bonds**

Bonds are recorded at face value. The related accrued interest is computed at contractual rates and recorded under interest expense.

Zero-coupon bonds are recorded at their issue price. At each period end, accrued interest for the period, computed on the basis of the yield to maturity announced at the time of issue, is charged to the income statement as expenses on debt securities and an equivalent amount is added to the debt on the liabilities side of the balance sheet through to the maturity date so as to gradually increase the book value of the debt to the amount repayable at maturity.

Bond issuance costs are deferred and amortized on a straight-line basis over the life of the bonds. Premiums paid or received on bond debt assumed by Dexia Credit Local are deferred and recognized over the remaining life of the bonds.

Bonds denominated in foreign currencies are accounted for in the same way as foreign currency transactions.

##### **Money market instruments**

Money market instruments are stated at face value. Interest on medium-term notes, BMTN (domestic short- or medium-term notes) and certificates of deposit is recorded under "Interest expense" on an accruals basis. Prepaid interest on commercial paper is recorded under "Accruals and other assets" on the transaction date and amortized over the residual life of the paper.

### **Bond discounts and premiums, redemption premiums**

Bond discounts and premiums and redemption premiums are amortized on a straight-line basis over the remaining life of the bonds from the date of acquisition. They are recorded in the consolidated balance sheet under the relevant liabilities accounts. Amortization is taken to the income statement under "Interest expense on bonds and other fixed-income securities".

### **Insurance activity**

FSA's bond debt was recorded in the consolidated balance sheet at market value at the date of acquisition. Premiums and discounts have been calculated based on the revalued amount.

## **OTHER LIABILITIES**

The sub-heading "Insurance activity" under "Other liabilities" mainly includes unearned premiums from direct insurance or reinsurance activity, which are being amortized.

## **RESERVES AND PROVISIONS**

### **Banking activity**

Reserves have been set up to cover various risks, losses and expenses. They include general reserves for customer risks calculated at a standard rate based on the type of customer or business sector. Reserves for medium- and long-term loan losses and accelerated depreciation booked for tax purposes in the financial statements are eliminated on consolidation by way of a transfer to consolidated reserves, net of the related deferred tax effect.

Deferred taxes are computed using the liability method on all timing differences between the recognition of certain items of income and expense for consolidated financial reporting and tax purposes in the current year. Deferred tax assets and liabilities within the same tax entity are netted out.

Deferred tax assets are recognized only where the related tax benefit can reasonably be expected to be realized.

Allowances against derivatives are booked in accordance with the rules specified below in the paragraph concerning derivatives transactions.

Retirement and other post-employment benefits are calculated in accordance with the local regulations applicable in each country and are recognized as expenses for the year. These commitments are recalculated each year using an actuarial method and accounted for under reserves for contingencies and charges. The amounts concerned are not material, and are presented in Note 5.4.

### **Insurance activity**

Specific allowances are set up to cover clearly identified losses or expenses. A general reserve is also established. Specific allowances cover the discounted present value of estimated future losses and are reviewed at regular intervals.

The general reserve is calculated by applying a discount to total commitments. The discount rate is determined by an independent ratings agency based on the type of exposure and the past performance of the company's portfolio.

## **GENERAL BANKING RISKS RESERVE**

In accordance with CRB standard 90-02, a general banking risks reserve was set up on January 1, 1990 in the amount of EUR 478 million.

The initial amount of this reserve is not intended to be released, and no additions or reductions have been made to the general banking risks reserve since 1995.

## **SUBORDINATED DEBT**

Subordinated redeemable notes issued by Dexia Credit Local are considered as Tier Two capital for the purpose of calculating the European capital adequacy ratio, in accordance with CRB standard 90-02 (article 4d).

## **DERIVATIVES**

Dexia Credit Local uses derivatives in the normal course of business, mainly as hedges against interest rate and currency risks and, to a lesser extent, in order to take advantage of favorable interest rate and currency trends. The instruments used include interest rate and/or currency swaps, FRAs, caps, floors, interest rate options, futures, credit default swaps and credit spread options.

Derivatives are valued and accounted for in accordance with CRB standards 90-15 and 92-04 based on the initial purpose of the transaction. The four transaction categories are specific hedges, hedges of overall exposures, isolated open positions and specialist portfolio management.

For transactions in all categories, the commitment or notional amount is recorded as an off-balance sheet commitment over the life of the contract, i.e. from the date of signing of the contract to its maturity or the start date of the reference period in the case of future rate agreements. The amount of the commitment is adjusted to reflect any changes in notional amounts, so as to show at all times the maximum current or future commitment.

Each contract is recorded separately and is classified in one of the above four categories. The accounting treatment of gains and losses depends on the underlying purpose of the transaction, as determined by its category.

## **HEDGING TRANSACTIONS**

### **Micro hedging**

Micro hedges are used to cover interest rate risks on a specific item or group of items with similar characteristics, identified at the outset. The criteria applied to determine whether transactions qualify as micro hedges are as follows:

- The hedged item must contribute to the Group's overall exposure to fluctuations in prices or interest rates;

- The contracts must be purchased or sold for the specific purpose of reducing the Group's exposure to fluctuations in prices or interest rates in respect of the hedged item and are identified as such at the outset.

Instruments meeting this definition consist primarily of swaps acquired as micro hedges of primary issues, bonds held in the "marketable securities available for sale" and "investment securities" portfolios and customer loans. The hedging instruments have the effect of creating synthetic variable- or adjustable-rate assets or liabilities which are immunized against interest rate risk.

Expenses and income on micro hedges are recorded in the income statement in the same way as the expenses and income on the hedged item or group of similar items. The same principle applies to equalization payments made or received when the hedging instrument is sold.

In cases where the hedged item is disposed of but the hedging position is not unwound, the following accounting treatment is applied:

- The hedging instrument is marked to market and the resulting unrealized gain or loss is recognized in the income statement over the remaining life of the original hedged item;
- The hedging instrument is then reclassified as an isolated open position.

### **Macro hedging**

This category covers contracts that are intended to hedge and manage Dexia Credit Local's overall exposure to interest rate risks on assets, liabilities and off-balance sheet items, other than macro hedges, contracts representing isolated open positions and contracts acquired for specialist portfolio management purposes.

Macro hedges have the effect of reducing Dexia Credit Local's overall exposure to interest rate risks on its business transactions. Expenses and income on macro hedges are recorded in the income statement on an accruals basis under "Interest income on customer transactions" and "Interest expense on customer transactions". The contra entry is recorded in the balance sheet in an accruals account until such time as the funds are collected or disbursed. Equalization payments on unwound positions are recognized on a straight-line basis in cases where the unwinding of the position is not linked to a prior change in the overall interest rate risk to be hedged; otherwise the accounting treatment is symmetrical to that applied to the items that led to the change in risk.

### **POSITION MANAGEMENT**

Dexia Credit Local conducts three types of position management transactions:

- Specialist trading portfolio management,
- Position-taking transactions,
- Credit derivatives transactions.

### **Specialist trading portfolio management**

This activity covers transactions with local governments and their symmetrical transactions entered into with banks. Its purpose is the specialist management of a trading portfolio comprising specific interest rate swaps and other interest rate-based derivatives.

The portfolio is actively managed based on sensitivity criteria, within predefined interest rate exposure limits set internally in accordance with CRB standard 97-02. Positions are centralized and results calculated on a daily basis.

Gains and losses are recognized on a mark-to-market basis, as follows:

- Total future cash flows are marked to market on a monthly basis and the resulting unrealized gain or loss is taken to the income statement;
- All payments made or received are recorded directly in the income statement.

Mark-to-market gains and losses are calculated using the replacement cost method. This method consists of taking each individual contract and simulating a new contract which, at the balance sheet date, closes the open position created by the original contract. The differences in cash flows between the actual and simulated contracts are then discounted.

The portfolio valuation takes into account portfolio management costs and credit risks.

### **Position-taking transactions**

Derivatives held in the position-taking portfolio are intended to keep isolated positions open in order to take advantage of any favorable interest rate movements. The portfolio also includes all contracts that do not fulfill the criteria for classification in the other categories.

Gains and losses are recognized in accordance with the prudence principle as follows:

- Allowances are booked for any unrealized losses calculated as a result of periodic mark-to-market valuations; unrealized gains are not recognized in the income statement;
- Interest and equalization payments are recognized in the income statement on an accrual basis.

Swaps originally taken out as micro hedges of portfolio securities are transferred to the position-taking portfolio in the event that the hedged item is sold, resulting in the creation of an isolated open position. However, if the interest rate risk on these swaps is neutralized by an appropriate hedge, these swaps are not revalued at the period end.

### **Credit derivatives**

Dexia Credit Local purchases credit risks only when the Group is the end investor in the underlying bonds. These transactions therefore represent credit substitutes. They are recorded as off-balance sheet commitments under "isolated open positions" and are periodically marked-to-market. Unrealized losses are recorded even when there is no established

default risk, while unrealized gains are never recognized.

Premiums received on credit derivatives are recognized on a straight-line basis over the life of the derivatives.

#### CURRENCY INSTRUMENTS

Dexia Credit Local uses currency swaps and forward purchases and sales of foreign currencies to hedge its currency risks. Currency swaps are used to match refinancing currencies with the currencies of the assets financed. Forward purchases and sales of foreign currencies are used to offset or reduce the impact of exchange rate fluctuations on specific items or groups of similar items. A limited number of unhedged foreign exchange positions are also established in connection with Dexia Credit Local's position-taking activities.

In accordance with CRB standard 89-01, currency instruments are classified as either hedged transactions or position-management transactions. This categorization determines the applicable accounting treatment for the related gains and losses.

Currency instruments in both categories are recorded as off-balance sheet commitments over the life of the contract, i.e. from the date of signing of the contract to the start date of the reference period.

Each contract is recorded separately and is classified in one of the categories defined by the regulation. The accounting treatment of income depends on the category and reflects the substance of the transaction.

##### **Hedging transactions**

The difference between the forward rate and the spot rate - the contango or backwardation - is recognized in the income statement on an accruals basis. The position is initially recorded at the spot rate and its value is gradually adjusted over the life of the contract to take into account the contango or backwardation.

##### **Position-management transactions**

These represent forward currency transactions that do not meet the criteria for qualification as hedged forward currency transactions as defined in CRB standard 89-01, in that they do not relate simultaneously to loans and borrowings or to spot currency transactions. Such transactions are entered into with the aim of taking advantage of any exchange rate movements.

Gains and losses are determined and accounted for by converting movements on the currency accounts into euros at the forward rate applicable to the remaining term of the contracts.

#### FOREIGN CURRENCY TRANSACTIONS

In accordance with CRB standard 89-01, as amended by standard 90-01 dated February 23, 1990, foreign currency transactions are accounted for in the currencies concerned.

Specific foreign currency position accounts are maintained in each currency showing the position in that currency and the EUR equivalent.

At each period end, the difference between the value of the foreign currency position account translated into EUR at the year-end spot rate and the value of the foreign currency position in the euro equivalent account is taken to the income statement.

Differences arising on the translation into EUR of investments in foreign currency-denominated non-consolidated companies financed in euros are recorded in shareholders' equity under "Cumulative translation adjustments".

Differences arising on the translation into EUR of investment securities denominated and financed in foreign currencies are recognized on a symmetrical basis with the differences arising on translation of the related financing.

The balance sheets of foreign consolidated subsidiaries are translated into EUR at the period-end exchange rate, with the exception of shareholders' equity, which is translated at the historical rate. Income statement items are translated at the average rate for the period. Differences arising on translation are recorded as a separate component of shareholders' equity under "Cumulative translation adjustments".

#### COST OF RISK

This caption includes movements in allowances for losses on interbank and customer loans, fixed-income investment securities (in the case of recognized default by the issuer) and off-balance sheet items (other than off-balance sheet derivatives), as well as loan losses, recoveries of loans written off in prior years, and movements in other allowances and reserves for credit risks and contingencies relating to these items.

#### NON-RECURRING INCOME AND EXPENSES

Non-recurring income and expenses result from events or transactions that do not relate to the ordinary business operations or routine management of the assets and liabilities of the Group or the environment in the countries in which the Group companies operate.

They represent material items of income and expense that do not depend on decisions made in connection with the routine management of the business or of the Group's assets and liabilities, but which result from external events that are exceptional in terms of their infrequency and their impact on net income.

#### CORPORATE INCOME TAX

The standard French corporate income tax rate is 35.43%. The income of foreign subsidiaries is taxed at the rates ruling in the countries in which they operate.

Deferred taxes of French companies that are expected to reverse in periods beyond 2004 have been computed at the rate of 34.93%, as provided for by the Finance Act of 2005. The change in tax rate generated a EUR 4 million deferred tax income item.

**TAX CONSOLIDATION**

Dexia Établissement Stable is the head of the French tax group, which includes the following subsidiaries:

- Dexia Credit Local
- Floral
- Dexia CLF Immo
- Compagnie pour le Foncier et l'Habitat
- CLF Patrimoniale
- CLF Marne-la-Vallée Participation
- Dexia Éditions
- Dexia Assuréco
- CLF Badger
- Dexia Municipal Agency
- Dexia CLF Développement
- Dexia CLF Energia
- Dexia CLF Energy
- Dexia CLF Organisation
- Dexia CLF Avenir
- Dexia Habitat
- Europrojet Développement
- Dexint Développement
- Dexia Flobail
- Dexia Bail
- Dexia Finance
- Dexia Sofaxis

Tax savings arising from the netting off of the profits and losses of companies in the tax group are recognized as a profit in the accounts of Dexia Établissement Stable.

**Consolidation adjustments**

Significant adjustments required to harmonize the valuation methods employed by the various consolidated companies are made prior to consolidation. Intercompany balances and gains or losses are eliminated in the consolidated financial statements.

The principal consolidation adjustments for the year were as follows:

- The reserve for medium- and long-term loan losses is included in retained earnings, net of deferred taxes, in the amount of EUR 182 million for Dexia Credit Local and EUR 215 million for Dexia Crediop at December 31, 2004.

The elimination in consolidation of allocations to and reversals from the reserve for medium- and long-term losses resulted in deferred taxes being increased by EUR 28.1 million (a EUR 2.1 million charge for Dexia Credit Local and a EUR 26 million charge for Dexia Crediop).

- Provisions for deferred taxes represent a EUR 530 million liability on the balance sheet, after netting off deferred tax assets for the same tax entity. These provisions include notably:

- deferred taxes arising on the elimination of allocations to and reversals from the reserve for medium- and long-term loan losses of Dexia Credit Local (EUR 98 million) and Dexia Crediop (EUR 133 million),

- deferred taxes of EUR 216 million relating to the tax losses of the GIE and SNC companies and the flow-through real-estate entities.

- Assets leased to customers are carried in the consolidated balance sheet on the basis of the value of future lease payments, rather than at their net book value for tax purposes. The net unrealized reserve corresponding to the difference between these two values is included in consolidated reserves for EUR 36 million.

## 2 Notes to the consolidated balance sheet - Assets (EUR millions)

### 2.0 CASH, CENTRAL BANKS AND POSTAL CHECKING ACCOUNTS (ITEM I. - ASSETS)

At December 31	2004
Cash	15
Compulsory reserves lodged with central bank	237
Other central bank deposits	0
Postal checking accounts	0
<b>TOTAL</b>	<b>252</b>

### 2.1 GOVERNMENT SECURITIES ELIGIBLE FOR CENTRAL BANK REFINANCING (ITEM II. - ASSETS)

*a. Accrued interest: 179*

*b. Analysis by residual maturity, excluding accrued interest*

Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed	TOTAL
120	332	1,053	6,967	35	8,507

**c. Analysis by portfolio and movements for the year, excluding accrued interest**

	Banking activity and other			Insurance activity	TOTAL
	Trading portfolio	Securities available for sale	Investment portfolio		
<b>Cost at December 31, 2003</b>	<b>0</b>	<b>905</b>	<b>2,303</b>	<b>206</b>	<b>3,414</b>
Movements for the year:					
Acquisitions	66	1,416	4,685	78	6,245
Disposals and redemptions	0	(944)	(26)	0	(970)
Transfers (2)	0	0	(171)	0	(171)
Changes in scope (newly consolidated companies)	0	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0	0
Translation adjustments (1)	0	12	0	(22)	(10)
Other movements	0	0	0	0	0
<b>Cost at December 31, 2004 (A)</b>	<b>66</b>	<b>1,389</b>	<b>6,791</b>	<b>262</b>	<b>8,508</b>
<b>Allowances at December 31, 2003</b>	<b>0</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>(1)</b>
Movements for the year:					
Charges to allowances	0	0	0	0	0
Recoveries from allowances	0	0	0	0	0
Cancellations	0	0	0	0	0
Transfers	0	0	0	0	0
Changes in scope (newly consolidated companies)	0	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0	0
Translation adjustments (1)	0	0	0	0	0
Other movements	0	0	0	0	0
<b>Allowances at December 31, 2004 (B)</b>	<b>0</b>	<b>(1)</b>	<b>0</b>	<b>0</b>	<b>(1)</b>
<b>Net book value at December 31, 2004 (A) - (B)</b>	<b>66</b>	<b>1,388</b>	<b>6,791</b>	<b>262</b>	<b>8,507</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated securities held at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

(2) This contra entry to this transfer is explained in Note 2.4.e.

**d. Transfers between portfolios**

	Net book value at Dec. 31, 2004	Impact on 2004 income statement
From trading securities to securities available for sale	0	0
From trading securities to investment securities	0	0
From securities available for sale to investment securities	0	0

**e. Quoted and unquoted securities, excluding accrued interest**

At December 31, 2004	Net book value	Market value	Net unrealized gains
Quoted securities	8,202	8,778	576
Unquoted securities	305	-	-
<b>TOTAL</b>	<b>8,507</b>	<b>8,778</b>	<b>8,778</b>

## 2.2 INTERBANK LOANS AND ADVANCES: OTHER (ITEM III.B. - ASSETS)

### a. Accrued interest: 292

### b. Analysis by residual maturity, excluding accrued interest

At December 31, 2004						
Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed		TOTAL
2,899	1,174	2,623	3,549	0		10,245

### c. Analysis by counterparty, excluding accrued interest

Counterparties	2003	2004
At December 31		
Loans and advances to Dexia Group related parties (credit institutions)	1,604	1,908
Loans and advances to other related credit institutions	330	0
Loans and advances to non-related credit institutions	7,025	8,337
<b>TOTAL</b>	<b>8,959</b>	<b>10,245</b>

### d. Non-performing loans

Category	Total at December 31 2003	Non performing loans (under collection)	Non performing loans (doubtful)	Total at December 31 2004
Gross non-performing loans	1	0	0	0
Allowances	0	0	0	0
<b>Net non-performing loans</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>

### e. Breakdown between subordinated and other loans, excluding accrued interest

Subordination	2003	2004
At December 31		
Subordinated loans	5	5
Other loans	8,954	10,240
<b>TOTAL</b>	<b>8,959</b>	<b>10,245</b>

**f. Movements for the year on subordinated loans, excluding accrued interest**

	Companies accounted for by the equity method	Other companies, at cost	TOTAL
<b>Cost at December 31, 2003</b>	<b>0</b>	<b>5</b>	<b>5</b>
Movements for the year:			
New loans	0	0	0
Disposals and redemptions	0	0	0
Transfers	0	0	0
Changes in scope (newly consolidated companies)	0	0	0
Changes in scope (deconsolidations)	0	0	0
Translation adjustments <sup>(1)</sup>	0	0	0
Other movements	0	0	0
<b>Cost at December 31, 2004 (A)</b>	<b>0</b>	<b>5</b>	<b>5</b>
<b>Allowances at December 31, 2003</b>	<b>0</b>	<b>0</b>	<b>0</b>
Movements for the year:			
Charges to allowances	0	0	0
Recoveries from allowances	0	0	0
Cancellations	0	0	0
Transfers	0	0	0
Changes in scope (newly consolidated companies)	0	0	0
Changes in scope (deconsolidations)	0	0	0
Translation adjustments <sup>(1)</sup>	0	0	0
Other movements	0	0	0
<b>Allowances at December 31, 2004 (B)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value at December 31, 2004 (A) - (B)</b>	<b>0</b>	<b>5</b>	<b>5</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated loans held at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

## 2.3 CUSTOMER LOANS (ITEM IV. - ASSETS)

### a. Accrued interest: 1,163

### b. Analysis by residual maturity, excluding accrued interest

At December 31, 2004						
Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed		TOTAL
4,398	6,804	28,292	54,677	172		94,343

### c. Analysis by credit quality and type of borrower, excluding accrued interest

Type of borrower At December 31	2003	2004		TOTAL
		Public sector	Other sectors	
Performing loans	87,058	79,887	14,247	94,134
Restructured performing loans	28	28	0	28
Non-performing loans under collection	63	15	18	33
Doubtful non-performing loans	123	40	108	148
<b>TOTAL</b>	<b>87,272</b>	<b>79,970</b>	<b>14,373</b>	<b>94,343</b>

### d. Non-performing loans

Geographical area of lending	France	Germany	Italy	Other	Total at December 31, 2004
Non-performing loans under collection					
Gross loans	59	0	0	2	61
Allowances (1)	(27)	0	0	(1)	(28)
Net loans	32	0	0	1	33
Gross non-performing loans under collection					
Gross loans	102	47	20	92	261
Allowances (1)	(41)	(10)	(11)	(51)	(113)
Net loans	61	37	9	41	148
<b>TOTAL NET NON-PERFORMING LOANS</b>	<b>93</b>	<b>37</b>	<b>9</b>	<b>42</b>	<b>181</b>

(1) The cost of risk is presented in the Note 5.5.

*e. Analysis by counterparty, excluding accrued interest*

Counterparties	2003	2004
At December 31		
Loans and advances to Dexia Group related parties	0	0
Loans and advances to other related parties	13	13
Loans and advances to non-related parties	87,259	94,330
<b>TOTAL</b>	<b>87,272</b>	<b>94,343</b>

*f. Breakdown between subordinated and other loans, excluding accrued interest*

Subordination	2003	2004
At December 31		
Subordinated customer loans	0	0
Other customer loans	87,272	94,343
<b>TOTAL</b>	<b>87,272</b>	<b>94,343</b>

*g. Analysis based on original term, excluding accrued interest*

	Net 2003	Gross 2004	Allowances 2004	Net 2004
At December 31				
Less than one year	5,827	2,648	59	2,589
Over one year	81,445	91,836	82	91,754
<b>TOTAL</b>	<b>87,272</b>	<b>94,484</b>	<b>141</b>	<b>94,343</b>

## 2.4 BONDS AND OTHER FIXED-INCOME SECURITIES (ITEM V. - ASSETS)

### a. Accrued interest: 861

### b. Analysis by residual maturity, excluding accrued interest

Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed	TOTAL
2,732	5,184	19,440	41,227	3,022	71,605

### c. Analysis by type of issuer, excluding accrued interest

Type of issuer	2003	2004
At December 31		
Public sector	26,860	25,907
Other sectors	30,809	45,698
<b>TOTAL</b>	<b>57,669</b>	<b>71,605</b>

### d. Quoted and unquoted bonds, excluding accrued interest

At December 31	Net book value 2004	Market value 2004	Net unrealized gains 2004
Quoted bonds	60,492	62,599	2,107
Unquoted bonds	11,113	-	-
<b>TOTAL</b>	<b>71,605</b>	<b>-</b>	<b>-</b>

Losses on investment securities, excluding impact of hedges: None.

Losses on securities available for sale, excluding impact of hedges: EUR 78 million.

### e. Analysis by portfolio and movements for the year, excluding accrued interest

	Banking activity and other			Insurance activity	TOTAL
	Trading portfolio	Securities available for sale	Investment portfolio		
<b>Cost at December 31, 2003</b>	<b>5,222</b>	<b>25,850</b>	<b>19,396</b>	<b>7,245</b>	<b>57,713</b>
Movements for the year:					
Acquisitions	7,460	25,787	7,250	3,185	43,682
Disposals and redemptions	(5,405)	(20,077)	(2,557)	0	(28,039)
Transfers (2)	0	0	171	0	171
Changes in scope (newly consolidated companies)	0	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0	0
Translation adjustments <sup>(1)</sup>	(341)	(102)	(673)	(797)	(1,913)
Other movements	0	0	0	0	0
<b>Cost at December 31, 2004 (A)</b>	<b>6,936</b>	<b>31,458</b>	<b>23,587</b>	<b>9,633</b>	<b>71,614</b>
<b>Allowances at December 31, 2003</b>	<b>0</b>	<b>(34)</b>	<b>(9)</b>	<b>(1)</b>	<b>(44)</b>
Movements for the year:					
Charges to allowances	0	(8)	0	(1)	(9)
Recoveries from allowances	0	36	8	0	44
Cancellations	0	0	0	0	0
Transfers	0	0	0	0	0
Changes in scope (newly consolidated companies)	0	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0	0
Translation adjustments <sup>(1)</sup>	0	0	0	0	0
Other movements	0	0	0	0	0
<b>Allowances at December 31, 2004 (B)</b>	<b>0</b>	<b>(6)</b>	<b>(1)</b>	<b>(2)</b>	<b>(9)</b>
<b>Net book value at December 31, 2004 (A) - (B)</b>	<b>6,936</b>	<b>31,452</b>	<b>23,586</b>	<b>9,631</b>	<b>71,605</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated securities held at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

(2) The contra entry to this transfer is explained in Note 2.1.c.

Investment securities sold before maturity totaled EUR 622 million.

**f. Transfers between portfolios**

	Net book value at Dec. 31, 2004	Impact on 2004 income statement
From trading securities to securities available for sale	0	0
From trading securities to investment securities	0	0
From securities available for sale to investment securities	0	0

**g. Analysis by counterparty, excluding accrued interest**

Counterparties	2003	2004
At December 31		
Bonds and other fixed-income securities issued by Dexia Group related parties	100	119
Bonds and other fixed-income securities issued by other related parties	0	0
Bonds and other fixed-income securities issued by non-related parties	57,569	71,486
<b>TOTAL</b>	<b>57,669</b>	<b>71,605</b>

**h. Breakdown between subordinated and other bonds, excluding accrued interest**

Subordination	2003	2004
At December 31		
Subordinated bonds issued by credit institutions	167	147
Subordinated bonds issued by other parties	235	268
Other bonds	57,267	71,190
<b>TOTAL</b>	<b>57,669</b>	<b>71,605</b>
Quoted subordinated bonds	84	84

**i. Trading portfolio, excluding accrued interest**

	2003	2004
At December 31		
Mark-to-market gains	4	8

**j. Securities available for sale and investment portfolio, excluding accrued interest**

	2003	2004
At December 31		
Unrealized gains (redemption price higher than book value)	19	340
Unrealized losses (redemption price lower than book value)	71	354

**k. Movements for the year on subordinated bonds, excluding accrued interest**

	Companies accounted for by the equity method	Other companies, at cost	TOTAL
<b>Cost at December 31, 2003</b>	<b>0</b>	<b>406</b>	<b>406</b>
Movements for the year:			
Acquisitions	0	72	72
Disposals and redemptions	0	(64)	(64)
Transfers <sup>(2)</sup>	0	4	4
Changes in scope (newly consolidated companies)	0	0	0
Changes in scope (deconsolidations)	0	0	0
Translation adjustments <sup>(1)</sup>	0	(6)	(6)
Other movements	0	0	0
<b>Cost at December 31, 2004 (A)</b>	<b>0</b>	<b>412</b>	<b>412</b>
<b>Allowances at December 31, 2003</b>	<b>0</b>	<b>4</b>	<b>4</b>
Movements for the year:			
Charges to allowances	0	0	0
Recoveries from allowances	0	(4)	(4)
Cancellations	0	0	0
Transfers	0	0	0
Changes in scope (newly consolidated companies)	0	0	0
Changes in scope (deconsolidations)	0	0	0
Translation adjustments (1)	0	0	0
Other movements	0	0	0
<b>Allowances at December 31, 2004 (B)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value at December 31, 2004 (A) - (B)</b>	<b>0</b>	<b>412</b>	<b>412</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated subordinated bonds held at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

(2) The contra entry to this transfer is explained in Note 2.1.

## 2.5 EQUITIES AND OTHER VARIABLE-INCOME SECURITIES (ITEM VI. - ASSETS)

### a. Analysis by portfolio and movements for the year

	Banking activity and other		Insurance activity	TOTAL
	Trading portfolio	Securities available for sale		
<b>Cost at December 31, 2003</b>	<b>0</b>	<b>208</b>	<b>0</b>	<b>208</b>
Movements for the year:				
Acquisitions	0	321	11	332
Disposals and redemptions	0	(15)	0	(15)
Transfers	0	0	0	0
Changes in scope (newly consolidated companies)	0	0	0	0
Changes in scope (deconsolidations)	0	(7)	0	(7)
Translation adjustments (1)	0	0	(1)	(1)
Other movements	0	0	0	0
<b>Cost at December 31, 2004 (A)</b>	<b>0</b>	<b>507</b>	<b>10</b>	<b>517</b>
<b>Allowances at December 31, 2003</b>	<b>0</b>	<b>(14)</b>	<b>0</b>	<b>(14)</b>
Movements for the year:				
Charges to allowances	0	(7)	0	(7)
Recoveries from allowances	0	9	0	9
Cancellations	0	0	0	0
Transfers	0	0	0	0
Changes in scope (newly consolidated companies)	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0
Translation adjustments (1)	0	0	0	0
Other movements	0	0	0	0
<b>Allowances at December 31, 2004 (B)</b>	<b>0</b>	<b>(12)</b>	<b>0</b>	<b>(12)</b>
<b>Net book value at December 31, 2004 (A) - (B)</b>	<b>0</b>	<b>495</b>	<b>10</b>	<b>505</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated securities held at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

The main acquisitions involve EUR 109.5 million in Société Générale shares and EUR 179 million in Dexia Group mutual funds.

### b. Transfers between portfolios

	Net book value at Dec. 31, 2004	Impact on 2004 income statement
From trading securities to securities available for sale	0	0
From securities available for sale to long-term investments	0	0

### c. Analysis by type of security

At December 31	2003		2004	
	Quoted	Unquoted	Quoted	Unquoted
Equities				
French	0	0	110	0
Belgian	17	0	14	0
Other	20	67	32	80
Mutual funds				
French	77	13	109	0
Belgian	0	0	0	0
Other	0	0	158	2
<b>TOTAL</b>	<b>114</b>	<b>80</b>	<b>423</b>	<b>82</b>

#### d. Quoted and unquoted securities

At December 31, 2004	Net book value	Market value	Net unrealized gain
Quoted securities	423	437	14
Unquoted securities	82	-	-
<b>TOTAL</b>	<b>505</b>	<b>-</b>	<b>-</b>

Losses on investment securities and securities available for sale, excluding impact of hedges: None.

#### e. Trading portfolio

At December 31, 2004	TOTAL
Mark-to-market gains	0

## 2.6 LONG-TERM INVESTMENTS (ITEM VII. - ASSETS)

#### a. Accrued interest: none

#### b. Analysis by type of issuer and movements for the year

	Companies accounted for by the equity method		Other companies			TOTAL
	Credit inst.	Other	Banking activity and other		Insurance activity	
			Credit inst.	Other		
<b>Cost at December 31, 2003</b>	<b>207</b>	<b>96</b>	<b>132</b>	<b>289</b>	<b>10</b>	<b>734</b>
Movements for the year:						
Acquisitions	25	8	6	30	0	69
Disposals and redemptions	0	(2)	(6)	(3)	(1)	(12)
Transfers	0	(3)	0	1	0	(2)
Changes in scope (newly consolidated companies)	0	0	0	0	0	0
Changes in scope (deconsolidations)	(22)	(11)	0	0	0	(33)
Translation adjustments (1)	0	(5)	0	(1)	(1)	(7)
Other movements	22	(7)	0	0	0	15
<b>Cost at December 31, 2004 (A)</b>	<b>232</b>	<b>76</b>	<b>132</b>	<b>316</b>	<b>8</b>	<b>764</b>
<b>Allowances at December 31, 2003</b>	<b>0</b>	<b>0</b>	<b>(2)</b>	<b>(60)</b>	<b>(1)</b>	<b>(63)</b>
Movements for the year:						
Charges to allowances	0	0	(1)	(11)	0	(12)
Recoveries from allowances	0	0	0	2	0	2
Cancellations	0	0	0	0	0	0
Transfers	0	0	0	0	0	0
Changes in scope (newly consolidated companies)	0	0	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0	0	0
Translation adjustments (1)	0	0	0	1	0	1
Other movements	0	0	0	0	0	0
<b>Allowances at December 31, 2004 (B)</b>	<b>0</b>	<b>0</b>	<b>(3)</b>	<b>(68)</b>	<b>(1)</b>	<b>(72)</b>
<b>Net book value at Dec. 31, 2004 (A) - (B)</b>	<b>232</b>	<b>76</b>	<b>129</b>	<b>248</b>	<b>7</b>	<b>692</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated securities held at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

Other movements in respect of companies accounted for by the equity method correspond essentially to the Group's share of the net income of companies accounted for by the equity method, net of dividends received from these companies. The transfer in other long-term investments concerns the shares of Dexia Fund Services Italia, which are now accounted for by the equity method in the Group financial statements. The EUR 2 million other transfers in companies accounted for by the equity method correspond to a reclas-

sification; the contra entry to this reclassification is explained in Note 2.8.a (goodwill on Select Portfolio Servicing Inc. was fully amortized during the year). The shares of Dexia Banque Privée France and Dexia Asset Management France were disposed of at the beginning of the year. The acquisitions in companies accounted for by the equity method correspond to a capital increase in our Kommunalkredit Austria AG subsidiary and FSA's additional investment in Select Portfolio Servicing Inc.

**c. Quoted and unquoted securities**

	Quoted securities			Unquoted securities
	Net book value at Dec. 31, 2004	Market value at Dec. 31, 2004	gains/(losses) at Dec. 31, 2004	Net book value at Dec. 31, 2004
Companies accounted for by the equity method	0	0	0	308
Other companies, at cost	285	401	116	99
<b>TOTAL</b>	<b>285</b>	<b>401</b>	<b>116</b>	<b>407</b>

No allowance is recorded for unrealized losses compared with the quoted price of the shares when the Group considers that the fair value to the Group of the securities concerned exceeds their net book value.

**d. Significant investments**

Quoted shares	Net book value at December 31, 2004
Companies accounted for by the equity method	0
Other companies, at cost	
Véolia	128
Société Générale	97
Autoroute du Sud de la France	30
Autoroutes Paris-Rhin-Rhône	22
Sabadell	7
Unquoted shares	Net book value at December 31, 2004
Companies accounted for by the equity method	
Crédit du Nord	140
XL Financial	39
Select Portfolio Servicing Inc (formerly Fairbanks)	37
Kommunalkredit Austria	92
Other companies, at cost	
Istituto per il Credito Sportivo	25

**e. Main long-term investments**

Companies At December 31, 2004	% interest	Equity in net assets	Cost (1)	Allowances	Net book value	Loans granted by Group
Istituto per il Credito Sportivo	21.62	253	25	0	25	0

(1) Cost of the shares for the company holding them.

**f. Main investments accounted for by the equity method**

Companies	Equity in net assets at Dec. 31, 2004	Net income 2004
Crédit du Nord	140	24
XL Financial	39	3
Select Portfolio Servicing Inc (formerly Fairbanks)	37	0
Kommunalkredit Austria	92	12

## 2.7 ANALYSIS OF ASSETS BY RESIDUAL MATURITY, EXCLUDING ACCRUED INTEREST

(Summary)

	Total at December 31 2003	Government securities	Interbank loans and advances	Customer loans	Bonds and other fixed-income securities	Total at December 31 2004
Less than 3 months	8,070	120	2,899	4,398	2,732	10,149
3 months to 1 year	9,621	332	1,174	6,804	5,184	13,494
1 to 5 years	49,898	1,053	2,623	28,292	19,440	51,408
Over 5 years	85,931	6,967	3,549	54,677	41,227	106,420
No fixed maturity or not analyzed	3,793	35	0	172	3,022	3,229
<b>TOTAL</b>	<b>157,313</b>	<b>8,507</b>	<b>10,245</b>	<b>94,343</b>	<b>71,605</b>	<b>184,700</b>

## 2.8 GOODWILL ARISING ON CONSOLIDATION (ITEM VIII.B. - ASSETS AND ITEM XIV. - LIABILITIES)

### a. Movements

	Positive goodwill (Item VIII.B - Assets)		Negative goodwill (Item XIV - Liabilities)	
	Fully-consolidated companies	Companies at equity	Fully-consolidated companies	Companies at equity
<b>Net book value at December 31, 2003</b>	<b>1,385</b>	<b>101</b>	<b>15</b>	<b>0</b>
Movements for the year:				
Increase in percent interest	0	0	0	0
Decrease in percent interest	0	0	0	0
Newly consolidated companies	0	0	0	0
Deconsolidated companies	0	(18)	0	0
Amortization	(85)	(7)	(15)	0
Translation adjustments	0	0	0	0
Other movements	0	2	0	0
<b>Net book value at December 31, 2004</b>	<b>1,300</b>	<b>78</b>	<b>0</b>	<b>0</b>

The negative goodwill, which was completely amortized at December 31, 2004, comes from the acquisition of shares in Dexia Hypothekbank Berlin. Dexia Asset Management France and Dexia Banque Privée France were deconsolidated during the year. The EUR 2 million in other movements corresponds to a reclassification, the contra entry of which is explained in Note 2.6.b (goodwill on Select Portfolio Servicing Inc. was fully amortized during the year).

### b. Analysis of goodwill by company

	Year of acquisition	Fully-consolidated companies	Companies at equity
Dexia Crediop	1996	120	0
Crédit du Nord	2000	0	67
Dexia Holdings Inc.	2000	1,110	0
Dexia banka Slovensko	2000	4	0
Dexia Sofaxis	1999	55	0
Otzar Hashilton Hamekomi	2001	11	0
Kommunalkredit Austria AG	2001	0	11
Dexia Hypothekbank Berlin (1)	2003	0	0
<b>TOTAL</b>		<b>1,300</b>	<b>78</b>

(1) Goodwill is amortized over 20 years except for that relating to Dexia Hypothekbank Berlin, which is being amortized over 15 months at December 31, 2004.

## 2.9 ORGANIZATION EXPENSES AND OTHER INTANGIBLE ASSETS (ITEM VIII.A. - ASSETS)

	Organization expense	Other intangible assets	TOTAL
<b>Cost at December 31, 2003</b>	<b>3</b>	<b>165</b>	<b>168</b>
Movements for the year:			
Increases	0	30	30
Decreases	(3)	(2)	(5)
Translation adjustments	0	0	0
Changes in scope (newly consolidated companies)	0	0	0
Changes in scope (deconsolidations)	0	0	0
Other	0	0	0
<b>Cost at December 31, 2004 (A)</b>	<b>0</b>	<b>193</b>	<b>193</b>
<b>Amortization and allowances at December 31, 2003</b>	<b>(3)</b>	<b>(119)</b>	<b>(122)</b>
Movements for the year:			
Increases	0	(19)	(19)
Decreases	3	1	4
Translation adjustments	0	0	0
Changes in scope (newly consolidated companies)	0	0	0
Changes in scope (deconsolidations)	0	0	0
Other	0	0	0
<b>Amortization and allowances at December 31, 2004 (B)</b>	<b>0</b>	<b>(137)</b>	<b>(137)</b>
<b>Net book value at December 31, 2004 (A) - (B)</b>	<b>0</b>	<b>56</b>	<b>56</b>

## 2.10 PROPERTY AND EQUIPMENT (ITEM IX. - ASSETS)

	Land and buildings	Fixtures, equipment, furniture and vehicles	Assets held under finance leases	Other	Assets under construction and prepayments	TOTAL
<b>Cost at December 31, 2003</b>	<b>147</b>	<b>97</b>	<b>0</b>	<b>28</b>	<b>5</b>	<b>277</b>
Movements for the year:						
Acquisitions (and own work capitalized)	1	8	0	3	5	17
Disposals and retirements (-)	(22)	(9)	0	(1)	0	(32)
Reclassifications (+/-)	2	6	0	0	(8)	0
Changes in scope (newly consolidated companies)	0	0	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0	0	0
Translation adjustments	1	(1)	0	0	0	0
Other movements						
<b>Cost at December 31, 2004 (A)</b>	<b>129</b>	<b>101</b>	<b>0</b>	<b>30</b>	<b>2</b>	<b>262</b>
<b>Amortization and allowances at December 31, 2003</b>	<b>(42)</b>	<b>(73)</b>	<b>0</b>	<b>(15)</b>	<b>0</b>	<b>(130)</b>
Movements for the year:						
Additions	(5)	(14)	0	(6)	0	(25)
Disposals and retirements	5	9	0	0	0	14
Reclassifications (+/-)	0	0	0	0	0	0
Changes in scope (newly consolidated companies)	0	0	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0	0	0
Translation adjustments	0	1	0	0	0	1
Other movements						
<b>Amortization and allowances at December 31, 2004 (B)</b>	<b>(42)</b>	<b>(77)</b>	<b>0</b>	<b>(21)</b>	<b>0</b>	<b>(140)</b>
<b>Net book value at December 31, 2004 (A) - (B)</b>	<b>87</b>	<b>24</b>	<b>0</b>	<b>9</b>	<b>2</b>	<b>122</b>
<i>o/w: land and buildings</i>			0			
<i>fixtures and equipment</i>			0			
<i>furniture and vehicles</i>			0			

The EUR 22 million in disposals of buildings includes EUR 20 million for the Dexia Crediop subsidiary in Italy and EUR 2 million for the London branch.

## 2.11 ACCRUALS AND OTHER ASSETS (ITEM XIV. - ASSETS)

### a. Analysis by type

At December 31	2003	2004
Redemption premiums and other deferred charges on borrowings	638	376
Redemption premiums on loans	114	178
Premiums and other deferred charges on hedging transactions	1,285	1,696
Accrued income on hedging transactions	4,793	5,460
Accrued income on trading transactions	81	189
Unrealized translation losses	0	0
Other deferred charges	216	447
Other accrued income	26	27
Deferred commissions on treasury notes	0	0
<b>TOTAL</b>	<b>7,153</b>	<b>8,373</b>

### b. Analysis of premiums and deferred charges on hedging transactions

At December 31	2003	2004
Securities transactions	0	0
Foreign currency transactions	46	4
Other financial instruments	1,239	1,692
<i>Interest rate instruments</i>	1,236	1,690
<i>Other forward purchases and sales</i>	3	2
<b>TOTAL</b>	<b>1,285</b>	<b>1,696</b>

### c. Analysis of accrued income on hedging transactions

At December 31	2003	2004
Securities transactions	0	0
Foreign currency transactions	428	547
Other financial instruments	4,365	4,913
<i>Interest rate instruments</i>	4,027	4,913
<i>Other forward purchases and sales</i>	338	0
<b>TOTAL</b>	<b>4,793</b>	<b>5,460</b>

### d. Analysis of the accrued income on trading transactions

At December 31	2003	2004
Securities transactions	0	0
Foreign currency transactions	1	4
Other financial instruments	80	185
<i>Interest rate instruments</i>	80	185
<i>Other forward purchases and sales</i>	0	0
<b>TOTAL</b>	<b>81</b>	<b>189</b>

## 2.12 OTHER ASSETS (ITEM XIII. - ASSETS)

### a. Details of other assets: Banking activity and other (Item XIII.A.)

At December 31	2003	2004
Precious metals	0	0
Assets for resale	0	0
Other assets, including:	3,655	5,552
<i>Tax receivables</i>	103	84
<i>Premiums paid on swaptions written</i>	1	1
<i>Other assets</i>	275	383
<i>Guarantee deposits paid</i>	3,214	5,021
<i>Premiums paid on options</i>	0	6
<i>Premiums paid on coupons</i>	4	0
<i>Assets receivable in the short-term</i>	0	0
<i>Deferred taxes assets</i>	57	57
<i>Other long-term investments</i>	1	0
<b>TOTAL</b>	<b>3,655</b>	<b>5,552</b>

Deferred tax assets correspond primarily to timing differences and tax credits.

### b. Details of other assets: Insurance activity (Item XIII.B.)

At December 31	2003	2004
Reinsurers' share of underwriting reserves	0	0
Receivables arising from direct insurance activity	28	28
Accrued premiums	0	0
Deferred acquisition costs	217	226
Other insurance assets	81	84
<b>TOTAL</b>	<b>326</b>	<b>338</b>

## 2.13 a. REAL ESTATE TRANSACTIONS (FRENCH SUBSIDIARIES)

This note concerns Dexia CLF Immo only.

### a. Outstanding loans and allowances on real estate transactions

At December 31	2003	2004
Total loans	36	16
<i>o/w: Non-performing loans</i>	5	5
Non-performing accounts/total loans ratio	13.89%	31.25%
Allowances and reserves	7	7
<i>Allowances (assets)</i>	4	4
<i>Reserves (liabilities)</i>	3	3
Reserve for losses of flow-through entities	0	0
<b>TOTAL ALLOWANCES AND RESERVES</b>	<b>7</b>	<b>7</b>

**b. Movements in allowances and reserves**

	At Dec. 31 2003	Increases	Decreases	At Dec. 31 2004
Allowances	4	0	0	4
<i>Non-performing loans</i>	3	0	0	3
<i>Impairment on investments and losses on advances</i>	1	0	0	1
Reserves	3	0	0	3
<b>TOTAL</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>7</b>

**c. Movement in reserves for losses of flow-through companies**

	At Dec. 31 2003	Changes in scope	Results of operations	Transfers <sup>(1)</sup>	At Dec. 31 2004
Losses of flow-through entities	0	0	0	0	0

(1) II Transfer of losses to partners' loans on completion of development projects.

**2.13 b. REAL ESTATE TRANSACTIONS (FOREIGN SUBSIDIARIES)**

This note concerns Dexia Hypothekenbank Berlin only.

**a. Outstanding loans and allowances on real estate transactions**

At December 31	2003	2004
Total loans	173	76
<i>o/w: Non-performing loans</i>	62	47
Non-performing loans/total loans ratio	35.84%	61.84%
Allowances and reserves	43	10
<i>Allowances (assets)</i>	43	10
<i>Reserves (liabilities)</i>	0	0
<b>TOTAL ALLOWANCES</b>	<b>43</b>	<b>10</b>

**b. Movements in allowances and reserves**

	At Dec. 31 2003	Changes in scope	Translation differences	Increases	Decreases	At Dec. 31 2004
Allowances	43	0	0	4	37	10
<i>Non-performing loans</i>	43	0	0	4	37	10
<i>Impairment on investments and losses on advances</i>	0	0	0	0	0	0
Reserves	0	0	0	0	0	0
<b>TOTAL</b>	<b>43</b>	<b>0</b>	<b>0</b>	<b>4</b>	<b>37</b>	<b>10</b>

**2.14 TREASURY STOCK (ITEM XII. - ASSETS)**

At December 31, 2004	Value	Number of shares
Treasury stock held by:		
Dexia Credit Local	0	0
Subsidiaries of Dexia Credit Local	0	0
<b>TOTAL</b>	<b>0</b>	<b>0</b>

### 3 Notes to the consolidated balance sheet - Liabilities and shareholders' equity (EUR millions)

#### 3.1 INTERBANK LOANS AND DEPOSITS: TIME (ITEM I.B. - LIABILITIES)

a. Accrued interest: 531

b. Analysis by residual maturity, excluding accrued interest

Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed	Total At Dec. 31, 2004
31,722	7,948	1,286	7,770	0	48,726

c. Analysis by counterparty, excluding accrued interest

Counterparties At December 31	2003	2004
Interbank loans and deposits from Dexia Group related parties	3,372	10,572
Interbank loans and deposits from other related parties	8,564	8,750
Interbank loans and deposits from non-related parties	28,959	29,404
<b>TOTAL</b>	<b>40,895</b>	<b>48,726</b>

d. Analysis of deposits by geographical area of counterparty, excluding accrued interest

At December 31	2003	2004
France	10,900	12,998
Belgium	2,401	6,326
Other European Union countries	15,930	15,490
Non-EU countries	11,664	13,912
<b>TOTAL</b>	<b>40,895</b>	<b>48,726</b>

## 3.2 CUSTOMER DEPOSITS (ITEM II. - LIABILITIES)

### a. Accrued interest: 119

### b. Analysis by residual maturity, excluding accrued interest and sight deposits

Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed	Total At Dec. 31, 2004
1,782	2,424	3,695	4,750	0	12,651

### c. Analysis by counterparty, excluding accrued interest

Counterparties At December 31	2003	2004
Customer deposits from Dexia Group related parties	0	0
Customer deposits from other related parties	0	0
Customer deposits from non-related parties	10,127	13,969
<b>TOTAL</b>	<b>10,127</b>	<b>13,969</b>

### d. Analysis by type of customer, excluding accrued interest

Type of borrower At December 31	2003	2004
Public sector	4,864	5,906
Other sectors	5,263	8,063
<b>TOTAL</b>	<b>10,127</b>	<b>13,969</b>

### e. Analysis of deposits by geographical area, excluding accrued interest

At December 31	2003	2004
France	4	548
Belgium	1,381	366
Other European Union countries	4,590	2,936
Non-EU countries	4,152	10,119
<b>TOTAL</b>	<b>10,127</b>	<b>13,969</b>

### 3.3 DEBT SECURITIES (ITEM III. - LIABILITIES)

#### a. Accrued interest: 2,068

#### b. Analysis by residual maturity, excluding accrued interest

Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed	Total At Dec. 31, 2004
18,298	12,083	47,370	36,277	0	114,028

#### c. Analysis by type of security and movements for the year, excluding accrued interest

	Savings bonds	Bonds	Certificates of deposit, negotiable debt securities and similar instruments	TOTAL
<b>Amount at December 31, 2003</b>	<b>0</b>	<b>64,805</b>	<b>32,141</b>	<b>96,946</b>
Movements for the year:				
New issues	0	35,412	16,855	52,267
Redemptions	0	(28,497)	(5,397)	(33,894)
Transfers	0	2,736	(2,736)	0
Changes in scope (newly consolidated companies)	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0
Translation adjustments <sup>(1)</sup>	0	(504)	(787)	(1,291)
Other movements	0	0	0	0
<b>Amount at December 31, 2004</b>	<b>0</b>	<b>73,952</b>	<b>40,076</b>	<b>114,028</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated securities held at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

#### d. Analysis by counterparty, excluding accrued interest

At December 31	2003	2004
Debt securities held by Dexia Group related parties <sup>(1)</sup>	3,956	3,773
Debt securities held by other related parties	27	2,278
Debt securities held by other non-related parties	92,963	107,977
<b>TOTAL</b>	<b>96,946</b>	<b>114,028</b>

(1) Transactions executed with Dexia Bank.

### 3.4 ACCRUALS AND OTHER LIABILITIES (ITEM V. - LIABILITIES)

#### a. Analysis by type

At December 31	2003	2004
Premiums and deferred income on borrowings	0	1
Deferred income on loans	528	462
Deferred income on hedging transactions	1,633	1,411
Accrued charges on hedging transactions	4,704	5,270
Accrued charges on trading transactions	79	178
Unrealized translation gains	2,324	3,045
Prepaid rental revenues	1	1
Other deferred income	62	705
Other accrued charges	181	583
Other	0	0
<b>TOTAL</b>	<b>9,512</b>	<b>11,656</b>

#### b. Analysis of deferred income on hedging transactions

At December 31	2003	2004
Securities transactions	0	0
Foreign currency transactions	92	28
Other financial instruments	1,541	1,383
<i>Interest rate instruments</i>	1,515	1,383
<i>Other forward purchases and sales</i>	26	0
<b>TOTAL</b>	<b>1,633</b>	<b>1,411</b>

#### c. Analysis of accrued charges on hedging transactions

At December 31	2003	2004
Securities transactions	0	0
Foreign currency transactions	278	460
Other financial instruments	4,426	4,810
<i>Interest rate instruments</i>	4,019	4,810
<i>Other forward purchases and sales</i>	407	0
<b>TOTAL</b>	<b>4,704</b>	<b>5,270</b>

#### d. Analysis of accrued charges on trading transactions

At December 31	2003	2004
Securities transactions	0	0
Foreign currency transactions	0	4
Other financial instruments	79	174
<i>Interest rate instruments</i>	79	174
<i>Other forward purchases and sales</i>	0	0
<b>TOTAL</b>	<b>79</b>	<b>178</b>

### 3.5 RESERVES FOR CONTINGENCIES AND CHARGES (ITEM VI.A. - LIABILITIES)

Reserves	Pensions and similar commitments <sup>(2)</sup>	Taxes	Loan losses (general reserves)*	Country risks*	Losses on foreign currency positions, securities and other financial instruments	Other reserves for contingencies and charges	Insurance company underwriting reserves <sup>(2)*</sup>	Losses on foreign currency, securities and other financial instruments (insurance)	TOTAL
<b>Amount at December 31, 2003</b>	<b>15</b>	<b>77</b>	<b>138</b>	<b>25</b>	<b>13</b>	<b>11</b>	<b>138</b>	<b>17</b>	<b>434</b>
Movements for the year:									
Increases	7	53	46	0	10	3	34	0	153
Recoveries and recoveries from allowances	(3)	(34)	(76)	(23)	(19)	(1)	(59)	(11)	(226)
Transfers	0	0	0	0	0	0	0	0	0
Changes in scope (newly consolidated companies)	0	0	0	0	0	0	0	0	0
Changes in scope (deconsolidations)	0	0	0	0	0	0	0	0	0
Translation adjustments <sup>(1)</sup>	0	(5)	(3)	0	0	1	(8)	0	(15)
Other movements	0	0	0	0	0	0	0	0	0
<b>Amount at December 31, 2004</b>	<b>19</b>	<b>91</b>	<b>105</b>	<b>2</b>	<b>4</b>	<b>14</b>	<b>105</b>	<b>6</b>	<b>346</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated reserves at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

(2) These reserves are presented net of reinsurance.

(3) The charge for the year includes the impact of the adjustment of the actuarial assumptions for the discount rate, inflation rate and yield to maturity. These assumptions were standardized at the Group level and by geographical area for pension commitments, post-employment benefits and other long-term benefits.

(\*) Net charges to allowances for loan losses and off-balance sheet credit risks are explained in Note 5.5.

### 3.6 DEFERRED TAXES (ITEM VI.B. - LIABILITIES)

	Deferred taxes Timing differences	Deferred tax liabilities	TOTAL
<b>Amount at December 31, 2003</b>	<b>0</b>	<b>484</b>	<b>484</b>
Movements for the year:			
Increases	0	219	219
Recoveries and recoveries from allowances	0	(149)	(149)
Transfers (2)	0	(2)	(2)
Changes in scope (newly consolidated companies)	0	0	0
Changes in scope (deconsolidations)	0	0	0
Translation adjustments (1)	0	(22)	(22)
Other movements	0	0	0
<b>Amount at December 31, 2004</b>	<b>0</b>	<b>530</b>	<b>530</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated provisions at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

(2) This transfer reflects the offsetting of deferred taxes assets and liabilities within the same tax entity.

Deferred tax liabilities correspond primarily to timing differences.

### 3.7 GENERAL BANKING RISKS RESERVE (ITEM VII. - LIABILITIES)

<b>Amount at December 31, 2003</b>	<b>478</b>
Movements for the year:	0
<b>Amount at December 31, 2004</b>	<b>478</b>

### 3.8 SUBORDINATED DEBT (ITEM VIII. - LIABILITIES)

#### a. Accrued interest: 28

#### b. Analysis by residual maturity, excluding accrued interest

Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed	Total At Dec. 31, 2004
0	126	214	2,931	184	3,455

#### c. Movements for the year, excluding accrued interest

<b>Amount at December 31, 2003</b>	<b>2,901</b>
Movements for the year:	
New issues	668
Redemptions	(5)
Transfers	0
Changes in scope (newly consolidated companies)	0
Changes in scope (deconsolidations)	0
Translation adjustments <sup>(1)</sup>	(109)
Other movements	0
<b>Amount at December 31, 2004</b>	<b>3,455</b>

(1) Impact of changes in exchange rates between December 31, 2003 and December 31, 2004 on foreign currency-denominated subordinated debt held at December 31, 2003 and impact of the difference between the average and year-end exchange rates on movements for the year.

#### d. Interest and commission payments on subordinated debt

At December 31	2003	2004
Interest and commission payments	(69)	(79)

#### e. Analysis by counterparty, excluding accrued interest

At December 31	2003	2004
Subordinated debt due to Dexia Group related parties <sup>(1)</sup>	1,584	2,335
Subordinated debt due to other related parties	0	0
Subordinated debt due to non-related parties	1,317	1,120
<b>TOTAL</b>	<b>2,901</b>	<b>3,455</b>

(1) Transactions carried out with Dexia.

#### f. Analysis of total subordinated debt, excluding accrued interest

At December 31	2003	2004
Dexia Credit Local	2,620	3,179
Other consolidated subsidiaries	281	276
<b>TOTAL</b>	<b>2,901</b>	<b>3,455</b>

*g. Detailed information*

Ref. no.	Currency	Amount in millions	Due	a) Early repayment conditions b) Subordination conditions c) Convertibility condition	Interest rate (%)
54062	EUR (FRF)	45.7	September 26, 2005	a) Early repayment possible after 5 years, subject to Banking Commission approval (excluding liquidation) b) No specific conditions c) No conversion	7.90
56037	USD	100	April 8, 2005	a) Early repayment possible after 5 years, subject to Banking Commission approval (excluding liquidation) b) No specific conditions c) No conversion	LUSD 6 M -0.1875
56325	EUR	100	December 1, 2014	a) Early repayment possible after 5 years, subject to Banking Commission approval (excluding liquidation) b) No specific conditions c) No conversion	93.25%*CMS 10 <sup>(1)</sup>
901002800	EUR (DEM)	1	April 12, 2005	a) No early repayment b) No specific conditions c) No conversion	7.85
901002900	EUR (DEM)	5.1	April 11, 2005	a) No early repayment b) No specific conditions c) No conversion	8
901003000	EUR (DEM)	1	May 4, 2005	a) No early repayment b) No specific conditions c) No conversion	7.832
901000800	EUR (DEM)	12.8	May 19, 2006	a) No early repayment b) No specific conditions c) No conversion	7.03
901000900	EUR (DEM)	2.6	May 19, 2006	a) No early repayment b) No specific conditions c) No conversion	7.03
901001000A	EUR (DEM)	2.6	August 28, 2006	a) No early repayment b) No specific conditions c) No conversion	7.02
901001000B	EUR (DEM)	2.6	August 28, 2006	a) No early repayment b) No specific conditions c) No conversion	7.02
901001100	EUR (DEM)	2.6	September 1, 2006	a) No early repayment b) No specific conditions c) No conversion	7
901001200	EUR (DEM)	5.1	September 4, 2006	a) No early repayment b) No specific conditions c) No conversion	7
901001300	EUR (DEM)	2.6	October 2, 2006	a) No early repayment b) No specific conditions c) No conversion	6.80
901001400	EUR (DEM)	1	September 26, 2006	a) No early repayment b) No specific conditions c) No conversion	6.80

901001500	EUR (DEM)	5.1	September 26, 2006	a) No early repayment b) No specific conditions c) No conversion	6.70
901002300	EUR (DEM)	5.1	September 26, 2006	a) No early repayment b) No specific conditions c) No conversion	6.70
901001600	EUR (DEM)	1	September 26, 2006	a) No early repayment b) No specific conditions c) No conversion	6.70
901003100	EUR (DEM)	5.1	October 2, 2006	a) No early repayment b) No specific conditions c) No conversion	6.65
901002400	EUR (DEM)	2.6	October 24, 2007	a) No early repayment b) No specific conditions c) No conversion	6.24
901001800	EUR (DEM)	2.6	November 12, 2007	a) No early repayment b) No specific conditions c) No conversion	6.27
901001900	EUR (DEM)	0.5	November 12, 2007	a) No early repayment b) No specific conditions c) No conversion	6.27
901002500A	EUR (DEM)	2.6	November 14, 2007	a) No early repayment b) No specific conditions c) No conversion	6.26
901002500B	EUR (DEM)	2.6	November 14, 2007	a) No early repayment b) No specific conditions c) No conversion	6.26
901002000	EUR (DEM)	5.1	December 10, 2007	a) No early repayment b) No specific conditions c) No conversion	6.28
901002100	EUR	3	November 20, 2012	a) No early repayment b) No specific conditions c) No conversion	6.45
901002200	EUR	5	December 9, 2009	a) No early repayment b) No specific conditions c) No conversion	6.15
901002600	EUR	2.5	October 11, 2010	a) No early repayment b) No specific conditions c) No conversion	6.55
421000300A	EUR (DEM)	0.5	1 business day after 2006 SGM	a) No early repayment b) No specific conditions c) No conversion	7.75
421000300B	EUR (DEM)	2	1 business day after 2006 SGM	a) No early repayment b) No specific conditions c) No conversion	7.75
421000400	EUR (DEM)	1	December 15, 2005	a) No early repayment b) No specific conditions c) No conversion	7.35

421000500	EUR (DEM)	1	June 1, 2008	a) No early repayment b) No specific conditions c) No conversion	6.95
421000600	EUR (DEM)	1	June 1, 2008	a) No early repayment b) No specific conditions c) No conversion	6.89
421000700	EUR (DEM)	5.1	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.89
421000800	EUR (DEM)	2.6	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.86
421000900	EUR (DEM)	2.6	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.86
421001000A	EUR (DEM)	1	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.83
421001000B	EUR (DEM)	2.6	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.83
421001000C	EUR (DEM)	3.1	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.83
421001000D	EUR (DEM)	1.5	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.83
421001100	EUR (DEM)	2.6	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.80
421001200	EUR (DEM)	2.6	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.65
421001300A	EUR (DEM)	2.6	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.65
421001300B	EUR (DEM)	7.7	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.65
421001400	EUR (DEM)	0.5	June 2, 2008	a) No early repayment b) No specific conditions c) No conversion	6.54
421001500	EUR (DEM)	10.2	June 2, 2009	a) No early repayment b) No specific conditions c) No conversion	6.63
421001600	EUR (DEM)	4.6	June 2, 2009	a) No early repayment b) No specific conditions c) No conversion	6.63

421001700	EUR	3.5	June 1, 2012	a) No early repayment b) No specific conditions c) No conversion	6.97
DE008059304	EUR (DEM)	10.2	June 30, 2006	a) No early repayment b) No specific conditions c) No conversion	7
DE0008059312	EUR (DEM)	5.1	Dec. 31, 2005	a) No early repayment b) No specific conditions c) No conversion	7
DE008059338	EUR	13	June 30, 2009	a) No early repayment b) No specific conditions c) No conversion	Var
DE0008059346	EUR	15	June 30, 2011	a) No early repayment b) No specific conditions c) No conversion	6.40
DE0002168424	EUR	18	January 4, 2010	a) No early repayment b) No specific conditions c) No conversion	5.50
DE0002168531	EUR	10	August 17, 2011	a) No early repayment b) No specific conditions c) No conversion	Var
83484	USD	150	December 19, 2011	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, but preferred ranking over non-voting loan stock after all creditors c) No conversion	LUSD 3 M +0.475
299284	USD	135	June 30, 2014	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors c) No conversion	LUSD 3 M +0.32
43296	EUR	48.58	June 10, 2009	a) Early repayment possible after 5 years, subject to Banking Commission approval (excluding liquidation) b) No specific conditions c) No conversion	EURIBOR 3 M +0.35
43295	EUR	13	June 10, 2009	a) Early repayment possible after 5 years, subject to Banking Commission approval (excluding liquidation) b) No specific conditions c) No conversion	EURIBOR 3 M +0.35
307201	EUR	200	September 29, 2010	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	EURIBOR 3 M +0.50

307285	EUR	640	June 27, 2011	<ul style="list-style-type: none"> <li>a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval</li> <li>b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock</li> <li>c) No conversion</li> </ul>	EURIBOR 3 M +0.5
124884	USD	25	October 15, 2012	<ul style="list-style-type: none"> <li>a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval</li> <li>b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock</li> <li>c) No conversion</li> </ul>	LUSD 3 M +0.48
125233	USD	25	September 27, 2012	<ul style="list-style-type: none"> <li>a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval</li> <li>b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock</li> <li>c) No conversion</li> </ul>	LUSD 3 M +0.495
125515	USD	60	September 27, 2012	<ul style="list-style-type: none"> <li>a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval</li> <li>b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock</li> <li>c) No conversion</li> </ul>	LUSD-BBA 3 M +0.50
112152	USD	150	June 28, 2012	<ul style="list-style-type: none"> <li>a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval</li> <li>b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock</li> <li>c) No conversion</li> </ul>	LUSD 3 M +0.40
125533	USD	250	October 1, 2017	<ul style="list-style-type: none"> <li>a) Early repayment possible after 5 years, subject to Banking Commission prior approval, unless replaced by shareholders' equity of at least equivalent or better quality</li> <li>b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock</li> <li>c) No conversion</li> </ul>	LUSD 3 M +1.1

421002200	EUR	1	June 30, 2013	a) No early repayment b) No specific conditions c) No conversion	6.60
DE0008059353	EUR	5	June 30, 2013	a) No early repayment b) No specific conditions c) No conversion	Var
901003200	EUR	5	November 7, 2012	a) No early repayment b) No specific conditions c) No conversion	6.21
901003300	EUR	5	November 12, 2012	a) No early repayment b) No specific conditions c) No conversion	6.08
901003400	EUR	10	March 7, 2013	a) No early repayment b) No specific conditions c) No conversion	5.28
901003500	EUR	40	September 1, 2016	a) No early repayment b) No specific conditions c) No conversion	4.960
169189	USD	130	April 1, 2013	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	LUSD-BBA 3 M +0.45
213819	USD	200	April 1, 2013	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	LUSD-BBA 3 M +0.40
233095	USD	200	June 27, 2013	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	LUSD-BBA 3 M +0.35
247036	USD	300	September 30, 2013	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	LUSD-BBA 3 M +0.35

243288	USD	200	October 1, 2013	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	LUSD-BBA 3 M +0.36
421002300	EUR	10	June 30, 2014	a) No early repayment b) No specific conditions c) No conversion	6.250
DE0008059387	EUR	10	June 30, 2014	a) No early repayment b) No specific conditions c) No conversion	6.450
DE0007269953	EUR	20	June 2, 2014	a) No early repayment b) No specific conditions c) No conversion	6.250
266327	USD	100	January 2, 2014	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	LUSD-BBA 3 M +0.38
335557	EUR	450	January 1, 2015	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	EURIBOR 3 M +0.32
312459	USD	265	July 1, 2014	a) Early repayment possible on each due date for interest payments, subject to Banking Commission prior approval b) Early repayment at par value, after all creditors but preferred ranking over non-voting loan stock c) No conversion	LUSD-BBA 3 M +0.35

TME = Average monthly rate for French government bonds (7 years and over).

TCAD = Average rate for bankers acceptances on the Toronto market (in Canadian dollars).

LUSD 6 M = 6-month USD Libor.

BBA 3 M = 3-month EUR Libor.

(1) The Constant Maturity Swap benchmark for swaps of 10-year fixed rate debt in euros against the 6-month Euribor in euros (CMS 10), multiplied by 93.25%, between December 1, 2003 and December 1, 2004. The interest rate is 4.535%.

## 3.9 ANALYSIS OF LIABILITIES BY MATURITY, EXCLUDING ACCRUED INTEREST

(Summary)

	Total at Dec. 31 2003	Interbank loans and deposits	Customer deposits	Debt securities	Subordinated debt	Total at Dec. 31 2004
Less than 3 months	39,594	31,722	1,782	18,298	0	51,802
3 months to 1 year	17,161	7,948	2,424	12,083	126	22,581
1 to 5 years	51,115	1,286	3,695	47,370	214	52,565
Over 5 years	41,561	7,770	4,750	36,277	2,931	51,728
No fixed maturity or not analyzed	208	0	0	0	184	184
<b>TOTAL</b>	<b>149,639</b>	<b>48,726</b>	<b>12,651</b>	<b>114,028</b>	<b>3,455</b>	<b>178,860</b>

## 3.10 SHAREHOLDERS' EQUITY

	Shareholders' equity (Group share)	Minority interests	TOTAL
<b>At December 31, 2003</b>			
Capital stock	1,327	0	1,327
Additional paid-in capital	1,087	0	1,087
Retained earnings	1,348	673	2,021
Cumulative translation adjustments	(166)	(79)	(245)
Negative goodwill	15	0	15
Net income for the year	617	92	709
<b>Shareholders' equity at December 31, 2003</b>	<b>4,228</b>	<b>686</b>	<b>4,914</b>
Movements for the year:			
Issuance of shares (capital stock)	0	0	0
Issuance of shares (additional paid-in capital)	0	0	0
Dividends (paid)/received	(501)	(47)	(548)
Translation adjustments	(96)	(20)	(116)
Change in negative goodwill	(15)	0	(15)
Net income for the year	705	71	776
Other movements <sup>(2)</sup>	(1)	3	2
<b>At December 31, 2004</b>			
Capital stock	1,327	0	1,327
Additional paid-in capital	1,087	0	1,087
Retained earnings	1,463	721	2,184
Cumulative translation adjustments <sup>(1)</sup>	(262)	(99)	(361)
Negative goodwill	0	0	0
Net income for the year	705	71	776
<b>Shareholders' equity at December 31, 2004 (A)</b>	<b>4,320</b>	<b>693</b>	<b>5,013</b>
General banking risks reserve at December 31, 2003	478	0	478
Change in general banking risks reserve	0	0	0
<b>General banking risks reserve at December 31, 2004 (B)</b>	<b>478</b>	<b>0</b>	<b>478</b>
<b>Equity and quasi-equity at December 31, 2004 (A) + (B)</b>	<b>4,798</b>	<b>693</b>	<b>5,491</b>

(1) Including a EUR 5 million negative translation adjustment relating to euro zone companies.

(2) FSA has received an option from a group of investors allowing the company to issue preference shares in the amount of USD 200 million at any time, in exchange for the payment of a quarterly premium. The related costs and premiums amount to EUR 0.9 million and are allocated to shareholders' equity.

Dexia Credit Local has capital stock of EUR 1,327,004,846 divided into 87,045,757 shares.

### 3.11 ANALYSIS OF ASSETS AND LIABILITIES BY CURRENCY

By accounting currency	EUR	Other EU currencies	Non-EU currencies <sup>(1)</sup>	TOTAL
TOTAL ASSETS	147,704	14,925	43,402	206,031
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	146,305	10,794	48,932	206,031

(1) Assets and liabilities excluding hedging transactions.

### 3.12 OTHER LIABILITIES (ITEM IV. - LIABILITIES)

#### a. Other liabilities: Banking activity and other (Item IV.A.)

At December 31	2004
Accrued taxes and payroll costs	6
Accrued corporate income tax	99
<i>Taxes payable</i>	58
<i>Estimated tax liabilities</i>	41
Other liabilities	1,056
<i>Guarantee deposits received</i>	529
<i>Pension funds</i>	18
<i>Tax and payroll liabilities</i>	131
<i>Trade payables</i>	81
<i>Premiums received on swaptions written</i>	23
<i>Premiums received on other options written</i>	8
<i>Miscellaneous</i>	266
<b>TOTAL</b>	<b>1,161</b>

#### b. Other liabilities: Insurance activity (Item IV.B.)

At December 31	2004
Deposits received from reinsurers	0
Liabilities from direct insurance operations	981
Liabilities from reinsurance operations	32
Deferred premiums on credit enhancement	3
Other insurance liabilities	0
<b>TOTAL</b>	<b>1,016</b>

## 4 Notes to consolidated off-balance sheet items (EUR millions)

### 4.1 CONTINGENCIES (ITEM I. - OFF-BALANCE SHEET ITEMS)

This item corresponds to guarantees given.

#### a. Analysis by type of beneficiary

At December 31	2003	2004
Guarantees given to credit institutions	156	2,398
Guarantees given to customers	19,442	21,305
<b>TOTAL</b>	<b>19,598</b>	<b>23,703</b>

The increase in this item concerns primarily the New York branch, whose business consists of issuing letters of credit on behalf of local governments.

#### b. Analysis by counterparty

At December 31	2003	2004
Guarantees given to Dexia Group related parties	51	0
Guarantees given to the other related parties	0	0
Guarantees given to non-related parties	19,547	23,703
<b>TOTAL</b>	<b>19,598</b>	<b>23,703</b>

#### c. Analysis by type of transaction

At December 31	2003	2004
Guarantees	18,982	23,025
Endorsements	579	606
Liens on assets	0	0
Non-traded acceptances	37	72
<b>TOTAL</b>	<b>19,598</b>	<b>23,703</b>

## 4.2 FINANCING COMMITMENTS (ITEM II. - OFF-BALANCE SHEET ITEMS)

Financing and other commitments giving rise to a credit risk include financing commitments, securities-related commitments and loaned foreign currencies. Financing commitments include loans granted but not disbursed as of December 31, 2004.

### a. Analysis by type of beneficiary

At December 31	2003	2004
Commitments to credit institutions	154	194
Commitments to customers	25,153	22,101
Commitments on securities	77	81
<b>TOTAL</b>	<b>25,384</b>	<b>22,376</b>

### b. Analysis by counterparty

At December 31	2003	2004
Financing commitments to Dexia Group related parties	13	13
Financing commitments to other related parties	0	0
Financing commitments to non-related parties	25,371	22,363
<b>TOTAL</b>	<b>25,384</b>	<b>22,376</b>

### 4.3 ASSETS HELD ON BEHALF OF THIRD PARTIES (ITEM III. - OFF-BALANCE SHEET ITEMS)

None.

### 4.4 OFF-BALANCE SHEET INSTRUMENTS (ITEM VI.B. AND VII. - OFF-BALANCE SHEET ITEMS)

Commitments relating to interest rate derivatives are accounted for in accordance with CRC standards 88-02 and 90-15:

- futures are accounted for on the basis of the face value of the contracts;
- options are accounted for on the basis of the face value of the underlying instrument.

#### a. Analysis by market and product type

Type of transaction	Total at Dec. 31 2003	Total at Dec. 31 2004	Hedging		Trading		Fair value 2004
			Micro hedges	Macro hedges	Isolated open position	Specialist trading portfolio management	
<b>Foreign currency transactions <sup>(1)</sup></b>	<b>46,744</b>	<b>55,001</b>	<b>34,054</b>	<b>20,595</b>	<b>122</b>	<b>230</b>	<b>75</b>
Forward currency purchases and sales	5,797	12,942	6,006	6,584	122	230	4
Currency and interest rate swaps	40,679	42,059	28,048	14,011	0	0	71
Currency futures	0	0	0	0	0	0	0
Currency options	0	0	0	0	0	0	0
Forward currency transactions	268	0	0	0	0	0	0
<b>Other financial instruments</b>	<b>547,038</b>	<b>613,473</b>	<b>168,280</b>	<b>417,196</b>	<b>10,782</b>	<b>17,215</b>	<b>(4,869)</b>
Interest rate instruments <sup>(2)</sup>							
<i>Interest rate swaps</i>	530,945	590,604	159,904	407,371	9,032	14,297	(5,366)
<i>Interest rate futures</i>	3,380	10,793	0	9,342	0	1,451	540
<i>Forward rate agreements</i>	4,975	5,645	5,542	103	0	0	1
<i>Interest rate options</i>	3,978	2,950	1,202	380	199	1,169	(76)
Other forward purchases and sales <sup>(3)</sup>							
<i>Other options <sup>(4)</sup></i>	3,697	3,335	1,632	0	1,405	298	32
<i>Other futures</i>	0	0	0	0	0	0	0
<i>Other forward purchases and sales</i>	63	146	0	0	146	0	0
<b>TOTAL</b>	<b>593,782</b>	<b>668,474</b>	<b>202,334</b>	<b>437,791</b>	<b>10,904</b>	<b>17,445</b>	<b>(4,794)</b>

(1) Amount to be delivered, excluding spot currency transactions not yet delivered.

(2) Face value/notional amount.

(3) Purchase/sales price agreed between the parties.

(4) Including an option FSA has received from a group of investors allowing the company to issue preference shares in the amount of USD 200 million at any time.

**b. Analysis by market**

Type of transaction	Over-the-counter market	Organized market	TOTAL
<b>Foreign currency transactions</b>	<b>55,001</b>	<b>0</b>	<b>55,001</b>
<b>Other financial instruments</b>			
Interest rate instruments	597,967	12,025	609,992
Other forward purchases and sales	3,481	0	3,481
			<b>668,474</b>

**c. Futures and options**

Type of transaction	Futures	Options	TOTAL
<b>Foreign currency transactions</b>	<b>55,001</b>	<b>0</b>	<b>55,001</b>
<b>Other financial instruments</b>			
Interest rate instruments	579,558	30,434	609,992
Other forward purchases and sales	2,486	995	3,481
			<b>668,474</b>

**d. Analysis by residual maturity**

Type of transaction	Less than 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed	TOTAL
<b>Foreign currency transactions</b>	<b>19,476</b>	<b>19,983</b>	<b>15,542</b>	<b>0</b>	<b>55,001</b>
<b>Other financial instruments</b>					
Interest rate instruments	265,741	168,376	175,875	0	609,992
Other forward purchases and sales	880	818	1,783	0	3,481
					<b>668,474</b>

**e. Isolated open positions**

Unrealized gains on isolated open positions: 5

**f. Mark-to-market gains and losses on derivatives classified as macro hedges**

Category of forward transaction (interest rate instruments: swaps, caps, floors, FRA, etc.)	At Dec. 31, 2004 <sup>(1)</sup>	Difference between market value and net book value <sup>(2)</sup>
As part of cash management (maturity <= to 1 year)	(1,179)	(822)
As part of asset-liability management (other)	(798)	(612)

(1) Mark-to-market.

(2) Mark-to-market gain/(loss).

## 4.5 ASSETS LODGED AS COLLATERAL

As collateral for the liabilities and commitments of Dexia Credit Local: 10,508

## 4.6 COMMITMENTS GIVEN AND RECEIVED NOT REFLECTED IN THE FINANCIAL STATEMENTS

Dexia Credit Local has given a commitment to buy back the shares held by FSA directors. The amount of the commitment at December 31, 2004 is EUR 65 million.

## 4.7 PRESENTATION OF CREDIT RISK EQUIVALENTS

Credit risks on derivatives are estimated using the method applied to calculate the international capital adequacy ratio.

In accordance with international capital adequacy standards, credit risk equivalents are calculated on derivatives that are not traded on an organized market. The credit risk comprises two components:

- The replacement cost, if this is higher than the historical cost of the derivative. The replacement cost - or market value - is determined by discounting the future cash flows generated by the instrument. The task consists of calculating the discounted gain - based on market conditions at the calculation date - of a symmetrical transaction which has the effect of canceling the cash flows from the derivative for which the credit risk is being calculated. Negative replacement costs are not taken into account.
- An add-on reflecting the potential credit risk, which is calculated on the basis of the notional amount of the derivatives, regardless of whether their market value is higher or lower than their historical cost. The percent add-on is defined in the standards governing calculation of international capital adequacy ratios and varies depending on the type of contract and its remaining term.

The total credit risk equivalent is represented by the sum of these two components.

The effect of netting contracts is also taken into account by Dexia Credit Local to determine credit risks on derivatives.

Netting is a technique used by banks to reduce credit risks on derivatives with a given counterparty by means of an agreement entered into with that counterparty. The technique

most frequently applied by Dexia Credit Local consists of closeout netting. Under this technique, in the case of default by a counterparty, all contracts are closed out at their current market value to determine the net amount receivable from or due to the counterparty concerned.

All framework agreements governing the contractual obligations of counterparties with regard to derivatives include a close-out netting clause. Where such a clause exists, the credit risk is determined based on the net replacement cost - at market price - of all contracts with the counterparty concerned. It corresponds to the positive algebraic sum of the positive and negative market values of all contracts with the counterparty.

Dexia Credit Local may also require delivery of cash or securities as collateral for the net credit risk. The agreements entered into to date by Dexia Credit Local require delivery of cash or securities as collateral only in cases where the net market value of contracts with a counterparty is at least equal to the minimum margin requirement contractually agreed with the counterparty.

In cases where collateral is obtained, the credit risk corresponds to the net settlement value of the instruments and securities (positive settlement value less the value of the collateral) plus the add-on.

Dexia Credit Local's derivatives contracts at December 31, 2004 place it in the position of final potential investor in the underlying instrument to which the sales of puts relate. Consequently, the credit risk is treated as relating directly to the issuers of the underlying instruments.

**a. OCDE countries**

Type of counterparty	Rating	Non-weighted and non netted risk equivalent	Weighted and netted risk equivalent	Effect of netting on non-weighted risk equivalent	Effect of guarantees on non-weighted risk equivalent	Non-weighted risk equivalent net of the effect of netting and guarantees
At December 31, 2004						
Credit institutions	AAA	264	49	119	0	145
	AA +	301	59	78	79	144
	AA	3,713	740	2,581	0	1,132
	AA-	1,754	351	823	3	928
	A +	577	117	205	0	372
	A	4,197	839	2,119	163	1,915
	A-	4,278	856	2,901	58	1,319
	BBB +	10	2	1	1	8
	BBB	25	5	13	0	12
	BBB-	4	1	1	0	3
	BB	3	2	0	0	3
	Not rated	85	10	0	0	85
Public sector	Unquoted	94	18	1	0	93
Private sector	Unquoted	1,367	537	647	192	528
<b>TOTAL 1</b>		<b>16,672</b>	<b>3,586</b>	<b>9,489</b>	<b>496</b>	<b>6,687</b>

**b. Non-OCDE countries**

Type of counterparty	Rating	Non-weighted and non netted risk equivalent	Weighted and netted risk equivalent	Effect of netting on non-weighted risk equivalent	Effect of guarantees on non-weighted risk equivalent	Non-weighted risk equivalent net of the effect of netting and guarantees
At December 31, 2004						
Private sector	Unquoted	12	6	0	0	12
<b>TOTAL 2</b>		<b>12</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>12</b>
<b>TOTAL 1 + 2</b>		<b>16,684</b>	<b>3,592</b>	<b>9,489</b>	<b>496</b>	<b>6,699</b>

**4.8 FINANCING COMMITMENTS RECEIVED (ITEM V.A. - OFF-BALANCE SHEET ITEMS)**

This item includes all financing commitments received from credit institutions, securities-related commitments received and borrowed currencies.

**4.9 FOREIGN CURRENCY TRANSACTIONS**

Spot and forward currency transactions are translated at the year-end exchange rate.

"Amounts receivable" and "Amounts to be delivered" correspond to long-term currency swaps set up for hedging purposes and involve periodic payments.

## 4.10 SECURITIES TRANSACTIONS COMMITMENTS (ITEM VIII. OF THE OFF-CONSOLIDATED BALANCE SHEET)

### a. Analysis by type of transaction

At December 31	2003	2004
Securities purchased	1,609	1,846
<i>Spot</i>	375	1,442
<i>Forward</i>	1,234	404
Securities sold	711	2,189
<i>Spot</i>	72	30
<i>Forward</i>	639	2,159
<b>TOTAL</b>	<b>2,320</b>	<b>4,035</b>

### b. Forward transactions: Analysis by type of transaction

Type of transaction	Total at Dec. 31 2003	Total at Dec. 31 2004	Hedging		Trading	
			Micro hedges	Macro hedges	Open isolated position	Specialized trading portfolio management
Securities transactions	1,873	2,563	0	2,563	0	0

### c. Forward transactions: Analysis by market

At December 31, 2004	Over-the-counter market	Organized market	TOTAL
Securities transactions	2,563	0	2,563

### d. Forward transactions: Analysis by residual maturity

	Less than 1 year	1 to 5 years	Over 5 years	No fixed maturity or not analyzed	TOTAL at Dec. 31, 2004
Securities transactions	1,529	538	496	0	2,563

### e. Isolated open positions

Unrealized gains on isolated open positions: none.

## 4.11 ANALYSIS OF OFF-BALANCE SHEET TRANSACTIONS BY CURRENCY

By accounting currency	EUR	Other EU currencies	Non-EU currencies	TOTAL
Contingencies	2,739	146	20,818	23,703
Financing commitments	19,219	1,371	1,786	22,376
Assets held on behalf of third parties	0	0	0	0
Amounts due on shares in affiliates	0	0	0	0
Commitments received	19,060	4,916	79,144	103,120
Foreign currency transactions	38,319	21,831	48,074	108,224
Derivatives transactions	358,089	45,987	209,397	613,473
Securities transactions	3,998	0	37	4,035
Other commitments given	31,183	9,790	294,718	335,691

## 4.12 INSURANCE ACTIVITY COMMITMENTS

Item IX.B includes guarantees given by the FSA group in the normal course of business.

Item V.C includes commitments received from reinsurers.

## 4.13 NON-CONSOLIDATED FSA ENTITIES

FSA guarantees part of the assets and the debt issued by its 23%-owned non-consolidated entity, Cypress Point.

## 5 Notes to the consolidated income statement (EUR millions)

### 5.0 INTEREST INCOME AND EXPENSE (ITEMS I. AND II. - INCOME STATEMENT)

#### a. Interest income on customer transactions

This item includes accrued interest and hedging gains on customer loans for EUR 3,530 million, early repayment penalties of EUR 129 million, amortized over the residual life of the related loans in proportion to the outstanding interest, and income from financing commitments and guarantees, totaling EUR 76 million.

It also includes interest income on instruments acquired as macro hedges in an amount of EUR 7,925 million. At December 31, 2003, EUR137 million for equalization payments on the netting of macro hedge swaps were recorded under this heading at Dexia Hypothekbank Berlin, while at December 31, 2004 they are presented in gains and losses on trading securities and securities available for sale for EUR 264 million.

#### b. Interest income on bonds and other fixed-income securities

This item includes accrued interest on bonds and other fixed income securities, amortization of premiums and discounts on investment securities and hedging gains and losses on these securities for a total of EUR 2,028 million.

#### c. Interest expense on customer transactions

This item includes interest expense on instruments acquired as macro hedges in an amount of EUR 8,568 million.

#### d. Interest expense on bonds and other fixed-income securities

Interest expense on bonds and other fixed-income securities, in an amount of EUR 3,071 million excluding interest on instruments acquired as macro hedges, represents the main component of Dexia Credit Local Group interest expense.

In addition to interest expense on bonds and other fixed-income securities, it includes losses on the homogenous group of interest rate instruments acquired as micro hedges of identified money market, bond or subordinated debt issues, and EUR 87 million in amortization of call discounts on debt securities.

### 5.1 INCOME FROM LONG-TERM INVESTMENTS (ITEM III.B. - INCOME STATEMENT)

For the year ended December 31	2003	2004
Dexia Group related parties	1	1
Other related parties	1	6
Other long-term investments	15	6
<b>TOTAL</b>	<b>17</b>	<b>13</b>

## 5.2 ANALYSIS OF COMMISSIONS (ITEMS IV. AND V. - INCOME STATEMENT)

### a. Analysis of commission income (Item IV. - Income statement)

Type	2003	2004
For the year ended December 31		
Asset management and mutual fund administration	3	4
Insurance activity (brokerage)	42	43
Lending	10	10
Equities brokerage	0	0
Purchase/sale of other securities (buybacks of savings bonds, sales of bonds, issuance of shares)	0	0
Payment services (interest on sight accounts, Visa cards, Proton, checks, transfers, etc.)	5	4
Custodial and other securities-related services (securities deposit and safety deposit boxes, coupon collection services)	0	1
Financial engineering	1	2
Private banking and institutional asset management	0	0
Transactions on financial instruments	0	0
Other financial services	16	11
<b>TOTAL</b>	<b>77</b>	<b>75</b>

### b. Analysis of commission expense (Item V. - Income statement)

Type	2003	2004
For the year ended December 31		
Asset management and mutual fund administration	0	0
Insurance activity (brokerage)	3	2
Lending	2	5
Equities brokerage	1	0
Purchase/sale of other securities (buybacks of savings bonds, sales of bonds, issuance of shares)	0	0
Payment services (interest on sight accounts, Visa cards, Proton, checks, transfers, etc.)	0	0
Custodial and other securities-related services (securities deposit and safety deposit boxes, coupon collection services)	2	2
Financial engineering	4	3
Private banking and institutional asset management	0	0
Transactions on financial instruments	0	2
Other financial services	4	5
<b>TOTAL</b>	<b>16</b>	<b>19</b>

## 5.3 GAINS AND LOSSES ON SALES OF TRADING SECURITIES AND SECURITIES AVAILABLE FOR SALE (ITEMS VI. AND VII. - INCOME STATEMENT)

### a. Analysis

For the year ended December 31	2003	2004
Net gains and losses and changes in allowances on		
Trading securities and other financial instruments	37	166
Sales of securities available for sale	(29)	(36)
Allowances for impairment of securities available for sale	39	32
Foreign exchange gains and losses	50	32
<b>TOTAL</b>	<b>97</b>	<b>194</b>

The German subsidiary sold EUR 3,371 million in swapped trading securities, generating a EUR 2.1 million loss on the disposal of the shares and EUR 26 million in gains on the swaps, including EUR 264 million in equalization payments on the netting of macro hedging swaps (at December 31, 2003, these equalization payments had been recorded in interest income for EUR 137 million).

### b. Gains and losses on disposals of securities available for sale and changes in allowances

For the year ended December 31	2003	2004
Charges to allowances	(41)	(22)
Recoveries from allowances	80	54
Sub-total	39	32
Losses on disposals	(299)	(138)
Gains on disposals	270	102
Sub-total	(29)	(36)
<b>TOTAL</b>	<b>10</b>	<b>(4)</b>

## 5.4 EMPLOYEE INFORMATION

	2003		2004	
	Companies consolidated		Companies consolidated	
	Fully	Proportionally	Fully	Proportionally
Average number of employees	3,043	0	3,204	0
Unskilled	9	0	3	0
Administrative	1,638	0	1,704	0
Executives	425	0	464	0
Other	971	0	1,033	0
Payroll costs (EUR millions)	239	0	249	0
Salaries and benefits	159	0	167	0
Payroll taxes	47	0	50	0
Contributions to voluntary benefit plans	4	0	4	0
Other	20	0	19	0
Pension costs	9	0	9	0
Provisions for pensions and other retirement commitments	(2)	0	4	0
Charges	2	0	7	0
Reversals	(4)	0	(3)	0

## 5.5 COST OF RISK (ITEM XIII. - INCOME STATEMENT)

For the year ended December 31, 2004	Charges and losses <sup>(1)</sup>	Recoveries and uses	TOTAL
Customer loans and investment securities <sup>(1)</sup>	(117)	64	(53)
Off-balance sheet commitments	0	0	0
Off-balance sheet credit risks <sup>(2)</sup>	(46)	76	30
Country risks <sup>(3)</sup>	0	23	23
Other	(1)	0	(1)
Credit enhancement underwriting reserves <sup>(4)</sup>	(12)	0	(12)
<b>TOTAL</b>	<b>(176)</b>	<b>163</b>	<b>(13)</b>

(1) The majority of these net allowances are specific allowances for losses on project finance transactions.

(2) EUR 21 million was recovered from general reserves, primarily on International operations. These contra entries to these uses are generally charges to non-performing loans.

(3) The recovery of reserves for country risks was related primarily to Argentina's being taken off the list of high-risk countries. Specific reserves have been created for individual, recognized risks.

(4) General reserves against the credit enhancement business of FSA were increased by EUR 12 million.

## 5.6 NET GAINS (LOSSES) AND CHANGES IN ALLOWANCES ON LONG-TERM INVESTMENTS (ITEM XV.B. - INCOME STATEMENT)

### a. Analysis

For the year ended December 31	2003		2004	
	Related parties	Other	Related parties	Other
Increases in allowances	0	(49)	0	(11)
Recoveries from allowances	0	8	0	8
Sub-total	0	(41)	0	(3)
Losses on disposals	0	(17)	0	(5)
Gains on disposals	0	65	0	6
Sub-total	0	48	0	1
<b>TOTAL</b>	<b>0</b>	<b>7</b>	<b>0</b>	<b>(2)</b>

Dexia Credit Local charged EUR10.3 million to the allowances for losses against its shares in and shareholder advances made to Dexia Global Structured Finance. Gains on disposals include a EUR 1.5 million gain on the disposal of the shares of Dexia Asset Management France.

### b. Analysis by type of security

For the year ended December 31	2004
Investments in non-consolidated companies	(5)
Other long-term securities	0
Investment securities	3
<b>TOTAL</b>	<b>(2)</b>

## 5.7 NON-RECURRING ITEMS (ITEM XVI. - INCOME STATEMENT)

Non-recurring income	0
Non-recurring expense	0

## 5.8 TAX ON NON-RECURRING ITEMS (ITEM XVII. - INCOME STATEMENT)

For the year ended December 31	2004
Current taxes	0

## 5.9 CORPORATE INCOME TAX (ITEM XVII. - INCOME STATEMENT)

Analysis of corporate income tax		
For the year ended December 31	2003	2004
A - Current taxes (Item XVII.A.)	284	256
<i>Tax on income for the year</i>	240	239
<i>Tax on prior years' income</i>	44	17
B - Deferred taxes (Item XVII. B)	30	51
<i>Allocations to provisions</i>	183	265
<i>Recoveries from provisions</i>	(153)	(214)

### Effective corporate income tax charge in 2004

The standard rate applicable in France at December 31, 2004 was 35.43%.

In compliance with the provisions of the Finance Act of 2005, the tax rate applied to the French tax base after 2004 was decreased to 34.93%. This change in rates generated a EUR 4 million gain on deferred taxes.

Dexia Credit Local's effective tax rate for 2004 amounted to 27.32%.

The difference between these two rates can be analyzed as follows:

At December 31	2003	2004
<b>Net income</b>	<b>709</b>	<b>776</b>
Corporate income tax	314	307
Income and losses from companies accounted for by the equity method	(23)	(39)
Amortization of goodwill	89	78
<b>Tax base</b>	<b>1,089</b>	<b>1,122</b>
Applicable tax rate at year-end	35.43%	35.43%
<b>Theoretical corporate income tax at standard rate</b>	<b>386</b>	<b>398</b>
Impact of differences between foreign tax rates and the standard French tax rate	(6)	(14)
Tax effect of non-deductible expenses	5	4
Tax effect of non-taxable income	(69)	(70)
Impact of items taxed at a reduced rate	1	2
Other	(13)	(5)
Carry forward	0	(4)
(Use of) / Unrecognized deferred tax assets (tax loss carry-forwards)	(3)	0
"Avoir fiscal" tax credits	0	0
Reserve for tax dispute	13	(4)
<b>Corporate income tax recorded in the income statement<sup>(1)</sup></b>	<b>314</b>	<b>307</b>
<b>Effective tax rate</b>	<b>28.90%</b>	<b>27.32%</b>

(1) Including minority interests of EUR34 million.

At the end of 2003, a disagreement arose with the tax authorities with regard to the dates on which taxes are due on early repayment fees and equalization payments on cancelled swaps used for hedging.

This disagreement was resolved in 2004, with the tax authorities abandoning any adjustment of back taxes for the years audited. The corresponding contingency reserve was appropriately reversed

## 5.10 COMPENSATION PAID TO MEMBERS OF MANAGEMENT BODIES

Compensation paid to members of the management bodies of Dexia Credit Local due to their activities on behalf of the Company and its subsidiaries and affiliates, including pension benefits paid to former members:	
Management Board and Executive Board	7
Supervisory Board	0
<b>TOTAL</b>	<b>7</b>
Outstanding loans and guarantees granted to members of the management bodies of Dexia Credit Local, as well as other material commitments entered into for their benefit, were as follows at December 31, 2004:	
Management Board and Executive Board	1
Supervisory Board	0
<b>TOTAL</b>	<b>1</b>

## 5.11 SEGMENT INFORMATION

### a. By location of company

For the year ended December 31, 2004	Net banking income	Operating income before allowances	Total net income
Belgium			
France	549	299	225
Luxembourg	12	11	10
Other countries	1,054	817	541
<b>TOTAL</b>	<b>1,615</b>	<b>1,127</b>	<b>776</b>

### b. By line of business

For the year ended December 31	Net banking income		Operating income before cost of risk		Total net income	
	2003	2004	2003	2004	2003	2004
Public sector financing project financing and credit enhancement	1,375	1,432	975	1,016	684	718
Commercial banking	19	19	7	5	19	21
Financial asset management (Dexia BIL)	0	0	(2)	0	(12)	0
Cash management and capital markets	169	154	139	122	105	96
Other	43	10	14	(16)	(87)	(59)
<b>TOTAL</b>	<b>1,606</b>	<b>1,615</b>	<b>1,133</b>	<b>1,127</b>	<b>709</b>	<b>776</b>

## 5.12 UNDERWRITING AND INVESTMENT INCOME OF INSURANCE ACTIVITY (ITEM X. - INCOME STATEMENT)

### a. Analysis

For the year ended December 31, 2004	<b>TOTAL</b>
Interest income	310
Interest expense	(183)
Income from variable-income securities	0
Commission income	1
Commission expense	(5)
Income from financial transactions	17
Other operating income and expenses	328
<b>TOTAL</b>	<b>468</b>

### **b. Other operating income and expense**

For the year ended December 31, 2004	TOTAL
Earned premiums	447
Ceded premiums	(130)
Service fees	0
Movements in underwriting reserves	0
Other underwriting income and expense	11
<b>TOTAL</b>	<b>328</b>

## **5.13 CONSOLIDATED FINANCIAL HIGHLIGHTS**

### **a. Five-year consolidated earnings**

For the year ended December 31	2000 <sup>(1)</sup>	2001 <sup>(1)</sup>	2002	2003	2004
Net banking income (NBI)	1,095	1,407	1,402	1,606	1,615
Net income before minority interests	578	644	538	709	776
<i>Minority interests</i>	56	85	84	92	71

(1) Based on the new presentation of the financial statements.

### **b. Earnings per share (EUR)**

Years	Earnings per share before minority interests	Consolidated earnings per share
1991	4.70	4.70
1992	5.09	5.09
1993	5.52	5.51
1994	6.17	6.17
1995	6.22	6.15
1996 <sup>(1)</sup>	3.56	3.49
1997	3.82	3.73
1998	4.34	4.04
1999 <sup>(2)</sup>	5.76	4.90
2000 <sup>(3)</sup>	6.77	6.12
2001 <sup>(4)</sup>	7.39	6.42
2002 <sup>(4)</sup>	6.18	5.22
2003 <sup>(4)</sup>	8.15	7.09
<b>2004<sup>(4)</sup></b>	<b>8.91</b>	<b>8.10</b>

(1) Number of shares increased to 70,000,000 in 1996.

(2) Number of shares increased to 76,141,084 in 1999.

(3) Number of shares increased to 87,045,757 in 2000; average number of shares used for calculation = 85,375,285.

(4) Number of shares used for calculation = 87,045,757.

# Statutory Auditors' report on the consolidated financial statements

*(This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by French law and this is presented after the Opinion on the consolidated financial statements. This information includes an explanatory paragraph discussing the auditors' assessment (1) of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification (2) of information in the management report. This report together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with French law and professional auditing standards applicable in France.)*

*In compliance with the assignment entrusted to us by your Shareholders' Annual General Meeting, we have audited the accompanying consolidated financial statements of **Dexia Credit Local**, for the year ended December 31, 2004, as attached to this report.*

*The consolidated financial statements have been approved by the Executive Board. Our role is to express an opinion on these consolidated financial statements based on our audit*

## 1 Opinion on the consolidated financial statements

*We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.*

*In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of companies in accordance with accounting principles applicable in France.*

## 2 Justifications of the assessments

*In accordance with the requirements of article L. 225-235 of the French Commercial Code relating to the justification of our assessments, and in compliance with the French standard regarding accounting estimates, we bring to your attention the following points, with reference to the paragraphs contained in Note 1.3.B.1 of the notes to the consolidated financial statements:*

- concerning allowances for credit risks inherent to any banking activity, the Company records both specific allowances and general reserves calculated statistically by customer type or business sectors, as described respectively in the paragraphs "Customer loans", "Reserves and provisions" and "Derivatives - Credit derivatives";*
- concerning allowances for contingencies on credit enhancement activities, the Company records specific provisions meant to cover any clearly identifiable loss or charge and general reserves by applying to total commitments a discount ratio determined by an independent rating agency based on the exposure characteristics and the past performances of the company portfolio, as described in paragraph "Reserves and provisions - Insurance activity";*
- concerning depreciation of investments in non-consolidated affiliated companies, other long-term investments and portfolio securities, the Company records allowances based on their useful value, as described in the paragraphs "Long-term investments" and "Securities transactions - Portfolio securities";*
- concerning depreciation of marketable securities available for sale, the Company records allowances based on their realizable value, net of any micro hedges, as described in paragraph "Securities transactions - Marketable securities available for sale";*
- concerning amortization and impairment of positive and negative goodwill, the Company records both amortization and impairment adjustments in compliance with the applicable accounting methods for these items, as described in paragraph "Goodwill arising on consolidation".*

*As part of our appreciation of significant estimates applied in preparing the financial statements, we examined the control system relating to the identification and monitoring of these risks, assessed the information and assumptions on which these estimates were based, reviewed the application of methodologies described in the notes to the consolidated financial statements and the procedures applied by the Company's management to approve such estimates. Our audit work did not highlight any items that would lead us to question the appropriateness of the methods used in preparing these accounting estimates or the actual appraisals so derived.*

*The assessments we made of these items register within the framework of an audit approach which relates to the consolidated financial statements as a whole contributed to the unqualified opinion we expressed in the first part of this report.*

### **3 Specific verifications and information**

*We have also verified the information given in the Group management report. We have no matters to report regarding the fair presentation and the compliance with the consolidated financial statements.*

Paris, March 29, 2005

#### **Statutory Auditors**

CADERAS MARTIN

Daniel BUTELOT

Partner

Olivier AVRIL

Partner

MAZARS & GUÉRARD

Guillaume POTEL

Partner

Anne VEAUTE

Partner

# Financial statements

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# Balance sheet

(EUR millions)

## Assets

At December 31	Notes	2002	2003	2004
<b>I. Cash, central banks and postal checking accounts</b>		<b>329</b>	<b>138</b>	<b>127</b>
<b>II. Government securities</b>	<b>2.3</b>	<b>2,938</b>	<b>1,139</b>	<b>6,194</b>
<b>III. Interbank loans and advances</b>	<b>2.4</b>	<b>14,208</b>	<b>18,682</b>	<b>16,204</b>
A. Sight		238	1,729	2,461
B. Time		13,970	16,953	13,743
<b>IV. Customer loans</b>	<b>2.4</b>	<b>30,203</b>	<b>26,964</b>	<b>27,297</b>
<b>V. Bonds and other fixed-income securities</b>	<b>2.3</b>	<b>19,302</b>	<b>23,893</b>	<b>31,388</b>
A. Government bonds		5,249	8,244	10,194
B. Other bonds		14,053	15,649	21,194
<b>VI. Equities and other variable-income securities</b>	<b>2.3</b>	<b>280</b>	<b>109</b>	<b>272</b>
<b>VII. Long-term investments</b>	<b>2.1 and 2.2</b>	<b>4,466</b>	<b>4,557</b>	<b>4,627</b>
<b>VIII. Intangible assets</b>		<b>32</b>	<b>33</b>	<b>44</b>
<b>IX. Property and equipment</b>		<b>25</b>	<b>21</b>	<b>15</b>
<b>X. Unpaid capital</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>XI. Uncalled capital</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>XII. Treasury stock</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>XIII. Other assets</b>		<b>2,199</b>	<b>3,333</b>	<b>5,104</b>
<b>XIV. Accruals and other assets</b>		<b>5,625</b>	<b>5,120</b>	<b>5,747</b>
<b>TOTAL ASSETS</b>		<b>79,607</b>	<b>83,989</b>	<b>97,019</b>

# Balance sheet

(EUR millions)

## Liabilities and shareholders' equity

At December 31	Notes	2002	2003	2004
<b>I. Interbank loans and deposits</b>		<b>31,352</b>	<b>33,350</b>	<b>45,300</b>
A. Sight		4,280	2,622	2,374
B. Time		27,072	30,728	42,926
<b>II. Customer deposits</b>		<b>675</b>	<b>723</b>	<b>1,229</b>
A. Savings accounts		0	0	0
B. Other deposits		675	723	1,229
1. Sight		0	0	0
2. Time		675	723	1,229
<b>III. Debt securities</b>		<b>34,995</b>	<b>36,001</b>	<b>34,440</b>
A. Notes and bonds		12,813	8,817	6,955
B. Other		22,182	27,184	27,485
<b>IV. Other liabilities</b>		<b>815</b>	<b>381</b>	<b>353</b>
A. Other		815	381	353
B. Insurance activity		0	0	0
<b>V. Accruals and other liabilities</b>		<b>5,169</b>	<b>6,205</b>	<b>7,939</b>
<b>VI. Reserves and provisions</b>		<b>1,034</b>	<b>994</b>	<b>878</b>
A. Contingencies and charges		622	511	410
B. Deferred taxes		145	192	167
C. Regulated reserves	3.1	266	291	301
<b>VII. General banking risks reserve</b>	3.2	<b>478</b>	<b>478</b>	<b>478</b>
<b>VIII. Subordinated debt</b>		<b>1,863</b>	<b>2,633</b>	<b>3,194</b>
<b>SHAREHOLDERS' EQUITY</b>	3.2	<b>3,226</b>	<b>3,224</b>	<b>3,208</b>
<b>IX. Capital stock</b>	3.2	<b>1,327</b>	<b>1,327</b>	<b>1,327</b>
<b>X. Additional paid-in capital</b>	3.2	<b>1,087</b>	<b>1,087</b>	<b>1,087</b>
<b>XI. Retained earnings</b>	3.2	<b>505</b>	<b>475</b>	<b>275</b>
<b>XVII. Net income for the year</b>	3.2	<b>307</b>	<b>335</b>	<b>519</b>
<b>XIII. Interim dividends</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>79,607</b>	<b>83,989</b>	<b>97,019</b>

## Off-balance sheet items

(EUR millions)

At December 31	Notes	2002	2003	2004
<b>I. Contingencies</b>	<b>4.1</b>	<b>25,818</b>	<b>30,392</b>	<b>30,133</b>
<b>II. Financing commitments</b>	<b>4.2</b>	<b>11,992</b>	<b>10,070</b>	<b>12,381</b>
<b>III. Assets held on behalf of third parties</b>	<b>4.3</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>IV. Amounts due on shares in affiliates</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>V. Commitments received</b>		<b>10,909</b>	<b>10,598</b>	<b>9,731</b>
A. Financing commitments		6,728	5,976	4,517
B. Guarantees		4,181	4,622	5,214
C. Commitments received by insurance companies		0	0	0
<b>VI. Commitments related to foreign currency transactions</b>	<b>4.4 and 4.7</b>	<b>99,823</b>	<b>88,370</b>	<b>95,367</b>
A. Amounts receivable		49,898	43,681	46,642
B. Amounts to be delivered		49,925	44,689	48,725
<b>VII. Commitments related to derivatives</b>	<b>4.4</b>	<b>412,379</b>	<b>463,963</b>	<b>477,589</b>
<b>VIII. Securities transactions</b>	<b>4.8</b>	<b>51</b>	<b>298</b>	<b>79</b>
<b>IX. Other commitments given</b>		<b>6,805</b>	<b>6,447</b>	<b>7,318</b>
A. Other	4.9	6,805	6,447	7,318
B. Insurance activity		0	0	0

# Income statement

(EUR millions)

At December 31	Notes	2002	2003	2004
<b>I Interest income</b>		<b>12,206</b>	<b>10,353</b>	<b>12,163</b>
I A. Interbank transactions		604	638	567
I B. Customer transactions		10,707	8,993	10,716
I C. Bonds and other fixed-income securities		895	722	880
<b>II Interest expense</b>		<b>(11,854)</b>	<b>(9,951)</b>	<b>(11,747)</b>
II A. Interbank transactions		(944)	(752)	(863)
II B. Customer transactions		(9,358)	(7,973)	(9,894)
II C. Bonds and other fixed-income securities		(1,552)	(1,226)	(990)
<b>III Income from variable-income securities</b>		<b>64</b>	<b>68</b>	<b>237</b>
Equities and other variable-income securities		2	1	1
Long-term investments		62	67	236
<b>IV Commission income</b>		<b>15</b>	<b>9</b>	<b>8</b>
<b>V Commission expense</b>		<b>(9)</b>	<b>(6)</b>	<b>(8)</b>
<b>VI A. Net gains (losses) on sales of trading securities</b>		<b>164</b>	<b>160</b>	<b>131</b>
<b>VI B. Net gains (losses) sales of securities available for sale</b>		<b>(1)</b>	<b>23</b>	<b>23</b>
<b>VII Other banking income</b>		<b>1</b>	<b>2</b>	<b>5</b>
<b>X Other banking expense</b>		<b>(5)</b>	<b>(8)</b>	<b>(2)</b>
<b>NET BANKING INCOME</b>		<b>581</b>	<b>650</b>	<b>810</b>
<b>VIII Total general operating expenses</b>	5.1	<b>(160)</b>	<b>(154)</b>	<b>(159)</b>
<b>IX Depreciation and amortization</b>		<b>(22)</b>	<b>(24)</b>	<b>(23)</b>
<b>OPERATING INCOME BEFORE COST OF RISK</b>		<b>399</b>	<b>472</b>	<b>628</b>
<b>XI Cost of risk</b>		<b>(64)</b>	<b>(19)</b>	<b>(30)</b>
<b>OPERATING INCOME</b>		<b>335</b>	<b>453</b>	<b>598</b>
<b>XII Net gains (losses) and changes in allowances on fixed assets</b>		<b>8</b>	<b>12</b>	<b>9</b>
<b>RECURRING INCOME BEFORE INCOME TAXES</b>		<b>343</b>	<b>465</b>	<b>607</b>
<b>XV Non recurring items</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>XVII Corporate income tax</b>	5.2	<b>(35)</b>	<b>(130)</b>	<b>(88)</b>
<b>XIII Net allocation to general banking risks reserve</b>		<b>0</b>	<b>0</b>	<b>0</b>
<b>NET INCOME</b>		<b>307</b>	<b>335</b>	<b>519</b>
Earnings per share (EUR)		3.53	3.85	5.97
Diluted earnings per share (EUR)		3.53	3.85	5.97

# Notes to the financial statements

## 1 Summary of significant accounting policies

### 1.1 SIGNIFICANT EVENTS

The significant events are the following:

- In late 2004, Dexia Credit Local liquidated its wholly-owned subsidiary Ifax via a Global Transfer of Assets (TUP), resulting in the transfer of the Group's Holdings in Dexia Sofaxis directly to Dexia Credit Local. The transaction generated EUR 1.9 million in merger goodwill, which is recorded in intangible assets.
- Dexia Credit Local generated a EUR 3 million gain during the year on the sale of a building in London.
- During the year, Dexia Credit Local received significant dividends from its subsidiaries. Dexia Municipal Agency paid its first non recurring allocation, EUR 120 million, and Dexia Credit Local immediately subscribed for the same amount to Dexia Municipal Agency's capital increase. Dexia Crediop paid a EUR 87 million dividend in 2004, up from EUR 34 million in 2003.
- Dexia Credit Local, as part of the effort to simplify Dexia Group structures in the United States, created the Dexia Credit Local Grand Cayman branch during the year, and purchased Dexia Delaware LLC from Dexia Banque. These two entities have as their purpose to provide USD funding for the Group through short-term issues and customer deposits. This new branch contributed EUR 3.2 billion in new assets to the Dexia Credit Local balance sheet.

- At the end of 2003 a tax audit identified problems with regard to the timing of tax payments in respect of early repayment fees and equalization payments arising on the cancellation of hedging swaps. Dexia Credit Local amortized early repayment fees over the period comprised between the cancellation and the original maturity date of the prepaid loans, for both accounting and tax purposes. Equalization payments for hedging swaps were also amortized over the period comprised between the cancellation and the original maturity date of the cancelled transactions. This practice was outlined in the summary of significant accounting policies in the notes to the financial statements in previous years (and is also mentioned in the notes to the 2004 financial statements). By written notification dated November 2004, the tax authorities advised that they did not dispute the methodology used for the years ending prior to January 1, 2005. Once informed that the issue had been resolved, the Company was able to reverse most of the provision created in 2003. However, from 2005 onward the tax and accounting treatment of new transactions concerning early repayment fees and equalization payments on cancelled hedging swaps will be changed.
- Dexia Credit Local charged EUR 2.2 million to a reserve during the year to recognize the new taxes on reserves for long-term capital gains provided for by the Retrospective Finance Act of 2004.

### 1.2 PRESENTATION OF THE FINANCIAL STATEMENTS AND VALUATION METHODS

The financial statements have been prepared in accordance with the rules applicable to banks. They have been prepared in accordance with the principles and rules contained in European Council Directives governing the annual financial statements of banking institutions.

The accordance with these principles and rules has been approved by the French regulatory authorities, the Financial Markets Authority (AMF) and the Banking Commission.

#### **a. Changes in presentation and valuation methods**

In accordance with the first-time adoption of Bank Regulatory Commission (CRC) standard 2004-06, Dexia Credit Local presents in the notes to the financial statements the fair

value of derivatives recorded off-balance sheet. Moreover, unrecognized losses on securities available for sale, portfolio securities and investment securities, which are subject to being charged to an allowance and excluding the impact of hedging, are presented in the corresponding notes to the financial statements.

#### **b. Valuation methods**

The valuation methods used for the preparation of the financial statements are the same as those used for the consolidated financial statements.

They are described in the Notes to the consolidated financial statements under the summary of significant accounting policies.

### Dexia Credit Local Branches

The accounts of the New York, Dublin, Stockholm, London and Grand Cayman branches of Dexia Credit Local are translated on the same basis as the accounts of the foreign subsidiaries

(see Note 1.3 to the consolidated financial statements "Presentation of the consolidated financial statements and valuation methods - Foreign currency transactions").

## 2 Notes to the balance sheet - Assets (EUR millions)

### 2.1 LONG-TERM INVESTMENTS (ITEM VII. - ASSETS)

	Net book value 2004	Market value 2004	Net unrealized gains 2004
At December 31			
Quoted securities	68	103	35
Unquoted securities	4,559		
<b>TOTAL</b>	<b>4,627</b>		

### 2.2 CHANGES IN LONG-TERM INVESTMENTS (ITEM VII. - ASSETS)

	Subsidiaries and affiliates		Other long-term investments		TOTAL
	Credit institutions	Other	Credit institutions	Other	
<b>Cost at December 31, 2003</b>	<b>4,073</b>	<b>90</b>	<b>381</b>	<b>53</b>	<b>4,597</b>
Movements for the year					
Acquisitions	175	2	25	5	207
Disposals and redemptions	0	0	(62)	0	(62)
Transfers	10	(13)	0	3	0
Translation adjustments	(71)	1	0	0	(70)
Other movements <sup>(1)</sup>	0	(17)	0	0	(17)
<b>Cost at December 31, 2004 (A)</b>	<b>4,187</b>	<b>63</b>	<b>344</b>	<b>61</b>	<b>4,655</b>
<b>Allowances at December 31, 2003</b>	<b>(20)</b>	<b>0</b>	<b>(10)</b>	<b>(10)</b>	<b>(40)</b>
Movements for the year					
Charges to allowances	0	0	0	(1)	(1)
Recoveries from allowances	2	0	10	1	13
Cancellations	0	0	0	0	0
Transfers	0	0	0	0	0
Translation adjustments	0	0	0	0	0
Other movements	0	0	0	0	0
<b>Allowances at December 31, 2004 (B)</b>	<b>(18)</b>	<b>0</b>	<b>0</b>	<b>(10)</b>	<b>(28)</b>
<b>Net book value at December 31, 2004 (A) - (B)</b>	<b>4,169</b>	<b>63</b>	<b>344</b>	<b>51</b>	<b>4,627</b>

(1) The "Other movements" line decreased by EUR 17 million. This includes the disposal of the shares of Ifax, following the Global Transfer of Assets (TUP) of Ifax to Dexia Credit Local, and the acquisition of shares of Sofca.

## 2.3 QUOTED AND UNQUOTED SECURITIES (ITEM II., V. AND VI. - ASSETS) (NET BOOK VALUE EXCLUDING ACCRUED INTEREST)

### *a. Government securities eligible for central bank funding*

	Net book value	Market value	Net unrealized gains
At December 31	2004	2004	2004
Quoted securities	5,956	6,342	386
Unquoted securities	84	-	-
<b>TOTAL</b>	<b>6,040</b>		

### *b. Bonds and other fixed-income securities*

#### **a. Analysis**

	Net book value	Market value	Net unrealized gains
At December 31	2004	2004	2004
Quoted securities	24,928	25,426	498
Unquoted securities	6,162	-	-
<b>TOTAL</b>	<b>31,090</b>		

#### **b. Analysis by type of portfolio**

	Total	Trading securities	Available for sale securities	Investment
Quoted securities	24,928	6,441	5,650	12,837
Unquoted securities	6,162	495	1,713	3,954
<b>TOTAL</b>	<b>31,090</b>	<b>6,936</b>	<b>7,363</b>	<b>16,791</b>

### *c. Equities and other variable-income securities*

	Net book value	Market value	Net unrealized gains
At December 31	2004	2004	2004
Quoted securities	194	207	13
Unquoted securities	78	-	-
<b>TOTAL</b>	<b>272</b>		

## 2.4 RELATED PARTY TRANSACTIONS (ITEMS III. AND IV. - ASSETS)

### a. Interbank loans and advances

At December 31	2003	2004
Loans and advances to subsidiaries and affiliates (credit institutions)	1,603	1,906
Loans and advances to other related credit institutions	13,660	9,874
Loans and advances to non-related credit institutions	1,568	1,684
<b>TOTAL</b>	<b>16,831</b>	<b>13,464</b>

### Analysis by subordinated and other loans

At December 31	2003	2004
Subordinated loans to credit institutions	41	85
Other loans to credit institutions	16,790	13,379
<b>TOTAL</b>	<b>16,831</b>	<b>13,464</b>

### b. Customer loans

At December 31	2003	2004
Loans and advances to subsidiaries and affiliates	0	0
Loans and advances to other related parties	13	13
Loans and advances to non-related parties	26,648	26,992
<b>TOTAL</b>	<b>26,661</b>	<b>27,005</b>

### Analysis by subordinated and other loans

At December 31	2003	2004
Subordinated customer loans	0	0
Other customer loans	26,661	27,005
<b>TOTAL</b>	<b>26,661</b>	<b>27,005</b>

## 3 Notes to the balance sheet - Liabilities and shareholders' equity (EUR millions)

### 3.1 ANALYSIS OF REGULATED RESERVES (ITEM VI.C. - LIABILITIES)

	Reserves for medium and long-term losses	Excess tax depreciation	Reserve for investment	TOTAL
At December 31, 2003	261	21	9	291
Movements for the year				
Increases	20	8	1	29
Recoveries and recoveries from allowances	(11)	(8)	0	(19)
Transfers	0	0	0	0
Translation adjustments	0	0	0	0
Other movements	0	0	0	0
<b>At December 31, 2004</b>	<b>270</b>	<b>21</b>	<b>10</b>	<b>301</b>

## 3.2 SHAREHOLDERS' EQUITY

	Amount
<b>At December 31, 2003</b>	
Capital	1,327
Additional paid-in capital	1,087
Commitments relating to the issuance of new shares (incl. APIC)	0
Retained earnings	482
Revaluation reserve	(7)
Net income for the year	335
Interim dividends	0
<b>Shareholders' equity at December 31, 2003</b>	<b>3,224</b>
<b>Movements for the year</b>	
Change in capital stock	0
Change in additional paid-in capital	0
Change in commitments relating to the issuance of new shares (incl. APIC)	0
Change in retained earnings	0
Change in revaluation reserve	(34)
Dividends (paid)/received	(501)
Net income for the year	0
Other movements	0
<b>At December 31, 2004</b>	
Capital	1,327
Additional paid-in capital	1,087
Commitments relating to the issuance of new shares (incl. APIC)	0
Retained earnings	316
Revaluation reserve	(41)
Net income for the year	519
<b>Shareholders' equity at December 31, 2004 (A)</b>	<b>3,208</b>
General banking risks reserve at December 31, 2003	478
Change in general banking risks reserve	
<b>General banking risks reserve at December 31, 2004 (B)</b>	<b>478</b>
<b>EQUITY AND QUASI-EQUITY AT DECEMBER 31, 2004 (A) + (B)</b>	<b>3,686</b>

## 3.3 ANALYSIS OF THE BALANCE SHEET BY CURRENCY

By accounting currency	Euros	Other EU currencies	Non-EU currencies	TOTAL
At December 31, 2004				
TOTAL assets	54,035	13,300	29,684	97,019
TOTAL liabilities and shareholders' equity	53,397	8,341	35,281	97,019

## 4 Notes to off-balance sheet items (EUR millions)

### 4.1 CONTINGENCIES (ITEM I. - OFF-BALANCE SHEET ITEMS)

This item corresponds to guarantees given.

#### a. Analysis by beneficiary

At December 31	2003	2004
Guarantees given to credit institutions	11,731	9,537
Guarantees given to the customers	18,661	20,596
<b>TOTAL</b>	<b>30,392</b>	<b>30,133</b>

The increase in this item is attributable mainly to the New York branch, whose business consists of opening letters of credit on behalf of local governments.

#### b. Analysis by counterparty

At December 31	2003	2004
Guarantees given to the subsidiaries and affiliates	0	0
Guarantees given to other related parties	11,572	9,354
Guarantees given to non-related parties	18,820	20,779
<b>TOTAL</b>	<b>30,392</b>	<b>30,133</b>

#### c. Analysis by type of transaction

At December 31	2003	2004
Guarantees given		
Guarantees	30,392	30,133
Endorsements and other guarantees	0	0
Liens on assets	0	0
<b>TOTAL</b>	<b>30,392</b>	<b>30,133</b>

#### d. Contingencies and losses not measurable at the time of preparation of the financial statements

None.

### 4.2 FINANCING COMMITMENTS (ITEM II. - OFF-BALANCE SHEET ITEMS)

Financing and other commitments giving rise to a credit risk include financing commitments given, securities-related commitments given and loaned foreign currencies. Financing commitments include loans granted but not yet disbursed at December 31, 2004.

#### *a. Analysis by beneficiary*

At December 31	2003	2004
Commitments to credit institutions	3,944	5,265
Commitments to customers	6,037	6,976
Commitments on securities	89	140
<b>TOTAL</b>	<b>10,070</b>	<b>12,381</b>

#### *b. Analysis by counterparty*

At December 31	2003	2004
Guarantees on behalf of subsidiaries and affiliates	13	12
Guarantees on behalf of other related parties	3,829	5,215
Guarantees on behalf of non-related parties	6,228	7,154
<b>TOTAL</b>	<b>10,070</b>	<b>12,381</b>

### **4.3 ASSETS HELD ON BEHALF OF THIRD PARTIES (ITEM III. - OFF-BALANCE SHEET ITEMS)**

None.

### **4.4 OFF-BALANCE SHEET INSTRUMENTS**

Commitments related to interest rate derivatives are accounted for in accordance with CRC standards 88-02 and 90-15:

- futures are accounted for on the basis of the face value of the contracts;

– options are accounted for on the basis of the face value of the underlying instrument.

Note: Asset-liability management transactions cover balance sheet transactions that generate a positive market value offsetting the off-balance sheet commitment.

#### *a. Isolated open position transactions*

Unrealized gains on isolated open position transactions	5
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#### *b. Mark-to-market gains and losses on derivatives classified as macro hedges*

Category of forward transaction (interest rate instruments: swaps, caps, floors, FRA, etc.)	At Dec. 31, 2004 <sup>(1)</sup>	Difference between market value and net book value <sup>(2)</sup>
As part of cash management	(45)	31
As part of asset-liability management	(796)	(611)

(1) Mark-to-market.

(2) Mark-to-market gain/(loss).

Note: Asset-liability management transactions cover balance sheet transactions that generate a positive market value offsetting the off-balance sheet commitments.

### c. Analysis by market and type of product

Type of transaction	At December 31, 2003	At December 31, 2004	Hedging		Trading		Fair value 2004
			Micro- hedges	Macro- hedges	Isolated open position	Specialist trading portfolio management	
<b>Foreign currency transactions <sup>(1)</sup></b>	<b>41,566</b>	<b>47,699</b>	<b>22,906</b>	<b>24,441</b>	<b>122</b>	<b>230</b>	<b>(554)</b>
<i>Forward currency purchases and sales</i>	5,470	12,731	5,795	6,584	122	230	4
<i>Currency and interest rate swaps</i>	35,828	34,968	17,111	17,857	0	0	(558)
<i>Currency futures</i>	0	0	0	0	0	0	0
<i>Currency options</i>	0	0	0	0	0	0	0
<i>Forward currency transactions</i>	268	0	0	0	0	0	0
<b>Other financial instruments</b>	<b>463,963</b>	<b>477,589</b>	<b>53,623</b>	<b>401,731</b>	<b>2,162</b>	<b>20,073</b>	<b>(301)</b>
Interest rate instruments <sup>(2)</sup>							
<i>Interest rate swaps</i>	454,705	472,326	52,573	401,088	559	18,106	(820)
<i>Interest rate futures</i>	3,381	1,991	0	540	0	1,451	540
<i>Forward rate agreements</i>	1,696	214	111	103	0	0	0
<i>Interest rate options</i>	1,768	849	189	0	199	461	(33)
Other forward purchases and sales <sup>(3)</sup>							
<i>Other options</i>	2,350	2,064	750	0	1,259	55	12
<i>Other futures</i>	0	0	0	0	0	0	0
<i>Other forward purchases and sales</i>	63	145	0	0	145	0	0
<b>TOTAL</b>	<b>505,529</b>	<b>525,288</b>	<b>76,529</b>	<b>426,172</b>	<b>2,284</b>	<b>20,303</b>	<b>(855)</b>

(1) Amount to be delivered.

(2) Face value/notional amount.

(3) Purchase/sales price agreed between the parties.

Dexia Credit Local uses interest rate-based instruments in connection with the following three strategies:

#### Asset-liability management

Swaps, futures and other instruments used to hedge and manage Dexia Credit Local's overall exposure to interest rate risks.

#### Micro hedges

Micro hedges are taken out to cover interest rate risks on a specific item or group of items with similar characteristics, identified at the outset.

Instruments included in this category comprise mainly swaps acquired as micro hedges of interest rate risks on primary issues, fixed-income securities held in the "securities available for sale" and "investment securities" portfolios and customer loans. Assets and liabilities are combined with their micro hedges to create synthetic variable- or adjustable-rate assets and liabilities that are immunized against interest rate risks.

Micro hedges also include currency swaps used to reduce foreign exchange risks by matching refinancing currencies with the currencies of the assets financed.

#### Position management

Position management comprises three types of strategies:

- specialist trading portfolio management;
- position-taking transactions;
- credit derivatives transactions.

Specialist trading portfolio management covers all transactions with local governments and symmetrical transactions with banks. The main instruments used are interest rate swaps. The portfolio is actively managed based on sensitivity criteria.

Position-taking transactions are intended to keep isolated positions open in order to take advantage of any favorable interest rate and exchange rate movements. The main instruments used are interest rate swaps and forward foreign currency contracts.

Dexia Credit Local uses two types of credit derivatives - credit default swaps and credit spread options - in connection with the management of its securities portfolio. The transactions consist solely of sales of puts in which Dexia Credit Local is the end investor in the underlying bonds.

## 4.5 ASSETS PLEDGED AS COLLATERAL

As collateral for debts and commitments of the Company	Mortgage loans <sup>(1)</sup>	Pledges on goodwill <sup>(2)</sup>	Pledges on other assets <sup>(3)</sup>	Pledges on future assets <sup>(4)</sup>
Balance sheet debts	0	0	0	0
Off-balance sheet items	0	0	6,046	0

(1) Stated at the lower of the mortgage loan value and the net book value of mortgaged real estate.

(2) Value of the pledge.

(3) Net book value of the assets pledged. This amount corresponds to loans given as collateral for borrowings from the European Investment Bank.

(4) Value of the future assets.

## 4.6 FINANCING AND GUARANTEE COMMITMENTS RECEIVED

This item includes all financing and guarantee commitments received from credit institutions, securities-related commitments and the currencies borrowed.

## 4.7 FOREIGN CURRENCY TRANSACTIONS

Spot and forward currency transactions are translated at the year-end exchange rates. Foreign currencies receivable and to be delivered correspond mainly to long-term currency swaps set up for hedging purposes and involving periodic payments. At December 31, 2004 these long-term currencies receivable and to be delivered amounted to EUR 33 billion and EUR 35 billion respectively.

## 4.8 SECURITIES TRANSACTIONS (ITEM VIII. - OFF-BALANCE SHEET ITEMS)

At December 31	2003	2004
Securities purchased		
Spot	239	49
Forward	0	0
Securities sold		
Spot	59	30
Forward	0	0
<b>TOTAL</b>	<b>298</b>	<b>79</b>

## 4.9 ANALYSIS OF OFF-BALANCE SHEET TRANSACTIONS BY CURRENCY

By accounting currency	Euros	Other EU currencies	Non-EU currencies	TOTAL
Contingencies	9,245	140	20,748	30,133
Financing commitments	9,411	1,338	1,632	12,381
Commitments received	6,257	174	3,300	9,731
Foreign currency transactions	40,536	15,256	39,575	95,367
Derivatives transactions	358,556	45,160	73,873	477,589
Securities transactions	41	0	38	79
Other commitments given	6,443	0	875	7,318

## 5 Notes to the income statement (EUR millions)

### 5.1 EMPLOYEE INFORMATION

#### a. Analysis

For the year ended December 31	2003	2004
<b>Payroll costs</b>	<b>125</b>	<b>139</b>
<i>Wages and salaries</i>	83	91
<i>Payroll taxes</i>	42	48
<b>Other general operating expenses</b>	<b>29</b>	<b>20</b>
<i>Taxes other than on income</i>	10	3
<i>Other</i>	19	17
	<b>154</b>	<b>159</b>

Amounts paid under employee profit-sharing, incentive plans and retirement indemnities amounted to EUR 6.2 million, EUR 2.9 million and EUR 3.3 million respectively in 2004.

#### b. Employee and payroll information

At December 31	2003	2004
Average number of employees	1,329	1,394
<i>Unskilled</i>	0	0
<i>Administrative</i>	422	428
<i>Executives<sup>(1)</sup></i>	115	131
<i>Other management</i>	792	835
<b>Payroll costs</b>	<b>126</b>	<b>134</b>
<i>Salaries and benefits</i>	83	87
<i>Payroll taxes</i>	30	33
<i>Contributions to voluntary benefit plans</i>	0	0
<i>Other payroll costs</i>	12	13
<i>Pension costs</i>	1	1
<b>Provisions for pensions and other retirement commitments</b>	<b>(1)</b>	<b>5</b>
<i>Charges (+)</i>	1	5
<i>Reversals (-)</i>	(2)	0
	<b>125</b>	<b>139</b>

(1) Senior management.

#### c. Management Board of Dexia Credit Local

##### Compensation of the members of the Management Board

In 2004, total compensation paid to members of the Management Board directly and indirectly (including employee profit-sharing, incentive bonuses and payroll taxes) amounted to EUR 6.94 million (versus EUR 5.68 million in 2003).

In 2004, the members of the Management Board were:

**Jacques Guerber**, Chairman of the Executive Board  
**Philippe Valletoux**, Vice-Chairman of the Executive Board  
**Daniel Caille**, member of the Executive Board, Chief Executive Officer, France  
**Bruno Deletré**, member of the Executive Board, Chief Executive Officer, International  
**François Péchon**, Senior Vice-President, Operations and IT systems

**Jean-Paul Gauzès**, Senior Vice-President, Tax and Legal Affairs  
**François Duroillet**, Executive Vice-President, International  
**Philippe Ducos**, Senior Vice-President, Treasury and Financial Markets  
**Pierre Rahmani**, Executive Vice-President, Financial Engineering  
**Daniel Ivanier**, Chief Financial Officer

Domiciled at 7 à 11, quai André Citroën, B.P. 1002, F-75902 Paris Cedex 15.

## Dexia stock options held by members of the Management Board

At December 31, 2004, the members of the Management Board of Dexia Credit Local held the following stock options exercisable for listed Dexia shares:

### SUBSCRIPTION OPTIONS

At December 31, 2004 there were 20,000 subscription options with an exercise price of EUR 5.95 (1996 plan); 30,000 subscription options with an exercise price of EUR 8.10 (1997 plan); 93,000 subscription options with an exercise

price of EUR 11.27 (1998 plan); 153,000 subscription options with an exercise price of EUR 14.58 (2000 plan); 266,000 subscription options with an exercise price of EUR 17.86 (2001 plan); 300,500 subscription options with an exercise price of EUR 13.66 (2002 plan); 343,500 subscription options with an exercise price of EUR 11.37 (2003 plan); 348,000 subscription options with an exercise price of EUR 13.56 (2004 plan).

### PURCHASE OPTIONS

At December 31, 2004 there were 134,250 acquisition options with an exercise price of EUR 13 (1999 plan).

## 5.2 NON-RECURRING ITEMS

Non-recurring items include gains and losses on the sale of loans to Dexia Municipal Agency. The gains and losses have been reversed and recorded in the balance sheet, in order to be recognized in the income statement for accounting purposes over the remaining life of the loans.

## 5.3 CORPORATE INCOME TAX

### a. Analysis of corporate income tax

For the year ended December 31	2003	2004
Current taxes (item XVII.)		
Tax on income for the year	(58)	(97)
Tax on prior years' income	(38)	(19)
<b>TOTAL</b>	<b>(96)</b>	<b>(116)</b>
Deferred taxes (item XVII.)		
Allocations to provisions	(85)	(26)
Reversals of provisions	51	54
<b>TOTAL</b>	<b>(34)</b>	<b>28</b>

The tax rate used for the calculation of current and deferred taxes in 2004 was 35.43% in France. The tax rate applicable to foreign branches was generally lower. Income tax fell from EUR 130 million to EUR 88 million. This EUR 42 million decrease is attributable to both a decrease in the tax rate and the settlement of a dispute with tax authorities that first arose in 2003.

At the end of 2003 a tax audit identified problems with regard to the timing of tax payments in respect of early repayment fees and equalization payments arising on the cancellation of hedging swaps. Dexia Credit Local amortized early repayment fees over the period comprised between the cancellation and the original maturity date of the prepaid loans, for both accounting and tax purposes. Equalization payments for hedging swaps were also amortized over the period comprised between the cancellation and the original maturity date of the cancelled transactions. This practice was outlined in the summary of significant accounting policies in the notes to the financial statements in previous years (and is also mentioned in the notes to the 2004 financial statements). By written notification dated November 2004, the tax authorities advised that they did not dispute the methodology used for the years ending prior to January 1, 2005. Once informed that the issue had been resolved, the Company was able to reverse most of the provision created in 2003. However, from 2005 onward the tax and accounting treatment of new transactions concerning early repayment fees and equalization payments on cancelled hedging swaps will be changed.

### b. Exceptions to general valuation principles in accordance with tax regulations

For the year ended December 31	2004
Regulated reserves	10
Reserves for medium- and long-term losses	9
Reserve for investment	1
Excess tax depreciation	0

### c. Tax consolidation

Dexia Établissement Stable became head of the French tax group as from 2002.

# Additional information

## 1 Five-year financial summary (EUR)

	2000	2001	2002	2003	2004
<b>CAPITAL STOCK</b>					
Capital stock	1,327,004,846 <sup>(1)</sup>	1,327,004,846	1,327,004,846	1,327,004,846	1,327,004,846
Number of shares	87,045,757	87,045,757	87,045,757	87,045,757	87,045,757
<b>RESULTS OF OPERATIONS</b>					
Revenues	4,906,183,849	5,405,835,735	3,216,902,596	2,516,161,072	3,173,995,095
Income before corporate income tax, depreciation, amortization and allowances	484,390,261	537,487,890	444,180,981	419,236,689	621,013,426
Corporate income tax	101,088,079	82,209,337	35,508,990	122,004,913	87,787,313
Net income	317,832,161	294,932,965	307,265,121	334,957,558	519,268,420
Dividends	412,391,647	273,323,677	335,996,622	330,773,876	579,724,742 <sup>(2)</sup>
<b>PER SHARE DATA</b>					
Revenues	56.36	62.10	36.96	28.91	36.46
Income after corporate income tax, before depreciation, amortization and allowances	4.40	5.23	4.69	3.41	6.13
Corporate income tax	1.16	0.94	0.41	1.40	1.01
Net income	3.65	3.39	3.53	3.85	5.97
Dividends	4.74	3.14	3.86	3.80	6.66
<b>NUMBER OF EMPLOYEES AT YEAR END</b>	<b>1,101</b>	<b>1,238</b>	<b>1,300</b>	<b>1,329</b>	<b>1,394</b>
<i>Management</i>	728	793	831	892	934
<i>Other</i>	373	445	469	437	460
Total payroll	58,941,723	74,744,060	79,973,412	84,482,339	88,598,443
Total benefits	27,212,324	31,814,023	26,975,614	28,038,961	32,751,363

(1) In 2000, the capital was increased:

- by EUR 87.2 million further to the merger of Dexia Project & Public Finance International Bank (Shareholders' Meeting of July 26, 2000);
- by EUR 79.9 million further to a decision of the Executive Board on September 4, 2000 (approved by the Shareholders' Meeting of July 26, 2000).

(2) Recommended.

## 2 Investments in subsidiaries and affiliates (EUR)

Details concerning subsidiaries and affiliates at December 31, 2004	Capital stock	Additional paid-in capital, reserves and retained earnings	2004 revenues or net banking income	2004 net income/(loss)
<b>Companies</b>				
<b>1 - Details concerning subsidiaries and affiliates whose book value exceeds 0.5% of Dexia Credit Local's capital stock</b>				
<b>A - Subsidiaries (50% to 100% owned)</b>				
<b>Dexia CLF Banque</b>				
7 à 11, quai André-Citroën - F-75015 Paris	7,625,000	4,055,543	14,300,809	4,843,658
<b>Dexia Finance</b>				
7 à 11, quai André-Citroën - F-75015 Paris	1,525,000	11,011,172	1,309,306	502,530
<b>Dexia CLF Immo</b>				
7 à 11, quai André-Citroën - F-75015 Paris	2,364,700	13,651,658	1,364,271	1,046,168
<b>Dexia Bail</b>				
7 à 11, quai André-Citroën - F-75015 Paris	4,550,000	730,917	1,714,516	751,310
<b>CLF Patrimoniales</b>				
7 à 11, quai André-Citroën - F-75015 Paris	19,863,125	(99,613)	67,794	647,214
<b>Dexia CLF Régions Bail</b>				
7 à 11, quai André-Citroën - F-75015 Paris	7,625,000	2,667,259	1,428,395	609,927
<b>Dexia Sabadell Banco Local</b>				
Paseo de las Doce Estrallas 4 - E-28042 Madrid	72,061,000	8,304,085	20,550,121	8,686,248
<b>Dexia Crediop (S.P.A.)</b>				
Via Venti settembre N. 30 - I-00187 Rome	450,210,000	335,555,400	187,635,137	98,917,832
<b>Dexia Holdings Inc. (FSA)</b>				
350 Park Avenue - New York - NY 10022 U.S.A.	1,938,233,331	30,070,766	19,208,083	7,421,977
<b>Dexia Hypothekbank Berlin AG</b>				
Charlottenstr. 82 - D-10969 Berlin	162,500,000	107,824,523	42,288,533	12,564,232
<b>Dexia Kommunalkredit Holding</b>				
Türkenstrasse 9 - A-1092 Vienna	15,000,000	13,088,472	4,061,565	3,171,498
<b>Dexia Municipal Agency</b>				
7 à 11, quai André-Citroën - F-75015 Paris	620,000,000	11,287,365	151,983,008	60,856,193
<b>Dexia Flobail</b>				
7 à 11, quai André-Citroën - F-75015 Paris	6,100,000	18,103,371	6,257,122	3,114,231
<b>Floral</b>				
7 à 11, quai André-Citroën - F-75015 Paris	22,867,353	28,264,013	2,369,124	1,473,728
<b>Otzar Hashilton Hamekomi Ltd</b>				
3 Heftman Str. - 64737 Tel Aviv - Israel	28,760,756	32,263,479	18,652,209	7,387,777
<b>SISL (Ex Société d'Investissement Suisse Luxembourgeoise)</b>				
180, rue des Aubépines - L-1145 Luxembourg	337,650,000	55,051,078	12,138,643	46,560,281
<b>Dexia Sofaxis (ex Sofca)</b>				
F-18020 Bourges Cedex	735,499	48,983,796	44,138,418	9,914,062
<b>Dexia Delaware LLC</b>				
445 Park Avenue 7th floor - New York - NY 10022 U.S.A.	351,031			
<b>Dexia Crédit Local Asia Pacific Pty</b>				
Level 23, Veritas House, 207 Kent street - Sydney NSW 2000	1,913,053		1,692,360	372,398
<b>B - Affiliates (10% to 50% owned)</b>				
<b>Dexia Location Longue Durée (ex Dexia CLF Lease Services)</b>				
7 à 11, quai André-Citroën - F-75015 Paris	2,286,000	1,178,510	1,584,556	(111,752)
<b>Crédit du Nord</b>				
28, place Rihour - F-59800 Lille	740,263,000	422,878,000	1,308,800,000	233,855,000
<b>Kommunalkredit Austria AG</b>				
Türkenstrasse 9 - A-1092 Vienna	16,350,750	159,080,196	N/A	25,682,200
<b>2 - General information</b>				
<b>A - Other companies not mentioned in 1-A</b>				
French companies				
Foreign companies				
<b>B - Other companies not mentioned in 1-B and long-term investments in companies less than 10% owned</b>				
French companies				
Foreign companies				

\*Exceptional allocation.

% interest	Book value of securities		Dividends received by Dexia Credit Local during the year	Loans and advances granted by Dexia Credit Local	Guarantees given by Dexia Credit Local	Business
	Cost	Net				
80.00%	6,738,631	6,738,631	7,599,905	2,526,900,000	6,925,516,534	Local government short-term lending
100.00%	1,937,507	1,937,507	721,639			Financial management consulting and assistance
100.00%	33,691,141	16,612,451		23,920,430		Real estate financing
100.00%	5,121,549	5,121,549		39,332,303		Equipment lease financing
100.00%	19,856,393	19,856,393	755,447			Real estate management
100.00%	7,941,401	7,941,401	279,996	98,775,640		Real estate lease financing
60.00%	43,236,600	43,236,600		1,327,740,035	2,181,341,394	Bank, credit institution
70.00%	581,223,585	581,223,585	86,726,500	1,198,056,003		Bank, credit institution
90.00%	2,173,727,727	2,173,727,727				Credit enhancement
100.00%	253,339,375	253,339,375		440,690,298		Bank, credit institution
50.84%	12,787,809	12,787,809	1,016,800			Holding company
99.99%	619,999,909	619,999,909	120,000,000*	5,561,082,176		<i>Société de crédit foncier</i>
100.00%	6,110,888	6,110,888		535,246,542	12,242,175	Equipment and real estate lease financing
99.99%	23,080,690	23,080,690				Capital markets financing on behalf of the parent company
65.10%	56,002,387	56,002,387	475,476		50,699,983	Bank, credit institution
99.99%	353,514,002	353,514,002		84,818,052		Acquisition of equity interests
100.00%	50,054,782	50,054,782				Holding company for stakes in insurance brokerages
100.00%	351,031	351,031				Issuer company
100.00%	1,913,053	1,913,053		21,077,954		Non-bank financial institution
49.00%	1,848,591	851,834		13,579,000		Long-term vehicle leasing
10.00%	184,463,311	184,463,311	11,107,345			Bank
49.00%	84,999,379	84,999,379	2,233,449			Bank, credit institution
				9,114,466,448	325,861,615	
	108,148,689	104,572,333	3,558,108	295,743,176	35,106,906	
	27,222,285	19,148,719	2,177,004			

### 3 Securities portfolio of Dexia Credit Local (EUR millions) at December 31, 2004

#### 3.1 SECURITIES AVAILABLE FOR SALE

	Market value	Portfolio value	Unrealized gains	Unrealized losses	Net book value
<b>BONDS AND OTHER FIXED-INCOME SECURITIES</b>					
<b>French bonds</b>	<b>74</b>	<b>88</b>	<b>0</b>	<b>(14)</b>	<b>88</b>
Other issuers	74	88	0	(14)	88
<i>Banks</i>	54	68	0	(14)	68
<i>Other private institutions</i>	20	20	0	0	20
<i>Perpetual bonds</i>	0	0	0	0	0
<b>Foreign bonds</b>	<b>7,376</b>	<b>7,222</b>	<b>101</b>	<b>0</b>	<b>7,275</b>
Public sector issuers	1,701	1,594	39	0	1,662
<i>Government bonds</i>	41	38	1	0	39
<i>Local authority bonds</i>	1,661	1,556	38	0	1,623
Other issuers	5,675	5,628	62	0	5,613
<i>Banks</i>	5,675	5,628	62	0	5,613
<i>Other private institutions</i>	0	0	0	0	0
<i>Perpetual bonds</i>	0	0	0	0	0
<b>TOTAL BONDS AND OTHER FIXED-INCOME SECURITIES</b>	<b>7,450</b>	<b>7,310</b>	<b>101</b>	<b>(14)</b>	<b>7,363</b>
<b>EQUITIES AND OTHER VARIABLE-INCOME SECURITIES</b>					
<i>Bond funds</i>	240	236	4	0	158
<i>Equities</i>	46	36	10	0	114
<b>TOTAL EQUITIES AND OTHER VARIABLE-INCOME</b>	<b>286</b>	<b>272</b>	<b>14</b>	<b>0</b>	<b>272</b>
<b>GOVERNMENT SECURITIES</b>					
Public sector issuers	325	325	0	0	325
<i>Government bonds</i>	0	0	0	0	0
<i>Local authority bonds</i>	325	325	0	0	325
<b>TOTAL GOVERNMENT SECURITIES</b>	<b>325</b>	<b>325</b>	<b>0</b>	<b>0</b>	<b>325</b>
<b>TOTAL</b>	<b>8,061</b>	<b>7,907</b>	<b>115</b>	<b>(14)</b>	<b>7,960</b>

## 3.2 INVESTMENT SECURITIES

	Redemption value	Premium (discount)	Allowances for impairment	Net book value
<b>BONDS AND OTHER FIXED-INCOME SECURITIES</b>				
<b>French bonds</b>	<b>148</b>	<b>0</b>	<b>0</b>	<b>148</b>
Public sector issuers	91	0	0	91
<i>Government bonds</i>	0	0	0	0
<i>Local authority bonds</i>	91	0	0	91
Other issuers	57	0	0	57
<i>Banks</i>	57	0	0	57
<i>Other private institutions</i>	0	0	0	0
<i>Perpetual bonds</i>	0	0	0	0
<b>Foreign bonds</b>	<b>16,471</b>	<b>173</b>	<b>(2)</b>	<b>16,642</b>
Public sector issuers	7,864	166	0	8,030
<i>Government bonds</i>	551	1	0	552
<i>Local authority bonds</i>	7,313	165	0	7,478
Other issuers	8,607	7	(2)	8,612
<i>Banks</i>	1,138	0	(2)	1,136
<i>Other private institutions</i>	7,469	7	0	7,476
<i>Perpetual bonds</i>	0	0	0	0
<b>TOTAL BONDS AND OTHER FIXED-INCOME SECURITIES</b>	<b>16,619</b>	<b>173</b>	<b>(2)</b>	<b>16,790</b>
<b>GOVERNMENT SECURITIES</b>				
Public sector issuers	5,653	(5)	0	5,649
<i>Government bonds</i>	4,000	0	0	4,000
<i>Local authority bonds</i>	1,653	(5)	0	1,649
<b>TOTAL GOVERNMENT SECURITIES</b>	<b>5,653</b>	<b>(5)</b>	<b>0</b>	<b>5,649</b>
<b>TOTAL</b>	<b>22,272</b>	<b>168</b>	<b>(2)</b>	<b>22,439</b>

### 3.3 TRADING SECURITIES

	Cost <sup>(1)</sup>	Market value <sup>(1)</sup>
<b>BONDS AND OTHER FIXED-INCOME SECURITIES</b>		
<b>French bonds</b>	<b>319</b>	<b>321</b>
Other issuers	319	321
<i>Banks</i>	319	321
<i>Other private institutions</i>	0	0
<b>Foreign bonds</b>	<b>6,581</b>	<b>6,615</b>
Public sector issuers	256	277
<i>Government bonds</i>	163	167
<i>Local authority bonds</i>	93	110
Other issuers	6,325	6,338
<i>Banks</i>	6,082	6,092
<i>Other private institutions</i>	243	246
<b>TOTAL BONDS AND OTHER FIXED-INCOME SECURITIES</b>	<b>6,900</b>	<b>6,936</b>
<b>GOVERNMENT SECURITIES</b>		
Public sector issuers	61	66
<i>Government bonds</i>	61	66
<i>Local authority bonds</i>	0	0
<b>TOTAL GOVERNMENT SECURITIES</b>	<b>61</b>	<b>66</b>
<b>TOTAL</b>	<b>6,961</b>	<b>7,002</b>

(1) Cost and market value include accrued interest.

## Statutory Auditors' general report

*(This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by French law and this is presented after the Opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessment (1) of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. The report also includes information relating to the specific verification (2) of information in the management report. This report together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with French law and professional auditing standards applicable in France.)*

*In compliance with the assignment entrusted to us by your Shareholders' Annual General Meeting, we hereby report to you, for the year ended December 31, 2004, on:*

- *the audit of the accompanying financial statements of **Dexia Credit Local**;*
- *the justification of our assessments;*
- *the specific verifications and information required by law.*

*These financial statements have been approved by the Executive Board. Our role is to express an opinion on these financial statements based on our audit.*

### 1 Opinion on the financial statements

*We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.*

*In our opinion, the financial statements give a true and fair view, in all material respects, of the Company's financial position and its assets and liabilities at December 31, 2004, and of the results of its operations for the year then ended in accordance with the accounting principles applicable in France.*

### 2 Justification of the assessments

*In accordance with the requirements of article L. 225-235 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following points, with reference to the paragraphs contained in Note 1.2.B.1 of the notes to the financial statements:*

- *concerning allowances for credit risks inherent to banking activities, the Company records both specific allowances and general reserves calculated statistically by customer type or business sector, as specified respectively in the sections on "Customer loans", "Reserves and provisions" and "Derivatives - Credit derivatives";*
- *concerning depreciation of investments in associated companies, other long-term investments and portfolio securities, the Company records allowances based on their useful value, as described in the sections on "Long-term investments" and "Securities transactions - Portfolio securities";*
- *concerning depreciation of the marketable securities available for sale portfolios, the Company records allowances based in their lower of cost or market value, net of any micro hedges, as described in the section on "Securities transactions - Marketable securities available for sale".*

*As part of our appreciation of significant estimates applied in preparing the financial statements, we examined the internal control system relating to the identification and monitoring of these risks, assessed the information and assumptions on which these estimates were based, reviewed the consistent application of the methods described in the notes to the financial statements and the procedures applied by the Company's management to approve such estimates. Our audit work did not highlight any items that would lead us to question the appropriateness of the methods used to prepare these accounting estimates or the actual appraisals so derived.*

*The assessments we made of these items register within the framework of our audit approach which relates to the financial statements as a whole and contributed to the unqualified opinion we expressed in the first part of this report.*

### **3 Specific verifications and information**

*We also performed the specific verifications required by law, in accordance with the professional standards applicable in France.*

*We have no matters to report regarding the fair presentation and the compliance with the financial statements of the information given in the management report of the Executive Board and in the documents addressed to the shareholders with respect to the financial position and the financial statements.*

*In accordance with the law, we verified that the management report contains appropriate disclosures as to the acquisition of shares and controlling interests.*

Paris, March 8, 2005

#### **Statutory Auditors**

##### CADERAS MARTIN

Daniel BUTELOT

Partner

Olivier AVRIL

Partner

##### MAZARS & GUÉRARD

Guillaume POTEL

Partner

Anne VEAUTE

Partner

# Combined Shareholders' Meeting of May 24, 2005

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## *Report of the Executive Board on the proposed resolutions*

The Executive Board invites shareholders to approve the following resolutions:

The first resolution concerns the approval of the financial statements.

The second resolution concerns the approval of the consolidated financial statements.

Shareholders will then be invited to approve the Statutory Auditors' special report on agreements governed by article L. 225-86 of the French Commercial Code (third resolution).

As a direct consequence of adopting the first three resolutions, the Meeting will give full discharge to the members of the management bodies for the performance of their duties during 2004 (fourth resolution).

The Meeting will then decide on the appropriation of net income, including the amount of the dividend per share (fifth resolution).

The Meeting will then recognize the certification of the financial statements (sixth resolution).

Shareholders will then be invited to approve a new member of the Supervisory Board (seventh resolution).

The Meeting will then recognize that its obligation to carry out a capital increase reserved for employees has been duly performed (eighth resolution).

The Meeting will then give full powers to the bearer of a copy or extract of the minutes of the Meeting to carry out all the legal formalities (ninth resolution).

These resolutions were presented on February 28, 2005 to the Supervisory Board, whose comments are set out below.

## *Comments of the Supervisory Board*

The Executive Board presented shareholders with its report analyzing the results achieved by Dexia Credit Local in 2004.

At its February 28 meeting, the Supervisory Board congratulated the Executive Board on the very good level of net income achieved under highly competitive conditions.

The Supervisory Board approved the Executive Board's Management Report as presented and the 2004 financial statements. It then examined the draft resolutions to be submitted to shareholders for approval.

We recommend that shareholders approve these draft resolutions, and notably the appropriation of net income.

The recommended dividend per share would then amount to EUR 6.66, i.e. a 75.26% increase over 2003.

This recommendation was unanimously approved by the Supervisory Board, which has every confidence in the Executive Board and gives it full support in the accomplishment of its duties.

## Special report of the Statutory Auditors on regulated agreements

*(This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by French law and this is presented after the Opinion on the financial statements. This information includes an explanatory paragraph discussing the auditors' assessment (1) of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements. The report also includes information relating to the specific verification (2) of information in the management report. This report together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with French law and professional auditing standards applicable in France.)*

In our capacity as statutory auditors of **Dexia Credit Local**, we hereby present to you our report on the regulated agreements.

### Agreements authorized during the year

In accordance with the article L. 225-88 of the French Commercial Code, we have been advised that no new agreement has been approved and previously authorized by your Supervisory Board.

We are not required to ascertain whether any agreement exist but to inform you, on the basis of the information provided us, of the terms and conditions of the agreements which we were notified of. It is not our role to determine whether they are beneficial or appropriate. It is your responsibility, under the terms of article 117 of the Decree of March 23, 1967, to appraise the benefits arising from these agreements prior to their approval.

We conducted our work in accordance with professional standards applicable in France; those standards require that we perform the procedures deemed necessary so as to verify that the information provided to us is in the agreement with the underlying documentation from which it was extracted.

### Continuing agreements which were entered in prior years

Moreover, in accordance with the Decree of March 23, 1967, we have been advised that the execution of the following agreements, approved during previous years, has been carried over into the current year.

#### Tax group agreement

On November 19, 2002, the Supervisory Board authorized Dexia Credit Local to enter into a new tax group agreement. Effective from January 1, 2002 and for a period of five years, the new head of the French tax group will be the establishment of Dexia in France. This entity holds 95% of the share capital of Dexia Credit Local further to restructuring operations carried out (unwinding of cross-shareholdings between Dexia Credit Local and CCB and the merger with Dexia France) as well as a capital increase in 2000. In accordance with the applicable tax regulations, this agreement provides that the new head of the tax group will benefit from any related tax savings instead of Dexia Credit Local. The change of the head of the tax group does not affect Dexia Credit Local subsidiaries.

#### Dexia Municipal Agency

The "declaration of financial support" agreement between Dexia Credit Local and Dexia Municipal Agency, which was approved by the Shareholders' Meeting of January 10, 2000, benefits to the holders of asset-backed securities issued by Dexia Municipal Agency. This agreement stipulates that Dexia Credit Local will hold over 95% of the share capital of Dexia Municipal Agency on a long-term basis. In addition, Dexia Credit Local will ensure that Dexia Municipal Agency develops its activity in compliance with the requirements of articles L. 515-13 through L. 515-33 of the French Financial and Monetary Code concerning mortgage credit companies and has the financial resources it needs to meet its obligations.

Paris, March 8, 2005

#### Statutory Auditors

CADERAS MARTIN

Daniel BUTELOT

Partner

Olivier AVRIL

Partner

MAZARS & GUÉRARD

Guillaume POTEL

Partner

Anne VEAUTE

Partner

# Proposed resolutions

## 1 At the Ordinary Shareholders' Meeting

### FIRST RESOLUTION

#### Approval of the financial statements

The Ordinary Shareholders' Meeting, having heard the reports of the Executive Board, the Chairman of the Supervisory Board and the Statutory Auditors and the comments of the Supervisory Board, approves the financial statements for the year ended December 31, 2004 as presented, as well as all transactions set out in these financial statements or mentioned in the reports, showing net income of EUR 519,268,420.41.

### SECOND RESOLUTION

#### Approval of the consolidated financial statements

The Ordinary Shareholders' Meeting, having heard the reports of the Executive Board, the Chairman of the Supervisory Board and the Statutory Auditors and the comments of the Supervisory Board, approves the consolidated financial statements for the year ended December 31, 2004 as presented, as well as all transactions set out in these financial statements or mentioned in the reports, showing consolidated net income of EUR 705,026,094.

### THIRD RESOLUTION

#### Regulated agreements

The Ordinary Shareholders' Meeting, having heard the Statutory Auditors' special report on agreements governed by article L. 225-86 of the French Commercial Code, approves, under the terms of article L. 225-88 of the French Commercial Code, all agreements mentioned therein.

### FOURTH RESOLUTION

#### Discharge for members of the management bodies

By virtue of the adoption of the preceding resolutions, the Ordinary Shareholders' Meeting gives full and unconditional discharge to the members of the management bodies for the performance of their duties during the year ended December 31, 2004.

### FIFTH RESOLUTION

#### Dividends

The Ordinary Shareholders' Meeting resolves to appropriate the sum of EUR 579,724,741.62 to pay the annual dividend: EUR 519,268,420.41 of this amount will be taken from the net income for the year, EUR 4,183,682.91 will be taken from retained earnings and EUR 56,272,638.30 will come from general reserves, whose EUR 73,716,821.31 balance is thereby decreased to EUR 17,444,183.01.

The dividend per share will amount to EUR 6.66.

The dividend will be paid as from May 25, 2005.

The Shareholders' Meeting of November 9, 2004 approved an extraordinary allocation amounting to EUR 1.95 per share.

In 2003, the dividend per share was EUR 3.80.

In 2002, the dividend per share was EUR 3.86.

In 2001, the dividend per share was EUR 3.14. The Shareholders' Meeting of December 27, 2001 approved an extraordinary allocation amounting to EUR 2.30 per share.

### SIXTH RESOLUTION

#### Certification of the financial statements

In accordance with article L. 822-14 of the French Commercial Code, the Ordinary Shareholders' Meeting acknowledges that the financial statements for the year ended December 31, 2004 were certified by:

- Guillaume Potel and Anne Veaute, partners, representing the firm Mazars & Guérard; and
- Daniel Butelot and Olivier Avril, partners, representing the firm Caderas Martin.

### SEVENTH RESOLUTION

#### Nomination of a member of the Supervisory Board

The Ordinary Shareholders' Meeting names Dominique Marcel as a member of the Supervisory Board. His term will end at the Ordinary Shareholders' Meeting that approves the 2008 financial statements.

## 2 At the Extraordinary Shareholders' Meeting

### EIGHTH RESOLUTION

#### Capital increase reserved for employees

The Extraordinary Shareholders' Meeting acknowledges the obligation laid down by the article L. 225-129 VII of the French Commercial Code to comment on a draft resolution intended to carry out a capital increase reserved for employees whenever their stake in the Company represents less than 3% of the capital.

The Meeting observes that Dexia Credit Local employees are indeed able to participate in capital increases carried out by

Dexia S.A. on their behalf under the stock ownership program, and that as such the obligation set down by the aforementioned article of the French Commercial Code has been duly complied with.

### NINTH RESOLUTION

#### Powers to carry out formalities

The Shareholders' Meeting gives full powers to the bearer of a copy or excerpt of the minutes of the Meeting to perform all legal filing and publication formalities.

## *Additional information*

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# Information concerning bond issues

## Quoted bonds

Dexia Credit Local's bond issues are rated AA by Standard & Poor's, AA+ by Fitch Ratings and Aa2 by Moody's.

All bonds issued on the domestic market by Dexia Credit Local and its predecessor CAECL are quoted on the Paris stock exchange. Details of these issues are provided on the following pages.

Most bonds issued by Dexia Credit Local on foreign markets are quoted. Details of these issues are provided on the following pages.

Dexia Municipal Agency, a wholly-owned subsidiary of Dexia Credit Local, has funded the Group's loans to European local governments since 1999.

D.M.A.'s bond issues are rated AAA by Standard & Poor's, AAA by Fitch Ratings and AAA by Moody's.

## A. EURO EXCHANGE RATES AT DECEMBER 31

Country	Currency	2003	2004	% change
Australia	AUD	1.6802	1.7459	3.91
Canada	CAD	1.6234	1.6416	1.12
Switzerland	CHF	1.5579	1.5429	(0.96)
Czech Republic	CZK	32.0950	30.4640	(5.08)
Denmark	DKK	7.4450	7.4388	(0.08)
Euro zone	EUR	1.0000	1.0000	0.00
United Kingdom	GBP	0.7048	0.7051	0.04
Hong Kong	HKD	9.8049	10.5881	7.99
Israel	ILS	5.5331	5.8768	6.21
Japan	JPY	135.0500	139.6500	3.41
Norway	NOK	8.4141	8.2365	(2.11)
New Zealand	NZD	1.9244	1.8871	(1.94)
Poland	PLN	4.7019	4.0845	(13.13)
Sweden	SEK	9.0800	9.0206	(0.65)
Singapore	SGD	2.1450	2.2262	3.79
Slovakia	SKK	41.1700	38.7450	(5.89)
United States	USD	1.2630	1.3621	7.85
South Africa	ZAR	8.3276	7.6897	(7.66)

## B. DEXIA CREDIT LOCAL BORROWINGS BONDS & EURO MEDIUM TERM NOTES

Currency	Excluding effect of swaps		Including effect of swaps	
	Balance in foreign currency (millions)	Balance in EUR (millions)	Encours en currency (millions)	Balance in EUR (millions)
AUD	829	475	0	0
CAD	716	436	250	153
CHF	639	414	0	0
CZK	1,300	43	0	0
EUR	25,383	25,383	28,220	28,220
GBP	223	316	111	157
HKD	2,759	261	0	0
JPY	128,652	921	0	0
NOK	1,860	226	0	0
PLN	100	24	0	0
SEK	9,673	1,072	9,173	1,017
SGD	498	223	0	0
USD	5,782	4,245	6,542	4,803
<b>TOTAL</b>		<b>34,039</b>		<b>34,350</b>

## C. ANNUAL PRINCIPAL REPAYMENTS OF DEBT SECURITIES

(EUR millions at December 31, 2004)

Year	Other currencies	EUR	TOTAL
2005	3,627	10,756	14,383
2006	1,317	2,972	4,289
2007	1,603	2,742	4,345
2008	431	3,570	4,001
2009	695	1,920	2,615
2010	6	690	696
2011	100	392	492
2012	180	422	602
2013	106	287	393
2014	155	318	473
2015	27	-	27
2016	83	265	348
2017	76	25	101
2018	4	11	15
2019	7	442	449
2020	10	50	60
2021	18	-	18
2022	50	-	50
2023	18	-	18
2024	62	20	82
2025	-	-	-
2026	23	-	23
2027	7	-	7
2028	4	-	4
2029	46	19	65
2030	-	-	-
2031	29	-	29
2032	-	11	11
2033	-	76	76
2034	-	20	20
2041	-	347	347
<b>TOTAL</b>	<b>8,684</b>	<b>25,355</b>	<b>34,039</b>

## D. DEXIA CREDIT LOCAL DOMESTIC BOND ISSUES AT DECEMBER 31, 2004

Currency	Outstanding (in foreign currency)	Code	Description	Due	Outstanding (EUR millions)
EUR	3,308,418	FR0000186637	EUR constant quarterly interest 4.4%	March 07, 2005	3
EUR	4,497,258	FR0000186785	EUR constant quarterly interest 4.4%	May 9, 2005	4
EUR	6,772,383	FR0000186918	EUR constant quarterly interest 5%	July 11, 2005	7
EUR	144,826,566	FR0000197360	FRF 950 million 0% <sup>(1)</sup>	October 23, 2005	145
EUR	15,244,902	FR0000208316	FRF100 million indexed	October 27, 2005	15
EUR	15,244,902	FR0000208456	FRF100 million indexed	November 24, 2005	15
EUR	61,000,000	FR0000484925	EUR 61 million indexed	January 10, 2006	61
EUR	762,245,090	FR0000584641	FRF 5000 million 6.70%	January 24, 2006	762
EUR	457,347,051	FR0000584633	FRF 3000 million 5.75%	February 7, 2006	457
EUR	45,734,705	FR0000197782	FRF 300 million TME	May 2, 2006	46
EUR	18,293,882	FR0000209074	FRF 120 million 1.5% indexed	May 5, 2006	18
EUR	50,000,000	FR0000476517	EUR 50 million 21.07.06	July 21, 2006	50
EUR	45,734,705	FR0000208613	FRF 300 million 0.4% <sup>(1)</sup>	July 31, 2006	45
EUR	40,000,000	FR0010002162	EUR 40 million	August 14, 2006	40
EUR	30,000,000	FR0010007781	EUR 30 million	August 25, 2006	30
EUR	50,000,000	FR0010007799	EUR 50 million	August 25, 2006	50
EUR	144,064,321	FR0000207466	FRF 745 million TEC	December 12, 2006	144
EUR	25,000,000	FR0010033407	EUR 25 million 2003-2006	December 18, 2006	25
EUR	37,500,000	FR0010033415	EUR 37.5 million	December 18, 2006	38
EUR	37,500,000	FR0010033423	EUR 37.5 million	December 18, 2006	38
EUR	30,000,000	FR0010052555	EUR 30 million capitalized Eonia	February 16, 2007	30
EUR	91,469,410	FR0000209827	FRF 600 million 0.80% indexed	June 15, 2007	91
EUR	45,734,705	FR0000208183	FRF 300 million TEC	September 4, 2007	46
EUR	392,556,219	FR0000584658	FRF 2575 million TEC	October 25, 2007	393
EUR	153,591,623	Private placement	FRF 1,000 million 8.5243% <sup>(2)</sup>	February 10, 2008	154
EUR	45,734,705	FR0000209082	FRF 300 million 4.5 TEC	April 24, 2008	46
EUR	457,347,050	FR0000207631	FRF 3000 million 6%	February 26, 2009	458
EUR	55,643,891	FR0000208951	FRF 500 million 4.51 TEC	March 26, 2009	56
EUR	20,000,000	FR0000187338	EUR 20 million	January 17, 2011	20
EUR	20,000,000	FR0000187346	EUR 20 million 0% indexed CAC40	February 7, 2011	20
EUR	20,000,000	FR0000484990	EUR 20 million	February 11, 2011	20
EUR	50,000,000	FR0000485286	EUR 50 million	April 4, 2011	50
EUR	10,150,000	FR0010096792	EUR 10.15 million	July 23, 2012	10
EUR	15,244,902	FR0000209405	FRF 100 million indexed	June 18, 2013	15
<b>TOTAL</b>	<b>3,401,786,688</b>				<b>3,402</b>

(1) The outstanding balance at December 31, 2004 corresponds to the original issue amount.

(2) Unquoted borrowings.

## E. DEXIA CREDIT LOCAL BOND AND EURO MEDIUM TERM NOTE ISSUES OUTSIDE FRANCE AT DECEMBER 31, 2004 (EXCLUDING ISSUES BY THE BRANCHES)

Currency	Outstanding (in foreign currency)	Code	Description	Due	Outstanding (EUR millions)
CAD	250,000,000	XS0049062176	CAD 250 million 6.75%	March 21, 2006	152
<b>Sub-total CAD</b>	<b>250,000,000</b>				<b>152</b>
CHF	100,000,000	CH0003791537	CHF 100 million 5%	July 26, 2005	65
CHF	200,000,000	CH0002257795	CHF 200 million 2.50%	March 24, 2006	130
CHF	150,000,000	CH0016064740	CHF 150 million floating	June 12, 2006	97
CHF	160,000,000	CH0018346921	CHF 160 million floating	April 23, 2007	104
<b>Sub-total CHF</b>	<b>610,000,000</b>				<b>396</b>
EUR	457,347,052	XS0046028543	FRF 1,500 million 6.25%	September 27, 2005	457
EUR	90,756,043	XS0060195103	NLG 200 million floating	September 27, 2005	91
EUR	258,228,450	XS0070797534	ITL 200 billion 8.125%	December 6, 2006	258
EUR	206,582,760	XS0072866519	ITL 300,000 million 7.125%	March 5, 2007	207
EUR	609,796,069	XS0038002027	FRF 2,000 million 0%	June 25, 2007	610
EUR	11,000,000	XS0178007521	EUR 11 million indexed	November 3, 2009	11
<b>Sub-total EUR</b>	<b>1,633,710,373</b>				<b>1,634</b>
GBP	44,000,000	Private Placement <sup>(1)</sup>	GBP 44 million 7.5%	November 14, 2005	62
<b>Sub-total GBP</b>	<b>44,000,000</b>				<b>62</b>
EUR	16,400,287,774	Euro Medium Term Note Program			16,400
<b>Sub-total EUR (EMTN)</b>	<b>16,400,287,774</b>				<b>16,400</b>

(1) Unquoted borrowings.

## Statutory Auditors

The terms of office of the Statutory Auditors and Substitute Auditors of Dexia Credit Local were approved by the Ordinary Shareholders' Meeting of June 29, 1996 and renewed for a period of six years by the Shareholders' Annual General Meeting of May 21, 2002.

### Caderas Martin

76, rue Monceau  
75008 Paris

*Represented by Daniel Butelot, partner  
and Olivier Avril, partner  
Substitute: Benoît Desauw*

### Mazars et Guérard

4, Allée de l'Arche  
92075 Paris La Défense

*Represented by Guillaume Potel, partner  
and Anne Veaute, partner  
Substitute: Yves Robin*

## Analysis of fees paid to the Statutory Auditors in 2004

### Consolidated financial statements

(EUR thousands)	Mazars & Guérard	Caderas Martin	TOTAL
<b>Audit</b>			
Statutory audit	2,071	920	2,991
Other assignments	656	7	663
<b>Other services</b>			
Legal, tax and human resources advisory services	9	0	9
Internal audit			
Other (disclosure required when > 10% of audit fees)			
<b>TOTAL</b>	<b>2,736</b>	<b>927</b>	<b>3,663</b>

# Additional legal and financial information

## 1 General information regarding Dexia Credit Local

### 1.1 CORPORATE NAME

The name "Dexia Credit Local" was adopted by the Extraordinary Shareholders' Meeting of March 8, 2001 to replace the name "Dexia Public Finance Bank", which was

adopted after the merger of Dexia Credit Local de France, Dexia France and Dexia Project & Public Finance International Bank on July 26, 2000.

### 1.2 REGISTERED OFFICE

Tour Cristal  
7 à 11, quai André Citroën  
F-75015 Paris

### 1.3 LEGAL STRUCTURE

*Société anonyme* (a corporation in the sense provided for under French law) with an Executive Board and a Supervisory Board

### 1.4 APPLICABLE LEGISLATION

Dexia Credit Local is a *société anonyme* governed by the French Commercial Code, the Decree of March 23, 1967 and the Financial and Monetary Code.

### 1.5 INCORPORATION DATE AND TERM

The Company was incorporated on August 28, 1989 for a term of 99 years.

### 1.6 COMPANY'S OBJECT (ARTICLE 2 OF THE BY-LAWS)

The main objects for which the Company is established are:

- to conduct in France and abroad any and all credit operations promoting local development and, in particular, local amenities, mainly for the benefit of local authorities and public corporations, local authority-backed agencies, local semi-public companies, concessionary public service companies and, more generally, agencies carrying out development or housing programs, or which have entered into an agreement with a local authority for the construction or management of local amenities;
- to carry out, for the benefit of the above parties, insurance brokerage activities and any consulting and assistance work in matters of financial management, financial engineering and, more generally, to offer any and all services to facilitate their financial management subject to the legislative provisions relating to the exercise of certain regulated professions;
- to receive cash deposits from local authorities and local public corporations in accordance with the regulations applicable to such bodies;

- to hold the funds lent to customers, pending their use;
- to issue debt securities in France and abroad in order to fund its lending operations.

For this purpose, the Company may:

- create subsidiaries;
- hold interests in companies whose business is likely to contribute to the Company's objects;
- establish and manage reserve funds securing loans granted to the agencies mentioned in the first paragraph of this article.

The Company may also carry out any and all transactions falling within the scope of its company object on behalf of and on the instructions of agencies and institutions set up to serve the public interest.

## 1.7 TRADE AND COMPANIES REGISTER, SIRET NUMBER, AND APE BUSINESS IDENTIFIER CODE

Dexia Credit Local is registered in the Paris Trade and Companies Register under no. B 351 804 042 - Siret no. 351 804 042 00023  
APE business identifier code: 652 C (lending activities).

## 1.8 PLACE WHERE THE COMPANY'S LEGAL DOCUMENTS MAY BE CONSULTED

Tour Cristal, 7 à 11, quai André Citroën, F-75901 Paris Cedex 15

## 1.9 RESPONSIBILITY FOR INFORMATION

Jean-Paul Gauzès, Senior Vice President, Tax and Legal Affairs, member of the Management Board (+33 (0)1 43 92 81 64).  
Daniel Ivanier, Chief Financial Officer (CFO), member of the Management Board (+33 (0)1 43 92 73 39).

## 1.10 FISCAL YEAR (ARTICLE 39 OF THE BY-LAWS)

The Company's fiscal year begins January 1 and ends December 31.

## 1.11 APPROPRIATION OF NET INCOME (ARTICLE 40 OF THE BY-LAWS)

I. Net income for the year, less any prior-year losses and the appropriations provided for in article 39, plus any retained earnings, is available for distribution to shareholders.

II. The Shareholders' Meeting determines the fraction of income available for distribution to be paid out to shareholders in the form of dividends, based on the recommendations made by the Executive Board. The balance of income available for distribution, if any, is allocated either to unappropriated retained earnings or to one or several reserves, by decision of the Shareholders' Meeting, which also decides on the use to be made of said reserves. The Shareholders' Meeting may also decide to pay dividends to shareholders out of distributable reserves, but only after income available for distribution has been distributed in full. In this case, the related resolution must clearly indicate the reserves against which the dividends are to be charged.

III. The terms and conditions of payment of the dividend will

be decided by the Shareholders' Meeting or, failing that, by the Executive Board, but dividends must be paid within nine months of the fiscal year-end, unless this period is extended by order of the French Commercial Court ruling on an application by the Executive Board.

Notwithstanding the foregoing and in the cases provided for by applicable legislation, the Executive Board is authorized to pay interim dividends to be deducted from the total dividends for the year just ended or the current year, prior to the approval of the related financial statements by the Shareholders' Meeting. The amounts and payment dates of such interim dividends will be decided by the Executive Board. At the time of determination of the final dividend, the Shareholders' Meeting will be responsible for verifying that the provisions of the above-mentioned paragraph have been fully complied with in respect of the total dividend (including the interim dividend).

## 1.12 SHAREHOLDERS' MEETINGS

Notice of Shareholders' Meetings (article 27 of the by-laws)

Shareholders' Meetings are called in accordance with applicable regulations. They are conducted at the Company's registered office or any other location mentioned in the notice of meeting.

All shareholders are entitled to obtain copies of the documents they need to be able to make informed decisions concerning the matters put to the vote at Shareholders' Meetings and to assess the management and control of the Company.

The types of documents concerned and the rules governing their transmission to or consultation by shareholders are prescribed by law and the applicable regulations.

Right to attend General Shareholders' Meetings (article 28 of the by-laws)

All shareholders are entitled to attend Shareholders' Meetings upon presentation of a proof of identity, provided that they have settled all capital calls relating to their shares.

Shareholders may choose to be represented by another shareholder.

Proxies should be filed at the registered office at least five days before the Meeting.

Voting right (article 31 of the by-laws)

Shares carry voting rights based on the proportion of capital represented, with each share being entitled to one vote.

Each person present at the Meeting is entitled to exercise one vote for each share held and each share for which he or she holds a proxy.

## 2 Information regarding the capital structure

### 2.1 CAPITAL STOCK

At December 31, 2004, the Company's capital stock amounted to EUR 1,327,004,846 divided into 87,045,757 shares.

### 2.2 AUTHORIZATION TO INCREASE CAPITAL

The Shareholders' Meeting of May 21, 2002 resolved to increase the Company's share capital while maintaining pre-emptive subscription rights for existing shareholders.

### 2.3 MAINTAINING OF PRE-EMPTIVE SUBSCRIPTION RIGHTS

The Executive Board may increase capital either by issuing new shares for which existing shareholders will have a pre-emptive subscription right, or by capitalizing reserves, net income or premiums by issuing bonus shares and/or increasing the par value of existing shares.

### 2.4 TOTAL AMOUNT OF THE CAPITAL INCREASE

The total amount of the capital increase resulting from the authorized share issues may not exceed EUR 1 billion.

### 2.5 VALIDITY PERIOD OF THE AUTHORIZATION TO INCREASE CAPITAL

Authorization was granted for a period of five years as from the Shareholders' Meeting of May 21, 2002. No use was made of this authorization during the year.

No other securities granting rights to shares in the capital of Dexia Credit Local are outstanding.

### 2.6 CHANGES IN OWNERSHIP STRUCTURE OVER THE LAST FIVE YEARS

	2000*	2001	2002	2003	2004
Dexia (formerly Dexia Belgium)	99.98%	99.98%	99.98%	99.98%	99.98%
Private French and Belgian investors	0.02%	0.02%	0.02%	0.02%	0.02%

\* After the mergers of July 26, 2000.

At the Ordinary Shareholders' Meeting of May 6, 2004, a total of 87,045,757 voting rights were exercisable.

# *Glossary*

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## Arbitrage

Technique used to profit from differences in price when the same security, currency or commodity is traded on two or more markets or is offered at two different prices on the same market.

## Asset-liability management (ALM)

Overall management of an institution's interest rate and exchange rate risk to protect its income from unfavorable developments in interest rates or exchange rates. The objective is to maintain the bank's profitability and liquidity. Derivatives are the main instrument used for this type of management.

## At par

A debt security is said to be issued or redeemed "at par" when the issue or redemption price is the same as the face value.

## Capital Adequacy Ratio

Ratio between Tier One plus Tier Two capital, less part of the value of investments in banking institutions, and risk-weighted assets. French banks are required to meet the ratio provided for in the European Capital Adequacy Directive. Banks with substantial international operations are required to meet the "BIS" or "Cooke" ratio. In both cases, the minimum ratio is 8%.

## Certificates of deposit (CDs)

Negotiable debt securities with maturities of between ten days and one year that are issued by banks. In France, *certificats de dépôt négociables* may be issued only by banks that are authorized to collect deposits from the public and are subject to compulsory reserve regulations. The minimum par value of French *certificats de dépôt* is EUR 152,449.

## Close-out netting

Clause providing for the netting of debts and receivables in the event of default by one of the counterparties, in order to reduce counterparty risk.

## Credit or counterparty risk

The risk for any creditor that a debtor will be unable to pay all or some of its debt on time.

## Credit default swap

A credit derivative transaction. Contract whereby the buyer of a risk guarantees payment to the seller of the original value of the underlying asset (security) in the case of any deterioration in the issuer's signature or default by the issuer. The premium paid by the seller of the risk is generally equal to the face value of the underlying asset multiplied by a certain number of basis points.

## Credit derivative

Contract whereby an operator transfers the credit risk on one or several underlying assets to a counterparty in exchange for a premium. Examples of credit derivatives include credit default swaps and credit spread options.

## Credit spread option

A credit derivative transaction. Option contract whereby the investor pays a premium to the counterparty in exchange for a put or call option on a benchmark credit at a specified strike price.

## Currency risk

Risk of changes in the exchange rate of a currency against the reference currency used by a credit institution. The risk in the case of a specific transaction is that the financial settlement of the transaction will occur at a different rate of exchange than the one considered at the time the initial commitment was made.

## Derivatives

Futures contracts on financial instruments under which one party undertakes to make or take a delivery (or to make or receive payment of a price differential) of the financial instrument on or by a given maturity date at which the contract must be settled.

## Duration

The average life, expressed in years, of future cash flows from assets or liabilities, discounted at the market rate of interest. Duration represents an indicator of the sensitivity of assets and liabilities to changes in interest rates.

## Equalization payment

Cash amount that one of the parties to a swap contract must pay to the other to make the values swapped equal.

## Equity method

A consolidation method whereby the parent company's percentage interest in the consolidated subsidiary's net worth and income is substituted for the book value of the subsidiary's shares on the parent company's balance sheet.

## Euro commercial paper

Commercial paper issued on the European market.

## Ex coupon

The amount of accrued interest at the day of acquisition of a security is not included in the acquisition cost shown in the financial statements.

## First in/first out rule (FIFO)

Recording method for stocks of fungible goods by which goods taken out of inventory are deemed to be those that have been in inventory the longest.

## Forward rate agreement (FRA)

An over-the-counter contract under which one party (the seller) undertakes to lend the other party (the buyer) a set sum at a set interest rate over a specific period starting at a point in the future.

## Forward transactions

Buying or selling securities, currencies, etc., where the parties agree to delivery and payment at a future date. The price negotiated takes the future delivery and payment date into account and constitutes the forward price.

## Full consolidation

A consolidation method whereby the assets, liabilities and income of a subsidiary are substituted for its shares in the parent company's financial statements. Intercompany transactions are eliminated and minority interests' rights to subsidiaries' net worth are shown.

## Futures transactions

Contract for the purchase or sale of a specified quantity of underlying securities at a specified price and at a specified time in the future, traded on an organized market.

## Cap

Contract sold by a bank to an issuer of floating rate debt to protect the issuer against increases in the benchmark rate, in exchange for a premium. If the benchmark rate rises above the ceiling provided for in the cap contract, the purchaser of the cap receives the difference between the benchmark rate and the fixed rate guaranteed by the seller.

**Floor**

Contract sold by a bank to an investor in floating rate debt to protect the investor against falls in the benchmark rate, in exchange for a premium. If the benchmark rate falls below the minimum provided for in the floor contract, the purchaser of the floor receives the difference between the benchmark rate and the fixed rate guaranteed by the seller.

**General banking risks reserve**

Reserve set aside to cover general risks inherent in the conduct of banking operations. Movements in the reserve are recorded in the income statement.

**Historical cost**

The value of an asset when it was first entered in the accounts.

**Homogeneous group**

The notion is applied to derivatives in particular. Interest rate or exchange rate instruments with similar characteristics and thus sharing the same sensitivity to any given market risk.

**IFRIC**

International Financial Reporting Interpretations Committee, whose interpretations are denoted by the use of IFRIC or SIC (Standing Interpretations Committee) followed by a number (e.g. IFRIC 1, SIC-12).

**IFRS**

International Financial Reporting Standards. Accounting standards for transactions booked to financial statements published by the IASB (International Accounting Standards Board). The standards are denoted by the use of IAS or IFRS followed by a number (e.g. IAS 39, IFRS 1).

**Interest rate risk**

Risk stemming from future interest rate changes that is incurred by lenders and borrowers at fixed and variable rates.

**Interest rate sensitivity**

The degree to which the price of a financial instrument changes as a result of a given change in interest rates.

**Issue premium/discount**

The amount by which the issue price of a bond is greater or less than its face value.

**Liquidity risk**

Risk that an institution will not be able to meet its obligations or that it will not be able to close or offset a position owing to market conditions.

**Mark-to-market**

See "Market value" below.

**Market value (see mark-to-market)**

The value of an asset as determined by the financial markets on which it is traded.

**Medium-term notes**

Negotiable debt securities with terms in excess of one year. The minimum face value of French "BMTNs" is EUR 152,449. These securities may be issued by all types of companies, provided that they comply with all applicable regulatory conditions.

**Minority interests**

Ownership interests of partners other than the parent company in the equity of a fully consolidated subsidiary.

**Negotiable debt securities**

Securities traded on a regulated market. These securities represent ownership of a debt obligation payable for a specific period. Issuers must comply with a number of requirements, notably regarding disclosure.

**Net banking income**

Income from routing banking transactions less the related expenses, as well as the underwriting and investment income from the insurance business, as outlined in Note 5.12 to the consolidated financial statements.

**Notional principal amount**

This is the reference amount used to calculate interest rates in a financial futures contract.

**Option**

Contract between an option writer (seller) and an option buyer under which the buyer pays the writer a premium for the right (and not the obligation) to buy or sell a set quantity of an asset at a given price either during a given period or at a specified date. Options to sell are known as puts, and options to buy are known as calls.

**Call**

An option that gives the option buyer the right to buy the underlying asset and obliges the option writer to sell it.

**Put**

An option that gives the option buyer the right to sell the underlying asset and obliges the option writer to buy it.

**Redemption premium**

The portion of the redemption price of a bond that exceeds its face value.

**Regulatory own funds**

Tier One and Tier Two capital less a portion of interests held in credit institutions.

**Repurchase agreement (Repo)**

An agreement by which the seller of a security guarantees its repurchase at a predetermined price and date. Repurchase agreements governed by French law are known as *pensions*. The transaction involves the actual sale and repurchase of the securities and consists in substance of a short-term loan collateralized by a security. For the initial seller of the security, these are repurchase agreements (repos), whereas for the initial buyer they are reverse repurchase agreements (reverse repos).

**Spot transactions**

Buying or selling securities, currencies, etc., where delivery and payment take place immediately or very shortly after the trade is concluded.

**Spread**

The extra interest that a borrower has to pay to make up for the difference between its own creditworthiness and that of a zero-risk borrower (e.g. a sovereign state).

**Subordinated debt**

Debt securities or other borrowings that are subordinate in ranking to all other debts and remain ranked ahead of shareholders' rights for repayment purposes.

## Swap

Transaction by which two parties agree to exchange specific flows of funds at set dates to protect themselves against interest rate or exchange rate risk. One currency can be exchanged for another (a currency swap), a floating-rate obligation can be exchanged for a fixed-rate one (an interest rate swap) and a fixed-rate obligation in one currency can be exchanged for a floating-rate obligation in another currency (a cross-currency swap).

## Swaption

An option contract that gives the buyer the right (but not the obligation) to execute an interest rate swap with the option writer on the specified terms by or at a future date.

## Tier One capital

Capital and reserves and general banking risks reserve.

## Tier Two capital

Perpetual and subordinated debt, subordinated debt with a term in excess of five years and other long-term capital.

## Upper Tier Two

This category covers the highest quality subordinated debt.

## Value at risk (VaR)

Quantification method with a predefined confidence interval (usually 95% to 99%) used to measure the maximum potential loss that an institution or a specific portfolio could incur over a short period (one to ten days) under normal market conditions. Scenario analyses and stress tests are useful adjuncts to the value at risk method for assessing potential losses in case of extreme or specific market conditions.

## Yield to maturity

Also called the effective rate of return, this rate expresses the discounted value of the ratio between the real yield or cost of the loan and the principal amount over a given period. It is calculated on the basis of the nominal yield, but it also factors in the method used to calculate interest payments, time to collection of payments and the amount of capital actually made available.

## Zero-coupon bonds

Bonds issued at below par on which no periodic interest payments are made. The difference between the issue price and the redemption price is comparable to the yield on a loan on which interest is capitalized.

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## Design

Dexia Credit Local Corporate Communications department

## Graphic design and production

Labrador, Paris

## Printing

Arte Com

## Photography

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## **Dexia Credit Local**

*Société anonyme with an Executive Board and a Supervisory Board with capital stock of EUR 1,327,004,846 registered in the Paris Trade and Companies Register under no. B 351 804 042*

### **Registered office**

7 à 11, quai André Citroën  
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[www.dexia-creditlocal.fr](http://www.dexia-creditlocal.fr)

## **FRANCE**

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Tel. +33 1 53 93 40 00  
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## **INTERNATIONAL**

### **Dexia banka Slovensko**

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Tel.: +33 1 44 37 45 02  
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