ANNUAL REPORT 2005

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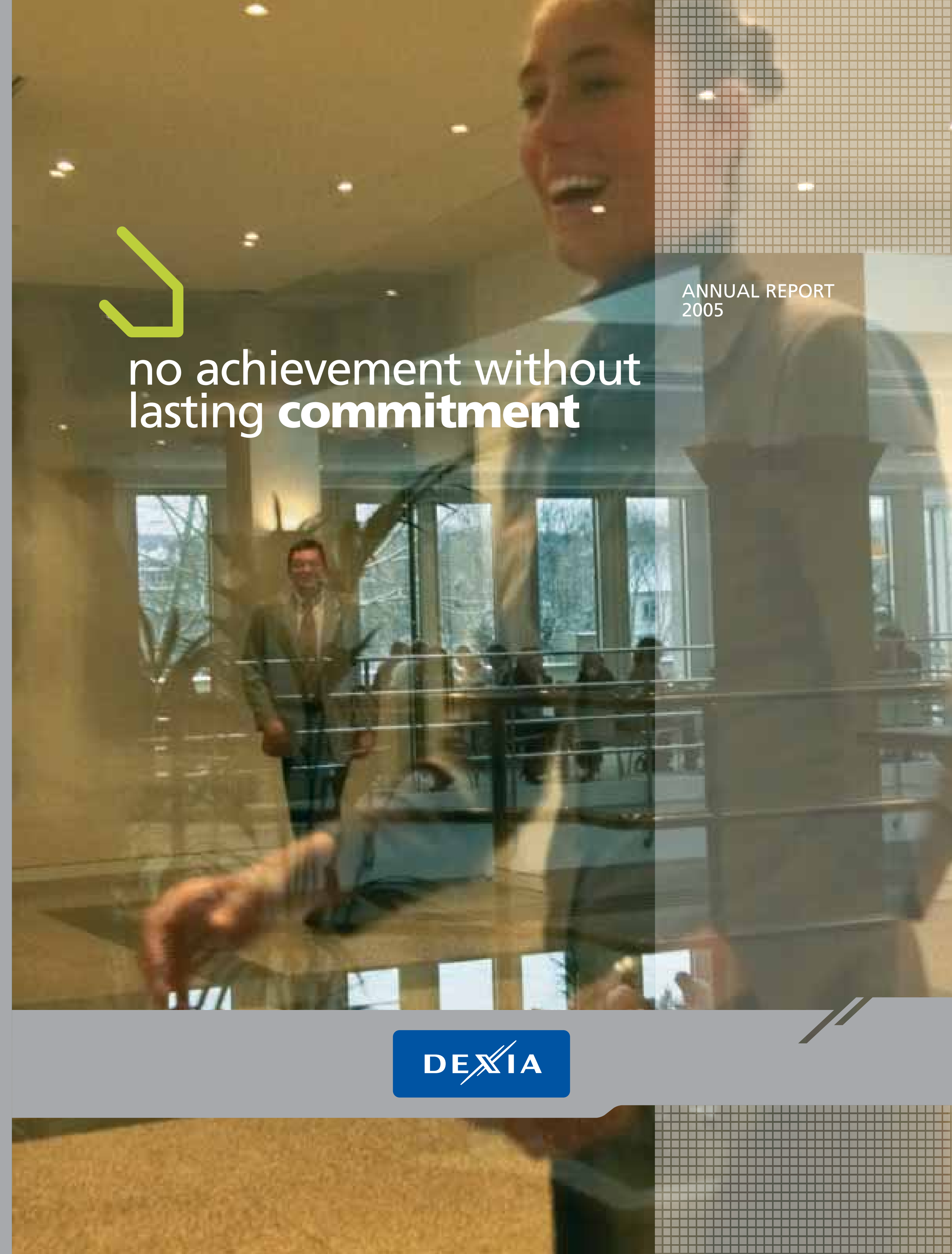
DEXIA



ANNUAL REPORT
2005

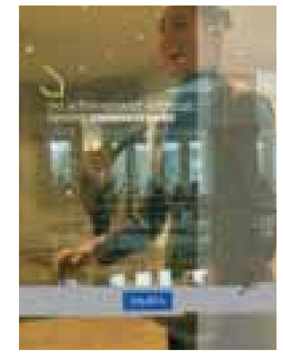
no achievement without lasting **commitment**

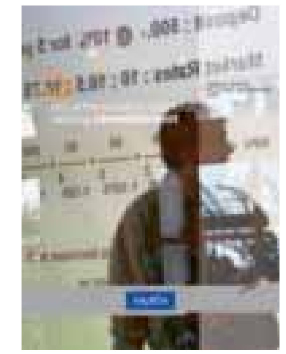
DEXIA

Contents

Dexia's *Annual Report 2005* has been published by the Communication Department of the Group.
It has been drafted in cooperation with the Communication Departments of Dexia Bank Belgium,
Dexia Crédit Local, Dexia Banque Internationale à Luxembourg,
Dexia Asset Management and Dexia Insurance Services.

This report is also available in Dutch, French and German.
It just needs to be requested at the Dexia head office in Brussels or in Paris
or via the company website at *www.dexia.com*.





Dexia entrusted Gueorgui Pinkhassov, photographer for Magnum Agency,
with providing the illustrations for its *Annual Report 2005*. He carried out his tasks at several of the Group's locations in Paris, Brussels and Luxembourg. We would like to thank all of those who appear in these pages.

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no achievement without lasting **commitment**

On its tenth anniversary, Dexia adopted an original institutional maxim, “no achievement without lasting **commitment**”, and a new communication policy which included an advertising campaign. The Group thus addressed its audience in order to improve its fame in Europe and to confirm its identity as a European banking group.

Dexia, a strong personality

Since creation of the Group in 1996, the Dexia institutional maxim has been adapted on several occasions, to each major stage in its growth.
Today, Dexia’s vocation of “sustainable involvement” with its entire audience is confirmed, and the evolution of the Group’s maxim, going beyond the simple notion of sustainable development, becomes perfectly natural.

“no achievement without lasting **commitment**”

The new Dexia maxim marks the Group’s “age of reason” and highlights its global strategy, resolutely oriented to controlled and sustainable expansion.
For our clients, and also for our shareholders, our suppliers and all the Group’s members of staff, the new institutional maxim, clearly expresses the strategy of Dexia and affirms a universal truth with which each of us can relate.

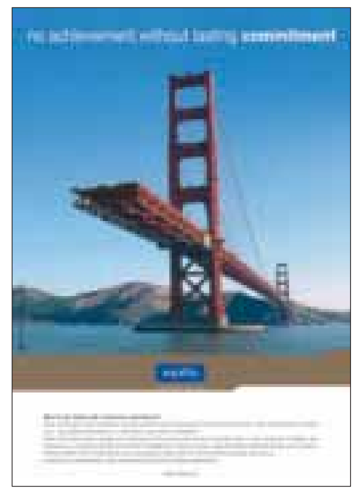
It gives the Dexia brand an original positioning in the European banking sector and enhances it with a strong, distinctive and sustainable personality. It affirms the mode of relations which Dexia now intends to develop with its entire audience.

Dexia takes the word in Europe

The pan-European communication campaign relied on Dexia’s institutional maxim, “no achievement without lasting **commitment**”.
It was disseminated in 12 European countries: France, Belgium, Luxembourg, the United Kingdom, Italy, Spain, Portugal, Austria, Poland, Slovakia, Romania and Turkey.

A spectacular creation

The new campaign adopted a spectacular visual approach. Its concept relied on presenting universally known works of art, but presenting them as unfinished, for a lack of time or means…



Corporate profile

A European bank, **world leader** in public finance

Dexia was born of the alliance in 1996, of two major players in local public finance in Europe: Crédit local de France and Crédit Communal de Belgique. Both institutions, together with Banque Internationale à Luxembourg (BIL) were united in 1999 into one publicly quoted company named Dexia. This was one of the very first cross-border mergers in the European banking sector. Today, Dexia ranks among the 15 largest financial institutions of the euro zone, and services two main markets: local authorities and similar institutions on a global scale, and the personal sector and households on a regional scale, mostly in Belgium and Luxembourg.

Local public sector

Since its merger in 1999 and the subsequent acquisition of Financial Security Assurance (FSA) in the US, Dexia has become the world's largest player in local public finance. Dexia's high level of expertise, its long-term horizon and the very high solvency of its customers, grant a superior quality of franchise.

Personal sector

Not only the bank of local authorities, Dexia is also a leading retail bank in Belgium, servicing the financial needs of several million customers. Its commercial presence was enlarged with the acquisition of Artesia Banking Corporation in 2001. Over the years, and initially from its Luxembourg base, Dexia has also developed private banking services catering for affluent customers in Belgium, France and other European countries.

Expertise, performance and rating

Dexia's success lies not only in its renowned franchise and distribution skills, but also in its ability to conceive efficient products and develop innovative solutions to the financial requirements of its clients. In all of its business lines, Dexia has been able to attract and deploy the best professional skills. It exercises the highest standards in terms of underwriting, risk monitoring, operational disciplines and product performance. Dexia has one of the highest credit ratings in the banking industry: its three main entities – Dexia Crédit Local, Dexia Bank and Dexia BIL – are AA/Aa2/AA+ rated; two of its subsidiaries in Europe issue AAA-rated secured bonds; finally FSA is a AAA-rated monoline insurance company.

Business lines

Public/Project Finance and Credit Enhancement

Dexia's global leadership in public finance is deservedly renowned. The Group operates several subsidiaries and branches in twenty-six countries worldwide. The main ones are Dexia Crédit Local in France and its main subsidiaries abroad, Dexia Bank in Belgium, Dexia Crediop in Italy, and Financial Security Assurance (FSA) in the United States. The very large size of the market, the quality and solvency of borrowers, and the large and growing needs for essential public infrastructures, offer wide opportunities for the Dexia Group to underwrite valuable business and expand its international coverage. Size, innovation, expertise and a long-term view are the key ingredients of Dexia's success in this business line, which represents over one half of its earnings. Execution is provided in different forms: straightforward lending, sophisticated project financing schemes and credit enhancement. In addition, insurance, payments, asset management and other services are offered to clientele.

Personal Financial Services

In Belgium, Dexia Bank is one of the country's top players in retail banking. It offers a complete range of banking and insurance services to a clientele of households and small and medium-sized enterprises. In Luxembourg, Dexia BIL has a similar position among the retail banks of the Grand Duchy. In that country, a private banking business has been developed over the years and now extends beyond Belgium and Luxembourg. Several units and joint ventures have been acquired/developed in a number of European countries, among which France, Spain, Switzerland and Slovakia.

Treasury and Financial Markets

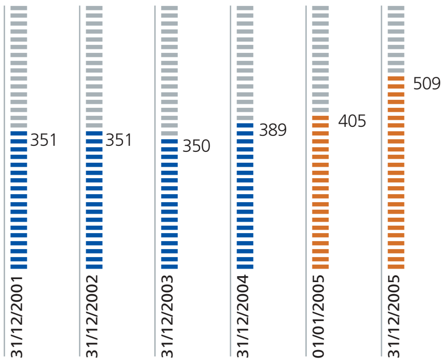
Dexia's principal businesses give the Group an intensive presence in the capital markets, whether for the funding and management of the Group's balance sheet, or for the engineering of sophisticated products and solutions delivered to clients of the various business lines. This business segment is not only a key support entity for the whole Group, but it is also an important profit center which generates substantial earnings.

Specialized units

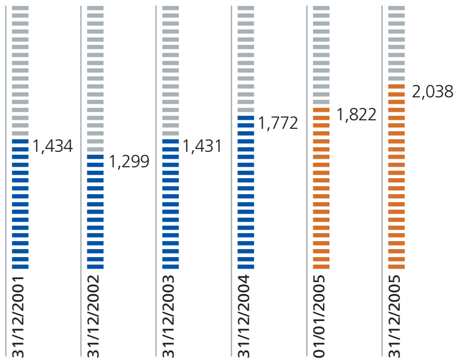
The fast developments of Dexia in its two main markets, and its strong franchise in Luxembourg, have given rise to specialist activities in Asset Management, Insurance and Fund Services. **Dexia Asset Management** has acquired a strong renown in Europe and today distributes over one third of its products among institutions and through third party channels. **Dexia Insurance Services** supplies all the life and non life insurance products sold in the retail networks of the Group in Belgium and Luxembourg and in France. In fund services, **RBC Dexia Investor Services** has recently been formed as a joint venture with Royal Bank of Canada and ranks among the ten largest custodian banks worldwide.

Financial profile

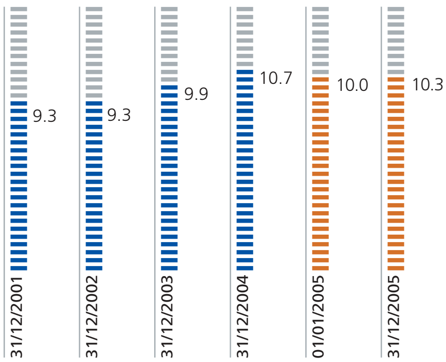
BALANCE SHEET TOTAL
(In billions of EUR)



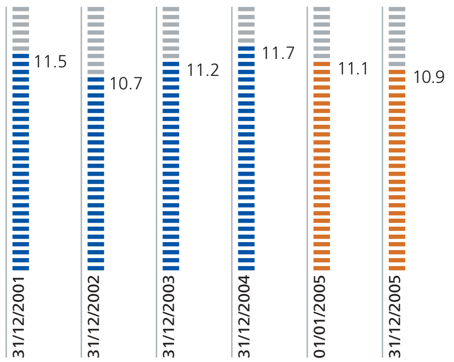
NET INCOME (GROUP SHARE)
(in millions of EUR)



TIER 1 RATIO
(in %)



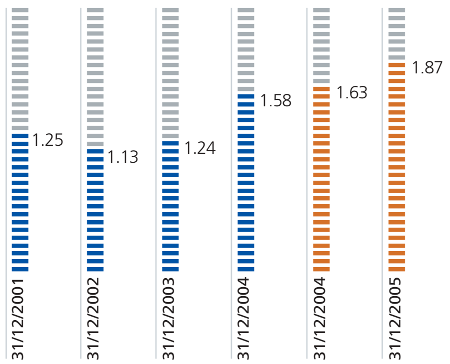
CAPITAL ADEQUACY RATIO
(in %)



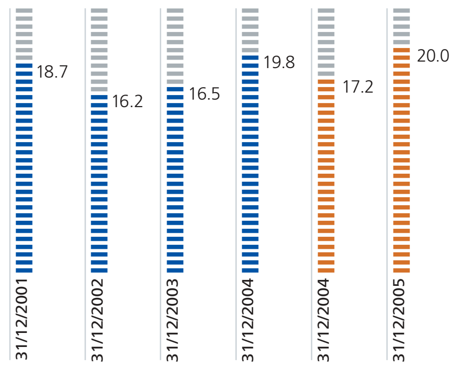
Dexia GAAP: Dexia Group accounting standards adopted until the publication on December 31, 2004.

EU GAAP: IFRS adopted by the European Union for publications after January 1, 2005.

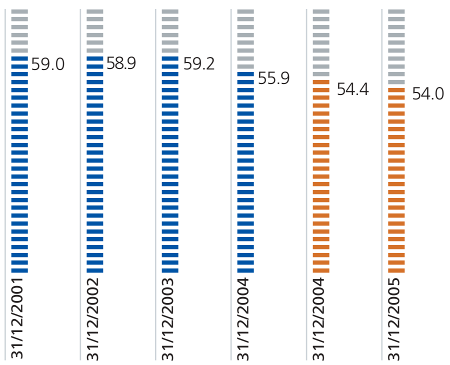
EARNINGS PER SHARE (UNDILUTED)
(in EUR)



RETURN ON EQUITY (ROE)
(in %)



COST-INCOME RATIO
(in %)



24,418 members [(1)] of staff, of which:

15,275 in Belgium,
2,516 in France,
3,249 in Luxembourg,
3,378 internationally.

(1) As of December 31, 2005.

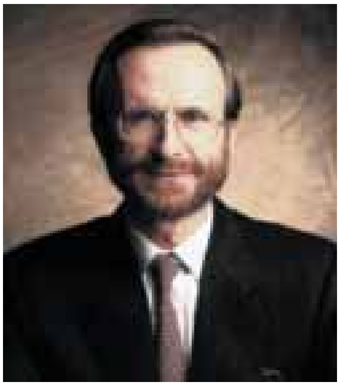
RATINGS (LONG TERM) [(2)]

	Dexia Bank	Dexia Crédit Local	Dexia BIL	Financial Security Assurance	Dexia Municipal Agency
Moody's	Aa2	Aa2	Aa2	Aaa	Aaa
Standard & Poor's	AA	AA	AA	AAA	AAA
Fitch	AA+	AA+	AA+	AAA	AAA

Dexia is one of the financial institutions with the best ratings in the world as the main entities within the Group are rated AA or AAA.

(2) As of December 31, 2005.

Message from the **Chairmen**



PIERRE RICHARD,
Chairman of the Board of Directors

In 2005, numerous events influenced the world economy and the confidence of its actors. The rise of oil prices in a manner unequalled for several years, aroused fears that a new shock comparable to that felt in the seventies and nineties would have serious consequences on the economies of the principal oil-importing countries. For their part, the terrorist attacks in London, after Madrid, showed that the threat is still there, and that the front line in the battle against this scourge is actually located at the heart of the major Western capitals. Mother Nature also reminded us of her devastating power in the southern part of the United States, provoking human drama, the displacement of entire populations, and the paralysis of activity there for many months.
In this, to say the least, agitated environment growth nonetheless continued: at a good pace in the United States; Asia is not sitting back either, and economic activity accentuated the vigorous awakening of China and India; and in the countries of Western Europe, which saw differing evolutions in terms of growth and of deficits, but which overall saw company results progress, their stock markets continuing to perform well.

In 2005, Dexia continued to make good progress on all fronts. Business turnover, both in credit commitments and in customer assets, rose in a noteworthy fashion. This year, earnings per share achieved once again a sharp rise (+14.5%) at EUR 1.87.
The share's performance continued to make progress in 2005, with a rise of more than 15% over the year, on top of the 24% increase achieved in 2004. So, in two years, the Dexia share has increased in value by almost 40%, or twelve points better than the Eurostoxx 50 index (which rose +28%), nine more than the CAC 40 index (+31%), and three more than the Eurostoxx Banks index (+37%). We would recall, moreover, that the dividend per share given by Dexia in 2005 for the financial year 2004 was an increase of 17% over the previous year. The Board of Directors will propose to the shareholders' meeting on May 10, 2006 to distribute a dividend which is up 14.5% over 2005, at EUR 0.71 per share. Thus the essential objective of value creation undertaken by the Management Board and the Board of Directors of Dexia has been broadly achieved. After an existence of less than a decade, since November 1996, the Total Shareholder Return

(stock market performance increased by dividends reinvested) was 357%, or an annual average performance of 15%, well above that of the principal indices over the same period. This remarkable performance is the fruit borne by the excellence of our teams, well able to give our customers the very best quality of service and to energetically conquer new markets.
The year 2006 marks an important stage in the life of Dexia, with the baton passed in the two management bodies of the Group, the Board of Directors and the Management Board. The mandate of François Narmon came to an end, and I took the Chair of the Board of Directors, passing the baton to Axel Miller, new Chief Executive Officer, Chairman of the Management Board.
I would like to pay a very sincere homage, on my own behalf and that of all my colleagues, to François Narmon. With him I shared the honor and the thrill of having conceived and constructed the Dexia Group over the course of the last nine years. With him I share the pride of having run a Group which has quadrupled its earnings over that period, and which today has a presence in thirty countries around the world, and which enjoys its renown as world leader in providing financial services to the local public sector. He receives our heartfelt gratitude.

The year 2006 will evolve under the banner of corporate governance, in particular with the application of the Lippens Code. In order to transpose the provisions of that Code in the best possible manner to governance at Dexia, in 2005 the Dexia Board of Directors established an ad hoc committee charged with revising the internal rules of the Board of Directors. In particular that committee studied the role of the Board of Directors and the Chairman of the Board, the rights and obligations of directors and shareholder relations. That reflection led at the end of 2005 to the publication of the Corporate Governance Charter.
As Chairman of the Board of Directors, I will provide support and advice to management and facilitate corporate governance according to best practices. I will ensure that our Board of Directors is in a position to give the added value it is able to provide through the variety of its composition and the talents of each of its members. Finally, I will do all I can to strengthen relations even further with all our shareholders.

"Dexia continued to make good progress on all fronts. Business turnover, both in credit commitments and in customer assets, rose in a noteworthy fashion."

Message from the **Chairmen**

AXEL MILLER,
Chief Executive Officer

2005 was again a year of excellent achievement for Dexia. In all areas of activity, the Group succeeded in increasing its new business, its income and its earnings. Costs remained under good control overall, despite the fact that many international developments were undertaken during the year, and that a number of closures and divestitures took place, aimed at refocusing the Group on its core businesses.
Activity in Public/Project Finance was particularly buoyant in 2005, with credit commitments jumping 25%, and net par outstanding insured by FSA going up 8% in one year. In an environment of margin squeeze, net underlying income went up 14%, and with a ROEE in excess of 22%, the business line continued to deliver a very high profitability. Similarly, Personal Financial Services achieved, this year again, a very good commercial performance, with customer assets growing by almost 8%, and loans by more than 11%. Net underlying income went up above 13% in the business line, as a result of a robust revenue growth and a well-contained cost progression. In the other business segments, results have been equally good: net underlying income was up almost 29% in Investment Management and Insurance Services, and more than 15% in Treasury and Financial Markets.
All these good underlying performances combined with a number of one-offs during the year to create a very healthy bottom line income exceeding EUR 2 billion post tax, 11.9% above the very good performance of the previous year. Furthermore, given the very high level of share buybacks made in 2005 (nearly EUR 600 million), earnings per share rose by 14.5%, coming after the record +28% of the previous year.
Looking back, this performance is very impressive, when one remembers that in 1996 the combined net income of Dexia France and Dexia Belgium was EUR 481 million, whilst their capital resources were quite substantial compared to the size of their balance sheets, the Group's Tier 1 ratio then standing at above 12%.
This success must be recalled not only to praise the two leaders, François Narmon and Pierre Richard who, in their respective roles, ran the Group until 2005, and to express all due gratitude to the staff who made this happen. This must also be done because it helps us look into the future of Dexia and to address its forthcoming challenges.
Firstly, Dexia's success clearly stems from a vision: that of creating a global player in public finance, diversifying its geographic spread, and enhancing its product offer. This has made Dexia a unique player in the universe of public finance, when compared to its various local or global competitors. In less than ten years, Dexia managed to generate one billion euros of net underlying income in Public/Project Finance, and more than half of it originated outside the domestic base of France and Belgium. Net income has continued to grow despite fiercer competition; the business book has grown to a very substantial level, and these assets in store grant future revenue streams for many years to come.
Secondly, the foundations of the more classical banking activities have been reinforced commercially, and the business was made

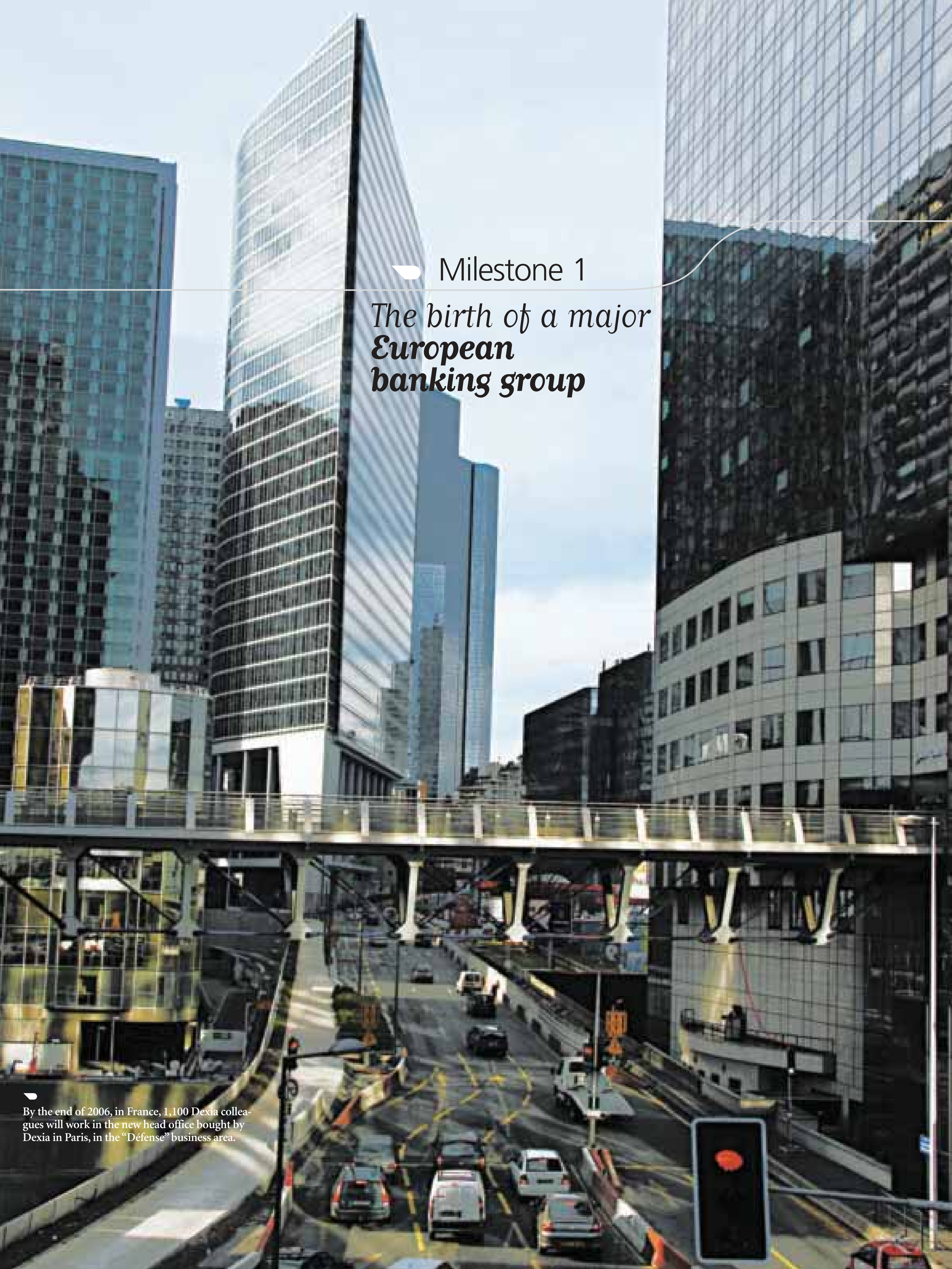
more efficient over past years. Today Dexia holds a strong position among the leading banks in Belgium and Luxembourg. Having established its brand with more than four million retail, affluent and private customers, and having streamlined its networks and operations, Dexia has secured regular streams of earnings for the future, gathered reliable funding resources, and strengthened its franchise.

Thirdly, at the same time a number of specialist activities were set and developed within the Group, which brought their support to the franchise of Dexia in its two principal markets, and generated scale and earnings: asset management is now a sizeable and very successful activity, and so is insurance. Fund administration is now part of a leading global franchise under RBC Dexia Investor Services. Finally, in the financial markets, Dexia stands as a very large and well-rated counterpart, given the scope and sophistication of its product offer, the size of its balance sheet and the quality of its signature.

Looking ahead, it is obvious that Dexia must set a far-reaching vision whilst keeping its eyes "on the ball" and delivering performance in the short run. In the first days of January, a new strategic planning exercise has started, with a triple time horizon. The plan will look three years forward, as was the case previously, to set financial objectives for our various lines of business; it will also look five years ahead, so as to earmark the position sought by Dexia in the markets or regions strategically targeted; finally, the plan will also include a ten-year horizon, because local public needs and infrastructures are a long-term matter, requiring anticipation and careful preparation, without which the Group would not be able to move in the right place, at the right time, in the right way.

As the new CEO of Dexia, for me this is a thrilling challenge, because one can see the opportunities that exist worldwide in this domain. All of the Dexia staff are ready to embark on this challenge and to work hard at it, because there are tremendous assets in the Group to make it succeed, as it did during the first nine years of its existence. The knowledge that Dexia has developed to date and is able to export to new territories is superior. The needs for public infrastructure creation or enhancement worldwide are immense. Dexia can expand its franchise in mature markets as well as in emerging countries. Its initiatives can take the form of wholly-owned subsidiaries or joint ventures with powerful local institutions. The modes of provision of financial services can be traditional or highly sophisticated: traditional lending, project financing, public/private initiatives and disintermediated solutions can be applied, because Dexia has all the tools and expertise, in house, to handle all of these techniques. Similarly, Dexia's initiatives can be in the form of specialist/wholesale units, but they can also imply fully-fledged retail banking activities when the paradigm in the targeted market commands it. This great array of possibilities makes the strength of Dexia and gives it a unique opportunity to continue broadening its client base, improving the spread of its business portfolio, increasing its earnings, and in the end delivering more and more value to its shareholders in the many years to come.

"2005 was again a year of excellent achievement for Dexia. In all areas of activity, the Group succeeded in increasing its new business, its income and its earnings."



Milestone 1

The birth of a major ***European banking group***

By the end of 2006, in France, 1,100 Dexia colleagues will work in the new head office bought by Dexia in Paris, in the "Défense" business area.

In October 1996, Dexia was born of the merger of Crédit Communal de Belgique and Crédit local de France. That cross-border marriage between two banks, the first of its kind in Europe, brought together two establishments built on very different industrial models. Crédit Communal de Belgique (CCB), created in 1860 to finance the local public sector, had become an all-round bank over time by deploying a network in Belgium for the gathering of deposits. For its part, Crédit local de France (CLF), former subsidiary of the Caisse des dépôts et consignations which was privatized in 1987, had a single business line, providing local public finance. Those two operators were of medium size, compared at the time to other major European banks, but faced the same challenge: uncontested leaders in public sector financing in their respective countries, their only hope for growth was in increasing their domestic market to take on a European scale. Rather than entering into direct competition, anticipating the emergence of the euro and a single financial market, CCB and CLF decided to join forces. For Dexia, the history of this first decade can now be viewed as a development of that founding strategic choice: those ten years have given the opportunity to build a genuine European banking group. It is a "group" because it is integrated, and not just a collection of entities and business lines. It is a "banking" group because today Dexia has all the attributes of a major bank of international dimensions. It is "European" because multiculturalism is at the very heart of the identity of this enterprise, now well on the way to confirming its global ambitions.

In Belgium, the building of the new Dexia tower is nearing the end. In September, about 4,500 colleagues will be working there.

Group organization

Dexia was born in 1996 from Europe's first cross-border union in the banking sector, between Crédit Communal de Belgique and Crédit local de France. This initiative anticipated the emergence of a single currency and financial area in Europe. At first, the two entities were placed under the joint and equal control of two holding companies, one in Brussels and the other in Paris. In 1999, the Group was unified following the merger of the two holding companies, to form Dexia SA, a company under Belgian Law with its registered office in Brussels. Dexia SA is listed on the Euronext markets in Paris and Brussels and is part of the CAC 40 and BEL20 indices.

At the time of its unification in 1999, Dexia was given an organization controlled by a Management Board, itself chaired by the Chief Executive Officer and composed of a total of seven members, among which three were in charge both of a business line and an operating entity. That organization remained until the end of 2005, and was recast when the new Chief Executive Officer took office on January 1, 2006. That reorganization, described below, was conceived so that Dexia might operate in an even more integrated, rapid and effective manner than before, in order to take account of an environment presenting new challenges every day. Furthermore, in terms of governance, a Corporate Governance Charter was drawn up and put in place in 2005.

From left to right:
Xavier de Walque, Jacques Guerber, Rembert von Lowis, Dirk Bruneel and Axel Miller.

The operational management of the Group is currently organized as follows:

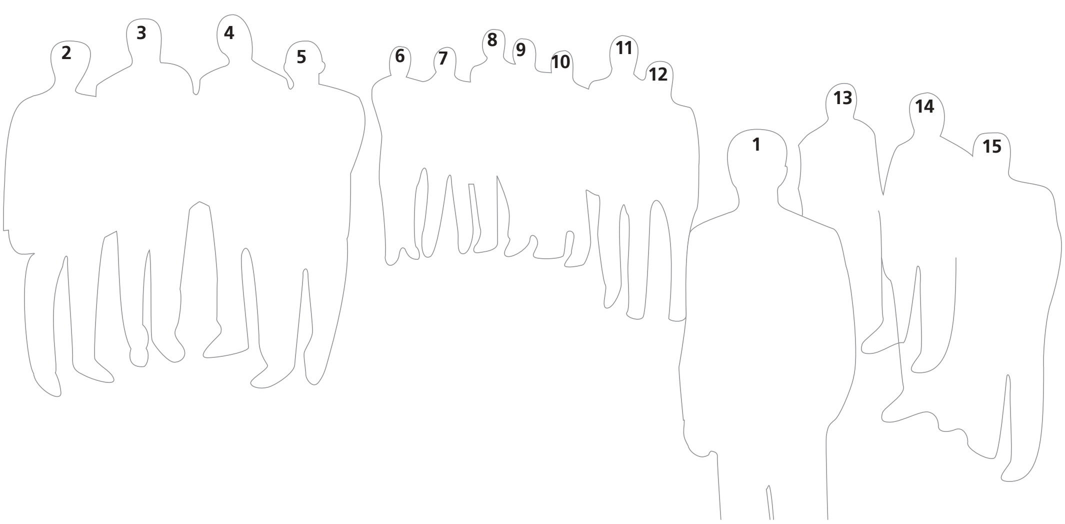
- The general management body at Dexia is the **Group Management Board**, composed of five members. It is chaired by ***Axel Miller***, Chief Executive Officer; the other members are ***Jacques Guerber***, Vice Chairman, ***Dirk Bruneel***, ***Rembert von Lowis*** and ***Xavier de Walque***. The mission of the Management Board consists in steering the Dexia Group and to define its strategy, to face the challenges and develop human resources. Furthermore, in order to allow a quick decision-making process, four out of the five members of the Group Management Board are members of the Management Boards of the Group's major entities. Together with the head of the entity, they form the top management body of each entity.

"That reorganization was conceived so that Dexia might operate in an even more integrated, rapid and effective manner…"

- The **Group Executive Committee**, which deals with the central steering of the entire Group, consists of the five members of the Group Management Board, plus seven **Executive Vice Presidents** in charge of the business lines and the principal horizontal functions: Public Finance, under the charge of ***Bruno Deletré***; Personal Financial Services (to be appointed); Treasury and Financial Markets, under the charge of ***Alain Delouis***; Finance (to be appointed); Risk Management, under the charge of ***Claude Piret***; Operations and IT, under the charge of ***Marc Huybrechts***; Human Resources, Communications & Culture, under the charge of ***Bernard-Franck Guidoni-Tarissi***.
- Each of the **management bodies of the three main operating entities** of the Group (Management Boards of Dexia Crédit Local, Dexia Bank and Dexia BIL) is composed of five members: ***Axel Miller*** and ***Jacques Guerber***, two other members of the Group Management Board, and finally the Chairman of the management organ of the operating entity concerned: respectively ***Gérard Bayol*** for Dexia Crédit Local, ***Stefaan Decraene*** for Dexia Bank, and ***Marc Hoffmann*** for Dexia BIL.
- Moreover, ***Hugo Lasat***, Chairman of the Management Board of Dexia Asset Management, ***Guy Roelandt***, Chairman of the Management Board of Dexia Insurance Services and ***Marc Hoffmann***, in his capacity of Chairman of RBC Dexia Investor Services, also report directly to the Group Management Board.
- Finally, those in charge at Group level of Strategy and Development (***Stéphane Vermeire***), Investor Relations (***Robert Boublil***), Audit (***Véronique Thirion***), Compliance (***Jean-Noël Lequeue***) and General Secretariat – Legal and Tax (***Olivier Van Herstraeten***), report directly to the Chief Executive Officer.

The cohesion of the decision-making and management process of the Group is thus ensured by the majority presence of members of the Group Management Board within the management bodies of the operating entities and by the existence of seven Group divisions charged with monitoring the business lines and the major horizontal functions.

1 Axel Miller – **2** Xavier de Walque – **3** Jacques Guerber – **4** Rembert von Lowis – **5** Dirk Bruneel – **6** Bernard-Franck Guidoni-Tarissi – **7** Alain Delouis – **8** Bruno Deletré – **9** Claude Piret – **10** Marc Huybrechts – **11** Stefaan Decraene – **12** Gérard Bayol – **13** Marc Hoffmann – **14** Hugo Lasat – **15** Guy Roelandt



Activity portfolio Business model **Strategy**

The alliance between Crédit local de France and Crédit Communal de Belgique in 1996 aimed at creating a European Bank with, inter alia, the ambition to become the world leader in public finance. By pooling the respective domestic leaderships, Dexia was able to develop a strategy of international expansion based on the strengths of the two founding institutions.

Those shared the same high financial standing and values, and brought to the union their two different business models: Crédit local de France – later renamed Dexia Crédit Local, was essentially an originator of long-term credit facilities, raising its funding almost exclusively on the bond markets; symmetrically, Crédit Communal de Belgique – later renamed Dexia Bank Belgium – was a network of local branches collecting retail deposits from private individuals, and recycling the majority of them in the form of loans to municipalities.

Following the merger, Dexia has thus become one of the fifteen largest banks in the euro zone (by market capitalization), and today it addresses two main markets:

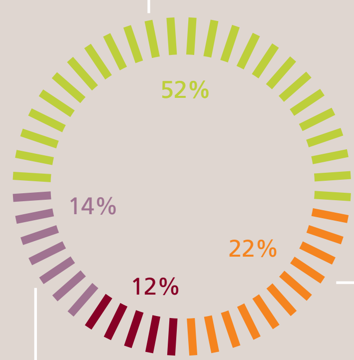
- local public authorities and borrowers with a similar profile (hospitals, schools, social housing institutions, charities, etc.), an activity conducted on a global scale;
- households and small and medium-sized enterprises, an activity conducted mostly in Belgium and Luxembourg.

The alliance has met and even exceeded its initial ambitions. The two founding institutions have been able to expand their activities in several directions: the product offer is now wide-ranging in the two markets that are served; the client base has been strongly developed both in number and types; lastly, the geographic scope of the Group is now much broader, with a presence in 30 countries. Today, Dexia counts among the very rare banking institutions which hold global leadership in one specific business (Public/Project Finance) whilst being a strong local retail player in Belgium and Luxembourg, giving it a unique spread in terms of portfolio mix and geographic contributions to earnings.

After less than a decade in existence, Dexia has not only increased its size – net income and market capitalization quadrupled since inception – but it has also built a renowned worldwide franchise in the area of public finance, a very strong regional presence in personal financial services, and established its name on the financial markets.

- In the Public/Project Finance arena, Dexia can today engineer and execute all forms of transactions: long and short-term credit facilities, ranging from the traditional to the more sophisticated schemes; debt management services; credit enhancement of municipal bonds and asset-backed securities; arrangement and underwriting of infrastructure projects. As an illustration of the latter capability, Dexia now belongs to the "top-ten" worldwide league of project finance players compiled by *Euromoney* for

BUSINESS PORTFOLIO – SEGMENT CONTRIBUTIONS TO UNDERLYING NET INCOME GROUP SHARE*



Public/Project Finance & Credit Enhancement

United States	34%
France	26%
Belgium	20%
Other	20%

Personal Financial Services

Belgium	60%
Luxembourg	26%
France	11%
Other	3%

Investment Management and Insurance Services

Asset Management	34%
Insurance	38%
Fund Services	28%

Treasury and Financial Markets

* Excluding non-operating items and central assets.

2005. Dexia is in the sixth highest position among the mandated arrangers of Global Project Finance loans, and in first position among the mandated arrangers of Global "Public/Private" Project finance loans (PPP).

- In terms of international development, Dexia's presence has been dramatically enlarged, to a large extent in the United States following the acquisition of FSA in 2000, and also through several moves in European countries, and more recently in Canada, Mexico and Japan. The Group has constructed its presence in various ways, either through branches, wholly-owned subsidiaries or joint ventures.
- In Personal Financial Services, Dexia Bank is today one of the four largest universal banks in Belgium, as is Dexia BIL in Luxembourg, with significant market shares in asset-gathering activities – particularly with affluent and private banking customers – and increasing activity in lending products.
- In the financial markets, the marriage of the two institutions has given Dexia a considerably greater visibility: the Group is one of the largest private issuers of long-term bonds and one of the very large counterparts in interest rate derivatives. The growing sophistication of the products offered to clients has developed a substantial business flow and revenue base for the Group.
- Initially established to support the commercial efforts of Dexia in its two main markets, some specialist subsidiaries have been successfully developed in the areas of Asset Management and Insurance Services. Their products show good performances and are sold both in the proprietary distribution networks of the Group and through third party channels. In the area of fund administration, Dexia has constructed a strong franchise in Europe which has recently been brought to a joint venture with the Royal Bank of Canada to form RBC Dexia Investor Services. This young company holds a very high position among global institutions offering custodian and fund administration services.

The **Dexia business model** is today much like that of its European peers, with a spread of contributions from retail networks, institutional clientele, and the capital markets and specialist activities. Being a bank, Dexia works on the strengths of its four million client base in Belgium and Luxembourg and enjoys a good market share owing to its "state of the art" products and services.
But Dexia is also a unique player in the financial services industry, because it is the world leader in Public/Project Finance. In this area, its business model is in fact a combination of several business models: it can be a "retail" approach – as in Belgium, where the complete range of services is offered to local authorities – it can also be a "wholesale/investment banking" approach – as executed in France, Italy or the United States – where only some products or services, with high added value, are offered to selected segments of the market. This capacity to execute the business in different ways has given Dexia a major competitive advantage in the deployment of its international strategy.
For instance, Dexia has established successfully in Spain and Austria by establishing a joint, highly specialized, public finance subsidiary with a local retail bank which operates on the local market. In other cases, following an acquisition, Dexia wholly or partly owns a company conducting specialist activities (e.g. Dexia Crediop in Italy; FSA, a US major in the credit enhancement of municipal bonds; or Dexia Kommunalbank Deutschland – formerly Dexia Hypothekenbank Berlin

–, a holder and manager of German public authority funding instruments). Lastly, Dexia may own and directly operate a fully-fledged "bank of the municipalities", such as Dexia Banka in Slovakia, which operates a similar business model to that of Dexia Bank in Belgium.
Not only has Dexia all the means to deploy its strategy by applying the right business model in the right place, but its established experience in public finance has also allowed it, in many countries, to transform a "demand-side" market – where the products are quasi-commodities and where winning a transaction is only a matter of price – into a "supply-side" market where public finance customers are willing to discuss not only a single piece of new debt, but also all possible solutions to their overall financial and risk management needs.

Dexia is organized in **business segments**, managed as profit centers for strategy, marketing, budgeting and reporting purposes.

• **Public/Project Finance and Credit Enhancement** covers the activities of Municipal Finance, Project Finance, Credit Enhancement and Corporate Lending. Municipal Finance consists of financing the needs of local public authorities or other public service organizations, in the form of direct loans, signed commitments, liquidity guarantees or the purchase of securities issued by the customers. Dexia offers its clients an entire range of products – including structured loans as well as debt management – to optimize their debt portfolio profile and efficiency. As indicated above, Dexia is also an active player in Project Finance and deploys its expertise on a global scale. It uses a selective approach, in line with the Group's risk policy: priority is given to essential infrastructures (transportation, environment and so on) and the renewable energy sector. Being one of the largest banks in Belgium, Dexia also supplies finance to corporate borrowers.
Through its New York based AAA-rated subsidiary, Financial Security Assurance (FSA), Dexia insures municipal bonds and infrastructure deals, as well as asset-backed securities (ABS) mainly in pooled corporate, consumer loans and mortgage sectors.

• **Personal Financial Services**. The strategic focus of this segment is the distribution of its own products and services as well as those created in other business lines of the Group (primarily Dexia Asset Management, Dexia Insurance Services and Treasury and Financial Markets – TFM), to a clientele predominantly composed of households, which includes affluent and high net worth individuals, professionals and self-employed individuals, as well as small and medium-sized companies. The largest part of the activity is conducted in Belgium and Luxembourg, where a broad and comprehensive distribution apparatus exists. The networks, as they now stand, stem from the integration of the Dexia Bank network and the BACOB/Artesia network acquired in 2001. The scaling down objective set at that time for 2005 has been exceeded, and the network now amounts to 833 branches operated by independent agents, and 236 branches run by bank employees. The integration of Artesia BC aimed at achieving substantial cost synergies, and this has been achieved and even exceeded.

The business line also operates units outside Belgium and Luxembourg. These involve various types of approaches and/or product focus. The main areas are:
- **France** where the Group holds a 20% participation in Crédit du Nord, Dexia Banque Privée France – a wholly-owned private bank –, and Dexia Epargne Pension, a specialized life insurance business;
- **Switzerland** through Dexia Private Bank Switzerland;
- **Slovakia** through Dexia banka Slovensko, a bank with 52 branches, which caters both to the local public clients and to the personal sector;
- **Spain**, where Dexia holds a 40% participation in Popular Banca Privada, a private banking joint venture with Banco Popular.

• **Treasury and Financial Markets (TFM)**, is a segment whose mission is largely aimed at giving support to the other business lines of the Group, and which is run as a profit center in its own right.
TFM provides short-term money market products and long-term funding for the Group supporting the growth of the Group's balance sheet.
TFM teams also develop, through permanent innovation, the offer of a large range of capital market products (fixed income, structured products based on interest rates and equity derivatives, foreign exchange, securitization) to the customers of the commercial business lines (local authorities, corporates, retail and private clients, institutional investors, fund managers and so on).
Finally, TFM manages a bond portfolio (Credit Spread Portfolio), which contributes to ensuring a high level of liquidity for the Group and brings a sizeable part of the business line's earnings.

• **Asset Management.** Dexia has successfully developed its own production capacity. In the first place this has related to mutual funds, considering the retail networks' growing demand for this kind of product, with increasing levels of sophistication. This expertise has then been extended to institutional investors, among Dexia's traditional clients – for instance the institutions of the public sector – but also to other institutions such as pension funds, endowments and foundations, via a professional distribution sales force.
Today Dexia Asset Management is the organization where asset management skills are concentrated. It is a significant European player, with three production centers in Belgium, Luxembourg and France, and client coverage in these three countries plus Italy, Spain, Switzerland, Germany, Austria, the United Kingdom, the Scandinavian countries, and in Australia. 2005 has been a year of strong extension in new markets.
Dexia Asset Management manages a complete range of products including equity, fixed-income, money market and diversified funds. The company holds strong positions in specific areas such as alternative investment management and socially responsible investment funds.

Products or mandates are distributed either through the various distribution channels (Retail and Private Banking networks, Public Finance customer base), through third party networks, or via its own pan-European sales force. Over one third of the business comes from institutional mandates.
Dexia Asset Management's main objective is to keep delivering outstanding performances in its product range (79% of Dexia Asset Management's products are in the first two quartiles of sector peer group classification by Standard and Poor's in the last three years), whilst achieving superior productivity (one of the best in Europe), through a strict control of operating costs. Dexia Asset Management will continue to leverage on the Group's distribution networks, retail and private clients, public finance institutions, and will continue successfully to develop its activity towards institutional clients.

• **Insurance activities** occupy an important place in Dexia's business portfolio, with approximately 7.5% contribution to total revenues (excluding the business of FSA and Dexia Sofaxis, which are reported separately, within the Public/Project Finance business line, due to their specific nature).
Insurance business is originated throughout the entire commercial organization, but mostly in Personal Financial Services (72% of the total premium amount collected), and the balance of premiums are collected among the institutional clients of the Public/Project Finance business line (17%), and from third party networks which distribute the products of Dexia among their own clients (11%); this latter part of the commercial production is reported in the Investment Management and Insurance Services (IMIS) segment. IMIS is also the business line where the operational (administration, back office, IT), financial, and statutory management of the insurance company units is conducted.
Within Dexia, insurance activity is largely a life business (89% of the total premiums collected in 2005). Geographically, the majority of the premiums are collected in Belgium (70%), and the balance comes essentially from France (essentially under the brand of "Dexia Epargne Pension"), and Luxembourg (essentially via "Dexia Life & Pensions").

• **Fund Administration**. This business encompasses the custody and other administrative tasks relating to securities and funds. Dexia offers three types of service: custody and related services, central administration (book-keeping of the funds, legal work, providing periodic valuations and so on), and transfer agent services (keeping registers and managing subscriptions and redemptions of fund shares).
Dexia has long been a leading player in this industry in Europe owing to its premier position in the Luxembourg market, which is the second largest in Europe. Over the years, Dexia has developed a renowned expertise in the central administration and transfer agent businesses and is now a European leader in these two activities. Dexia has developed outside Luxembourg and now operates in many other European countries. In 2005, a joint venture was concluded – and has started operating in January 2006 – with Royal Bank of Canada to establish one of the first global players in this area. The jointly-owned company, RBC Dexia Investor Services, occupies the tenth highest position among global custodians with nearly USD 2 trillion under custody.

Milestone 2

The Dexia share, ***sustainable performance***

There are several ways to measure the creation of value. Whatever mode of calculation is chosen, the performance of the Dexia share over the past decade places it at the head of the European pack. Since 1996, the growth of net earnings per share has been 12.3% per annum on average. For its part, the annual increase of dividend per share has reached 11.6%. Over the same period, in terms of total shareholder return (TSR), the Dexia share has performed better than the evolution of the European indices BEL20, CAC 40 and Eurostoxx Banks, of which it has become one of the reference shares. These great results are the fruit of an ambitious policy which links growth and profitability. In its principal business line, the bank has the benefit both of good stability of assets and very low risk, guarantees of long-term future visibility. Finally, the Group combines world competence and an unequalled capacity to adapt in each country to local market conditions. All those fundamentals make the Dexia share one of sustainable growth!

Share and shareholders

The **Dexia** share

Dexia shares are traded on Euronext Paris and Euronext Brussels as well as on the Luxembourg stock exchange. They occupy a strong position in the principal European indices.
Dexia was taken up in the following four main European indices managed on the basis of socially responsible investment (SRI) principles:

- Dow Jones Sustainability Index "World";
- ASPI Eurozone;
- FTSE4 Good "Europe" et "Global";
- Ethibel Sustainability Index (ESI) "Europe" and "Global".

Shareholding structure

Dexia SA directly or indirectly held 1.85 % of its own shares as at December 31, 2005. The employees of the Dexia Group held 4.82 % of the company shares.
At the same date, and to the company's knowledge, no individual shareholder, with the exception of Arcofin, Holding Communal, Caisse des dépôts et consignations and Ethias, held more than 3% of Dexia SA's capital.
In addition, the directors of Dexia SA held 136,315 shares in the company as of December 31, 2005.

Another year of progress

2005 was an excellent stock market year on the euro zone markets. Indeed, although the American indices only evolved slightly, in contrast the indices of performance of the old continent were particularly brilliant.
The other noteworthy feature of the year appears in the fact that it was not technology shares which "drove" the market upwards, but oil (as a consequence of the rise of crude prices), insurance and banking shares and public service operators. In this regard, the performance in 2005 of shares in the EuroStoxx 50 was pleasing since it was practically only the telecom shares which recorded negative performances.

On the banking side, the best performances came from German shares which have now fully recovered and which also benefited from the Unicredito-HVB transaction. Commerzbank thus progressed 71.6%, HVB Group 53.4%, Deutsche Bank 25.4%; only one share in the EuroStoxx Banks posted a negative performance.
As for the Stoxx Banks index which slightly underperformed the EuroStoxx Banks (21.2% against 26.5%), note should be taken of the

performance, again very average, of British banks which had already underperformed the market in 2004.
It was another year of progress for Dexia which, after a 24% rise in 2004, again rose 15% in 2005. After having outperformed the EuroStoxx Banks index over the first half-year 2005, a trend reversal occured from the first speculative movements on German banks (HVB Group but also Commerzbank) which added momentum to the EuroStoxx Banks in a spectacular manner to the end of the year (+18.5% from July 7 until year-end 2005). From the end of October until the end of the year, the progress made by Dexia was approximately correlated to that of the market, recording a significant peak in the second fortnight of December (+5%), in a week which is traditionally calm.

Closing the year at EUR 19.49 in Paris and EUR 19.48 in Brussels, Dexia had therefore gained 15.1% in 2005, establishing new historical highs in a session at EUR 19.78 and closing at EUR 19.73.
Finally, over two years, the net performance of Dexia (with dividend reinvested) was 53% against 47.8% for the EuroStoxx Banks. Over the same period that performance was at top level among European indices.

DEXIA'S POSITION IN THE PRINCIPAL EUROPEAN INDICES

Index	Weighting in index (1)	Position	Number of companies
BEL20	13.05%	4	20
CAC 40	1.43%	23	40
Euronext 100	1.21%	25	99
Next CAC 70	0.89%	25	69
FTSE Eurotop 100	0.38%	86	106
FTSEurofirst 80	0.71%	49	80
Dow Jones EuroStoxx Banks	1.68%	17	47
MSCI Europe Banks	1.12%	22	44

MAIN SHAREHOLDERS OF DEXIA (1)

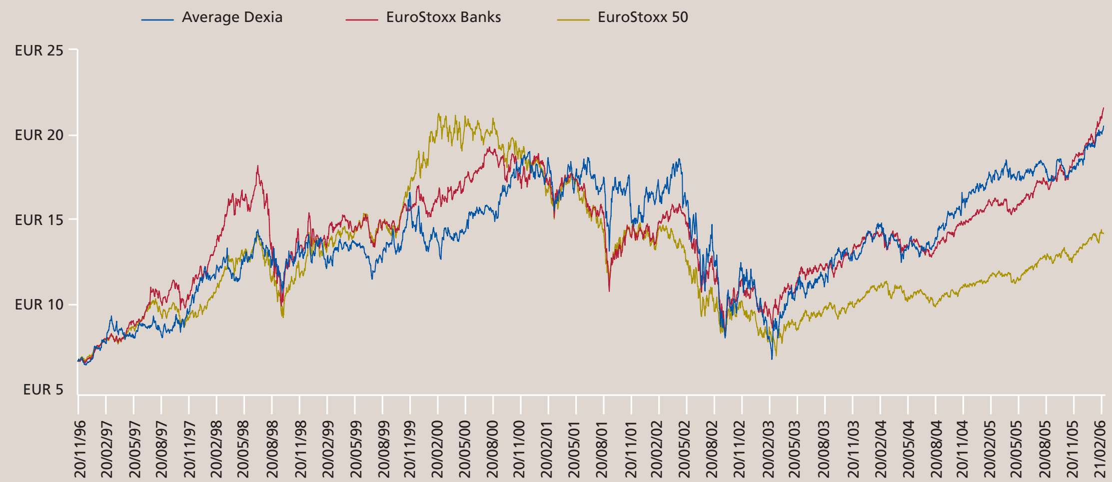
Name of shareholder	Percentage of Dexia SA capital held
Arcofin	16.56%
Holding Communal	16.22%
Caisse des dépôts et consignations	8.89%
Groupe Ethias	6.81%
CNP Assurances	1.86%

STOCK EXCHANGE DATA

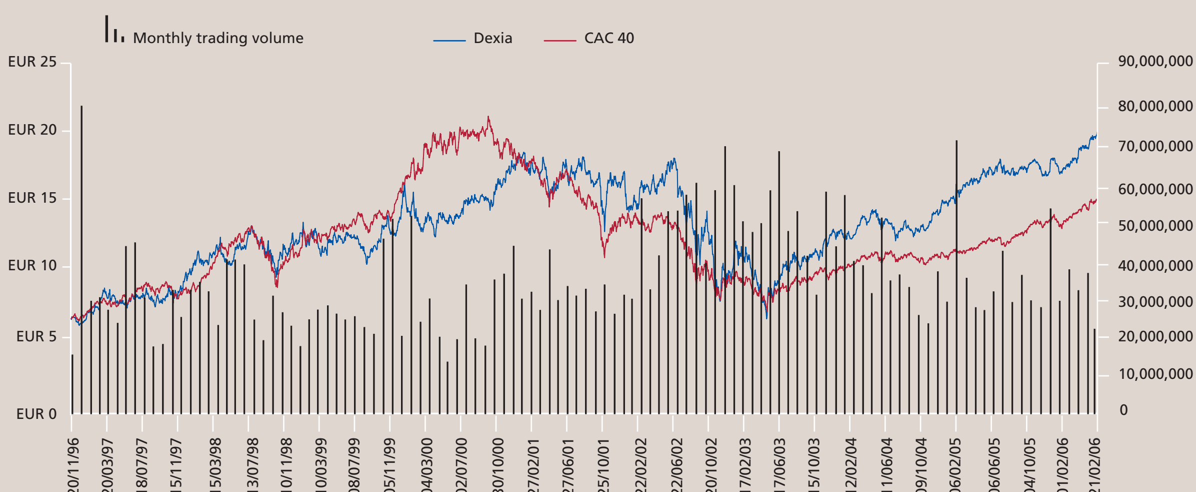
	As of December 31, 2004	As of December 31, 2005
Share price (2) (in EUR)	16.93	19.49
Market capitalization (in millions of EUR)	19,384	21,579

(1) As of December 31, 2005.
(2) Average closing price on Euronext Brussels and Euronext Paris.

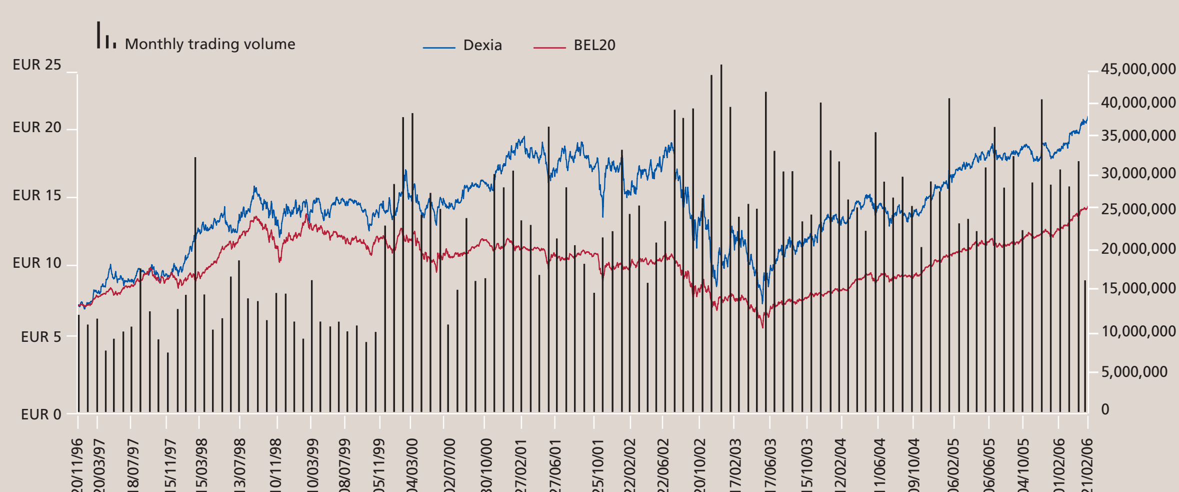
DEXIA'S STOCK MARKET PERFORMANCE (FROM NOVEMBER 1996 TO END FEBRUARY 2006)



DEXIA'S STOCK MARKET PERFORMANCE IN PARIS AND TRADING VOLUMES



DEXIA'S STOCK MARKET PERFORMANCE IN BRUSSELS AND TRADING VOLUMES



STOCK EXCHANGE DATA

	Brussels	Paris
Share price as of December 31, 2004 (in EUR)	16.92	16.93
Share price as of December 31, 2005 (in EUR)	19.48	19.49
Highest/lowest price (in EUR)	19.78/16.93	19.77/16.93
Average daily trading volume (in millions of EUR)	24.33	29.59
Number of shares traded daily (in thousands of shares)	1,338	1,628

NUMBER OF SHARES

	As of Dec. 31, 2001	As of Dec. 31, 2002	As of Dec. 31, 2003	As of Dec. 31, 2004	As of Dec. 31, 2005
Number of shares	**1,166,813,164**	**1,181,685,852**	**1,175,222,680**	**1,145,261,366**	**1,107,469,030**
Of which Treasury shares	*11,867,710*	*20,082,005*	*32,546,412*	*40,050,935*	*20,550,020*
Number of options	18,331,214	31,809,349	43,301,416	50,684,800	55,903,030
Total number of current/potential future shares (1)	**1,185,144,378**	**1,213,4950201**	**1,218,524,096**	**1,195,946,166**	**1,163,372,060**

DATA PER SHARE

	2001	2002	2003	2004	2005
Earnings per share (in EUR)					
– basic under Dexia GAAP (2)	1.25	1.13	1.24	1.58	–
– basic under EU GAAP (2)	–	–	–	1.63	1.87
– diluted under EU GAAP (3)	–	–	–	1.62	1.85
Average weighted number of shares (4)					
– basic	1,137,242,884	1,150,867,134	1,157,363,982	1,118,723,767	1,091,316,100
– diluted	–	–	–	1,124,050,279	1,103,413,861
Net assets per share (in EUR) (5)					
– under Dexia GAAP (6)	8.39	8.79	9.25	9.95	–
– related core shareholders' equity (7)	–	–	–	8.87 (9)	9.86
– related to total shareholders' equity (8)	–	–	–	10.32 (9)	12.25
Dividend (in EUR)					
Gross dividend	0.48	0.48	0.53	0.62	0.71 (12)
Net dividend (10)	0.36	0.36	0.40	0.47	0.53 (12)
Net dividend for shares with a VVPR strip (11)	0.41	0.41	0.45	0.53	0.60 (12)

STOCK MARKET RATIOS

	2001	2002	2003	2004	2005
Payout ratio (in %) (13)					
– under Dexia GAAP	39.3	43.0	42.1	38.7	–
– under EU GAAP	–	–	–	37.6	37.9 (14)
Price-earnings ratio (15)	12.9 x	10.4 x	11.0 x	10.7 x	10.4 x
Price to book ratio (16)	1.9 x	1.3 x	1.5 x	1.7 x	2.0 x
Annual yield (in %) (17)	3.0	4.1	3.9	3.7	3.6

(1) For more details refer to "legal information" on *www.dexia.com*.
(2) Ratio between the net income – Group share and the weighted average number of shares.
(3) Ratio between the net income – Group share and the weighted average diluted number of shares.
(4) Excluding shares held in treasury stocks.
(5) Ratio between the shareholders' equity (estimated dividend for the period deducted) and the number of shares at the end of the period (after deduction of treasury shares).
(6) Including GBRR – Group share.
(7) Without AFS, CFH reserve and cumulative translation adjustments.
(8) With AFS, CFH reserve and cumulative translation adjustments.
(9) As of January 1, 2005.
(10) After deduction of a 25% Belgian withholding tax.
(11) After deduction of a 15% Belgian withholding tax for securities with a VVPR strip.
(12) Proposed dividend, the net dividends are rounded up for the purpose of this publication.
(13) Ratio between the total dividend and the net income – Group share.
(14) Based on proposed dividend.
(15) Ratio between the average share price as of December 31 and the earnings per share for the year.
(16) Ratio between the average share price as of December 31 and the net assets per share as of December 31 (related to core shareholders' equity for 2005).
(17) Ratio between the gross dividend per share and the average share price as of December 31.

Informing shareholders

High-performance and adapted tools

Since its creation, Dexia has always been attentive to the quality of relations with its shareholders. The Group is constantly focused to respect its commitments in an effort to enhance dialogue and transparency in their regard. Dexia developed with its shareholders a rigorous, regular and interactive information system. This system comprises a shareholder's club, a European advisory board of individual shareholders, meetings in different regions, specific publications, a telephone information service and internet dedicated items with updates in real time.

The European club for individual shareholders

The European club for individual shareholders today has nearly 16,000 members, primarily Belgian and French shareholders. The club's primary purpose is to provide financial information to individual shareholders who wish to keep up to date on Group developments through publications and documents specifically designed for club members. The registration in the shareholders club may be done by phone, email on *www.dexia.com* or from the *www.boursorama.com* site.

Shareholders' information meetings in different regions

Dexia regularly organizes information meetings in different regions to discuss with shareholders the Group's business lines, strategy, results and financial outlook. In 2005, Pierre Richard met with shareholders in Marseille and Strasbourg at events organized in partnership with financial newspapers. Dexia also participates, together with other firms, in meetings organized by the "Fédération française des clubs d'investissement" and the "Cercle de liaison des informateurs financiers en France". It was thus in 2005 that Dexia met numerous shareholders in Montpellier, Lyon, Annecy, Tours and Biarritz.

Every year, Dexia has a stand at the Actionaria shareholder convention in Paris. This event is organized to put Dexia in direct contact with its shareholders.

Information media

Dexia publishes a shareholders' newsletter in French and Dutch three times a year. This publication keeps individual shareholders up to date on developments in the Group, its results and decisions taken at shareholders' meetings. The letters to shareholders are sent to club members and to shareholders who request it and are also available on the internet site.
The edition of the Group's annual report, available in four languages (English, French, Dutch and German), is completed by the publication of a condensed report which is produced in English, French and Dutch.
By the same token, on the occasion of the announcement of the Group's quarterly, semi-annual and annual results, Dexia publishes financial notices in the Belgian, French and English-speaking press.

The internet site

With 49,000 visitors a month against 42,000 in 2004, *www.dexia.com* confirmed in 2005 that it is a major forum for information about the Dexia Group for individual and institutional shareholders as well as for journalists. The site is practical in structure, giving quick access to a wide range of information on the life of the Group, its activities, latest news, a list with prices of all the Group's investment funds and ethical funds, and the Dexia share price. In 2005, its shareholder's section of received almost 35,000 visits, i.e. a 15% increase in visit frequency.
The site provides access to all the Group's main publications such as annual, quarterly and semi-annual reports, as well as press releases, information letters to shareholders, and daily and monthly reports on the share.
Launched in 2004, *Dexia TV*, *Sustainable development live* was very successful with site visitors. In 2005 almost 34,000 of them came on *www.dexia.com* to watch the reports on sustainable development related to environment, economy and social concerns.
Available in English, French, Dutch and the Dexia site is mostly visited by European surfers, mainly from Belgium and France.

The 2004 annual report praised

In October 2005, the Belgian Institute of Statutory Auditors gave Dexia the award of best Sustainable Development Report. And, in February 2006, Dexia was also given the award in France of "Top Com – Corporate Business". These two prizes awarded by juries of finance, press and communication professionals praise the quality and the transparency of the information contained in the annual report, and also its aesthetic value.

Shareholders' meeting

This important time in the life of the company is subject to specific information: in official notices published in *Le Moniteur* in Belgium and in the legal announcement bulletin, the *Balo*, in France; in announcements in major financial newspapers in Belgium and France; with information provided by the toll-free number; in a notice of meeting available in English, French and Dutch that can also be downloaded from the internet. The Ordinary Shareholders' meeting is broadcast live over the internet, thereby enabling shareholders who cannot attend in person to follow the proceedings.

The European Advisory Committee of Individual Shareholders

Formed in June 2001, the European Advisory Committee at Dexia took the baton from the Advisory Committee of Dexia France, created in 1997. This committee, composed of four Belgian shareholders, four French shareholders and three Luxembourg shareholders, plays the role of advisor to the Group in its policy regarding information to individual shareholders. In 2005, the Advisory Committee met twice to consider the Group results and also to be informed on other subjects such as the international development of Dexia in its first business line and the Group policy in matters of sustainable development. Every year, one of its members presents a summary of the committee's activity over the previous year at the Ordinary Shareholders' meeting.

Shareholders' telephone information service

This service can be reached from France at 0800 35 50 00 (toll free), Monday to Friday from 9 a.m. to 7 p.m., and from Belgium at +32 2 213 57 46. It is regularly called by shareholders with all types of questions including the price of the Dexia share, the tax treatment of the share and the dividend, the amount of the dividend, the VVPR strips, and Dexia SA shareholders' meetings.

Relations with institutional shareholders

For Dexia, relations with institutional shareholders have great importance, since this category of investors holds almost 30% of the capital. To that end a team, partly based in Paris and partly in Brussels, is specially charged with ensuring relations with these investors as well as with the analysts of 30 stock market companies following the Dexia share and producing publications and analysis notes.

• Providing regular information

In February 2005, in Paris, the 'Investor Relations' team organized an *Investor Day*, a major meeting of analysts and investors of all nationalities, to provide them with information on the state of progress in moving to the new IFRS accounting standards, and also to present to them the activity and the prospects of the Public/Project Finance and Credit Enhancement business line. This was also an occasion for the management of the Group to present to the market its objectives for the next three years.

During the year, Dexia applied itself to the regular dissemination of strategic and financial information to institutional shareholders and analysts. It is mainly quarterly, semi-annual and annual activity reports, thematic presentations and press releases on business developments, financial results and recent Group events. Once released, this data is available on the company's internet site *www.dexia.com* in the "You are an investor" section. Investors can also request that the information be sent by e-mail.

In 2005, Dexia released 35 publications, including 4 quarterly activity reports, 14 *ad hoc* presentations and 17 press releases.

2006 FINANCIAL CALENDAR

Tuesday May 23	Publication of the results as of March 31, 2006.
Wednesday May 24	2005 dividend payment.
Tuesday September 5	Publication of the results as of June 30, 2006.
Thursday November 16	Publication of the results as of September 30, 2006.

• Relations with institutional shareholders

After every presentation of results or in other circumstances, meetings are organized throughout the world with the principal institutional investors. It is the occasion for each of them to meet members of the Management Board of Dexia directly.
In 2005, Group management, assisted by the Investor Relations team met with 500 investors in 17 countries and 29 cities.

SHAREHOLDERS' CALENDAR IN 2006

Wednesday April 5	**Lille**	Meeting chaired by Axel Miller, in partnership with *Le Journal des finances*
Wednesday April 26	**Brussels**	Meeting of the European Consultative Committee of Individual Shareholders
Wednesday May 10	**Brussels**	Shareholders' meetings
Thursday May 11	**Paris Méridien Étoile 17e**	Meeting chaired by Axel Miller and Pierre Richard in Paris, in partnership with *Investir*
Tuesday June 6	**Rouen**	In partnership with *Investir*
Monday September 11	**Clermont-Ferrand**	In partnership with the FFCI (1)
Thursday September 28	**Chambéry**	In partnership with the FFCI (1)
October	**Paris**	Meeting of the European Consultative Committee of Individual Shareholders
Tuesday October 3	**Nantes**	In partnership with *Investir*
Thursday October 19	**Marseille**	In partnership with *Le Revenu*
Tuesday October 24	**Tours**	In partnership with *Investir*
Tuesday November 7	**La Rochelle**	In partnership with the FFCI (1)
Friday November 27 and Saturday November 28	**Paris Palais des Congrès**	Actionaria Convention
Monday December 4	**Lyon**	In partnership with *Investir*

(1) *Fédération française des clubs d'investissement.*

The 2005 Dexia/TNS Sofres survey

In November 2005, at the Actionaria salon in Paris, in partnership with the survey company TNS Sofres, Dexia published an exclusive barometric study. For the fifth consecutive year, this highlighted the opinions and attitudes of individual shareholders with regard to the stock market and listed companies. On the part of French individual shareholders a clear recovery of confidence, activity and appetite is noted vis-à-vis the stock market and also an intensification of their vigilance on transparency, in particular concerning directors' remuneration and the allocation of profits. Shareholders are extremely sensitive to loyalty actions.

A more positive and more confident view vis-à-vis the stock market, which materializes in a recovery of stock market activity and increase purchase intentions for 2006

• More individual shareholders are active in their portfolio: since the beginning of 2005, 57% of them carried out at least one transaction in their portfolio and 42% over the course of the last quarter 2005.

• Net buyers are increasing: almost one shareholder in two made more purchases than sales. Net buyers are more often major portfolios active or very active on the stock market, or internet users.

• The revival of confidence is confirmed with the profitability of shares: up to 80% of shareholders perceive them as profitable. Today a third of shareholders would invest as a matter of priority in shares and one in five in UCITS if they had a major sum to invest.

• This revival of interest in the stock market is not ousting real property which is still the preferred investment of the French, but marks a slight running out of steam.

• In the short term, the people questioned are optimistic as to the evolution of the CAC 40. 40% think it will rise and 44% think it will remain stable. 30% of shareholders, against 19% in 2002, intend to buy shares in 2006.

The Internet and the Stock Market, a popular tool for active shareholders

• 25% of individual shareholders use the internet these days to manage their share portfolios, against 15% in 2003. This proportion is 41% for shareholders more active on the stock market (at least one transaction in the last quarter 2005).

• Almost 71% of internet-using shareholders pass orders on line. More than one in two seeks information there, or advice on listed companies.

• For these people, gains in time and management costs, as well as independence vis-à-vis the bank are vital.

Relations with listed companies: shareholders demand greater transparency

• The priority for information on financial fundamentals such as economic and financial health, profitability and so on comes first (25%), the prospects of the listed company are just behind (22%).

• Whether letters to shareholders or annual reports, paper is still broadly the support preferred for the dissemination of information (73% against 25% for the internet).

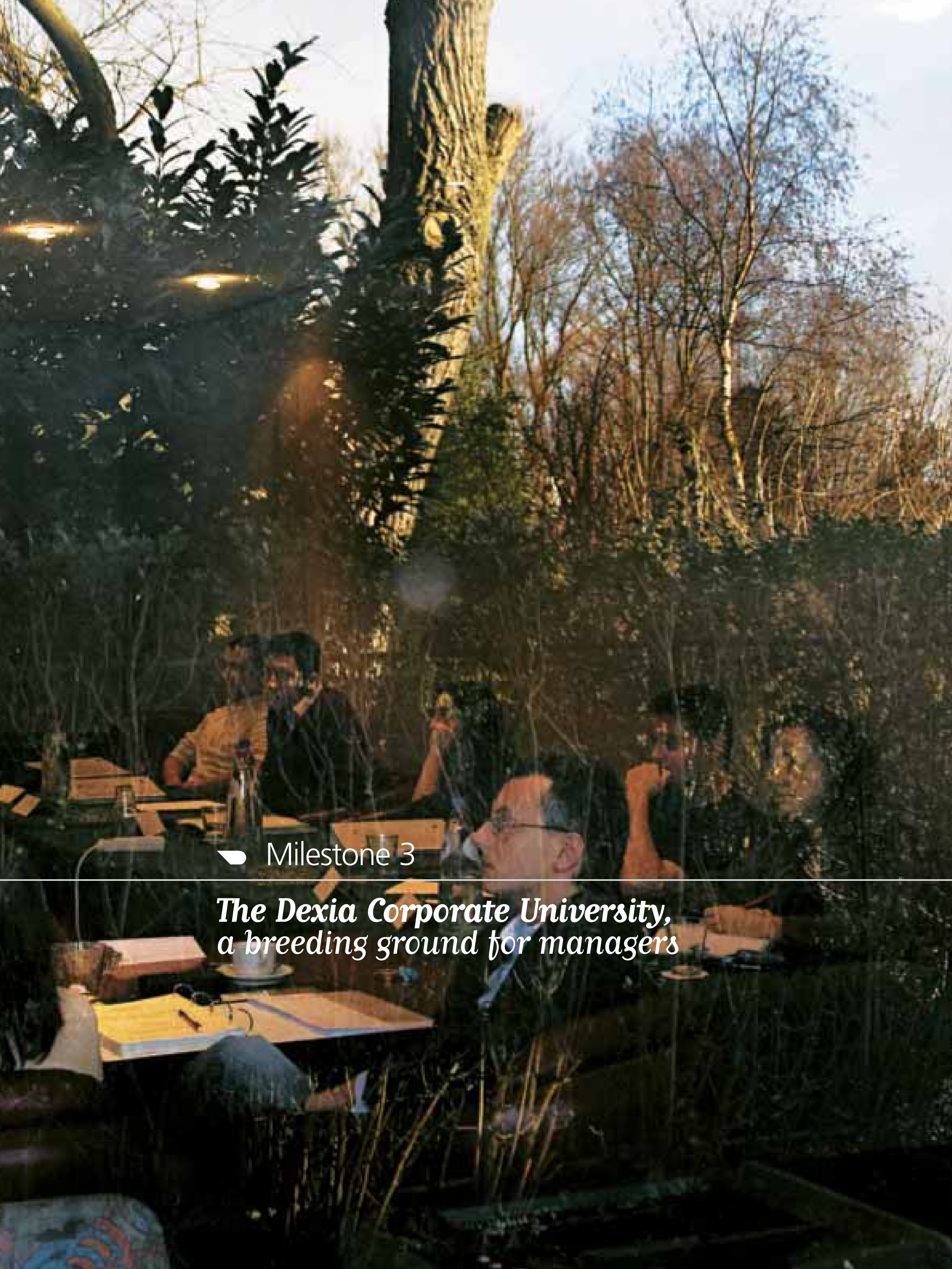
• For shareholder loyalty, the granting of free shares is approved (96%) and the distribution of increased dividends is much expected (77%).

• As regards the allocation of profits: shareholders are divided on the repurchase of shares (50% rather in favor with 43% against). Almost six shareholders in ten prefer a redistribution of company profits in the form of dividends. Nevertheless, a not insignificant proportion (36%) would like them reinvested in the company.

• Greater transparency in corporate governance: although 46% of shareholders think companies have made progress over recent years, 48% think the opposite. For all, this is still the path to be taken, in particular with regard to directors' remuneration.

Ensuring Dexia has the managerial skills necessary to face the challenges of the future is the ambition of the Dexia Corporate University (DCU), officially opened in Brussels on 13 January 2005.

A horizontal project by nature, the Corporate University was conceived and built by representatives of all the Group's companies and business lines. The tool they have put in place is not simply aimed at responding to individual training requirements. Serving the Dexia strategy, the DCU sees itself above all as a crucible, a place of exchange and reflection, a "melting pot" of local cultures which should foster the emergence of a common managerial identity at Group level. Beyond that, it contributes to the development of leadership, that is to say the affirmation of new generations of men and women able to take the company's destiny in their hands, respecting its values and its missions. To that end, there are four principal lines of approach: training programmes with an operational orientation, the drive of a corporate club enlivening the international management community, the publication of a magazine offering economic and financial analyses (the first edition appeared in October 2005), and the organization of a summer university. In 2005, some 700 Dexia executives, from all the countries in which the group is present, took part in the work of the DCU. In 2006, more than 1,000 will occupy its seats.



Milestone 3

The Dexia Corporate University, a breeding ground for managers

Financial results

Preliminary notes to the **financial statements**

Changes in scope of consolidation

The main changes taking place in 2004 concerned Société Monégasque de Banque Privée and the sale of Kempen & Co in the Netherlands. In 2005, Eural Banque d'épargne SA has been sold (effective from the fourth quarter) and Rekord Group, in liquidation, is no longer consolidated. FMS Hoche, a specialist fund-administration company based in France, was acquired in 2005.

EU GAAP

The consolidated financial statements of Dexia are prepared in accordance with all IFRSs as adopted by the EU. The accounting principles and rules are given on page 86 of the Annual Report - Accounts and Reports.

Pro forma financial statements

The changes in scope of consolidation in 2005 were taken into account to establish pro forma financial statements for 2004 so as to enable comparisons. In absolute amounts, the difference between the reported and pro forma 2004 net income – Group share is EUR -3 million (income lower by EUR 23 million and costs lower by EUR 20 million).

"Underlying" and "non-operating" items

Underlying excludes the non-operating items. The non-operating factors comprise both the nonrecurring items as reported until 2004, and from 2005 on the variations of the marked-to-market value of FSA's CDS portfolio. The latter instruments being classified as derivatives, the variation of the market value during the reporting period is taken as a trading result; this treatment under IAS 39 does not allow a good understanding of the economic results, as this portfolio is composed of AAA-rated instruments, which FSA is committed to insure until maturity. Thus, the positive or negative marked-to-market variations on this book in any period are not underlying results, as they will eventually add up to zero. Non-operating items are detailed on pages 44-45 of this report.

Analysis of the **statement of income**

Foreword

2005 results are presented under IFRS as adopted by the EU (EU GAAP), including the IAS 32&39 and IFRS 4 standards. Comparisons with 2004 are not totally relevant since the three standards mentioned above were not in place in 2004. Furthermore, a number of adjustments were made during the fourth quarter 2005 on certain accounting entries of the first three quarters, following more accurate interpretation/application of the new IFRS standards. They are pointed out where appropriate in the commentary below.

Net income – Group share

Net income – Group share amounted to EUR 2,038 million in 2005, up EUR 216 million (+11.9%) over 2004. Some changes took place between the two years in the scope of consolidation, accounting for a small variation in net income (EUR -3 million). The contribution of the non-operating factors was significant this year again (EUR 251 million in 2005, compared to EUR 214 million in 2004 - see below), accounting for EUR 37 million of the increase. Hence, the underlying performance progressed by EUR +181 million, or 11.3% overall, and it was good in all business lines, with progressions of +14.0% in Public/Project Finance and Credit Enhancement, +13.3% in Personal Financial Services, +28.6% in Investment Management and Insurance Services, and +15.4% in Treasury and Financial Markets – see analysis below. Of note, the currency exchange impact on net income was very limited in 2005 (EUR 1 million positive impact).

Income

Total **income** amounted to EUR 5,976 million in 2005, EUR 353 million higher than in 2004 (+6.3%). At constant scope of consolidation, the increase was EUR 377 million (+6.8%) in one year, largely stemming from the growth of underlying revenues in all the business lines: respectively EUR +216 million in Public Finance (+10.6%); EUR +69 million in Personal Financial Services (+3.2%); EUR +71 million in Investment Management and Insurance Services (+11.2%), and EUR +38 million in Treasury and Financial Markets (+8.5%). For the rest, the combined revenues of Central Assets and non-operating items went down EUR 15 million.

This overall revenue growth was however mitigated by several technical factors, discussed later in more detail. Some are linked to the application for the first time of IAS 39 in 2005 which has brought an accounting change for revenues that were taken upfront in the past and are now accrued over a long time span. Others concern arbitrage strategies engineered by Treasury and Financial Markets which have mitigated both the revenues and the tax charge in 2005. The last one stems from the change introduced in 2005 in the fee structure and conventions of asset management activities. Without these various items, the year-on-year revenue growth would have been EUR 75 million higher (1.3 percentage point of additional growth).

Costs

Costs stood at EUR 3,229 million in 2005, up 5.6% (or EUR +172 million) compared to 2004.

• **By nature,** the expenses progressed as follows: staff expenses – which represent about half of the total cost base – went up EUR 43 million (or +2.8%) in the year; network commissions went up 3.7% (or EUR 13 million), a relatively modest increase when put in perspective with the good commercial performance of the network in 2005; other costs went up 10.0% or EUR 116 million.

• **By type,** there were two "non-operating" items in 2005 (none in 2004): EUR 13 million related to the liquidation of Rekord in Germany, and EUR 3 million for the setting up of RBC Dexia Investor Services. Excluding those, and on a pro forma basis, the variation of costs was +5.8%, or EUR +176 million, explained by a number of factors of varying importance (detailed below) but stemming from three main reasons:
– EUR 30 million linked to the geographic expansion of the Group;
– EUR 33 million linked to the business development programs of the various entities, such as higher net-work commissions, the cost of advertising campaigns, etc.;
– and EUR 111 million for several specific reasons (e.g. EUR 29 million on IT programs put in place, as well as higher amortization under IFRS; EUR 14 million cost increase at FSA; EUR 6 million adjustment of IAS 19 pension provisions, EUR 10 million for the implementation of the "Duisenberg" mediation in the Netherlands, etc.).

STATEMENT OF INCOME
(in millions of EUR)

	2004	2005	Variation
Income	**5,623**	**5,976**	**+6.3%**
of which net commissions	*1,048*	*1,172*	*+11.8%*
Costs	**(3,057)**	**(3,229)**	**+5.6%**
Gross operating income	**2,566**	**2,747**	**+7.1%**
Cost of risk	(226)	(52)	-77.0%
Impairments on (in)tangible assets	(20)	0	n.s.
Tax expense	(429)	(602)	+40.3%
Net income	**1,891**	**2,093**	**+10.7%**
Minority interests	69	55	-20.3%
Net income – Group share	**1,822**	**2,038**	**+11.9%**

STATEMENT OF INCOME (FROM REPORTED TO UNDERLYING (1) PRO FORMA)
(in millions of EUR)

	2004	2005	Variation
Income	**5,623**	**5,976**	**+6.3%**
Changes in consolidation scope	(24)	0	n.s.
Income pro forma	**5,599**	**5,976**	**+6.8%**
Non-operating items	182	221	+21.8%
Underlying income	**5,416**	**5,755**	**+6.3%**
Costs	**(3,057)**	**(3,229)**	**+5.6%**
Changes in consolidation scope	20	0	n.s.
Costs pro forma	**(3,037)**	**(3,229)**	**+6.3%**
Non-operating items	0	(17)	n.s.
Underlying costs	**(3,037)**	**(3,212)**	**+5.8%**
Gross operating income pro forma	**2,561**	**2,747**	**+7.3%**
Non-operating items	182	205	+12.8%
Underlying gross operating income	**2,380**	**2,543**	**+6.9%**
Cost of risk pro forma	**(226)**	**(52)**	**-77.0%**
Non-operating items	(177)	7	n.s.
Underlying cost of risk	**(48)**	**(59)**	**+21.4%**
Net income – Group share	**1,822**	**2,038**	**+11.9%**
Changes in consolidation scope	(3)	0	n.s.
Net income – Group share pro forma	**1,819**	**2,038**	**+12.0%**
Non-operating items	214	251	+17.0%
Underlying net income – Group share	**1,605**	**1,786**	**+11.3%**

(1) i.e. excluding the non-operating factors (defined on page 36 of this report).

- Of important note is the fact that in Personal Financial Services – which represents about half of total costs, and where the cost-income ratio is the highest – the underlying cost base was up only 1.8%, in line with the objectives set at the beginning of the year in this business line, and substantially below the underlying revenue progression thereof.

The **cost-income ratio** was 54.0%, in the full year 2005, below that of 2004 (54.4%). The underlying cost-income ratio stood at 55.8% (down compared to 56.1% in 2004). This reduction is satisfactory when considering the expenditure engaged to develop the business and franchise of Dexia both domestically and internationally during the year, and the number of items discussed herein, which have borne on the cost base in 2005.

Gross operating income

The **gross operating income** amounted to EUR 2,747 million in 2005, up 7.1%. On the underlying basis, the growth was +6.9% (+6.8% at constant exchange rate). Taking aside the effects of the non-operating items, one can see the very satisfactory underlying performances in the business lines, particularly in Public Finance, where a +11.1% growth year on year was achieved, in Personal Financial Services which delivered a +6.9% progression, in Investment Management and Insurance Services (+10.6%) and in Treasury and Financial Markets (+8.5%). Overall, the exchange rates fluctuations in 2005 had a small influence on the gross operating income (EUR 2 million positive impact).

Cost of risk

The **cost of risk** (impairments on loans and provisions for credit risks) was very low, amounting to EUR 52 million in 2005, compared to EUR 226 million in 2004. Excluding the provision movements at Dexia Bank Nederland (described below), the underlying cost of risk increased slightly (EUR 59 million in 2005 against EUR 48 million in 2004), but remained however at a very low level (1.6 basis points on average outstanding banking commitments).

Taxes

Tax expense (comprising both current and deferred tax) amounted to EUR 602 million in 2005, up 40.3% compared to 2004. This amount includes the non-operating items (net credits of respectively EUR 40 million in 2005, and EUR 230 million in 2004 – see detail below). If those are excluded, the underlying tax charge went down, from EUR 658 million in 2004 to EUR 642 million in 2005, but this variation of EUR -16 million is partly due to the positive impact of the arbitrage products discussed above (down EUR 21 million within the variation), and partly due to an adjustment made in 2004 of the tax charge (on account of derivative products), with no equivalent in 2005 (down EUR 13 million within the variation). The tax rate in 2005 evolved as follows: it was 23.1% (compared to 19.0% in 2004) on the basis of reported earnings, and it was 26.8% (compared to 29.1% in 2004) on the basis of underlying earnings.

Focus on the main non-operating items

In 2005, the contribution of non-operating items to the net income – Group share amounted to EUR +251 million while it was EUR +214 million during the previous year. Over the year, the main evolutions are as follows.

In the income

Interest payments were collected on the share-leasing contracts of Dexia Bank Nederland, from those clients who have accepted the Dexia Commercial Offer. This offer included interest discounts, whose value was included in the total generic provision decided in 2002. Since this provision was treated as a non-operating item, its utilization is treated in the same manner: related non-operating revenues amounted to EUR 31 million in 2005, vs. EUR 41 million in 2004, or a EUR -10 million variance for the full year.

Capital gains were crystallized in 2005 in the amount of EUR 166 million, compared to EUR 141 million in 2004. The main ones are a EUR 70 million gain on the sale of Eural, EUR 27 million on the sale of a participation in SPE, and EUR 13 million on the sale of a participation in Veolia.

The marking to market of the credit default swap (CDS) portfolio insured by FSA amounted to EUR 9 million in 2005, with no equivalent in 2004 (see page 36).

In the costs

The closure of Rekord in Germany in 2005 has caused a charge of EUR 13 million.

The creation of the joint venture with RBC had an effect of EUR 3 million.

Cost of risk at Dexia Bank Nederland, treated as a non-operating item, amounted to a total net reversal of EUR 7 million over the year. As previously reported, an additional charge of EUR 97 million was made during the first quarter of 2005 in the context of the Duisenberg mediation. Besides the net new charges and reversals amounted to EUR +104 million. This compares to a charge of EUR +177 million in 2004.

Concerning the situation of Dexia Bank Nederland, an update on the share-leasing contracts is made on page 86 of the Annual Report - Accounts and Reports.
Non-operating taxes amounted to a credit of EUR +40 million in 2005 (compared to EUR +230 million in 2004) and stemmed, aside from the tax impacts of the non-operating items discussed above, from various events, the main ones being the settlement of a tax dispute (EUR +28 million) and the positive tax incidence of impairments made on a subsidiary of Dexia BIL (EUR +17 million).

Overall financial performance

The **profit margin** (net income before minority interests related to total revenues) stood at 35.0% in 2005, higher than in 2004 (33.6%).
Return on equity (ROE) stood at 20.0% (compared to 17.2% in 2004), well above Group's medium-term objective, partly under the influence of the non-operating items.
Earnings per share (EPS) reached EUR 1.87 in 2005 (non diluted), up 14.5% over the previous year. Of note, the share buyback program was pursued, with 32,707,600 shares purchased during the year, amounting to nearly EUR 600 million.
Group **Tier 1 ratio** continued to go up and stood at 10.3% at year end (10.0% at January 1, 2005). This stems from the combined effects, in opposite directions, of several factors, the main ones being: the increase of risk-weighted assets (+11.3% in the year); the issuance of hybrid Tier 1 capital by Dexia Crédit Local in the fourth quarter, and finally the share buybacks discussed above.

Proposed dividend

In view of the good 2005 results, the Board of Directors will propose a **gross dividend** of EUR 0.71 per share. Subject to shareholders' meeting approval thereon, the dividend will be paid on May 24, 2006.

Post-balance-sheet event

On January 4, 2006 Dexia and Royal Bank of Canada announced the completion of the joint venture to combine their institutional investor services businesses. RBC Dexia Investor Services is a joint venture equally owned by Royal Bank of Canada and Dexia. Dexia will consolidate 50% of the joint venture by proportional method from January 1, 2006. Dexia's proportionate share of RBC's contribution will be recorded at fair value in Dexia's consolidated financial statements. As a result, Dexia will recognize both an after-tax profit of over EUR 200 million in Dexia's net asset contribution to the joint venture and EUR 100 million in intangible assets.

Commenting on the results, Axel Miller, Dexia's Chief Executive Officer, declared:

"This year again, Dexia's results have been excellent.

In Public Finance, originations were record-high and a lot of profitable business was done that will generate earnings for many years. Net income growth exceeded 14% in 2005, despite a very high competitive pressure.

In Personal Financial Services, this is the third consecutive year of high double digit earnings growth, with a solid revenue momentum and costs keeping under control.

Equally, Asset Management, Insurance, Fund Administration Services, and Treasury and Financial Markets have remarkably performed in terms of efficiency, earnings growth and ROE.

This year was excellent above all, because we increased our volume of business without compromising with our key objectives: curbing down the cost-income ratio – despite the fact that this has been a year of extensive development, domestically, internationally, and in terms of new activities –, delivering a high return on capital, and eventually increasing earnings per share and shareholder value.

We are confident that Dexia will continue to deliver value at a strong pace, whilst planning and preparing its longer term future to occupy a strong position in the very promising markets that we have ahead of us."

Main **items** reported as **"non-operating"** (1)

Income

- *In Q1 2004:* net revenues on the credit link notes (CLN) portfolio (EUR -10.8 million); utilization of Legiolease provision (EUR +9.8 million); capital gain on sale of equities (EUR +8.8 million); capital gain on long-term investments (EUR +53.8 million); impairment on long-term investments (EUR -7.3 million); effect of disposal of properties (EUR +16.5 million); reimbursement of default interests following a settlement with the Belgian fiscal authorities (EUR +7.3 million).
- *In Q2 2004:* net revenues on the CLN portfolio (EUR +8.1 million); utilization of Legiolease provision (EUR +10.0 million); losses on sale of portfolio holdings (EUR -9.6 million); effect of disposal of properties (EUR +3.5 million); reimbursement of default interests following a settlement with the Belgian fiscal authorities (EUR +1.0 million).
- *In Q3 2004:* net revenues on the CLN portfolio (EUR -0.2 million); capital gain on sale of equities (EUR +1.0 million); utilization of Legiolease provision (EUR +11.1 million).
- *In Q4 2004:* net revenues on the CLN portfolio (EUR +7.1 million); capital gain on sale of equities (EUR +1.1 million); utilization of Legiolease provision (EUR +9.9 million); accelerated amortization of capitalized expenses at Dexia Bank Nederland (EUR -24.9 million); capital gains on long-term investments and participations (EUR +81.5 million).

- *In Q1 2005:* interest discount on loans accepting "Dexia Offer" (EUR +9.2 million); capital gain on sale of equities (EUR +7.1 million); capital gain on long-term investments (EUR +4.1 million); marking to market of FSA's CDS portfolio (EUR -2.2 million).
- *In Q2 2005:* interest discount on loans accepting "Dexia Offer" (EUR +8.6 million); capital gain on sale of equities (EUR +28.3 million); marking to market of FSA's CDS portfolio (EUR -11.3 million).
- *In Q3 2005:* interest discount on loans accepting "Dexia Offer" (EUR +7.0 million); capital gain on sale of equities (EUR +39.7 million); marking to market of FSA's CDS portfolio (EUR +34.8 million).
- *In Q4 2005:* interest discount on loans accepting "Dexia Offer" (EUR +5.7 million); capital gain on sale of Eural (EUR 70.3 million); capital gain on sale of equities (EUR + 25.0 million); capital gain on disposal of properties (EUR +9.2 million); marking to market of FSA's CDS portfolio (EUR -12.4 million).

(1) In 2004 and 2005; defined on page 36.

Costs

- *In Q3 2004:* restructuring costs at Dexia Bank Nederland (EUR -1.4 million).

- *In Q3 2005:* costs related to the closure of Rekord in Germany (EUR -11.2 million).
- *In Q4 2005:* costs related to the creation of the joint venture RBC Dexia Investor Services (EUR -2.9 million).

Cost of risk

- *In Q3 2004:* net write-back of charges for Legiolease at Dexia Bank Nederland (EUR +4.4 million).
- *In Q4 2004:* charges for Legiolease at Dexia Bank Nederland (EUR -182.3 million).

- *In Q1 2005:* net charge for Legiolease at Dexia Bank Nederland (EUR -83.0 million).
- *In Q2 2005:* net release of prior provisions for Legiolease at Dexia Bank Nederland (EUR +56.0 million).
- *In Q3 2005:* net release of prior provisions for Legiolease at Dexia Bank Nederland (EUR +36.5 million).
- *In Q4 2005:* net charge for Legiolease at Dexia Bank Nederland (EUR -2.5 million).

Impairments on (in)tangible assets

- *In Q1 2004:* accelerated goodwill amortization (EUR -9.9 million) following impairments on a participation.
- *In Q2 2004:* accelerated goodwill amortization (EUR -6.2 million) following impairments on participations.
- *In Q4 2004:* accelerated goodwill amortization (EUR -2.9 million) following impairments on a participation.

Taxes

All the items above are before tax. The amount of corresponding taxes, at appropriate rates, is treated as a non-operating item in the total amount of taxation. The individual tax incidence of some items is specified below, and so are particular tax entries.

- *In Q1 2004:* reimbursement of taxes following the settlement of a tax dispute (EUR +10.2 million); tax credit caused by the impairment of a participation (EUR +17.3 million).
- *In Q2 2004:* reimbursement of taxes following the settlement of a tax dispute (EUR +6.1 million); tax credit caused by the impairment of participations (EUR +40.6 million).
- *In Q4 2004:* tax credit on additional deductible impairments of Dexia BIL's subsidiaries (EUR +104.9 million).

- *In Q1 2005:* reimbursement of taxes following the settlement of a tax dispute (EUR +15.4 million); tax credit caused by the impairment of a participation (EUR +17.0 million); write-back of a tax provision (EUR +6.5 million).
- *In Q2 2005:* tax credit caused by the impairment of a participation (EUR +3.4 million).
- *In Q3 2005:* reimbursement of taxes following the settlement of a tax dispute (EUR +5.4 million); differed taxes following the change in tax rate in Luxembourg (EUR -7.0 million).
- *In Q4 2005:* reimbursement of taxes following the settlement of a tax dispute (EUR +7.6 million).

Analysis of the **balance sheet**

The consolidated financial statements of Dexia are prepared under EU GAAP i.e. IFRS as adopted by the EU. The 2005 financial statements include the application of IAS 32, IAS 39 and IFRS 4. Therefore the balance sheet as of December 31, 2005 is compared to that as of January 1, 2005.
Total consolidated balance-sheet footings as of December 31, 2005 amounted to EUR 508.8 billion. Compared to January 1, 2005, the amount of total assets has increased (+25.7%) due to the development of the commercial activities.

Liabilities

The amount of customer deposits and debt securities (savings bonds, certificates and bonds) reached EUR 273.1 billion at the end of 2005 (+18.1%). Their relative share in the total of the balance sheet amounted to 53.7%.

Customer deposits stood at EUR 97.4 billion at the end of 2005, an increase of +11.8%, partly coming from the growth of fund administration activity and the progression of structured products with guaranteed capital. Debt securities increased to EUR 175.7 billion (+21.9%) mainly due to new issues of bonds for EUR 22.9 billion and of certificates of deposits for EUR 13.8 billion. Saving certificates decreased by EUR 4.4 billion.

Loans and advances to customers

Loans and advances to customers increased by +13.5% and stood at EUR 192.4 billion as of December 31, 2005 due to good commercial activity. Reverse repurchase agreements grew by EUR 4.5 billion, mortgage loans rose by EUR 2.2 billion in Belgium.

Loans and securities

Under EU GAAP, loans and securities are presented together by portfolio strategy: “trading”, “available for sale”, “designated at fair value through the statement of income or held to maturity”. The total amount as of December 31, 2005 reached EUR 198.9 billion of which EUR 197.3 billion in securities (+34.7%).

This increase came from the variation in the position on bonds for EUR 48.5 billion (of which EUR 13.6 billion from bonds issued by public bodies) and from the increase of shares, mainly those purchased by insurance companies for unit-linked products.

Due to/from banks

The increase of the interbank assets and liabilities was due to the development of the volume of banking activities, mainly term deposit and repo/reverse-repo activities.

Total equity

Total shareholders’ equity in the Dexia Group amounted to EUR 14.1 billion as of December 31, 2005 against EUR 12.1 billion as of January 1, 2005, i.e. a growth of +16.5%.

Total shareholders' equity is composed of core equity (capital, additional paid-in capital, reserves, profit for the year before allocation) and gains and losses not recognized in the statement of income. The gains and losses represent the fair value on available-for-sale portfolio, the fair value of cash-flow hedge derivatives and the translation reserve for a total amount of EUR 2.6 billion, in progression of 62.9%. This progression proceeded from the raise in the stock market prices and from the improvement of the US dollar.

Core shareholders' equity amounted to EUR 11.5 billion, i.e. a growth of 9.5% due to the result of the year less the dividend paid in 2005 relating to 2004 results and the purchase of treasury shares.
Minority interests, at EUR 1.2 billion progressed EUR 0.7 billion. This was mainly due to the issuance by Dexia Crédit Local of undated deeply non-cumulative subordinated notes for EUR 0.7 billion.

CONSOLIDATED BALANCE SHEET
(in millions of EUR)

	December 31, 2004	January 1, 2005	December 31, 2005	Variation December 31, 2005/ January 1, 2005
Total liabilities and equity	**388,787**	**404,637**	**508,761**	**+25.7%**
Total liabilities	**376,187**	**391,886**	**493,061**	**+25.8%**
Due to banks	88,830	87,471	134,793	+54.1%
Customers borrowings and deposits	89,356	87,066	97,379	+11.8%
Negative value of derivatives	24,353	35,991	37,652	+4.6%
Debt securities	145,369	144,164	175,685	+21.9%
Subordinated and convertible debt	5,042	5,277	4,985	-5.5%
Total equity	**12,600**	**12,751**	**15,700**	**+23.1%**
Core shareholders' equity	12,219	10,494	11,488	+9.5%
Total shareholders' equity	12,116	12,088	14,084	+16.5%
Minority interests	484	439	1,183	x2.7
Total assets	**388,787**	**404,637**	**508,761**	**+25.7%**
Due from banks	40,431	43,305	70,531	+62.9%
Loans and advances to customers	167,951	169,547	192,402	+13.5%
Loans and securities	143,659	147,265	198,941	+35.1%
Positive value of derivatives	20,719	27,264	28,632	+5.0%

Milestone 4

Dexia - FSA,
the winning combination

It was in 2000, with the acquisition of the insurance company Financial Security Assurance (FSA), that Dexia achieved the objective fixed since its creation: to become World Number One in financial services to the public sector. The integration of FSA, a major operator in the provision of public/project financing in the United States, not only enabled the Group to place itself in an eminent position on the North American market, and as a consequence on a global scale. This transatlantic alliance made a great contribution to the globalization of Dexia and its corporate culture. As for operational synergies, the desired results have already been achieved. Between the European champion for bank loans to local authorities and the American specialist in the credit enhancement of municipal bonds and asset-backed securities, their business lines are truly complementary. Dexia and its New York subsidiary, rated AAA, share the same cautious and consistent philosophy in the management of risks. In the United States, the Group has grown very rapidly by virtue of the excellence of its range of products, which combines insurance (guarantees on bond issues) and banking solutions (cash flow facilities). It is also a winning combination in project financing throughout the entire world: in order to support the development of new infrastructures of collective interest, Dexia has a complete range of tools, of which the Group can take full advantage on a market for Public Private Partnerships (PPP) in full expansion.

Public/Project Finance and Credit Enhancement

Dexia's global leadership in public finance is deservedly renowned. The Group operates several subsidiaries and branches in twenty-six countries worldwide. The main ones are Dexia Crédit Local in France and its main subsidiaries abroad, Dexia Bank in Belgium, Dexia Crediop in Italy and Financial Security Assurance (FSA) in the United States.
The very large size of the market, the quality and solvency of borrowers, and the large and growing needs for essential public infrastructures, offer wide opportunities for the Dexia Group to underwrite valuable business and expand its international coverage. Size, innovation, expertise and a long-term view are the key ingredients of Dexia's success in this business line, which represents over one half of its earnings. Execution is provided in different forms: straightforward lending, sophisticated project financing schemes and credit enhancement. In addition, insurance, payments, asset management and other services are offered to clientele.

World leader

In 2005, Dexia undertook a new and extremely dynamic phase of its geographic expansion. This is marked by the opening of Dexia Kommunalkredit in Vienna, accompanied by the opening of three new representative offices in the Czech Republic, Romania and Bulgaria to better serve the Central and Eastern Europe markets, and finally by obtaining two new licenses, one in Canada (branch) and the other in Mexico (finance company). In Japan, Dexia is involved in market studies and preliminary administrative procedures for a Tokyo branch to commence operation, planned for the end of 2006. All these new markets are promising, and for Dexia they represent a strong potential for future development.

On all these markets, the Group acts in the capacity of financial advisor, arranger or lender in the direct financing of local authorities and the entire local sector (local operators in the health sector, social habitat or social economy) or project financing in particular in the sectors of infrastructure, energy and the environment. Dexia was thus classified first in 2005 by the magazine *Dealogic*, among banks arranging Public Private Partnerships.

In order to respond to the specific needs of the larger public borrowers on the capital markets, Dexia has developed a specialized offer, enabling them to access the markets effectively, in particular through bond issues, securitization packages and other types of structured products.

The situation regarding **Public/Project Finance** in the **countries of the European Union**

As world leader in Public/Project Finance, Dexia can share its knowledge of the European local public sector.

Each year Dexia publishes an economic report entitled *Local Finance in the European Union*. Published in November 2005, this new study presents an overview of the financial situation of the local public sector in the countries of the European Union between 1999 and 2004. It also presents the major orientations observed for 2005 in the twenty-five countries now members of the European Union. For the fifth consecutive year this study is a reference tool for the principal local decision makers in Europe. Published in French and in English, its complete version can be consulted on the Group internet site at *www.dexia.com*.

1999-2004: maintenance of the local investment effort without harming financial balances

• Dynamic local expenditure in 2004

Between 1999 and 2004, local public expenditure in the Fifteen (EUR 1,259 billion) saw sustained development (+4.5% on annual average in volume). That momentum is to a large extent the result of major transfers of competence in favor of local authorities in various countries (for example Italy, France and above all Spain).
In 2004, the evolution of local public expenditure was dynamic in the Europe of the Fifteen (+3.7% in volume), driven by the increase of health and social expenditure.
It was even more for the ten new entrants (+5.3% in volume), as a consequence of the assumption of additional competences in several of those countries.

• An investment effort maintained in 2004

Local public investment expenditure within the Europe of the Fifteen (EUR 149 billion) evolved on annual average by +3.0% in volume between 1999 and 2004. After rather strong annual growth rates between 1999 and 2001 (between 3.5% and 6.5% depending upon the year), local investment in the Fifteen has slowed since 2002, with annual growth rates in the order of 1.5% to 2%.
In 2004, local investment expenditure rose moderately for the Europe of the Fifteen (+1.5% in volume), and more dynamically for the ten new entrants (+3.4% in volume).
The local authorities of the Twenty-Five thus play their role as leading public investors: local public investment expenditure amounted to EUR 158 billion in 2004, or 62.8% of public investment expenditure and the equivalent of 1.5% of GDP in the European Union of the Twenty-Five.

• Financial balances preserved

During the period from 1999 to 2004, the budget balance of the local public sector still remained close to balance.
In 2004, local deficits in the Europe of the Fifteen deteriorated very slightly to reach 0.22% of GDP.
Over the same period, local debt (EUR 572 billion) remained under control in relation to GDP (5.8% of GDP in 2004).
The budget balance of the local public sector of the ten new entrants is almost balanced (-0.05% of GDP in 2004) and their local debt is still not very high in relation to GDP (2.0% in 2004).

Trends in 2005

The major orientations observed for 2005 in the twenty-five countries of the European Union and published in November 2005 in the economic report can be summarized as follows.

• Contrasted evolutions of local expenditure and investment depending upon the country concerned

Local public expenditure should still be dynamic in the United Kingdom, as well as in France as a consequence in particular of new transfers of competence. In Portugal, expenditure could increase with the holding of municipal elections.
In the other countries, local expenditure should evolve more moderately, as in Belgium or Italy, countries in which the internal stability pact for 2005 fixes the limits to its growth.

Local investment should evolve in a stimulating manner in the United Kingdom, with investments once more driven by the public transport sector, and also in France. In Portugal, taking account of municipal elections (October 2005), local investment expenditure should rise; this should also be the case in Belgium given the proximity of the communal and provincial elections (October 2006).

• Numerous local finance reforms

Several countries have implemented reforms consisting of increasing the proportion of national taxes allocated to local authorities (Austria, France, Latvia and the Czech Republic), so local tax receipts should rise therefore in these countries.
For example, as was the case in Poland in 2004, the proportion of state tax receipts transferred to the regions increased in 2005 in the Czech Republic, with a fall at the same time in the level of grants. In Latvia, the proportion of national income tax redistributed to local authorities increased in 2005 and should be up again in 2006.
In France, transfers of competence to local authorities will continue in 2005 and 2006. The easing of local taxes on professional activity for new investments, initiated in 2004, has been perpetuated; we will have to wait until 2007 to see the reform of that tax with the company contribution being limited to 3.5% of the added value.

• Public Private Partnerships in Europe

The development of Public Private Partnership operations (PPP) for public/project financing continued in Europe in 2005, in response to the increasing demand for public investments and the public finance constraints fixed by the Growth and Stability Pact. In the Europe of the Fifteen, almost all countries already have a legislative or regulatory framework offering recourse to PPPs and have created PPP working groups within the State charged with launching such investment programs. The European Union is also concerned to offer a harmonized framework favoring these operations (Green Paper on PPP).
The principal investments realized in PPPs relate to the sectors of transport, health and education, and the environment as well as the need for administrative buildings and equipment. On the more mature PPP markets like the United Kingdom, more than 10% of public investment is realized through PPPs.
The financing raised in 2005 to finance PPP projects in Europe has risen to an amount of EUR 21 billion (source *Dealogic*).

The **US municipal market** in 2005

The financing market of the local US public sector is characterized by its very strong disintermediation. Indeed, more than 95% of financing is bond-linked.
2005 was a record year for the US municipal bond market. Low interest rates during the year encouraged municipalities to continue a relatively high level of new borrowing for a broad range of public services and infrastructure projects and to greatly increase refundings of outstanding debt to lower their cost of funds.
With issuers motivated to tap the market because they anticipated a rise in interest rates, US municipalities issued approximately USD 408 billion of municipal bonds, 13% more than in 2004 and 6% more than the previous record, set in 2003. The principal amount of bonds issued exclusively for refundings was 48.1% higher than in the previous year. Conditions were particularly favorable for refundings because short-term rates rose during the year while longer-term rates remained quite low. This made it attractive for many issuers to issue new bonds and use the proceeds to defease their outstanding debt with short-term Treasury bonds.
Slightly more than two-thirds of the municipal bonds issued in 2005 were general obligations issued by states, counties, cities, school districts and other municipal entities. The rest were primarily revenue bonds in the transportation, health care, utility, housing, education and other sectors.

The penetration of bond insurance in this market also reached a new high in 2005. Approximately 56% of the new municipal bonds sold in the period carried insurance from monoline bond insurers, including FSA, compared with 54% in 2004.
The year was marked by growing interest in Public Private Partnership (PPP) financing in North America.
In 2006, taking into account the expectations regarding the evolution of interest rates, the level of the municipal issues is not likely to exceed the record level of 2005 in the United States.

Activity

Long-term outstanding commitments (including Germany) at the end of 2005 amounted to EUR 241 billion, up 25% on 2004. This rise is a result of the accelerated development of new activities in Central and Eastern Europe and those of the international offices of Dexia Crédit Local and Dexia Bank Belgium. It is particularly significant, moreover, in France, America, Italy, Germany, Belgium, the United Kingdom and Spain.
Outside Germany, originations amount to EUR 55.9 billion, up 63% on that achieved during the year 2004.
As for net par outstanding insured by FSA, this amounts to USD 351 billion, up 7.9% on the end of December 2004.

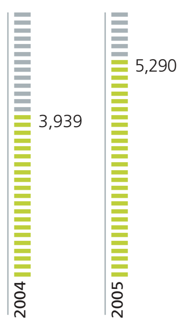
For the ***public sector***, activity outside Germany amounts to EUR 43.5 billion, or an increase of 54% on the volume recorded over the year 2004.
As regards the ***structured financing*** sector, the originations volume was EUR 12.4 billion, or more than double the activity recorded in the year 2004. It is to be noted that, in bank classifications established by *Dealogic* (Euromoney Group), Dexia is classified for the year 2005 in sixth place in the world among arrangers of project financing and first for PPPs/PFIs. This classification is all the more remarkable since Dexia is a specialist on certain segments of the markets (infrastructure, environment,

(in billions of EUR)	LONG-TERM ORIGINATIONS		LONG-TERM COMMITMENTS (1)	
Fully-consolidated subsidiaries	**2005**	**Variation 2005/2004**	**2005**	**Variation 2005/2004**
Belgium	5.3	+34.3%	28.4	+7.0%
France	10.8	+6.6%	60.6	+5.1%
Luxembourg	0.6	x2.6	1.9	+62.8%
Netherlands (2)	0.4	+59.8%	0.8	+17.3%
United Kingdom	2.2	+32.1%	6.7	+46.6%
Sweden	0.9	+8.0%	3.6	+4.4%
Italy	8.7	+51.7%	34.1	+19.6%
Spain	1.7	+27.5%	6.5	+30.5%
Central and Eastern Europe (3)	2.7	x8.0	3.1	x5.2
America (4)	10.9	+60.7%	42.5	+58.7%
Other (5)	11.7	x3.8	18.9	x2.9
Germany	8.1	-13.1%	34.2	+8.4%
Total (excluding Austria)	**64.1**	**+46.6%**	**241.3**	**+25.0%**
Austria (6)	6.0	x2.0	17.7	+78.3%

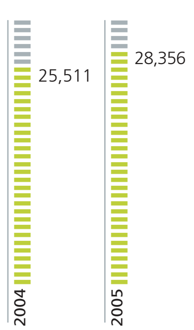
(1) Including off-balance-sheet products; amounts stated at current exchange rate.
(2) Banque Artesia Nederland in the Netherlands.
(3) "Central and Eastern Europe" includes all the activities of Dexia Kommunalkredit Bank and its two subsidiaries in Slovakia and in Poland.
(4) Excluding FSA.
(5) Includes activities of the Pacific area (Australia), Israel, and transactions carried out by head office in countries where the Group has no direct presence.
(6) Corresponding to 100% new long-term originations/outstanding commitments of Kommunalkredit Austria, which is 49%-owned by Dexia.

Belgium

New originations
(in millions of EUR)



Long-term commitments
(in millions of EUR)



telecommunications, etc.). Furthermore, five projects in which Dexia intervened received the accolade “Deal of the Year 2005” from the financial magazine *Euromoney*. Such awards are a recognition of projects which are particularly innovative in their financing in the fields of transportation (renovation of the Madrid ring road), water (irrigation network Aigües del Segarra-Garrigues in Catalonia, salt water desalination plant in Chile), and energy (factory for the liquefaction of natural gas, RasGas 2&3, in Qatar, wind farms developed by Invenergy in the United States). We also note that the Madrid ring road project has been declared “Deal of the Year 2005” by *Infrastructure Journal*, all sectors and countries combined. For the third consecutive year, the same magazine gave Dexia the prize of “Renewable Arranger of the Year 2005”, in recognition of Dexia’s very considerable activity in the field of financing wind energy.
Financial Security Assurance, the North American subsidiary of Dexia specializing in credit enhancement for municipal bonds and asset-backed securities, realized an excellent volume of gross present value (PV) originations at USD 1,014 million, up 9.4% on 2004.

Belgium

Dexia had a great year in 2005 on the Belgian market.
At ***public sector*** level, long-term outstanding commitments reached EUR 26 billion at year-end 2005, up EUR 1.7 billion, or an increase of 7% over year-end 2004. Although it might appear modest in absolute terms, this growth rate is however appreciable, given the maturity of the Belgian market and the historically prominent position of Dexia Bank on this market. The rise is reflected, to various extents, by increases of amounts outstanding in the majority of segments of the local sector. The proportion of intermunicipal associations, especially those active in the energy sector, were preponderant and contributed an amount of EUR 874 million whilst that of other local operators and particularly housing associations amounted to EUR 689 million.
In 2005, with the public sector, long-term originations amounted to EUR 3.8 billion against EUR 3.0 billion in 2004, and thus shows a healthy increase of 29%. Activity on the client segment of municipality, provinces and intermunicipal associations made a particular contribution of 35% (EUR 578 million) and also that of other local operators of 27% (EUR 230 million).

For the social profit segment (which principally addresses care and educational institutions, unions and mutual associations, but also the entire associative world of non-profit-making institutions), Dexia registered a slight fall in its long-term originations of around 8%. It is also important to mention the performance recorded in leasing, where originations reached EUR 119 million, more than double the figure for 2004.
Thus echoing these good commercial results, Dexia's market share of local authorities (on the basis of offers submitted for competition[1]) increased by 2.8% settling at year-end 2005 at 80.6%.
At year-end 2005, short-term outstanding commitments with the local sector were EUR 2.9 billion, down EUR 3.2 billion in comparison to 2004. That fall applied as much to balance-sheet products, and more particularly sight accounts, as to off-balance-sheet products like Treasury certificates. The continuing process of merger within regional treasuries is at the origin of this decline.
Amounts outstanding at year-end 2005 in deposits and asset management for the local sector were EUR 10.2 billion, up EUR 307 million (+3%) on year-end 2004. This rise is explained in particular by the flow of liquidities due to the Suez bid for Electrabel.
As regards structuring and debt management operations, their volume reached EUR 5 billion in 2005, a rise of 42% in comparison to 2004.
As regards credit activity with the ***corporate sector***, total originations were up 49%, or almost half a billion euros, reaching EUR 1.5 billion.

(1) This is the percentage of the deals submitted for competition which were attributed to Dexia during the period under review (including offers not subject to competition, the Dexia accumulated market share should be 81.8%).

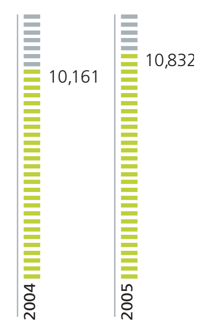
The increase of long-term outstanding commitments reaches at year-end 2005 EUR 2.4 billion, up 5%.
Short-terms outstanding commitments to companies, on the other hand, increased by 26% in 2005 to settle at practically EUR 6 billion.
Investment assets from the corporate sector increased 21% in 2005 to reach almost EUR 10 billion.

France

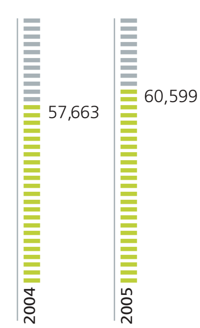
In 2005, the commercial activity of Dexia in France was extremely dynamic. Global long-term outstanding commitments at year-end 2005 were EUR 60.6 billion, up 5.1% on year-end 2004. For the second consecutive year, the volume of long-term originations reached a record level, passing the EUR 10 billion mark to EUR 10.8 billion, up 5%. This exceptional result backs up the leading position of Dexia in France on the very dynamic local authority market and confirms the success of the expansion policy towards new diversification markets.
The global volume of activity carried on by Dexia in the ***local public sector*** was EUR 10.8 billion, up 7% on 2004.
More precisely, activity with ***local authorities*** rose 11% in comparison to 2004 and reached EUR 6.9 billion. These results enabled Dexia to strengthen its leading position in France with a market share of more than 40%.

France

New originations
(in millions of EUR)



Long-term commitments
(in millions of EUR)



Within a low-rate context, activity with major clients, departments and regions grew by 17% to EUR 4 billion, which again backs up Dexia's leading position in this segment. This evolution confirms the significant return of those clients to borrowing in a context, which began in 2004, of a transfer of competence. Dexia promoted two bond issues for clients in this segment in 2005, one for EUR 150 million for the regional council of Provence-Alpes-Côte d'Azur and the other for EUR 120 million for the city of Paris.
Clients among ***other local operators*** today represent 33% of the long-term financing activity in the local public sector. With a total origination volume of EUR 3.4 billion, Dexia is strengthening its strategy of diversification in this very dynamic market segment.
Origination in the ***public health sector*** was EUR 1,024 million. The projects implemented were stimulated by the "2007 Hospital Plan" and other actions of national interest such as the fight against cancer and emergency care services. With a market share of 41%, Dexia confirms its position in France as premier financial partner in this sector.
The ***housing*** sector gained 10% compared to 2004 with an origination volume of EUR 1.6 billion. The greatest demand for financing comes from clients in Urban Planning and Habitat for a total amount of more than EUR 1.4 billion. 80% of this activity involved HLM and OPAC (*Office public d'aménagement et de construction – logement social*) companies.
These organizations called on Dexia for the financing of their new constructions, in order to facilitate the balancing of their operational activities, as well as for the financing of maintenance and renewal of their housing stock.
With ***semi-public companies***, total origination in 2005 made good progress to EUR 240 million, against EUR 163 million in 2004.
The total amount of long-term financing to the ***social economy*** sector also evolved favorably, rising by 8.2% to EUR 696 million.
Dexia CLF Banque offers a complete range of asset management products and services to local institutional clients. In 2005, ***assets under management*** reached EUR 4.7 billion, up 6% on year-end 2004. UCITS assets represent EUR 2.3 billion.
As regards ***structured financing***, origination in 2005 rose considerably, by 41% to EUR 558 million against EUR 397 million in 2004. In this field, Dexia concentrates on project and asset financing. It plays the role of financial advisor, arranger or lender in the sectors of infrastructure (transport and car parks) and the environment (waste disposal). Note should also be taken of the mandate as financial advisor entrusted to Dexia at the beginning of 2005 by the Group Lyon Turin Ferroviaire (an entity created by the French-Italian inter-governmental commission) to study the modes of financing the future transalpine high-speed train link.
In 2005, the activity of arranging financing for infrastructure projects in the Public Private Partnership (PPP) field developed strongly, especially in the sectors of health, justice, public transport and education. Dexia took part in calls for tenders as financial advisor and also as investor and potential arranger of financing.

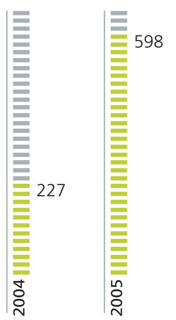
Milestone 5

Public Private Partnership: Dexia concentrates on sustainable financing

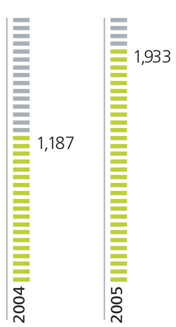
Historically a partner of local authorities, it was natural for Dexia to play premier roles in the development of innovative modes of financing public services. Through its structured finance activities, the Group assembles packages in a Public Private Partnership (PPP) mode, one of its specialities. At the end of the Nineties, the Group positioned itself on these long-term contracts, invented in the United Kingdom, linking private operators to the construction and maintenance of social utility infrastructures: roads, railway lines, schools, hospitals and so on. This is a system which enables risks to be shared and costs to be optimized over time for the authority concerned. In 2005, Dexia confirmed its position as the leading bank in the world for the financing of this type of project. Today the Group is involved, as arranger, investor or advisor, in extremely important operations and calls for tender throughout Europe and elsewhere in the world: in the United States, Australia, Canada, and shortly in several large emerging countries where the PPP is appearing as a future solution in the financing of huge infrastructure requirements.

Luxembourg

New originations
(in millions of EUR)



Long-term commitments
(in millions of EUR)



In France, Dexia has for some years been developing a range of insurances specially intended for local operators and their staff. This successful diversification of the "bancassurance" range supports Dexia in its role as global banker to major institutional clients.
This activity is essentially developed through two entities. The first, Dexia Sofaxis, is the only French operator specializing in financial cover for the statutory obligations of local authorities and hospital establishments with regard to their staff. As of December 31, 2005, the volume of premiums collected by Dexia Sofaxis was EUR 352 million, up 2.6% on 2004. This growth reflects the continuing evolution of the level of insurance premiums. Commissions were EUR 42 million, up 4.8% on 2004 in a very much more competitive environment than the previous year.
The second, Dexia Epargne Pension, a life insurance subsidiary of Dexia Insurance Services, markets collective life insurance products to local institutional clients (social housing bodies, semi-public companies, consular chambers and so on): end of career indemnities, supplementary pensions, save-as-you-earn. As regards Dexia Epargne Pension, this year again, the activity of collective life insurance was extremely dynamic with a global collection of EUR 259 million, up 54% on 2004.

Luxembourg

Despite a slightly tenser budget situation than in the past, the modernization of national infrastructure continued at a fast pace. Dexia Banque Internationale à Luxembourg is still the second bank, after the State and Savings Bank, on the market for public financing.
At year-end 2005, the long-term outstanding commitments were EUR 1.9 billion against EUR 1.2 billion at year-end 2004, up 63%. More precisely, with local authorities, amounts outstanding to Dexia Banque Internationale à Luxembourg rose more than 20% and position the bank as an operator not to be ignored on this market.
New originations reached a record level. From EUR 227 million in 2004, they reached EUR 598 million at year-end 2005 by virtue of some remarkable operations including the financing of rolling stock and certain infrastructure for the *Société nationale des chemins de fer luxembourgeois* (Luxembourg Railways) in an amount of EUR 360 million.
As regards the hospital sector, the bank's leading position was reinforced by the grant of new long-term credits and also by the provision of cash credits enabling hospitals in the country to pre-finance state subsidies.
Finally, corporate credit activity is growing moderately against the background of a faint recovery of investments.
In Luxembourg, in the public sphere (central state, local authorities, satellites) Dexia plays a role in asset management. This activity saw significant growth. At year-end 2005, assets under management amounted to EUR 2.5 billion against EUR 1.5 billion at year-end 2004, marking a strong rise of 61%.

The Netherlands

It is through its subsidiary Banque Artesia Nederland that Dexia operates on the local public sector market in the Netherlands. At year-end 2005, global long-term outstanding commitments were EUR 819 million and originations EUR 423 million, up 66% on 2004. Dexia activity in the Netherlands is concentrated essentially on the financing of social housing.

America

• Dexia Crédit Local New York Branch

The branch operates in two fields: on the one hand, the public sector where it offers liquidity guarantees on municipal bond issues and the purchase of bonds, and on the other hand structured financing.

Dexia recorded a very good year 2005 in North America. Global outstanding commitments to the branch reached a peak of USD 50 billion, up 37.4% on 2004. Total originations in the North American public sector rose 54% to USD 12.7 billion whilst that from structured financing reached USD 646 million against USD 144 million in 2004.

The public sector

In 2005, the American municipal bond market hit a new record in terms of new issues, with a total volume of USD 407 billion, passing the previous record achieved in 2003 (USD 383 billion). By virtue of the very good market context, the off-balance-sheet originations of the branch amounted to USD 7.4 billion in 2005, up 18.5% on 2004. Moreover, the total bond purchase volume was USD 5.7 billion over the year 2005.

As regards the investments of the branch in tax-exempt bonds, the "Tender Option Bonds" program, launched in mid-2004, developed rapidly. In 2005, the amount of tax-exempt bonds purchased by Dexia was USD 1,541 million against USD 572 million in 2004. In addition, the volume of taxable bonds purchased was USD 1,347 million. The subsidiary also operated on the Canadian bond market in a total amount of CAD 485 million.

Structured financing

In 2005, we note a strong recovery of structured financing activity in the Americas. This was oriented towards the energy sector, and more particularly that of renewable (wind) energy, which continued to develop with success. In this field, Dexia is today recognized as a leading operator on the American market.

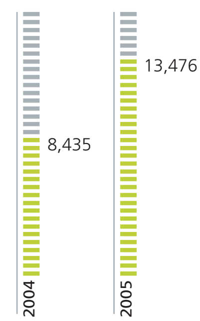
Dexia also arranged the largest financing by bank debt ever put together in the United States in the renewable energy sector. It also enabled Dexia to strengthen its position as world leader in the financing of wind energy projects (Invenergy Wind project). Finally, in view of its innovative character, the magazine *Euromoney* gave it the "Deal of the Year 2005" prize.

America

Dexia Crédit Local New York Branch [1]

New originations

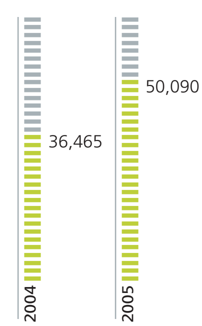
(in millions of USD)



(1) In 2005, Dexia Bank Belgium New York Branch merged with Dexia Crédit Local New York Branch.

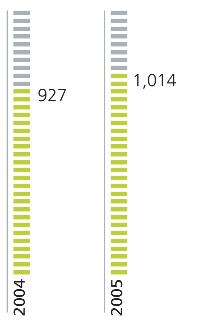
Long-term commitments

(in millions of USD)

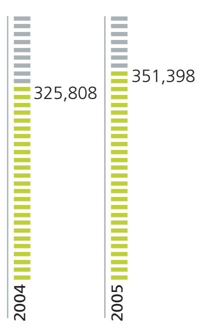


America
Financial Security Assurance

Gross present value originations
(in millions of USD)



Net par outstanding
(in millions of USD)



• Canada

In Canada, Dexia operated on the PPP financing of two major road and public transport infrastructure projects in the Vancouver region. Announced in 2004, the plan to open an entity in Canada became a reality in 2005 with the obtaining of an authorization to operate on Canadian territory from a bank branch: Dexia Crédit Local Canada. The opening of this has already permitted a considerable increase in the volume of Dexia activity on the Canadian market both in the public sector and in the field of structured financing.

• Mexico

The plan to open a commercial representation in Mexico became reality in 2005. The supervisory authorities granted the status of Finance Company (SOFOL – Sociedad Financiera de Objeto Limitado) and operations are in the name of Dexia Crédito Local México. The young subsidiary has already been involved in its first financing in an amount of EUR 33 million to the State of Michoacan, on Mexico’s Pacific coast.

• Financial Security Assurance

Financial Security Assurance (FSA) carries out the activities of credit enhancement for municipal bonds and asset-backed securities (ABS) in North America and also in Europe. Credit enhancement of municipal bonds consists of guaranteeing bonds issued primarily by municipalities. By giving them the benefit of its excellent AAA rating, FSA enables them, by way of a premium, to access the bond market under the most advantageous conditions. Credit enhancement of asset-backed securities is a guarantee similar to that granted for bond issues refinancing different asset classes (consumer credits and so on).
During 2005, FSA achieved a volume of gross present value (PV) originations equal to USD 1,014 million, which represents an increase of 9.4% in comparison to the record volume already achieved in 2004. These very good results are due to the momentum of the American municipal sector in 2005 and a significant volume of international project financing transactions.
As regards net par outstanding insured at the end of December 2005, these amounted to USD 351 billion, up 8% on December 2004. We note that FSA, which closely monitors counterparts hit by hurricanes Katrina and Rita, has had no claims in that regard so far.

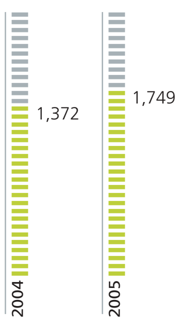
Municipal sector
With a total issue amount of USD 408 billion, the year 2005 recorded a market increase of 13% over 2004. This is largely due to the maintenance of very low interest rates and the anticipation of their rise. The rate of penetration of credit enhancement on the issues market, at 56%, was high (and indeed higher than that in 2004, 54%) and is explained in particular by the very aggressive attitude of the competition, which offers very low premium levels. FSA insured issues for a (gross) nominal amount of USD 65 billion, with a market share equal to 26% (better that the previous year's level of 24%) and recorded USD 485 million in gross PV premiums, which represents an increase of 12% over 2004.
In the United States these good results are associated with the momentum of credit enhancement activity for municipal issues, well-sustained activity in the health and education sectors and also the signature by FSA of a remarkable operation: Chicago Skyway. This is the concession, on the European PPP model, of a motorway belonging to the city of Chicago. The operation consisted of guaranteeing a bond issue of USD 1.4 billion, intended to finance its privatization. Moreover, the magazine *Euromoney* recognized the extremely innovative nature of this operation which it awarded a "Deal of the Year 2005" prize.

Asset-backed securities
In the US asset-backed securities (ABS) sector, gross PV premiums fell by 16.6% to USD 195 million by virtue of low margins in a market characterized by a strong appetite of investors. It is important to note the fall of originations in the sector of real property loans to individuals, partially offset by a rise in the securitization of home equity loans. FSA prefers to wait for margins to return to the correct levels before again intensifying its activity in this segment.

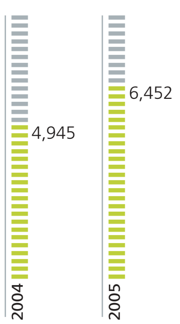
International transactions
As regards international transactions, gross PV premiums reached USD 242 million in 2005, or +29.9% in comparison to 2004. The principal transactions took place in the United Kingdom with two important PPP projects in the health sector.

Spain

New originations
(in millions of EUR)



Long-term commitments
(in millions of EUR)



Spain

At year-end 2005, the long-term outstanding commitments of Dexia Sabadell Banco Local were EUR 6.5 billion, up 31% on year-end 2004. Total long-term originations were EUR 1.7 billion, up more than 27%.

With ***local authorities***, new originations reached EUR 1.4 billion, up 26% on 2004. This high level results in particular from well sustained activity with major clients (autonomous communities, large cities). Note should be taken of the participation in a syndicated loan (EUR 400 million) in an amount of EUR 138 million granted to the autonomous community of Catalonia and a loan of EUR 150 million granted to the city of Madrid.

Dexia Sabadell Banco Local is also particularly active in the bond issue segment. Significant transactions during the year were the mandates of joint lead manager for 30-year issues by the autonomous communities of Catalonia and the Canaries, an additional participation of EUR 160 million in the issue by the autonomous community of Catalonia and finally the participation as lead investor in the origination of securities issued by an asset-backing fund, the assets of which are debts from Spanish local authorities. This issue amounted to EUR 665 million, of which EUR 50 million was subscribed by Dexia Sabadell Banco Local and EUR 250 million by other entities in the Dexia Group.

In the field of ***structured financing***, originations rose 38% to EUR 310 million against EUR 225 million in 2004. The extremely dynamic activity of Dexia Sabadell Banco Local is concentrated on financing projects in the sectors of water and the environment, wind energy, health (hospitals) and road infrastructures. The assembly of a number of these financing packages was in the form of Public Private Partnership (PPP) financing, a market where Dexia plays the role of leader.

Madrid Calle 30, an urban transport project, was the most remarkable operation in 2005. Structured in the form of PPP financing, Dexia played the role of arranger for the financing of EUR 2.5 billion (the final Dexia share amounting to EUR 795 million), intended for the renovation and extension of the Madrid inner ring road. In view of the originality of this operation, associating public and privates operators, the British magazines *Infrastructure Journal* and *Euromoney* each named it “Deal of the Year 2005”.

In the field of water and the environment, the Spanish subsidiary was also co-arranger of a financing of EUR 884 million, intended for the Aigües del Segarra-Garrigues project. Situated in Catalonia, this concerned the construction of a new network for the irrigation of agricultural land. This other major project also drew the attention of the financial magazine *Euromoney* which named it “Deal of the Year 2005”.

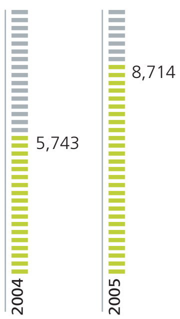
Milestone 6

The Bank ***for Renewable Energies***

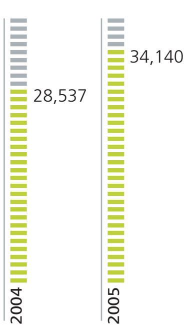
It was in 2000 that Dexia began to invest in renewable energies. Five years later, the Group has become World Number One for the arrangement of financing for wind farms. First of all in Spain, then in Italy and the United States, the bank supported the development of this renewable and non-polluting energy source, as lender, investor and financial advisor, for the principal industrial project leaders. It is a know-how and a capacity for innovation of which Dexia takes great advantage these days on numerous markets, from the United Kingdom to Australia through Belgium, Portugal and France. By financing wind energy, the Group supports an industry growing at 20% a year, and now providing competition at an economic level against the price of hydrocarbons. And because wind is not the only energy source of the future, Dexia also offers its support to the development of emerging sources such as biomass and solar energy. For the "Bank for Renewable Energies" it is a means of realistic commitment to sustainable development and the safeguarding of our planet.

Italy

New originations
(in millions of EUR)



Long-term commitments
(in millions of EUR)



Italy

At year-end 2005, the long-term outstanding commitments of Dexia in Italy were EUR 34.1 billion, up almost 20% on year-end 2004. The Italian subsidiary achieved a record total originations of EUR 8.7 billion, up 52%. For the ***public sector***, the volume of activity recorded at the end of December 2005 was at a record level of EUR 7.0 billion, up strongly by 89% on 2004. This exceptional performance resulted from a particularly high level of activity in all market segments. Dexia increased its market share to 26% in 2005 from 21% in 2004.

Dexia activity is well sustained in the field of bond issues. Note is to be taken of the intervention as co-lead manager in the refinancing of a part of the debt of the city of Milan within the context of the largest bond issue ever seen from an Italian local authority. In 2005, major Italian authorities indulged in debt management transactions. Those led by Dexia Finance Italia represented an amount of EUR 1.2 billion.

In the field of ***structured financing***, originations in 2005 were EUR 1.8 billion against EUR 2.1 billion in 2004. Dexia activity in Italy was in particular related to rail and urban transport, motorways, wind energy and telecommunications. Among the most significant operations was the intervention of Dexia with ISPA, the company in charge of financing the TAV (Treno Alto Velocita), the Italian high-speed train, as arranger of a new bond issue for a total amount of EUR 850 million. Dexia also played the role of arranger for the Nuove Acque project in Tuscany. Amounting to EUR 65 million, it is the first financing in Italy of a private concessionaire of a water distribution network. This most innovative project in Italy drew the attention of the financial magazine *Euromoney* which named it "Deal of the Year". Dexia also acted, with Italian local authorities, as advisor for the development and restructuring of their infrastructures, in particular health and public transportation.

In the field of asset management, assets under management were EUR 826 million at year-end 2005.

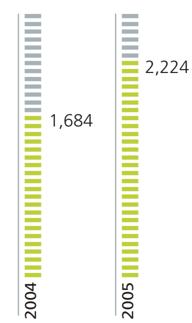
United Kingdom

At year-end 2005, total long-term outstanding commitments to the branch were EUR 6.8 billion, up 47% on 2004. In 2005, long-term originations by Dexia in the United Kingdom progressed strongly. They were EUR 2.2 billion, up 32% on 2004. This rise is associated with very strong activity in the field of structured financing which more than doubled to represent some 50% in 2005 of total Dexia activity in the United Kingdom. With the ***local public sector***, and despite a slight fall in the order of 6%, originations amounted to EUR 1.1 billion, including EUR 889 million with local authorities. The success in marketing the LOBO (Lender's Option, Borrower's Option) product continues. This type of package is extremely attractive since it enables clients to be offered more interesting rates than those offered by the PWLB (Public Work Loan Board). In 2005, two trends were observed: on the one hand, an increase of maturities (loan terms) which enables the public sector to benefit from interesting financing conditions over the long term and, on the other hand, the implementation of asset management operations. In fact, British local authorities want to benefit from good market conditions to restructure their outstanding debt.

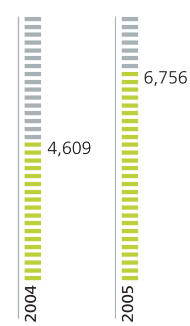
In the field of ***structured financing***, originations over the year 2005 reached EUR 1.1 billion against EUR 513 million in 2004. Activity is particularly sustained in the field of PPP/PFI. A noteworthy fact is that over the year 2005, Dexia occupied second place in the sector for arrangement of bank loans. The British branch in fact played the role of arranger for a dozen PPP projects in numerous fields, the principal of which was education but also health, public transportation, public lighting and social housing. This long and sound presence of Dexia on the English PFI market contributes a great deal to the development of this activity in the Group, in the rest of Europe and in the United States. The British branch also invested in bond issues in the fields of the environment, energy and health.

United Kingdom

New originations
(in millions of EUR)

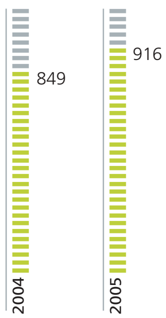


Long-term commitments
(in millions of EUR)

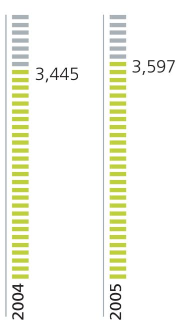


Sweden

New originations
(in millions of EUR)

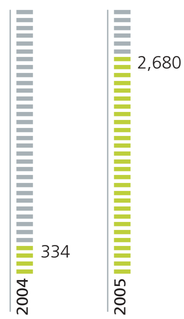


Long-term commitments
(in millions of EUR)



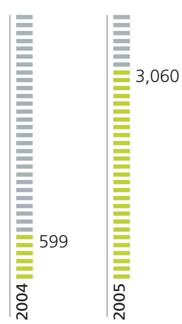
Central and Eastern Europe (1)

New originations
(in millions of EUR)



(1) Includes the full entity Dexia Kommunalkredit Bank and its two subsidiaries in Slovakia and Poland.

Long-term commitments
(in millions of EUR)



Sweden

At year-end 2005, total long-term outstanding commitments to the Scandinavian subsidiary were EUR 3.6 billion against EUR 3.4 billion at year-end 2004.

New originations were EUR 916 million, up 8% on the end of December 2004, including EUR 894 million long-term financing intended for local authorities.

The subsidiary also developed new operations in Finland. At the end of December 2005, amounts outstanding with Finnish counterparts were EUR 107 million, up 78% on year-end 2004. The majority of amounts outstanding relate to municipalities (52.8%) and municipal and state companies (32.8%). The subsidiary also provided long-term financing of EUR 40 million to the municipal company producing and distributing energy in the town of Vantaan, as well as the municipalities of Vihti and Nurmijärvi. These three municipalities are close to the capital Helsinki.

Central and Eastern Europe

The year 2005 was marked by the birth of Dexia Kommunalkredit Bank. The new subsidiary based in Vienna, the capital of which is held 75% by Dexia Crédit Local (51% directly and 24% indirectly), is intended to lead the development of Dexia in Central and Eastern Europe.

Dexia Kommunalkredit Bank holds the Dexia participations in the capital of Dexia banka Slovensko (78.98%), the Slovakian subsidiary and Dexia Kommunalkredit Bank Poland (100%), the Polish subsidiary. The latter obtained its banking license during the second

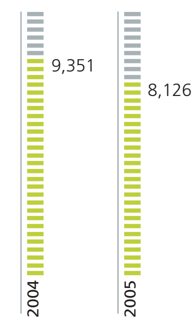
quarter 2005. During the year 2005, Dexia Kommunalkredit Bank developed its presence in Central Europe by creating three new sales prospecting offices in the Czech Republic, Romania and Bulgaria, and also by launching a procedure to open the same sort of office in Hungary.
At year-end 2005, the total of the bank's amounts outstanding was EUR 2.8 billion. Since its creation in 2005 the activity of Dexia Kommunalkredit Bank, in the ***public sector***, has been well sustained, with originations of EUR 2.7 billion. In 2005, the originations of Dexia Kommunalkredit Bank were particularly significant among Polish, Romanian and Hungarian "sovereigns", and particularly in the form of participations in major bond issues or their assembly.
As regards Dexia banka Slovensko, the originations for the year amounted to EUR 141 million, up 85% on 2004 in part by virtue of the development of structured products for Slovakian public clientele.
In the field of asset management, public sector deposits were EUR 492 million at the end of December 2005, up 20% on the end of December 2004.
In the field of ***structured financing***, long-term originations recorded over the course of 2005 were EUR 105 million against EUR 88 million at year-end 2004.

Germany

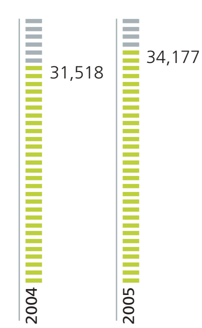
In 2005, Dexia Hypothekenbank Berlin changed its name to Dexia Kommunalbank Deutschland. In fact, a new law in Germany withdrew the status of mortgage bank and thus enabled Dexia clearly to confirm in the eyes of the market its orientation towards the local sector, and to develop it.
The bank's activity is diversified over the satellites of local authorities active in fields relating to public services such as water, transportation, housing, health and energy. These are private risks but their profiles remain extremely close to those of the public sector. The strategy of Dexia in Germany is therefore to present itself clearly as a reference bank for the entire local sector and its satellites.
At year-end 2005, the long-term outstanding commitments of the subsidiary were EUR 34.2 billion, up 8.4% on 2004.
Dexia Kommunalbank Deutschland operates from two locations: its head office in Berlin and its commercial office in Frankfurt. From the latter, the bank operates in the field of local public financing, offering classic products and financial engineering. In 2005, it is important to note that the activity of the Frankfurt office developed on a broad base and recorded very good performances, particularly in the field of structured products. Its originations were EUR 3.1 billion against EUR 1.8 billion in 2004. Dexia put financing in place for major local authorities in Germany such as those for Frankfurt am Main and the city-province (Land) of Berlin, and also for operators in the fields of water and energy. In 2005, Dexia in particular financed the repurchase of claims by the

Germany

New originations
(in millions of EUR)

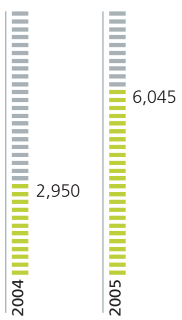


Long-term commitments
(in millions of EUR)

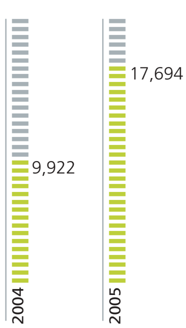


Austria
Dexia *via* Kommunalkredit Austria

New originations
(in millions of EUR)



Long-term commitments (1)
(in millions of EUR)



(1) Corresponding to 100% new long-term originations/ outstanding commitments of Kommunalkredit Austria, which is 49%-owned by Dexia since 2001.

French operator Veolia Water, relating to the concession contract for water treatment in the city of Braunschweig.
From Berlin, Dexia essentially develops its activity of managing portfolios of securities issued by "sovereigns" and local authorities, operating on both the secondary and the primary market.

Austria

Dexia has a minority holding (49%) in the capital of Kommunalkredit Austria, a bank specializing in the financing of Austrian local authorities.
In 2005, the Austrian partner had a record year. In fact, global long-term outstanding commitments reached EUR 17.7 billion against EUR 9.9 billion in 2004. New long-term originations were at EUR 6 billion, or double the volume recorded at year-end 2004. Outside Austria, Kommunalkredit Austria intervenes in Switzerland and in other developed countries.

Other geographic zones

• International offices

At year-end 2005, global long-term outstanding commitments generated by the activity of the two international offices of Dexia Crédit Local and Dexia Bank Belgium were EUR 18.9 billion. Total originations recorded strong progress, reaching EUR 11.7 billion against EUR 3 billion in 2004. The total volume of financing to the ***public sector*** reached EUR 5.3 billion against EUR 1.3 billion. The increase observed is explained by the extremely dynamic activity in Switzerland as well as the development of Public Sector Origination activity. In Switzerland, originations were EUR 1.4 billion in 2005 against EUR 1.0 billion in 2004. From its international office, Dexia financed other operations in Spain, Greece, Canada and Japan.
As regards ***structured financing***, 2005 proved to be an excellent year for originations: they were EUR 6.4 billion against EUR 1.7 billion in 2004. Dexia activity related to the sectors of renewable energy, oil/gas and telecommunications. Among the most remarkable operations were the arrangements of financing for four wind farms in Portugal developed by EDF Energies nouvelles. Dexia also played the role of lead manager in the financing of new gas liquefaction factories in Qatar and in Egypt. Finally we note the launch of Impax New Energy Investors, a fund investing in renewable energies in Europe sponsored by Dexia.

• Israel

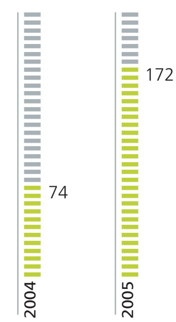
At year-end 2005, the long-term outstanding commitments of Otzar Hashilton Hamekomi (OSM), the Israeli subsidiary of Dexia, were EUR 473 million, up 45% on year-end 2004. The originations achieved over the course of 2005 amounted to EUR 172 million, more than double the volume achieved in 2004. The call for tenders launched in March by the Public Powers for the financing of 80 municipalities in the *recovery plan* enabled OSM on the one hand strongly to increase its activity with major cities and on the other hand to redeploy its activity among small and medium-sized authorities.

• Asia-Pacific

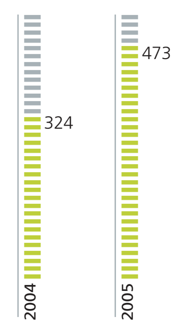
At year-end 2005, global long-term outstanding commitments to the Australian subsidiary were EUR 286 million and long-term originations show a rise of 30% to EUR 159 million against EUR 110 million in 2004. Operating from Sydney, Dexia activity is concentrated on the financing of infrastructure in Australia, principally in the energy sector. The year 2005 was marked in particular by the signature of a first mandate as lead manager for the financing, in the total amount of AUD 403 million, of a project relating to a gas electricity power station situated in the west of the country.

Israel

New originations
(in millions of EUR)



Long-term commitments
(in millions of EUR)



Results

The analysis hereafter is based on the underlying data (i.e. excluding non-operating items) for this business line, in order to allow a better understanding of the fundamental trends of the business line. Items considered non-operating are defined on page 36.

Net income – Group share for the full year posted a solid 14.0% progression and exceeded for the first time the symbolic one billion threshold, amounting to EUR 1,008 million. This new progression confirms the business line's powerful earnings momentum and its status as the first contributor to Dexia's earnings. Taking out FSA's contribution – as this subsidiary experienced in 2005 what may be described as a pause (+0.8% compared to 2004) in its relentless double digit progression since its acquisition by Dexia –, the rest of the business line grew by 19.1% year on year. This naturally reflects the very robust build up of the book of business during many years of high and growing originations. It also stems from Dexia's strategy of international diversification, which has greatly paid off. Today, the business line's net income comes from the US (34%), France (26%), Belgium (20%), Italy (5%); the balance (15%) is originated in different countries worldwide, whose number keeps increasing and already exceeds a dozen.

Total income amounted to EUR 2,253 million for the whole year, up 10.6% or EUR 215 million, and each of the subsegments contributed positively to this growth. FSA contributed EUR 495 million, i.e. EUR 33 million to the revenue growth. The rest of the business line achieved 11.6% growth year on year, or EUR +182 million.

Costs were up EUR 65 million compared to 2004, i.e. +9.5% in 2005, a slightly lower percentage than the progression of revenues. Among the reasons for the cost increase, note that expenses at FSA went up EUR 13 million (or 11.5%), caused by several factors: acceleration of deferred costs on the refunding business; a lower cost deferral rate than in 2004; expenses linked to the move to new head offices. The costs of the business line without FSA went up 9.0% or EUR 52 million. In Belgium, the increase of costs amounted to EUR 12 million, and was principally caused by higher IT spending, legal costs on litigations, and IAS 19 pension provision adjustment. In France, costs were up EUR 9 million, one third of which on account of the new projects of Dexia Sofaxis, and the rest on compensation due to the very high level of originations and hirings for new developments. Elsewhere, the bulk of the increase (EUR 31 million) stems from the various developments and projects of the business line: EUR 8 million for the public sector bond origination and the first expenditure on the Japanese project; EUR 9 million on Central and Eastern Europe; EUR 6 million in America.

As a result, **gross operating income** amounted to EUR 1,501 million in 2005, an 11.1% increase compared to 2004, and 10.9% at constant exchange rate. In spite of the expenditures on the various developments of the business line, and owing to the robust revenue growth, the **cost-income ratio** decreased slightly from 33.7% in 2004 to 33.4% in 2005. On the subject, Dexia manages this indicator in view of the overall development perspective of the business line. Indeed, in an area where acquisition opportunities are rare and where organic growth opportunities are there, management finds cost growth quite acceptable when such expenses relate to business development.

The **cost of risk** in 2005 amounted to EUR 34 million, slightly above the level of charge during the same period of 2004 (EUR 30 million) but this increase is very small when compared to the growth of the assets during the same period. The cost of risk thus remains in the region of its historic lows.

Taxes went up in 2005 to EUR 421 million, up EUR 27 million (+6.8%). This was basically caused by the growth in operating earnings. Of note however, the increase at FSA (USD 25 million in the third quarter, and USD 4 million in the fourth quarter), linked to the change of tax rate on the Bermuda operations. In the other direction, a EUR 20 million provision was written back at Dexia New York in the third quarter of 2005.

Overall, the business line delivered an excellent year, and posted a strong 22.7% **return on economic equity** (ROEE).

UNDERLYING STATEMENT OF INCOME (excluding non-operating items)
(in millions of EUR)

	2004 (1)	2005	Variation 2005/2004
Income	**2,037**	**2,253**	**+10.6%**
of which net commissions	*157*	*150*	*-4.4%*
Costs	**(687)**	**(752)**	**+9.5%**
Gross operating income	**1,351**	**1,501**	**+11.1%**
Cost of risk	(30)	(34)	+14.7%
Impairments on (in)tangible assets	0	0	n.s.
Tax expense	(394)	(421)	+6.8%
Net income	**927**	**1,046**	**+12.8%**
Minority interests	43	38	-12.0%
Net income – Group share	**884**	**1,008**	**+14.0%**
Cost-income ratio	33.7%	33.4%	
ROEE (2)	22.8%	22.7%	
Allocated equity	3,874	4,432	

(1) Pro forma.
(2) Return on economic equity.

Milestone 7

Dexia and Artesia,
together for a wider view

The success of a company merger is measured in its strategic and operational results, and indeed in the manner in which it is led.

In 2001, Dexia purchased Artesia Banking Corporation, which carried on activities in Belgium relating to retail banking (BACOB Bank), insurance (DVV Insurance) and asset management (Cordius Asset Management); Artesia BC was also present on the corporate market and in the non-commercial sector. Through that acquisition, Dexia became number two in bancassurance in Belgium. The Group considerably increased its share of the retail market, whilst strengthening its position as reference banker in the public and social sectors. As for expected synergies, the objectives were achieved and indeed surpassed. In a faultless process lasting four years, the trading rooms were merged, back offices and IT systems integrated, and the branch network reorganized on a multi-channel distribution model, under the joint name of Dexia Bank. In terms of economies of scale and commercial added value, results are today as planned. For Dexia, one of the first reasons for pride is in the exemplary nature of the social dialogue which has overseen the process. Efforts towards internal explanation, the spirit of openness among social partners, and the elaboration from 2003 of a new corporate project anchored in shared values have allowed us to advance without ever losing sight of either the direction of the project or its ambition: to create greater long-term value, for Dexia members of staff and for all our clients.

Personal Financial Services

In Belgium, Dexia Bank is one of the country's top players in retail banking. It offers a complete range of banking and insurance services to a clientele of households and small and medium-sized enterprises. In Luxembourg, Dexia BIL has a similar position among the retail banks of the Grand Duchy. In that country, a private banking business has been developed over the years and now extends beyond Belgium and Luxembourg. Several units and joint ventures have been acquired/developed in a number of European countries, among which France, Spain, Switzerland and Slovakia.

Presentation

Personal Financial Services activity is essentially carried out in Belgium and Luxembourg, where Dexia occupies a premier position. As a consequence of the new segmentation introduced in 2005, the Personal Financial Services business line includes the activities of retail banking and private banking. That activity focuses on the distribution of its products and services as well as those created in other business lines of the Group (principally Dexia Asset Management, Dexia Insurance Services and Financial Markets) to a clientele predominantly consisting of households, but also including wealthy and private banking clients, the liberal professions, self-employed persons and small and medium-sized enterprises. The business line is also active outside Belgium and Luxembourg. This involves various types of approach and/or product. The principal countries are as follows:

- France, where the Group has a 20% holding in Crédit du Nord, Dexia Banque Privée France, a private bank held 100% and Dexia Epargne Pension, specializing in life insurance,
- Switzerland, through Dexia Private Bank Switzerland,
- Slovakia with Dexia banka Slovensko, a bank with 52 branches dealing with the local public sector and individuals, and
- Spain, where Dexia has a 40% holding in Popular Banca Privada, a joint venture with Banco Popular in the field of private banking.

The scope of private banking activity was broadened by the opening, in 2005, of a new representative office in Bahrain by Dexia Private Bank Switzerland.

Activity

At year-end 2005, total customer assets (retail and private banking) were 7.9% higher than at the end of 2004, reaching EUR 123.2 billion.

In 2005, the maintenance of interest rates at a low level and the favourable evolution of the equity markets continued to influence client behaviour. Balance-sheet products (savings accounts, savings bonds) amounted to EUR 52.3 billion, down slightly by 1.9%; whilst off-balance-sheet products (mutual funds or UCI and insurance products) recorded a sustained increase of 16.0% reaching EUR 61.3 billion. These solid results validate the strategy engaged in this business line several years ago.
As for **retail banking**, total customer assets reached EUR 81.5 billion, at the end of 2005, up 6.8%. The major trends were as follows.

- The slight fall of balance-sheet products and in particular savings bonds is partially offset by the positive evolution of sight accounts and savings accounts.
- Off-balance-sheet products continued to perform well during the year. At the end of 2005, they represented 41.1% of retail assets, against 37.4% as of December 31, 2004, up 17.0%. They outweigh the decrease in savings bonds.
- Life insurance products, notably guaranteed-income products (Branch 21), progressed by 32.2% thanks to the successful marketing campaigns launched for off-balance-sheet products during the year and the new tax legislation applicable to insurance products in Belgium from the beginning of 2006.

CUSTOMER ASSETS & LIABILITIES
(in billions of EUR)

	Dec. 31, 2004	Dec. 31, 2005	Variation
Balance-sheet products	53.3	52.3	-1.9%
Off-balance-sheet products	52.8	61.3	+16.0%
Insurance	8.0	9.6	+20.2%
Customer assets	**114.1**	**123.2**	**+7.9%**
Customer liabilities	**25.7**	**28.6**	**+11.4%**
Total customer assets & liabilities	**139.8**	**151.8**	**+8.6%**

CUSTOMER ASSETS
(in billions of EUR)

	Dec. 31, 2004	Dec. 31, 2005	Variation
Total customer assets	**114.1**	**123.2**	**+7.9%**
of which private banking	**37.8**	**41.7**	**+10.3%**
of which retail banking	**76.4**	**81.5**	**+6.8%**
Deposits	30.0	31.2	+4.0%
Sight accounts	*5.0*	*5.7*	*+13.9%*
Savings accounts	*25.0*	*25.5*	*+2.1%*
Savings bonds & term deposits	11.7	9.6	-17.7%
Bonds issued by the Group	6.0	6.5	+8.7%
Mutual funds	17.2	20.7	+20.3%
Life insurance technical reserves	6.1	7.2	+19.3%
Direct securities	5.4	6.3	+15.6%

CUSTOMER LIABILITIES
(in billions of EUR)

	Dec. 31, 2004	Dec. 31, 2005	Variation
Total customer liabilities	**25.7**	**28.6**	**+11.4%**
of which private banking	**2.5**	**2.9**	**+16.0%**
of which retail banking	**23.2**	**25.7**	**+10.9%**
Loans to customers	17.3	19.3	+12.1%
Mortgage loans	*14.9*	*17.1*	*+14.6%*
Consumer loans	*2.4*	*2.3*	*-4.0%*
Loans to SMEs and the self-employed	5.9	6.4	+7.7%

In Belgium, the rationalization of the bank network subsequent to the acquisition of BACOB/Artesia in 2001 was completed. The objective of reducing the network fixed at the time for 2005 was exceeded and the network now has 1,069 branches, 833 branches managed by self-employed branch managers and 236 run by wage-earning employees of the bank. The integration of Artesia BC aimed at serious cost synergies, which have been achieved and even surpassed.
Dexia is actively developing new modes of client relations, including Net Banking. In 2005, Internet banking transactions recorded spectacular growth. In Belgium, the bank launched promotions which came to fruition with the opening of 100,000 new contracts. Today, Dexia Direct Net (formerly Net Banking) has more than 500,000 clients subscribed to the service. In Luxembourg, the number of transactions recorded on the Internet transaction platform Dexiaplus is also increasing sharply among both individuals and professionals.
Axion, the account intended for young people between 10 and 24 years of age, offering them innovative products suited to their specific needs, continues to achieve great success among that client segment. In 2005, more than 14,000 opened accounts.

As regards **private banking**, customer assets were up 10.3% reaching EUR 41.7 billion at the end of 2005. As in the retail segment, the balance-sheet products remained almost stable, whilst off-balance-sheet products increased significantly, up 14.9% from a year ago. The latter products now represent 66.7% of private banking assets, against 64% the previous year. Of note, assets managed under mandates, mutual funds and insurance products rose 17.7%, 22.5% and 22.9% respectively in 2005. In Belgium and Luxembourg (which together represent 83% of the Group's total private banking assets), private banking business benefited also from the successful marketing campaigns catering to the retail segment.

The new segmentation of clientele enabled a reassessment and a differentiation of the range of Dexia services and offers better quality financial advice to high net worth individuals with assets of more than EUR 500,000. This new approach bore fruit particularly in Belgium where private banking assets rose 14% in comparison to 2004.

Finally, launched in Luxembourg in 2004, the Dexia Vision™ programme is achieving great success and opens the way to new portfolio management and financial advisory services. Extremely innovative, it relies on the highest values: responsibility, transparency and performance.

Outstanding loans to retail and private customers amounted to 28.6 billion as of December 31, 2005, up 11.4% in one year. This result is principally due to mortgage loans outstanding to retail customers, which were EUR 17.1 billion, up significantly by 14.6%. This increase was even more significant in the fourth quarter 2005 thanks to anticipation of a rise of interest rates. Finally, the volume of loans to private banking customers was up 16.0%.

Results

The analysis hereafter is based on the underlying data (i.e. excluding non-operating items) for this business line, in order to allow a better understanding of the fundamental trends of the business line. Items considered non-operating are defined on page 36.

The performance of the business line improved again in 2005, after two record years of earnings growth in 2003 and 2004. A strict cost discipline coupled with strong revenue-generating activities led to achieve, this year again, a double-digit increase. The **net income – Group share** for the full year 2005 amounted to EUR 420 million, up 13.3% compared to 2004.

Nota bene

Before commenting the results of the business line, it must be noted that several changes and adjustments took place in the course of the year – of an accounting nature or dealing with the scope of consolidation – which had an overall material negative impact on the annual business line's revenues:

- *the accounting mode of fees on structured eurobond products has changed under IFRS; under the previous methodology, these products would have generated EUR 30 million more revenues in 2005;*
- *early repayment penalties on mortgage loans have been unduly taken upfront during the first three quarters of 2005; this was corrected in the fourth quarter in the amount of EUR 18 million.*

All above items have the combined effect to distort the comparisons on a like-for-like basis: the revenue growth between full year 2005 and full year 2004 should have been EUR +117 million instead of EUR +69 million.

Total income for the full year 2005 amounted to EUR 2,219 million, up 3.2% or EUR +69 million compared to 2004. At comparable accounting standards, the revenue growth would have been +5.4%. This increase was mainly driven by the commissions (+10.0%), pursuant to Dexia's policy to promote actively the off-balance-sheet products (cf. Activity above). The "no (or low) entry fee" propositions, the marketing campaigns conducted throughout the four quarters, and finally the announcement of a new tax on insurance products from 2006, have positively influenced the revenues, and will continue to do so in the coming times.

Costs amounted to EUR 1,596 million for the full year 2005, a modest 1.8% increase compared to those of 2004, and given the strong revenue momentum in 2005. Yet, they include the investment in franchise, distribution and marketing that has contributed to the increase of business. Particularly noteworthy is the fact that the branch closure target decided in 2001 was exceeded, the total number of branches standing at 1,069 at the end of 2005, compared to the initial target of 1,099.
Gross operating income in 2005 thus went up 6.9% to EUR 623 million.
The **cost-income ratio** continued to improve, from 72.9% in 2004 to 71.9% this year, reflecting the good trends described above.
The **cost of risk** remained very small at EUR 23 million in the year, a decrease of 34.4%.
Tax expenses remained almost stable in 2005 at EUR 182 million. Owing to a more efficient management of the tax base, the tax rate stood at 29%, lower than in 2004 (37%).
The **return on economic equity** (ROEE) continued to improve and stood at 23.5% for the full year 2005, up from 21.6% in 2004.

UNDERLYING STATEMENT OF INCOME (excluding non-operating items)
(in millions of EUR)

	2004 (1)	2005	Variation 2005/2004
Income	**2,150**	**2,219**	**+3.2%**
of which net commissions	*669*	*736*	*+10.0%*
Costs	**(1,568)**	**(1,596)**	**+1.8%**
Gross operating income	**583**	**623**	**+6.9%**
Cost of risk	(35)	(23)	-34.4%
Impairments on (in)tangible assets	0	0	n.s.
Tax expense	(179)	(182)	+1.6%
Net income	**369**	**418**	**+13.4%**
Minority interests	(2)	(1)	-20.1%
Net income – Group share	**370**	**420**	**+13.3%**
Cost-income ratio	72.9%	71.9%	
ROEE (2)	21.6%	23.5%	
Allocated equity	1,718	1,782	

(1) Pro forma.
(2) Return on economic equity.

It did not take ten years for Dexia Asset Management to become a leading asset manager on the European market.

Through the scope of its range, first of all: the financial analysis and management company of the Dexia Group, created in 1998 and strengthened in 2001 by the purchase of Cordius Asset Management, has moved from a niche positioning to one covering the entire range of investment supports, for institutional and private clients. Then in terms of credibility, since Dexia Asset Management is recognized as one of the best managers on the market. Finally by the amount of assets under mandate, reaching EUR 91 billion at year-end 2005. The foundation of this success: an organization which combines the centralization of management activities (in Brussels, Paris, Luxembourg and Sydney) and a decentralized marketing network, gradually extended throughout Europe and Asia, so as to offer tailor-made services to clients whilst controlling costs. Another key factor rests in the investment process, at the same time modeled, objective and innovative, in phase with the evolution of the markets. Indeed, beyond its skills in traditional management, Dexia Asset Management is among the pioneers of alternative management, and above all sustainable management. Involved since 1998 in this activity of the future, the subsidiary today offers the widest range of socially responsible investment (SRI) funds in Europe. "Money does not perform. People do" – money is nothing without the talent of people. The Dexia management company owes its success above all to the values which have been its guiding light since it came into being!

Milestone 8

Asset management, ***performance and values***

Investment Management and Insurance Services

Presentation

The specialist activities of asset management, fund administration and insurance are developed with success by the Dexia Group. Dexia has its own production capacity for asset management through its subsidiary Dexia Asset Management. Today the latter is a major European actor operating in numerous European countries: Belgium, France, Luxembourg and also Austria, Italy, Switzerland, Germany, Spain and the United Kingdom. In 2005, Dexia Asset Management widened its network with two new offices: one in Denmark and the other in Sweden.
In the fund administration business line, Dexia offers three types of services: custody and related services, central administration and transfer agent. Dexia is a leading player in this industry by virtue of its leading position in the Luxembourg market. Dexia has gradually developed its know-how outside Luxembourg through its two subsidiaries Dexia Fund Services and FETA (First European Transfer Agent). It now occupies the position of European leader on this market. In 2005, a joint venture agreement was concluded between Dexia and Royal Bank of Canada. Operational from January 2006, it creates a new entity, RBC Dexia Investor Services, which is among the top ten custodians in the world with EUR 1,650 billion of assets on deposit.
In the field of insurance, through Dexia Insurance Services, Dexia combines life and non-life insurance companies operating principally in Belgium, Luxembourg and France. For the most part Dexia carries out this activity in the field of life insurance.

Activity

Asset management achieved a strong year in 2005. Volumes reached EUR 90.6 billion at year-end, up 26.8% (or EUR +19.1 billion) on the previous year, under the effect of a significant organic growth (EUR +12.1 billion) but also of a positive market effect (EUR +7.0 billion). All types of management experienced a very strong increase in 2005: notably the mutual funds category increased by 30.3% in one year, due to the resumed appetite for such products, on the part of both retail and institutional clients. The increase in volumes of discretionary private mandates was 21.5%, and institutional mandates went up 18.6%. In this latter category, the growth of new business stemmed from different sources: insurance activities within Dexia; new mandates from pension funds; new mandates from local and government authorities; mandates from financial institutions. Of note, an important flow of business was won on the Australian market.

Concerning the productivity ratios of the company, already very good in 2004, they have further improved in 2005, with costs representing only twelve basis points of assets under management. The performance of Dexia Asset Management's funds also stood very well: Standard & Poor's ranking of sector peer group placed 72% of its funds in the first two quartiles (by volume) in 2005, and 79% in the last three years.

Fund Administration activity remained very strong.

- Total ***assets under custody*** amounted to EUR 409.0 billion at year-end 2005, up 17.5% on one year earlier. The mandates to Dexia Fund Services stood at EUR 255.1 billion, up 35.2% over the year thanks to the market effect, but above all to the mandates won throughout the year notably in Luxembourg.
- The ***central administration*** activity has experienced a growth of 5.6% over 2004 in terms of number of valuations. The assets in this activity grew 28.4% to EUR 241.7 billion in 2005.
- The ***transfer agent*** activity remained almost unchanged over the year.

In 2005, Dexia and Royal Bank of Canada announced the creation of a joint venture (effective as of 2006). The new company, RBC Dexia Investor Services, ranks among the world's top 10 global custodians with assets under custody (includes assets of Royal Bank of Canada as of October 31, 2005 and Dexia as of September 30, 2005) of approximately EUR 1,650 billion. RBC Dexia Investor Services offers an integrated range of products, including global custody, fund and pension administration, securities lending, shareholder services, analytics and other related services, to institutional investors worldwide. This announcement has been very well received by clients.

ASSETS MANAGED BY TYPE OF MANAGEMENT
(In billions of EUR)

	2004	2005	Variation
Mutual funds	49.3	64.2	+30.3%
Private mandates	3.8	4.6	+21.5%
Institutional mandates	18.4	21.8	+18.6%
Total	**71.5**	**90.6**	**+26.8%**

Group insurance activities

Insurance activities occupy an important place in Dexia's business portfolio. The total of gross premiums received in 2005 was EUR 3,684 million (excluding the activities of FSA and Dexia Sofaxis) and total revenues amounted to EUR 443 million, i.e. nearly 7.5% of total Dexia Group's revenues. Insurance activity is carried out through the business lines of Dexia and principally:

- Personal Financial Services which represent 72% of total premiums collected with products dedicated to retail bank and private banking clients;
- Public/Project Finance and Credit enhancement, with institutional clients, local authorities and other local public sector organizations, which represent 17% of total premiums collected in 2005;
- The balance of the originations in 2005 (11%) came from third party networks who distribute the Dexia products among their own clients; this latter part of the commercial production.

The Investment Management and Insurance Services business line looks after the operational management (administration, back office, IT), financial and statutory management of the insurance entities. The principal entity is Dexia Insurance Belgium (DIB), which is the result of the merger of the former Dexia Insurance and DVV Insurance. DIB and its subsidiaries, the main subsidiaries being Dexia Epargne Pension, Dexia Life & Pensions, Belstar and Corona, are consolidated in Dexia Insurance Services (DIS), which represents 86% of total insurance revenues generated within the Group.

89% of premiums are generated by life insurance activity. From a geographic point of view, the majority of premiums are collected in Belgium (70%), the remainder coming essentially from France (mainly under the brand of "Dexia Epargne Pension") and Luxembourg (above all Dexia Life & Pensions). Of note, an insurance activity conducted in Germany under the Rekord brand was closed down during the year.

2005 has been a strong year overall in insurance activity at Dexia, with a progression of 22.7% in the total premiums above the previous year.

TOTAL GROSS WRITTEN PREMIUMS
(In millions of EUR)

	2004	2005	Variation
Nonlife	**397**	**415**	**+4.4%**
Life	**2,606**	**3,269**	**+25.4%**
Branch 21 (common life included)	*1,881*	*2,533*	
Branch 23	*725*	*646*	
Branch 26	*–*	*90*	
Total	**3,003**	**3,684**	**+22.7%**

BREAKDOWN OF THE TOTAL GROSS WRITTEN PREMIUMS PER BUSINESS LINE
(In millions of EUR)

	2004	2005	Variation
Public/Project Finance	420	625	+48.8%
Personal Financial Services	2,344	2,643	+12.8%
Investment Management and Insurance Services	239	416	+73.6%

This growth stemmed from all three business lines:

- Public/Project Finance increased its originations by 48.8% to EUR 625 million in 2005;
- Personal Financial Services increased its premiums by 12.8% to EUR 2,643 million;
- in Investment Management and Insurance Services the growth was +73.6% to EUR 416 million.

Commercial activity was good throughout the year, but it was particularly strong in Belgium and Luxembourg during the fourth quarter. This is mainly due to a new tax on insurance products which comes into force in Belgium in 2006, causing higher than usual before its enforcement and also due to an important commercial campaign. In France, the commercial success of Dexia Epargne Pension is bearing fruit: after only three years of existence, this unit has originated EUR 625 million of premiums (+48.8%) spread nearly equally between Dexia clients and those of third party clients.

Looking at the revenues of the insurance activities at Group level, they amounted in total to EUR 443 million in 2005, up 13.3% better on 2004. They came from Public/Project Finance (5%), Personal Financial Services (50%) and Investment Management and Insurance Services (45%), pursuant to the analytical conventions applied among the business lines. If now considered under the angle of reporting entities, Dexia Insurance Services generated EUR 381 million of the total insurance revenues in 2005. The balance (EUR 62 million) represents mostly commissions income related to the distribution of insurance products, booked at Dexia Bank Belgium, Dexia BIL and Dexia Crédit Local.

For the purposes of evaluating the insurance business within the Group, management looks at the originations and the "top line" contributions by business line (as indicated above) as the best proxy to activity performance. Financial performance, by contrast, is analyzed on the consolidated reporting of Dexia Insurance Services. In 2005, DIS had EUR 381 million of total revenues (+10.8% on 2004) and EUR 124 million to net income – Group share (up 41.7% on 2004). This good performance stems from a high dividend inflow in 2005, higher investment income linked to the growth of the life reserves and also from some capital gains pursuant to specific operations such as Almanij and Electrabel. The net income – Group share was favorably impacted by a low tax charge, itself explained by the revenue mix.

FINANCIAL RESULTS OF DEXIA INSURANCE SERVICES
(in millions of EUR)

	2004	2005	Variation
Revenues	344	381	+10.8%
Costs	(203)	(227)	+11.5%
Taxes and other	(54)	(30)	-44.4%
Net income – Group share	87	124	+41.7%

Results

The analysis hereafter is based on the underlying data (i.e. excluding non-operating items) for this business line, in order to allow a better understanding of the fundamental trends of the business line. Items considered non-operating are defined on page 36.

Net income – Group share of the business line in 2005 increased strongly to EUR 230 million, up 28.6% compared to 2004.
The performances of all three units pertaining to this segment were good, as analyzed below.

- ***Asset management*** performed very well in 2005, with increased revenues (+4.8% or EUR 9 million in one year). This progression must be analyzed in view of the fact that various changes were introduced in 2005 (no more absolute performance fees as from January 1, 2005; revised fee structure on certain products/services; different split in commissions between the distributors and the asset managers for some mutual funds). On a like-for-like basis, the revenue increase year on year would have been +21%, quite consistent with the volume growth. Costs increased (+17.3% in one year, or EUR 16 million), in conjunction with the strong developments of the activity. In particular, three new sales offices were opened (in Milan, Madrid and Rotterdam) to develop business with institutional clients. Staff increased by 67 in 2005, adding to the recruitments made at the end of 2004. This increase of the costs did not however preclude the efficiency ratio (cost per unit of asset managed) of Dexia Asset Management to keep improving, from 13 basis points in 2004 to 12 basis points in 2005.

- ***Fund administration*** revenues were up 14.0% (or EUR +35 million) at EUR 282 million in 2005. Income was pulled by higher volumes and commissions on mutual funds and higher foreign exchange income, but somewhat mitigated by the closure of operations in the Netherlands and by the pressure on fees in a strong competitive environment. The costs rose by EUR 16 million, due to the cost of establishing the new joint venture (RBC Dexia Investor Services – EUR 8 million) and by IT developments in the Spanish and Italian units. As a result, gross operating income increased by 23.9% (or EUR +18 million) to reach EUR 95 million for the full year.

• The *insurance* activities have also achieved a very good year in 2005. To remind, this segment includes only the "factory" operations (i.e. without the distribution income staying in the other business lines). For a complete reading of the contribution of the insurance activities throughout the Group, please refer to the Focus on insurance activities across the Group on pages 86-87.

Within the business line, revenues amounted to EUR 221 million in the year, up 13.9% or up EUR 27 million compared to 2004. Net income amounted to EUR 87 million, (+76.8% or EUR +38 million), owing particularly to the positive influence of financial revenues and lower taxes.

UNDERLYING STATEMENT OF INCOME (excluding non-operating items)
(in millions of EUR)

	2004 (1)	2005	Variation 2005/2004
Income	**630**	**701**	**+11.2%**
of which net commissions	*192*	*238*	*+24.1%*
Costs	**(379)**	**(423)**	**+11.6%**
Gross operating income	**251**	**278**	**+10.6%**
Cost of risk	(1)	0	n.s.
Impairments on (in)tangible assets	0	0	n.s.
Tax expense	(63)	(42)	-32.4%
Net income	**188**	**235**	**+25.3%**
Minority interests	9	6	-39.2%
Net income – Group share	**179**	**230**	**+28.6%**
Cost-income ratio	60.1%	60.4%	
ROEE (2)	24.7%	28.1%	
Allocated equity	724	819	

(1) Pro forma.
(2) Return on economic equity.

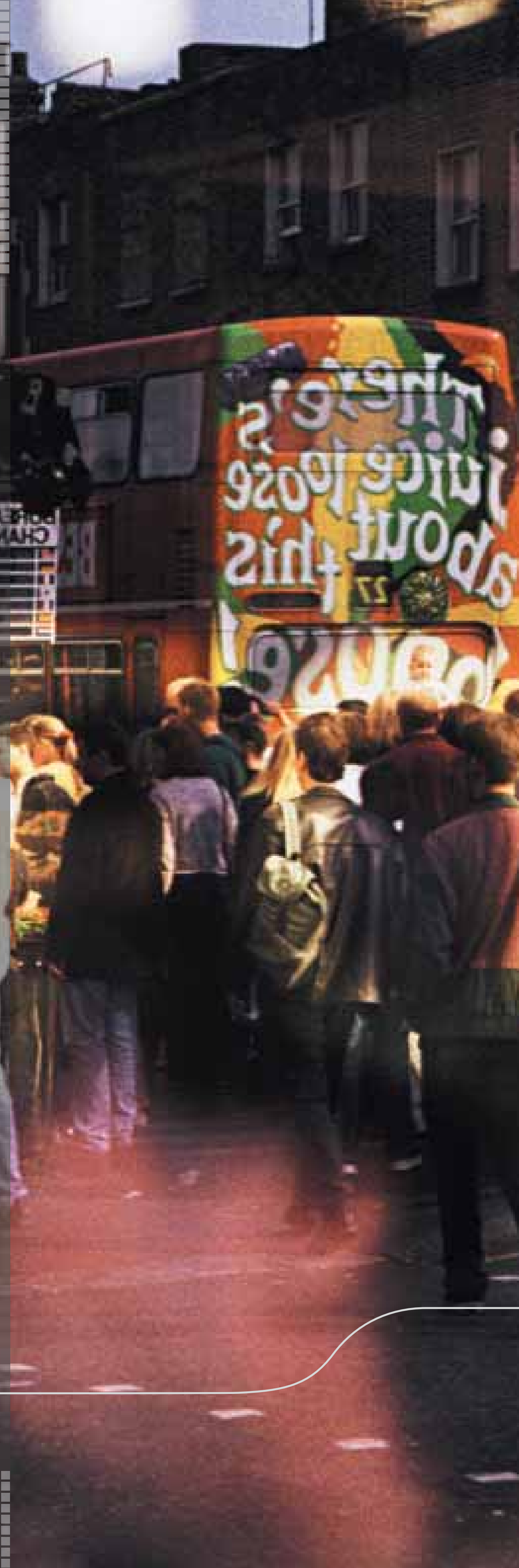
UNDERLYING CONTRIBUTION OF THE BUSINESS LINE SEGMENT UNITS
(in millions of EUR)

	Asset management		Fund administration		Insurance	
	2004 (1)	2005	2004 (1)	2005	2004 (1)	2005
Revenues	189	198	248	282	194	221
Costs	(94)	(111)	(171)	(187)	(114)	(125)
Gross operating income	94	87	77	95	80	96

(1) Pro forma.

When it comes to investor services, credibility is not just a matter of skills: it is also a question of dimension.

With Dexia Fund Services (DFS) and its subsidiary First European Transfer Agent (FETA), Dexia was among the recognized specialists on the market of fund administration. Already present in 11 countries in Europe and Asia, Dexia Fund Services offered a wide range of services to investment funds, as custodian bank, administrative agent and transfer agent. However, despite the exponential growth of its results, DFS remained a flyweight compared to the giants of the sector. In 2005, Dexia therefore took the strategic decision to seek a powerful ally. By merging DFS with the twin entity of Royal Bank of Canada (RBC), Dexia BIL concluded a partnership which bore a strong resemblance to the ideal alliance. In phase with their business line philosophies, the two operators are complementary in terms of size, services and geographic coverage: beyond its added value services, RBC Global Services contributes a solid portfolio of clients in Canada, and also in the United Kingdom and Australia. Created on 2 January 2006, RBC Dexia Investor Services goes straight into the world top ten of custodian banks (EUR 1,650 billion in client assets), and its geographic coverage extends over 15 countries and 4 continents. The young company now offers a most comprehensive range of services: a solid basis upon which to embark upon its new long-term voyage, from which to gain momentum for its international development and from which to provide appropriate and innovative responses to each of its clients around the world.



Milestone 9

RBC Dexia Investor Services
in ***the world top ten***

Treasury and **Financial Markets**

Dexia's principal businesses give the Group an intensive presence in the capital markets, whether for the funding and management of the Group's balance sheet, or for the engineering of sophisticated products and solutions delivered to clients of the various business lines. This business line is not only a key support entity for the whole Group, but it is also an important profit center which generates substantial earnings.

Activity

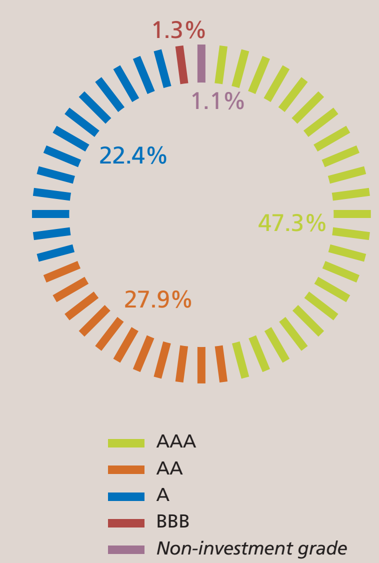
Funding activities have been again very buoyant in 2005, in line with the strong balance-sheet growth of Dexia. Long-term issues (2 years and more) amounted to EUR 29.7 billion (+2.8% above 2004 level), of which EUR 17.0 billion bear the AAA signatures of Dexia Municipal Agency and Dexia Kommunalbank Deutschland (formerly Dexia Hypothekenbank Berlin). Dexia thus continues to stand among the largest private issuers on the bond market. The funding cost of new issues in 2005 was lower than in 2004, and the average life of the new issuances increased to 9.0 years (compared to 7.3 years in 2004). Most of the long-term funding was sourced, as before, from private placements with institutions (61.3%), but it must be noted that the retail oriented bond activity now occupies a sizeable part of the long-term funding (EUR 6.9 billion issuances in 2005, i.e. 23.3% of total). The placement of such notes is not only made in the networks of Dexia in Belgium and Luxembourg (5% of total), but more and more importantly in several retail banking networks in Italy (18% of total), pursuant to Dexia Crediop's marketing agreements with several large Italian banks who distribute this paper, which meets great success.

LONG-TERM ISSUES IN 2005

(in billions of EUR)

Dexia Municipal Agency	8.8
Dexia Crédit Local	4.4
Dexia Bank	1.2
Dexia BIL	0.5
Dexia Crediop	6.4
Dexia Kommunalbank Deutschland	8.2
Total	**29.7**

CREDIT SPREAD PORTFOLIO QUALITY



Short-term funding – managed by the **money market** team which generates about a quarter of TFM's revenues – was also very active in 2005, under its various usual forms (short-term bonds, commercial paper, CDs, interbank market, repurchase agreements) but it was also sourced with institutional clients, such as several central banks who appreciate depositing mostly euro-denominated reserves with Dexia in view of its good rating and renown. This clientele now represents nearly 15% of the total outstanding short-term borrowings of TFM, which exceeded EUR 100 billion at year end.

The **credit spread portfolio** (CSP) was increased substantially to EUR 54.9 billion at year end (from EUR 39.3 billion a year before). This activity, which contributes for about half of the TFM's revenues, consists of managing a large portfolio of high credit quality instruments (about 99% of the portfolio is investment grade, and 75% is rated AA- or above) on the strength of Dexia's good rating, but more importantly, of its capability to assess the risk/reward of selected asset classes on which the Group has a long experience and a very good command (sovereigns, covered bonds, ABS/MBSs, financial institutions). In the CSP, Dexia keeps the credit risk but hedges the interest rate risk, and the investment lines are essentially classified in the available-for-sale (95%) and hold-to-maturity (2%) categories.

The new investments made in 2005 totalled EUR 24.3 billion, making of Dexia one of the most sizeable buyers in the market. The portfolio now also includes a significant element of "balance-sheet lending" business, offering attractive returns. This is a business where Dexia supplies funding to financial institutions seeking liquidity but retaining the credit risk of their loan books via credit default swaps (EUR 3.1 billion of new business was written in 2005).

The other contributors to TFM's revenues are several specialist desks, operating in the various global capital markets, such as **fixed income** (arrangement of bond issues distributed in the retail networks; primary dealing of Belgian government bonds; syndication and support to the public sector bond origination team…), **foreign exchange** and **equities**. Of particular interest are the achievements of two other segments of TFM which bring sizeable and growing revenue contributions, and who also participate to the increasing renown of Dexia as "the investment bank of the local public sector" and related niche markets. The first one is **financial engineering and derivatives** (FED) which, among other missions, is responsible for the engineering and marketing of the structured products sold to the clients of the retail, private and public sectors. The economic revenue exceeded EUR 60 million in 2005. The other one is **securitization** which operates partly out of Brussels and partly in the US; it accounted for EUR 35.6 million of revenues in 2005, up 47% on 2004. This desk advises, arranges and/or underwrites securitization transactions. In Europe, it mainly deals with assets owned by the public authorities (real estate, tax receivables…), and in the US, its business is focused on commercial property. In both cases, extensive know-how is applied to structure ABS transactions responding precisely to the needs of investors seeking certain types of asset classes. This activity achieves very attractive returns, and provides excellent service to the market. A good part of its success stems from the fact that it combines the expertise of Dexia in the Public Finance sphere and in structured products to conceive innovative asset classes whose commercial potential could develop very strongly in the years to come.

TFM is a very profitable business line on its own right within Dexia, with nearly half a billion euros of revenues in 2005, as analyzed hereafter. But it is also a strong support unit to the other business lines and to the Group itself for what concerns funding and balance-sheet management. The amount of indirect revenues stemming from the cooperation between TFM and the other business lines and booked in the latter, are estimated to exceed EUR 300 million in 2005. By nature, its revenues are more volatile than in the rest of the Group, and it incurs some exposure to interest rate and equity market risks. In 2005, the VaR limit allocated to TFM was EUR 73 million, and the average utilized was EUR 27 million, a very small percentage of Group equity resources. (See chapter "Risk Management" in the Annual Report - Accounts and Reports on page 40).

Results

The analysis hereafter is based on the underlying data (i.e. excluding non-operating items) for this business line, in order to allow a better understanding of the fundamental trends of the business line. Items considered non-operating are defined on page 36.

This year again, Treasury and Financial Markets had a very good year, with **net income – Group share** reaching EUR 267 million, up 15.4% on the previous year. The main contributors to the business line's yearly net income remain the credit spread portfolio (CSP) – representing 65% thereof – and the money market activities (19%).
Total income for 2005 amounted to EUR 487 million, up 8.5% or EUR +38 million over the previous year, and was largely pulled by the revenue progression of CSP (EUR +21.4 million), money market (EUR +15.6 million), and of the securitization activities (EUR +11.5 million) where business has been particularly buoyant. The financial engineering and derivatives (FED) desk also performed well in 2005.The business line's income was however mitigated, this year again, by products involving arbitrage strategies, which embed cash and derivative instruments whose change in value may cause simultaneously either increased revenues and taxes at times, or reduced revenues and taxes at other times.
The overall effect was one of reduced revenues both in 2005 (EUR 35 million) and in 2004 (EUR 14 million) leading to a negative variance of EUR 21 million year on year.
Costs were up 8.5% to EUR 177 million for the full year 2005. This EUR 14 million increase results from several factors among which are structuring charge for the downsizing of cash-equity activities in France (EUR 5 million) and the developments of securitization activities in the US (EUR 5 million).

Gross operating income thus amounted to EUR 311 million for the full year (+8.5%). Thus, the underlying **cost-income ratio** remained stable, at 36.2% in 2005.
Cost of risk stood at a net write-back of EUR 1 million in 2005, compared to a net write-back of EUR 20 million in 2004, pursuant to issues that were resolved.
Finally, the net **tax charge** was EUR 42 million in 2005, i.e. EUR 31 million less than in 2004. This important diminution is partly explained by the accounting impact of the arbitrage products discussed above (EUR 21 million of the variance), and also by the fact that an adjustment was made in 2004 of the tax charge, with no equivalent in 2005 (EUR 13 million of the variance).
Return on economic equity (ROEE) of the business line remained stable in 2005, at the high level of 26.9%.

UNDERLYING STATEMENT OF INCOME (excluding non-operating items)
(in millions of EUR)

	2004 (1)	2005	Variation 2005/2004
Income	**449**	**487**	**+8.5%**
of which net commissions	*33*	*20*	*-38.8%*
Costs	**(163)**	**(177)**	**+8.5%**
Gross operating income	**287**	**311**	**+8.5%**
Cost of risk	20	1	n.s.
Impairments on (in)tangible assets	0	0	n.s.
Tax expense	(73)	(42)	-42.9%
Net income	**233**	**270**	**+15.7%**
Minority interests	2	3	+51.2%
Net income – Group share	**231**	**267**	**+15.4%**
Cost-income ratio	36.2%	36.2%	
ROEE (2)	25.9%	26.9%	
Allocated equity	893	990	

(1) Pro forma.
(2) Return on economic equity.

Milestone 10

The ***European Works Council*** *transnational social dialogue*

In 1996, anticipating the application of the European Directive, Dexia decided to create a European Works Council (EWC), the action of which was intended for the majority of the Group and its 13,500 members of staff at that time. Straight away, it placed a great deal of emphasis on the social plan. Ten years after its creation, this lively body reflects the vitality of the social dialogue, within a Group which has made the construction of a shared culture and values a strategic priority. A body for discussion in tune with the international reality of the company, the EWC, which consists of 33 representatives of the employees in six European countries, has become a unifier of business lines and cultures in Dexia. Founding texts, such as the *Principles of Social Management* and *the Human Resources Quality Charter*, are debated and negotiated there. Given significant operational means which go well beyond any legal obligations, the EWC also plays a key role in providing information and ensuring discussion on economic, financial or social questions of a transnational nature: employment, the evolution of business lines, mergers and acquisitions and so on.

Women, men, **a group**

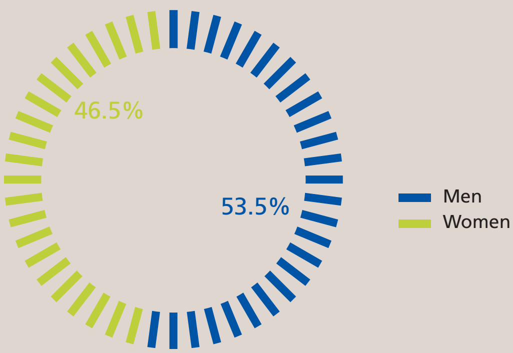
Created ten years ago, Dexia enters in 2006 a new phase in its growth, the principal objective of which is to strengthen the integration of members of staff, to evolve an entity culture into a Group culture and to define a management suited to the issues at stake.

Members of staff at Dexia

- At the end of 2005, Dexia had 24,418 members of staff against 24,019 in 2004, an increase in global workforce of 1.7%.
- More than 50% of members of staff have joined the Group since less than ten years ago, which proves the strong development recorded since the creation of Dexia in 1996.
- In 2005, the overall division of workforce between men and women was well balanced, respectively 53.5% and 46.5%.
- Group members of staff are young: in total, 35% are less than 35 and 52% less than 40 years of age.
- The average age is 40.3 for men and 37.7 for women. The average overall age is 39.1.
- Recruitment is principally from the age group 25-35.
- The average length of service of members of staff of the Group is 11.5 years.
- 95% of members of staff of the Group are employed under an indefinite-term contract.
- Turnover is 6.69% of workforce on indefinite-term contract.
- 18.5% of members of staff of the Group work part time against 15% in 2003 and 17% in 2004. In 2005, the proportion of men rose 1% to 6.5% against 32% of the female workforce.
- The average number of days of training per employee is 2.89 per annum.

The year 2005 was marked by significant geographic expansion and the opening of new offices in Mexico, Canada, Bulgaria, Japan, Romania, the Czech Republic and Poland. In 2005, Dexia employed members of staff in 30 countries.

GENDER BREAKDOWN



24,418 MEMBERS OF STAFF IN 30 COUNTRIES

Belgium (1)	15,275
Luxembourg	3,249
France	2,516
Slovakia	781
Netherlands	542
United States	506
Italy	281
Switzerland	232
Spain	220
United Kingdom	188
Ireland	173
Germany	115
Singapore	82
Hong Kong/China	58
Israel	33
Denmark	33
Australia	29
Poland (2)	17
Sweden	14
Japan (2)	8
Czech Republic (2)	6
Mexico (2)	6
Romania (2)	4
Bulgaria (2)	3
Canada (2)	3
Other countries	44
Total workforce as of December 31, 2005	**24,418**

(1) Including members of staff of the self-employed network of Dexia Bank Belgium.
(2) New office in 2005.

Preparing for the future

In 2005, the Dexia Group formalized commitments vis-à-vis its teams which it intends to observe and apply in matters of training, recruitment, internal mobility and performance management. These now appear in the *Human Resources Quality Charter* distributed to all members of staff and the 34 commitments must be effective by the end of 2006 in the main entities of the Group.
Furthermore, the post of Business Partner was created in 2005 in the different Group's human resources departments. The Business Partner is responsible for local application of the measures adopted at Group level (principles of social management, **Human Resources Quality Charter**, commitments to non-discrimination…) and is the point of contact both for management and employees, intervening on a daily basis in all matters of training and career management.
With a presence in 30 countries, through the diversity of its business lines, the Dexia Group offers real opportunities for career evolution facilitated by the *Passport for Dexia*. This charter relies on a package of rules and common principles applicable to members of staff whether on placement or expatriate, and thus contributes to the integration and development of a feeling of belonging to the Group.

Dexia Corporate University

In order to ensure the sustainability of the company in the long term, it is vital also to ensure the development of skills which will be necessary in the future and to have all managers adhere to the common management model.

Created at the end of 2004 and fully operational in 2005, the Dexia Corporate University (DCU) offers high-level training programs and opportunities for personal development to Dexia executives. The DCU's Marco Polo program, which places the emphasis on the international mobility of the Group, was chosen as best European training program by the magazine *Funds Europe*.

The Marco Polo program

Named after the great 13th century Venetian explorer, the Marco Polo program of the Dexia Corporate University places the emphasis *inter alia* on international mobility within the Group. It also aims to develop the skills of young members of staff who have already proved themselves and their promising professional future.

Marco Polo is based on an individual development course for each participant, offering training sessions within entities and at the Dexia Corporate University, fostering meetings with other entities of the Group. Training relates to project management, inter-cultural management and team work.

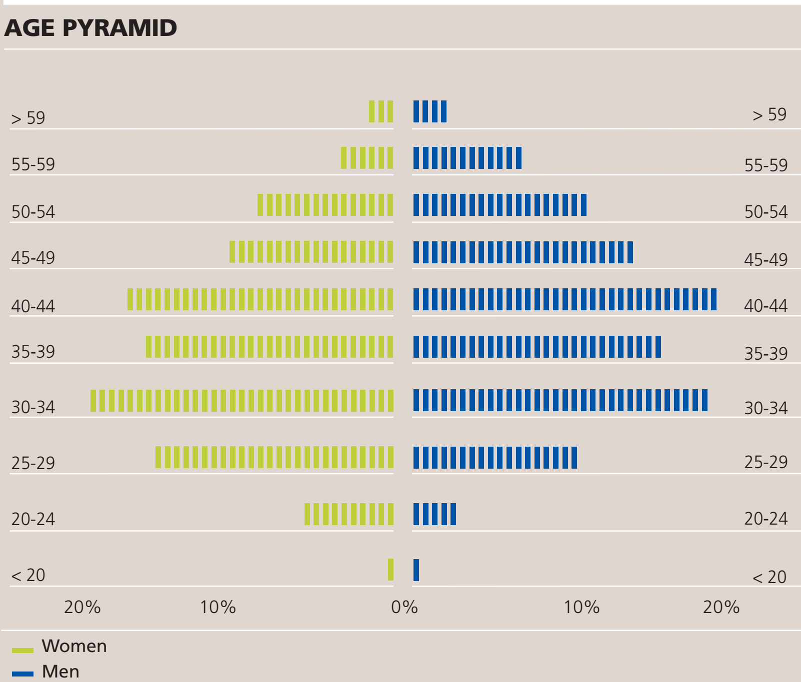
The program is followed over a full year with its key being a 6-month expatriation falling within a Group perimeter, all Dexia entities Dexia combined.

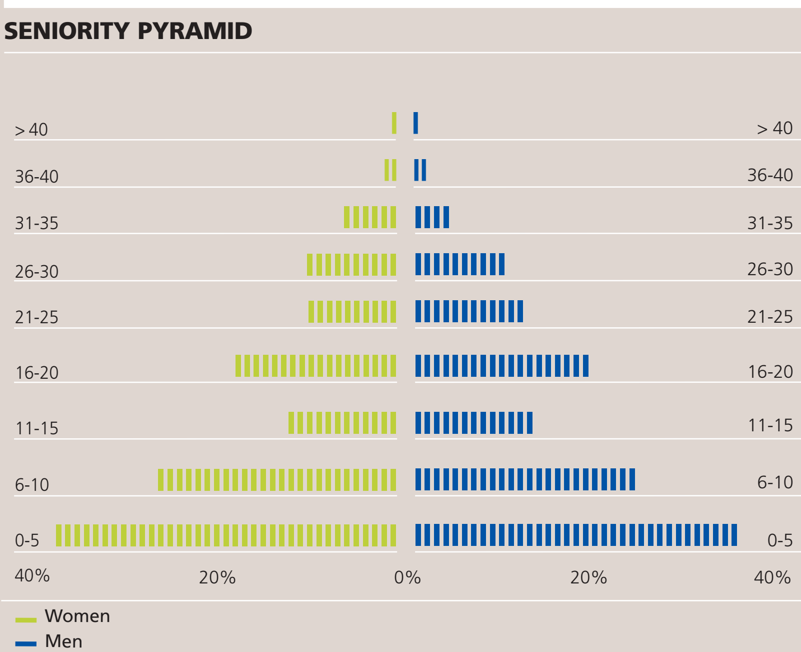
The 30 trainees have between 2 and 5 years service in the Group, are aged between 30 and 35 years, speak fluent English and have been chosen by their superiors for their particular skills and performances. They are also prepared to obtain experience in another entity of the Group for a period of at least six months.

One of them, Vincent Meister, Business Risk Management at Dexia Private Banking in Luxembourg, says, "Participating in Marco Polo is enriching both from a personal and from a professional point of view. It is also recognition by our superiors, who give us the occasion to acquire skills which will be useful to us in our future challenges. Afterwards? It is difficult to know now what will happen, all the more since we are a part of the first promotion. I would simply like to be able to take advantage advisedly of all the skills I have acquired."

Only just launched, the Marco Polo program was chosen best European training program of the year by the magazine *Funds Europe*. Finishing in the lead among European banks as prestigious as HSBC and BNP Paribas, Marco Polo beat competitors' programs by virtue of its system of individualized development targeted to the specific needs of each participant, and its promotion of international mobility at Group level; two aspects to which the members of the jury paid particular attention.

Frédéric Olivier, Program Director, Dexia Corporate University states: "The program was originally developed at Dexia BIL, and we we soon realized that the Group dimension should ensure the sustainability of the project by increasing the number of trainees and by multiplying the possibilities of placements around the world. Marco Polo is becoming one of the leading programs of the Sales & Business Development faculty, since it promotes the horizontal exchange of experiences and encourages international mobility."





Creating a community

Within an international group, internal communication plays a vital role in the creation of a unique work community. Through good articulation between Group and local teams, internal communication, via various media (company journal, intranet and electronic newsletters), is the perfect way in which to promote the feeling of belonging and of sharing information at the same level for all teams, wherever they are, and at the same time to remain close to the personal concerns of members of staff.

A new form of the magazine *team+spirit*, published in three languages for all 24,000 members of staff, appeared in January 2006. The result of work carried out in 2005 by the multinational editorial team, it aims at making information even more accessible, at sharing with everyone the company's strategic issues and at giving a voice and a face to those who contribute on a daily basis to its success. Its new thematic approach and its journalistic style make it extremely popular among members of staff.

By virtue of the development of information on the intranet, members of staff can follow the evolution of the company in real time, particularly when the new organization is put in place. More news, new headings such as "*faces*", making Group members of staff known, and also video and audio reports illustrating the everyday life of the Group and its diversity, have meant that the number of intranet consultations has evolved significantly.

Finally, particular emphasis has been placed on direct exchanges at various internal seminars and events, the aim of which is to promote dialogue between teams and to enable everyone to relay information better to his or her work colleagues.

Place of women: the measures introduced in the Group as a whole

- Making the executive aware of the issues of diversity.
- Forbidding direct or indirect discrimination.
- Promoting the recruitment of female talents: not positive discrimination but recruitment agencies and HR teams must implement the means to present male and female candidates equally to operational heads.
- Creating a better balance between private and professional life: in order to enable greater flexibility in the management of timetables, Dexia undertakes to increase the opportunities of access from a distance to professional mails or computer files.
- Ensuring the maintenance of a link and facilitating return: to enable women to maintain a link during maternity leave so as to facilitate their return when it has ended.
- Enabling non-linear career development: "double ambition". The Group undertakes to develop a mechanism which enables women officially to take a break in their career during times when they want to dedicate themselves to bringing up their children.
- Succession management: promoting the detection of potential female executives by increasing the number of women presented by entities to the *assessment* procedure.
- Assessing performances: integrating female values into the executive assessment process.

Committing to diversity

Development also relies on good integration of human resources and on their diversity. For Dexia, the idea of diversity encompasses extremely broad fields such as language, culture, training, origin, age or handicap.
In 2005, Dexia made commitments in these fields and principally developed actions on the themes of sexual equality, ethnic diversity and handicapped workers (in France).
In 2004, Dexia launched the project 'The place of women in the Dexia Group'. The objective is to have mentalities evolve and to enable greater advantage to be taken of the pool of skills vital to the development of the Group in the long term. Following publication of the White Paper, a series of actions was decided upon in 2005 and progressively implemented in the Group.
In France, the policy of integrating handicapped people entered a new phase with the introduction of a specific action plan in March 2005. It relies on internal communication and awareness actions, on a better knowledge of the world of handicapped people, and partnerships with specialist associations. These initiatives must permit an increase, from 2006, of the number of handicapped people in the workforce.

Sharing growth

The development of the employee shareholder structure is also a major factor in integration. To date, Dexia is still the only company under Belgian law to offer an international shareholding plan including a range of three offers enabling its members of staff to invest, depending on their means, in the shares of their company. In 2005, 4.82% of Dexia shares were held by its members of staff, which represented a stock market value as of December 31, 2005 of more than a billion euros.

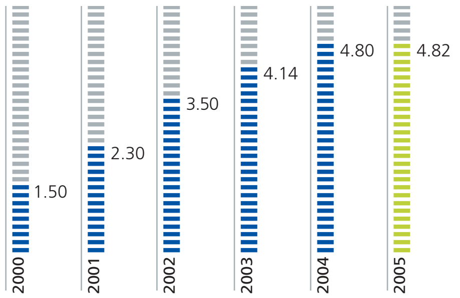
It is a matter of enabling all employees of the Group to become Dexia shareholders in order:

- to strengthen the feeling among members of staff of belonging to a socially unified group;
- to associate all members of staff with the strategy and the growth of Dexia;
- to enable members of staff to establish save-as-you-earn schemes invested in shares of their company under advantageous conditions.

Almost 7 members of staff in 10 now hold Dexia shares and members of staff now represent the fifth largest shareholder in Dexia with 4.82% of the capital against only 0.4% when the employee share plan was launched in 2000.

For Dexia, the year 2005 was remarkable in two regards: on the one hand, it was the first in which a plan was implemented when a previous plan (year 2000) came to maturity; on the other hand, the investment by members of staff was the second in importance for Dexia, proof of the constant confidence of members of staff in their company's shares and also their interest in its financial instruments.

EVOLUTION OF THE PERCENTAGE OF DEXIA CAPITAL HELD BY MEMBERS OF STAFF (in %)



Social dialogue

The European Works Council (EWC) brings together the Chairman of the Dexia Management Board, the Group head of Human Resources, heads of social relations in the main entities and 29 employee representatives corresponding to each of the entities employing more than 150 people.

The year 2005 was one with a new momentum of exchanges with the EWC, marked in particular by several initiatives:

- a strengthening of exchanges with an office meeting every six weeks and six plenary meetings during the year;
- better adaptation to the organization of the Group with the creation of specialist committees intended to prepare the work of elected members and to study technical questions;
- a strengthening of the EWC's means of information with the possibility for it to have the Group's consolidated financial statements analyzed by an accountancy expert chosen by it;
- a strengthening of the EWC's means of communication on the Group intranet and the possibility for all the entities of the Group to access the minutes of its considerations.

Social life was particularly active in 2005 with the signature of 39 collective agreements, in the main entities of the Group. These agreements related principally to employee share plans, union rights, compensation and status and working times.

Milestone 11

Dexia,
patron of the arts

At Dexia, talent is recognized, not only in matters of financial management! Since 1960, in Belgium, Dexia Bank has never deserted the cultural scene. First of all through a policy of purchasing works to create one of the most representative collections of Belgian art from 1860, the date when Crédit Communal was founded, to the present day. But if Dexia the patron protects the heritage, the Group also aids burgeoning talent. Each year annual competitions, Dexia Classics for music and Dexia Art for the plastic arts, throw the spotlight on new generations of artists. And this is without mentioning the countless concerts, exhibitions and festivals the bank supports or has supported. This provides such a boost to young creators, such real support to the cultural actions of local authorities. In 2005, Dexia undertook an inventory of the Group's initiatives in favor of the arts and culture, with a view to establishing a patronage strategy on an international scale, always with the same conviction: to support artistic creation, investing in mankind and in the long term.

Corporate governance

The Corporate Governance **Charter** of Dexia SA

Dexia developed a corporate governance charter (hereafter the "Charter") on the occasion of the coming into force of the Belgian Corporate Governance Code (Lippens Code), which replaces the recommendations made on this issue by the Banking, Financial and Insurance Commission, the Belgian Business Federation and Euronext Brussels.
This Charter gives a detailed overview of the principal governance aspects of the company. This document, which the Board of Directors wanted to be complete and transparent, contains 5 sections. The first section deals with the structure and organizational chart for the Dexia Group. It also provides a brief history of the Group since its creation in 1996. The second section describes the Dexia governance structure, and includes all the necessary information on the members, responsibilities and operations of the decision-making bodies: the shareholders' meeting, the Board of Directors and the Management Board. The internal rules of the Board of Directors and the Management Board are also provided in their entirety. This section of the Charter also describes the responsibilities of the management units established as of January 1, 2006 at Group level and the central functions of Dexia SA. The third section discusses the shareholders and Dexia share. It describes Dexia's relations with its shareholders and summarizes the features of Dexia capital and shares. The fourth section summarizes the control exercised over and within the Dexia Group. The "internal control" portion of this section contains information on the internal audit, ethics and compliance, and the report of the Chairman of the Board of Directors concerning the operations of the Board of Directors and the internal control procedures implemented by the company. The "external control" section deals with the Board of the Statutory Auditors and the protocol concerning prudential management of the Dexia Group signed with the Banking, Financial and Insurance Commission. The final section of the Charter describes Dexia's compensation policy for directors of the company and members of the Management Board.
Several elements of the Corporate Governance Charter are restated, as recommended by the Lippens Code, in the "Corporate Governance" chapter in the annual report of Dexia SA.
Pursuant to the Lippens Code, the Charter has been available since December 31, 2005 on the company's website *www.dexia.com.*

The **Board of Directors** of Dexia SA

Membership

The bylaws of Dexia SA stipulate that the Board is composed of between sixteen and twenty directors. As of December 31, 2005, the Board of Directors was composed of nineteen members.
The Board of Directors of Dexia SA reflects the European identity of the Group with five nationalities represented. There is also the same number of French and Belgian directors, consistent with the Franco-Belgian legal identity of Dexia SA, with each nationality representing at least one third of the Board.
On January 1, 2006 Pierre Richard took over from François Narmon (whose director mandate came to an end) the chairmanship of the Board of Directors. On the same date, Axel Miller was co-opted as director and succeeded Pierre Richard as Chief Executive Officer.

Eligibility criteria

The internal rules of the Board of Directors stipulate that directors are elected by the shareholders' meeting because of their expertise and the contribution they can make to the administration of the company.
In this context, the Appointments Committee created within the Board is responsible for establishing profiles of expertise that will be reviewed on a regular basis to take into account changes in the Dexia Group and its businesses.
Any member of the Board of Directors must have the time required to perform his obligations as a director.
Non-executive directors may not hold more than five directorships in publicly traded companies.

COMPOSITION OF THE BOARD OF DIRECTORS AS OF DECEMBER 31, 2005 (1)

NAME, AGE, NATIONALITY, SHAREHOLDING IN DEXIA	SPECIALIZED COMMITTEES	PRIMARY FUNCTION
François Narmon (director of Dexia SA until December 31, 2005) 71 years old, Belgian Holds 7,060 Dexia shares Director since 1996	🔴 (2) 🔵 (2) 🟡 (2)	Chairman of the Board of Directors, Dexia SA (until December 31, 2005)
Pierre Richard 64 years old, French Holds 40,210 Dexia shares Director since 1996	🔴 (3) 🔵 (4) 🟡	Group Chief Executive Officer and Chairman of the Management Board, Dexia SA (until December 31, 2005) Chairman of the Board of Directors, Dexia SA as from January 1, 2006
Gilles Benoist Independent director 59 years old, French Holds 300 Dexia shares Director since 1999	🟢 (5)	Chairman of the Management Board, CNP Assurances
Rik Branson 61 years old, Belgian Holds no Dexia shares Director since 2001	🔴 🟡	Chairman of the Management Board, Arcofin
Guy Burton 57 years old, Belgian Holds 2,000 Dexia shares Director since 2001	🔵 (4)	Chief Executive Officer and Chairman of the Management Board, Ethias
Anne-Marie Idrac Independent director 54 years old, French Holds no Dexia shares Director since 2004		Chairwoman and Chief Executive Officer, RATP
Denis Kessler Independent director 53 years old, French Holds 15,285 Dexia shares Director since 1999	🔴	Chairman and Chief Executive Officer, SCOR Group
Serge Kubla 58 years old, Belgian Holds no Dexia shares Director since 2005		Burgomaster of Waterloo (Belgium)
André Levy-Lang Independent director 68 years old, French Holds 38,000 Dexia shares Director since 2000	🟡 🟢 (6)	Associate Professor [émérite], Université Paris-Dauphine
Bernard Lux 56 years old, Belgian Holds no Dexia shares Director since 2005		Rector-Chairman of the Université de Mons-Hainaut
Dominique Marcel 50 years old, French Holds no Dexia shares Director since 2005		Financial Director of the Groupe Caisse des Dépôts Member of the Management Board of Caisse des dépôts et consignations
Francis Mayer 55 years old, French Holds no Dexia shares Director since 2003	🔴 🟡	Chief Executive Officer, Caisse des dépôts et consignations
Roberto Mazzotta Independent director 65 years old, Italian Holds no Dexia shares Director since 2001		Chairman of Banca Popolare di Milano
Jan Renders 56 years old, Belgian Holds no Dexia shares Director since 2003		Chairman of ACW
Gaston Schwertzer Independent director 73 years old, Luxembourg Holds 30,660 Dexia shares Director since 1999		Doctor of law, company director Chairman of Luxempart Chief Executive Officer, Audiolux
Anne-Claire Taittinger Independent director 56 years old, French Holds 1,000 Dexia shares Director since 2001	🔵 (7)	Member of the Management Board, Groupe Taittinger Chief Executive Officer, Société du Louvre – Groupe du Louvre
Marc Tinant 51 years old, Belgian Holds 100 Dexia shares Director since 2001	🟢	Member of the Management Board, Arcofin
Sir Brian Unwin Independent director 70 years old, British Holds no Dexia shares Director since 2000	🔵	Chairman of Assettrust Housing Limited
Francis Vermeiren 69 years old, Belgian Holds 1,700 Dexia shares Director since 2004	🔴 🟡	Burgomaster of Zaventem (Belgium)
Observer: **Frank Beke** 59 years old, Belgian Holds 1,400 shares Observer since 2001		Burgomaster of Ghent (Belgium)

🔴 Stategy Committee 🔵 Compensation Committee 🟡 Appointments Committee 🟢 Audit Committee

(1) Article 2 of the Law of August 6, 1931 (Belgian Gazette of August 14, 1931) forbids ministers, former ministers and State ministers, as well as members or former members of Legislative Assemblies to mention their status as such in acts and publications of profit-making companies.
(2) Until December 31, 2005.
(3) Of which he is the Chairman as from January 1, 2006.
(4) As from January 1, 2006.
(5) Of which he is the Chairman.
(6) As from February 7, 2006.
(7) Of which she is the Chairwoman as from February 7, 2006.

Changes in the members of the Board of Directors of Dexia SA during the 2005 financial year

During the 2005 financial year, significant changes to members of the Board of Directors were as follows.

1) Thierry Breton resigned from the Board of Directors of Dexia SA on February 28, 2005. The Ordinary Shareholders' Meeting of Dexia SA on May 11, 2005 gave the Board the option to appoint a new director in order to replace Thierry Breton. Pursuant to this decision by the Ordinary Shareholders' Meeting, the Board appointed Dominique Marcel to the Board to replace Thierry Breton on July 7, 2005. It will be recommended to the next Ordinary Shareholders' Meeting of Dexia SA on May 10, 2006 that it permanently appoint Dominique Marcel for a new four-year term.

2) At the Ordinary Shareholders' Meeting of Dexia SA on May 11, 2005, Elio Di Rupo was permanently appointed for a new four-year term that would have ended at the end of the 2009 Dexia SA Ordinary Shareholders' Meeting. Mr. Di Rupo had already been appointed by the Board of Directors of Dexia SA on November 16, 2004.

Elio Di Rupo resigned from the Board of Directors of Dexia SA on October 6, 2005. At its meeting on November 17, 2005, the Board temporarily appointed Bernard Lux to replace Elio Di Rupo. The Dexia SA Ordinary Shareholders' Meeting on May 10, 2006 will be asked to permanently appoint Bernard Lux whose term will expire at the end of the 2009 Dexia SA Ordinary Shareholders' Meeting.

3) At the same Dexia SA Ordinary Shareholders' Meeting on May 11, 2005, Francis Vermeiren was permanently appointed for a new four-year term. Mr. Vermeiren had already been appointed by the Dexia SA Board effective November 29, 2004. His term will expire at the end of the 2009 Dexia SA Ordinary Shareholders' Meeting.

4) Eric André, who had served as a director of Dexia SA since 2002, died on July 28, 2005. At its meeting on November 17, 2005, the Board of Directors appointed Serge Kubla to temporarily replace Mr. André. The Dexia SA Ordinary Shareholders' Meeting on May 10, 2006 will be asked to permanently appoint Serge Kubla for a new four-year term.

5) François Narmon resigned from the Board of Directors of Dexia SA on December 31, 2005. The Board appointed Axel Miller to replace Mr. Narmon temporarily as of January 1, 2006. The Board will recommend that the next Ordinary Shareholders' Meeting of Dexia SA on May 10, 2006 appoints Axel Miller for a new four-year term.

New directors

As indicated above, four new directors were named in 2005: Dominique Marcel, Serge Kubla, Bernard Lux and Axel Miller. As recommended by the Lippens Code, these new directors are introduced below.

- Dominique Marcel holds a degree in political science and is a former student of the ENA. He is Chief Financial Officer for the Group Caisse des Dépôts. He is a.o. also a member of the Management Board of Caisse des dépôts et consignations, a member of the Supervisory Board of Accor and the Chairman of the Supervisory Board of Compagnie des Alpes.
- Serge Kubla is active in Belgian politics. He has served as Burgomaster of Waterloo since 1982, and is also a director of IP Trade and the ASBL «Les Amis du Musée Wellington».
- Bernard Lux holds a doctorate in applied economics and has authored a number of scientific studies and articles. He is the Rector-Chairman of the Université de Mons-Hainaut. He is a.o. also a professor at the Warocqué faculty in Economic Sciences and a federal member of the Conseil supérieur de l'emploi.

• Axel Miller holds a law degree. After working for 14 years as an attorney specializing in financial law, mergers and acquisitions and international commercial law, he joined the Dexia Group in 2001 as General Counsel. Appointed as a member of the Management Board of Dexia Bank Belgium in January 2002, he became Chairman of the Management Board of Dexia Bank Belgium and was appointed to head the Personal Financial Services business line in January 2003. Since January 1, 2006, Axel Miller has served as the Chief Executive Officer of Dexia SA, a member of the Management Board of Dexia Crédit Local, Dexia Bank Belgium and Dexia BIL.

Independent directors

The Lippens Code contains a list of criteria on the basis of which directors may be classified as independent. With a few exceptions, the criteria adopted by 2004 by the Board of Directors of Dexia SA (based on Article 524 of the Belgian of Company Code and on the governance principles recommended by the Bouton report, which is the reference in France) were identical or stricter than those recommended by the Lippens Code.

At its meeting of February 7, 2006, the Board of Directors decided, on the recommendation of the Appointments Committee, to modify Dexia SA's criteria for independence by including the most demanding rules from the Lippens Code.

Based on these criteria, there are eight independent directors on the Dexia SA Board as of December 31, 2005.

The independence criteria applicable to the members of Dexia's Board of Directors and the list of independent directors are given in detail in the Annual Report - Accounts and Reports on page 23.

Non-executive directors

A non-executive director is a member of the Board of Directors who does not exercise management functions in a company of the Dexia Group. The internal rules of the Dexia SA Board of Directors stipulate that at least half of the Board must be non-executive directors. It should be noted that, with the exception of the Chief Executive Officer (Pierre Richard until December 31, 2005 and Axel Miller as from January 1, 2006), all members of the Dexia SA Board of Directors are non-executive members.

Separation of the functions of Chairman of the Board of Directors and Chief Executive Officer

The bylaws of Dexia SA, as well as the internal rules of the Board of Dexia SA, specifically define the rule for separation of the functions of Chairman of the Board of Directors and Chief Executive Officer (CEO). They must necessarily be entrusted to different individuals of different nationalities, even when the Chairman of the Board of Directors is unable to preside and is replaced by another member of the Board.

Term of office

The term of office for Board members elected on or after May 7, 2002 is a maximum of four years.

Activities of the Board of Directors

The Board of Directors met eleven times in 2005. The directors' attendance rate at Board meetings was 82%.
In addition to the items belonging to the ordinary competence of the Board of Directors (follow-up of the results, approval of the budget, nomination and compensation of the members of the Management Board), the Board concentrated in particular on the following matters:

- the analysis of the Dexia Group's strategic orientations;
- the discussion and approval of the audit program for 2005;
- the study and approval of the proposed partnership with Royal Bank of Canada;
- the creation of Dexia Corporate University;
- the discussion and decision on the payment by the company of the social security contributions owed by the directors;
- the discussion of Dexia's activity in SRI;
- the approval of Dexia's participation in the Casa de economii şi consemnaţiuni (CEC) in Romania privatization;
- the discussion and approval of the offer to purchase a stake in Banca Comerciala Romana (BCR) in Romania;
- the report from the Chairman of the Board of Directors of Dexia SA on the operations of the Board and internal control within the Group;
- the discussion and reading of the internal control report and the report on risk measurement and management in 2004;
- the monitoring of the Dexia Bank Nederland issue;
- the employee share plan and the stock option plan for 2005;
- the discussion and approval of the charter of legal and tax functions;
- the strategy concerning the share buyback program;
- the establishment of an action plan to develop the place of women in the Group;
- the discussion on the succession plan for the Group;
- the policy of Public Private Partnership;
- the Data Consolidation Center;
- the Fortis proposal of bringing together Dexia and Fortis;
- the sale of Eural;
- the new organization for the Group;
- the adoption of the corporate governance charter, the modification of the internal rules of the Board of Directors and the modification of the internal rules of the Management Board;
- the development of the internal rules of the Audit Committee;
- the new Dexia institutional campaign.

The bylaws and internal rules of the Board of Directors are given in detail in the Annual Report - Accounts and Reports, pages 24 to 26.

DIRECTORS' FEES PAID TO THE DIRECTORS OF DEXIA SA FOR THE PERFORMANCE OF THEIR DUTIES IN 2005 (GROSS AMOUNTS)

(in EUR)	Board of Directors (fixed comp.)	Board of Directors (variable comp.)	Strategy Committee	Audit Committee	Compensation Committee	Appointments Committee	Total	Other Dexia Group entities
Narmon, François	0	0	0	0	0	0	0	123,846.76 (5)
Richard, Pierre	0	0	0	0	0	0	0	(5)
André, Eric	10,000	10,000	0	6,000	0	0	26,000	11,250 (4)
Benoist, Gilles	20,000	20,000	0	8,000	0	0	48,000	
Branson, Rik	20,000	22,000	10,000	0	0	10,000	62,000	22,500 (4)
Breton, Thierry	5,000	2,000	0	0	0	0	7,000	
Burton, Guy	20,000	14,000	0	0	0	0	34,000	
Di Rupo, Elio	15,000	12,000	0	0	0	0	27,000 (1)	16,875 (1) (4)
Idrac, Anne-Marie	20,000	12,000	0	0	0	0	32,000	
Kessler, Denis	20,000	16,000	4,000	0	0	0	40,000	
Kubla, Serge	0	0	0	0	0	0	0	
Levy-Lang, André	20,000	16,000	2,000	0	0	10,000	48,000	
Lux, Bernard	0	0	0	0	0	0	0	
Marcel, Dominique	0	0	0	0	0	0	0 (2)	
Mayer, Francis	5,000	6,000	0	0	0	4,000	15,000 (3)	
Mazzotta, Roberto	20,000	18,000	0	0	0	0	38,000	
Renders, Jan	20,000	18,000	0	0	0	0	38,000	
Schwertzer, Gaston	20,000	16,000	0	0	0	0	36,000	61,973.38 (5)
Taittinger, Anne-Claire	20,000	18,000	0	0	6,000	0	44,000	
Tinant, Marc	20,000	20,000	0	8,000	0	0	48,000	
Unwin, Brian	20,000	20,000	0	0	6,000	0	46,000	
Vermeiren, Francis	20,000	22,000	10,000	0	0	10,000	62,000	
Beke, Frank (observer)	20,000	18,000	0	0	0	0	38,000	22,500 (4)

(1) The percentages and directors' fees for the terms of office as a director of Dexia SA and Dexia Bank corresponding to Elio Di Rupo were paid directly to the "Frans Aubry" Public Purpose Foundation after withholding of the professional deduction at source.

(2) Dominique Marcel does not wish to receive percentages or fees as a director.

(3) The percentages and fees for the term of office as a director of Dexia SA corresponding to Francis Mayer for the first quarter of 2005 (which total EUR 15,000), were paid directly into the Caisse des dépôts et consignations after withholding of the professional deduction at source. As from the second quarter of 2005, Francis Mayer does not wish to receive any further percentages or fees as a director.

(4) Percentages and fees obtained for a term of office as a director of Dexia Bank Belgium.

(5) Percentages and fees obtained for a term of office as a director of Dexia Banque Internationale à Luxembourg. Dexia BIL will pay, as it does each year, the compensation to directors for the 2005 fiscal year only after the 2006 Ordinary Shareholders' Meeting (which will take place on March 28, 2006). As a guide, it is indicated that, for the 2004 fiscal year, the percentages and fees obtained for a term of office as a director of Dexia Banque Internationale à Luxembourg were set at EUR 61,973.38 per director, with a double percentage for the Chairman of the Board of Directors. An amount of EUR 61,973.38 allotted to Pierre Richard was paid directly to Dexia SA.

On April 26, 2005, the Board of Directors fixed the gross annual compensation of Pierre Richard when he succeeds François Narmon in 2006 as Chairman of the Board of Directors at EUR 400,000. That amount will be included in the overall package of directors' compensations.

Compensation paid by Dexia SA to its directors in 2005

In 2002, Dexia SA's Ordinary Shareholders' Meeting approved a resolution to grant a maximum annual directors' compensation of EUR 700,000. This meeting also authorized the Board to determine the practical procedures and individual allocation of this compensation.

At its meeting on May 23, 2002, the Board of Directors decided to grant each director a fixed compensation of EUR 20,000 (EUR 5,000 per quarter – fixed compensation), and directors' fees (variable compensation) of EUR 2,000 per Board meeting or specialized committee meeting. Directors who have been in office for less than one full year shall earn a proportion of this fixed fee based on the number of quarters during which they have effectively been in office.

The Board of Directors, at its May 26, 2005 meeting, decided that Dexia SA would pay for the non-refundable social contributions paid. A detailed description is given in the Annual Report - Accounts and Reports on page 29.

The Chairman of the Board of Directors, François Narmon, did not receive any compensation for his position as director in 2005. However, at its meeting on March 13, 2000, the Compensation Committee proposed a fixed annual fee to the Chairman, for the full period of his term, as well as options granted annually. This proposition, which was approved by the Board of Directors on March 14, 2000, was taken in view of the pre-eminent role played by François Narmon in promoting and representing the Group. To that effect, François Narmon will receive an amount of EUR 707,000 for the period running from January 1, 2005 to May 10, 2006. Moreover, in 2005 Dexia Bank paid a premium of EUR 75,323 on a death insurance contract concluded by Dexia Bank in favor of the beneficiaries of François Narmon.

The Chief Executive Officer does not receive any fee for his position as director. However, he was remunerated for his responsibilities as Chief Executive Officer and Chairman of the Management Board (see hereafter).

Specialized committees created by the Board of Directors

In order to review in detail the matters submitted to the Board of Directors, it has established four specialized Board committees (the Compensation Committee, the Audit Committee, the Strategy Committee and the Appointments Committee) which are charged with preparing its decisions, those decisions remaining under the sole responsibility of the Board. Unless they have been specially delegated by the Board, the specialized committees have indeed no decision-making powers.
These committees are composed of three to six Board members appointed by the Board of Directors for a period of two years, which may be renewed.
After each meeting, a report on the committee's work is submitted to the Board of Directors.

Full responsibilities and composition of the four specialized committees are given in detail in the Annual Report - Accounts and Reports, pages 30 to 32.

Strategy Committee

Membership

The Strategy Committee has six members, including the Chairman of the Board, who chairs the committee, the Chief Executive Officer and four other directors representing the diversity of Dexia shareholders.

Responsibilities

The Strategy Committee meets annually to assess the strategic position of the Dexia Group in view of changes in the Group's environment, its markets and its medium-term growth strategies and to prepare for the annual meeting of the Board of Directors that will consider this issue.
The Strategy Committee may also meet as needed, on the initiative of the Chief Executive Officer, to study, before a review by the Board of Directors, major projects that require a particular level of confidentiality because of their repercussions on the financial markets.
Any of its members may also request a meeting of the Strategy Committee.

Activity

In 2005, the Strategy Committee met five times (January 10, June 21, October 10, October 14, and November 16) to consider in particular the Romanian files CEC and BCR. The attendance rate of directors at meetings of this committee was 92.6%.

Audit Committee

Membership

The Audit Committee is composed of three to five directors, all non-executive. To the extent possible, the majority of the Audit Committee members are independent directors, which has been the case since February 7, 2006, since André Levy-Lang, an independent director, was appointed as a member of the Audit Committee as of that date. The most relevant criterion for selection of committee members remains expertise and independent judgment. The Chairman of the Board of Directors may attend meetings of the Audit Committee. The Chief Executive Officer may attend, but may not be a member of the Audit Committee.

Responsibilities

The role of the Audit Committee is, on the one hand, to review the projects of the annual, quarterly, corporate and consolidated financial statements of the Group in order to verify, from those transmitted documents, in particular the conditions under which they were established and to ensure the relevance and continuity of the accounting principles and applied methods, and, on the other hand, to monitor the performance of the internal control system put in place by the Management Board and more particularly the system to manage the risks to which the Group is exposed as a result of its activities.
The Audit Committee has free access to the Statutory Auditors, as well as to the General Auditor and the Chief Compliance Officer.
It informs the Chief Executive Officer of any such contacts.

Activity

In 2005, the Audit Committee met on February 10 and 24, May 23 and September 5, to review in particular the following issues:
- a review of the financial statements and the results of the Group as of December 31, 2004, March 31, 2005 and June 30, 2005;
- the half-year reports on the internal audit activities in the entities of the Group;
- the half-year reports from the Group Risk Management on risk assessment and monitoring;
- the implementation and impact of the IFRS;
- the Compliance situation within the Dexia Group and the progress of actions in this area;
- the independence and compensation of Group auditors;
- the finalization of the internal rules of the Audit Committee;
- the follow-up of the share-leasing file.

The annual report on the status of internal control and the 2006-2009 multi-year audit plan and the 2006 annual plans were presented at the meeting of the Audit Committee on January 13, 2006.
The attendance rate of directors at meetings of this committee was 100% in 2005.

Compensation Committee

Membership

The Compensation Committee is composed of four non-executive directors who have no relationship that might directly or indirectly influence their judgment. In this respect, careful attention is given to the relations that exist on the Boards of Directors between the officers of Dexia and the companies to which members of this committee may belong.
If he is not a member, the Chairman of the Board of Directors attends the meetings of this committee. The Chief Executive Officer may also attend meetings, but he may not be a member of the Compensation Committee (since he is not a non-executive director).

Responsibilities

The responsibilities of the Compensation Committee include recommendations concerning:
- the compensation for the Chairman of the Board, and the Chief Executive Officer and, based on the Chief Executive Officer's recommendation, the compensation for the members of the Management Board;
- the granting of stock options pursuant to the general principles defined by the Board of Directors.

It is also consulted on the compensation and incentives for the members of the Management Boards of Dexia Bank Belgium, Dexia Crédit

Local and Dexia BIL, as well as on the employee shareholding policy.
It also makes recommendations on the fees paid to directors and the allocation of those fees to directors.

Activity
The Compensation Committee met three times in 2005: on February 2, April 19 and November 14. It discussed the following subjects:
- a comparative analysis of the systems in effect in European groups in terms of calculating bonuses and variable portions;
- the annual survey of compensation levels for Management Board members (European benchmark, not including the UK);
- setting the general terms and conditions for the global shareholding plan reserved for employees and the 2005 stock option plan.

The attendance rate of directors at meetings of this committee was 100% in 2005.

Appointments Committee

Membership
The Appointments Committee is composed of six directors including the Chairman of the Board of Directors, the Chief Executive Officer and four other non-executive directors. There is one independent director, who chairs the Committee.
The most important criterion for selecting committee members remains competence and independent judgment.
The committee meets at least once a year, before the Board of Directors' meeting that prepares the resolutions to be submitted to the shareholders' meeting, and during the year on a motivated request from one of its members.

Responsibilities
The Appointments Committee prepares, among other, the decisions of the Board of Directors relating to the appointment or renewal of directors' terms or the appointment of the members of the Management Board proposed by the Board to the shareholders' meeting.

Activity
The Appointments Committee met five times in 2005: on February 18, March 24, June 21, October 24 and November 16. Topics discussed included the following:
- the succession plan for the Group;
- the membership of the Board of Directors;
- the membership of the specialized committees;
- the membership of the Management Board.

The attendance rate of directors at meetings of this committee was 100% in 2005.

The **Management Board** of Dexia SA

Membership

The Management Board is composed of a maximum of eight members. It is chaired by the Chief Executive Officer, to whom the Board of Directors has entrusted the daily management of Dexia. The members of the Management Board, other than the Chief Executive Officer, are appointed and dismissed by the Board of Directors on the recommendation of the Chief Executive Officer and on the advice of the Management Board. Members are appointed for a term of four years, which may be renewed.

Responsibilities

The Management Board is charged with the management of the company and of the Dexia Group, for which it manages and coordinates the different business lines, in the context of the strategic objectives and the general policy defined by the Board of Directors. The Management Board is chaired by the Chief Executive Officer, who is charged by the Board of Directors with the daily management of the company. In addition, he ensures the execution of the decisions taken by the Board of Directors.

Information on the operation of the Management Board and, in particular, its internal rules, responsibilities, decision-making process and meeting schedules is presented in the Annual Report - Accounts and Reports on page 34.

Management Board as of January 1, 2006

Chairman

Axel MILLER
• Chief Executive Officer
• Member of the Management Board of Dexia Bank Belgium
• Member of the Management Board of Dexia Banque Internationale à Luxembourg
• Member of the Management Board of Dexia Crédit Local
• Director of Financial Security Assurance Holdings Ltd (FSA) (since February 16, 2006)

Vice Chairman

Jacques GUERBER
• Member of the Management Board of Dexia Bank Belgium
• Member of the Management Board of Dexia Banque Internationale à Luxembourg
• Member of the Management Board of Dexia Crédit Local (Chairman until January 11, 2006)
• Director of Financial Security Assurance Holdings Ltd (FSA)

Members

Rembert von LOWIS
• Member of the Management Board of Dexia Bank Belgium
• Member of the Management Board of Dexia Crédit Local (since January 10, 2006)
• Director of Financial Security Assurance Holdings Ltd (FSA)
• Member of the Supervisory Board of Dexia Crédit Local (until January 10, 2006)
• Director of Dexia Banque Internationale à Luxembourg (until March 7, 2006)

Dirk BRUNEEL
• Member of the Management Board of Dexia Banque Internationale à Luxembourg
• Member of the Management Board of Dexia Crédit Local
• Chairman of the Management Board of Dexia Bank Nederland
• Director of Financial Security Assurance Holdings Ltd (FSA)

Xavier de WALQUE
• Member of the Management Board of Dexia Bank Belgium
• Member of the Management Board of Dexia Banque Internationale à Luxembourg

Compensation

The compensation of the members of the Management Board is set by the Board of Directors of Dexia SA upon recommendation of the Compensation Committee. The compensation of the members of the Management Board has been the subject of a study conducted by the Compensation Committee with the assistance of a specialized external consultant.

The compensation of the members of the Management Board is composed of a fixed portion and a variable portion. The amount of the fixed compensation is set on the basis of the type and importance of the responsibilities performed by each member, with reference to the market for comparable positions.The variable portion is based on a performance criterion of the Group, i.e. the 2004/2005 evolution of Dexia's net underlying results. The amount of the variable portion will be determined according to the capacity to respect the budget fixed in the beginning of 2005 regarding the estimated net underlying results as of December 31, 2005. In addition, an exceptional bonus of 0% to 20% (discretionary element) may be added to the amount granted under the variable portion. These exceptional bonusses are set by the Compensation Committee, upon recommendation of the Chief Executive Officer for the members of the Management Board.

In addition to the fixed and variable compensation, the members of the Management Board benefit from other advantages, including an extralegal pension scheme (based on the applicable national regulations), a death and health insurance, a company car and lump sum payments for representation costs. Members of the Management Board may also participate in Dexia's stock option plan and share plan.

Any compensation received by a member of the Management Board in his capacity as director of a company of the Dexia Group is deducted from his fixed or variable compensation.

The fixed part of the annual compensation paid in 2005 to the members of the Management Board in office in 2005 was EUR 3,935,000,of which EUR 825,000 to the Chief Executive Officer. The variable portion of the annual compensation paid in 2005 to the members of the Management Board in office in 2005 was EUR 3,723,810, of which EUR 950,000 to the Chief Executive Officer.

The aggregate charge for Dexia regarding the extralegal pension scheme of the members of the Management Board in office in 2005 amounted to EUR 4,804,600. The other advantages granted to the members of the Management Board in office in 2005 amounted to an aggregate cost for Dexia of approximately EUR 242,100.

As part of the 2005 stock option plan, all members of the Management Board received a total of 630,000 Dexia stock options, of which 150,000 were granted to the Chief Executive Officer in office in 2005. In total, this represents approximately 6.3% of all options granted in 2005.

The individual compensation paid in 2005 to the members of the Management Board in office in 2005 is given in detail in the Annual Report - Accounts and Reports on pages 34 to 36.

Group **control**

Internal audit

Dexia has a homogenous internal audit function that meets the highest standards. The mission of this function is to promote internal control within the Group and to ensure continuous performance and effective application of the control system in force. This requirement is consistent with the Group's desire to ensure that the protection of its reputation and the efficiency and integrity of its structures are priority values.
In this context, the internal audit team evaluates whether the risks incurred by Dexia in its activities and in all its entities are identified, analyzed and adequately covered. The internal audit team must also ensure continuous improvement in the operations of the Group.

Organization

The internal audit organization is based on three fundamental principles:

- the strategy, requirement level and operating rules for the internal audit are set by the Management Board in a framework approved by the Audit Committee of Dexia SA;
- internal audit's responsibilities are performed by a network of audit departments that conduct their mission under the direction of the Group Auditor, who reports directly to the Chief Executive Officer, Chairman of the Management Board. The Group Auditor has direct access to the Audit Committee to which he/she regularly reports on the internal audit operations within the Group. At the same time, both the Audit Committee and the Chairman of the Board may call on the Group Auditor to perform an audit;
- each audit department in the subsidiaries is responsible for the performance of its mission towards the Chairman of the Management Board of the entity in question and also reports functionally to the Group Auditor.

2005 Missions

In the financial year 2005 several significant "horizontal audits", involving auditors from both Dexia SA and operating entities were completed.
Notably "horizontal audits" were conducted: on the long-term funding, on the country risk monitoring, on the organization of the credit spread portfolio activity line and within the framework of Basel II, on the internal rating systems and operational risks. In addition, a follow up audit on the progress of the IFRS project was conducted.
Dexia SA's audit department also initiated audits on areas of interest to the Group, including the organization of market modelling and the functioning of the Group Compliance, and conducted "joint" audits with the audit departments of certain subsidiaries, including FSA in the United States.
Furthermore each of the Group's four commercial business lines was subject to specific audits involving, in particular, credit, market and operational risks. The information systems were analyzed intensely because of the changes resulting from the regulatory environment (IFRS and Basel II) and the impact of the organizational changes in the Group (reorganization of the systems at Dexia Bank following the merger with Artesia Banking Corporation).

The audits completed in 2005 gave rise to the establishment of various action plans to correct weaknesses detected in the internal control system. Each action plan was approved by the Management Board of the entity concerned and is monitored on a regular basis in order to ensure that the recommendations made are effectively implemented.

Methods

The global approach to risk, the common audit methodology, which was completed in 2005 by manuals on audit and risk assessment techniques, and the reporting and follow-up procedures established at the level of the parent company, contribute to Dexia's effective internal control system.

2005 was the first full year in which Dexia used the new procedure to monitor the implementation of recommendations using approach that is differentiated on the basis of priorities and is more qualitative than it has been in the past.

In addition, the audit tool designed to promote the harmonization and improvement of the quality of the work was used by the operating entities within pilot missions.

Finally, in an effort to develop a cohesive audit unit, all auditors and inspectors from the Group attended a seminar that offered reports and workshops.

Ethics and compliance

Since its creation at the beginning of 2003, the ethics and compliance function has been consolidated to form a true Compliance unit composed of all Compliance Officers within each entity, subsidiary or branch that performs an activity within the Dexia Group. The unit is directed by a coordination committee composed of the Compliance Officers for the three operating entities under the chairmanship of the Chief Compliance Officer (CCO) of Dexia.

The role of the committee is, first, to coordinate the regulatory watch mechanism, and to establish, disseminate and ensure compliance with Group policies and, second, to control, through information, awareness, training and audits, compliance risks, which are the risks resulting from failure to comply with the laws, regulations or standards of the profession.

Principles

Dexia's integrity policy is based on the following principles:

- the application of the same principles of ethics and conduct within all of Dexia's entities;
- compliance with both domestic and international laws and regulations;
- the promotion of a climate of transparency and confidence with customers, employees and shareholders;
- the definition of a policy to prevent fraud or any other misuse of assets, systems, information or procedures;
- continued integrity, particularly in conducting transactions or providing information to the financial markets.

In order to combat money laundering and the financing of terrorism, Dexia follows the highest international standards and is transposing those standards into its internal policies. More particularly, Dexia adheres to the recommendations published by the FATF (Financial Action Task Force on money laundering) and the Wolfsberg principles for private and correspondent banking, and fund administration. These principles are being reinforced by the implementation within the Group of common prevention, tracking and surveillance tools.
Thus, in 2005, the Group continued to develop internal standards and to deploy the shared transaction analysis software to fight money laundering and the financing of terrorism.
Regarding insider trading, conflicts of interest and other regulated issues, Dexia complies with, and is progressively transposing the directives, laws and circulars as they are published and take effect.
Detailed rules govern personal transactions by employees and executives, which are carefully monitored, in order to prevent insider trading.

Organization

The Compliance unit is organized on the basis of the Compliance Charter, which defines the missions of the compliance unit as well as its powers and objectives. The code of ethics translates the general obligations of all Group employees into practical instructions. Special codes define the rules that apply more specifically to certain businesses, such as the financial markets, private banking, and asset management.
The Compliance Officers meet regularly with regulators and supervisory authorities in the various countries in which Dexia Group operates in order to identify and apply best ethical practices.
In 2005, the Compliance unit completed the first phase in the deployment to the entire unit of a single communication and data exchange software application that offers functionalities to identify laws, regulations, internal policies and procedures, to distribute and monitor instructions, to provide consolidated reporting and ensure periodic questioning.

Ten years after its original merger and now present in 30 countries around the world, the Dexia Group presents an extremely international image. Among the Group's 24,418 members of staff, one in three works outside the borders of its historical markets of Belgium, France and Luxembourg. In terms of results, 34% of income is achieved in countries other than its domestic bases. It is now a matter of the Group confirming its international stature, by creating new levers for its future growth through its geographic expansion. The principal driving force is still the bank's first business line, local public sector financing. Uncontested leader in Europe, extremely active in North America, the Group intends both to strengthen its positions everywhere it has a presence and to penetrate new strategic markets, in Japan and Mexico for instance, in order to affirm its world ambitions in this activity. In all its other business lines (retail banking, asset management, financial markets and fund administration), Dexia is increasing its international sphere of influence through organic commercial developments as well as by relying on an intentional policy of partnerships and acquisitions, whilst paying attention to emerging countries with strong potential. In all these cases, Dexia ensures it creates the conditions for sustainable success, and among these it is the human resources aspect which is a priority: especially in the upstream make-up of teams charged with preparing and then supporting each growth operation.

Milestone 12

*A European banking group with **world ambitions***

Dexia in the world

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