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EXPLANATORY NOTE ON THE AGREEMENT AND SCHEDULES

The purpose of this Master Agreement is to set out the general principles and market rules for foreign exchange and derivatives transactions for over the counter derivative instruments entered into between two parties one of which is a banking institution, an insurance company, a stock exchange company or one of those entities mentioned in Articles 8 and 69 of the banking law or a non-resident institution with equivalent status. The widening of the scope of the Agreement to cover all over the counter market transactions has been made possible by a change in legislation which, with the adoption of Article 8 of the law of 31st December 1993, has provided a legal framework for contractual netting procedures.

Over the counter market transactions are unregulated transactions on derivative instruments, also known as derivatives. They may take the form of futures contracts, either firm or optional, swaps or any similar agreement. They may relate to interest rates, currencies, securities, indices, government securities (Treasury bonds) commodities and goods or any combination of such 'Underlying Assets'.

Derivative instruments may constitute, for the party wishing to enter into them, a flexible means of covering its borrowings, its securities portfolio or management of currencies that it receives or pays pursuant to its financial or commercial agreements. The same may be said in relation to industrial or commercial transactions on commodities or manufactured goods.

Any market transaction on derivatives involves risks, in particular as a result of fluctuations in interest rates, exchange rates, share values, prices of goods, commodities or stock indices.

Each party should be in a position, prior to entering into any such transaction, to identify its requirements for such products by reference to its activity, balance sheet and trading account.

It should also be in a position, throughout the term of the contracts, to monitor the development of its obligations by relation to market terms for similar products.

Market practice (the constant evolution of financial conditions for transactions) has led to the conclusion of transactions by telephone. As a general rule the conclusion of each transaction is followed by one party sending a confirmation to the other. This confirmation sets out the terms of the transaction agreed by telephone.

The party receiving the confirmation notes its agreement to the terms set out therein.

Where a transaction is entered into as a hedge, it is governed by an agreement which is distinct from the loan or the investment which it hedges. It follows that any amendment to the loan agreement or investment being hedged does not result in an automatic amendment of the hedge agreement which remains governed by the terms agreed until its maturity date.

Although the AFB Master Agreement contains no specific provision to that effect, the foreign exchange and derivatives transactions governed by the Agreement may, if the parties so agree and without affecting the general principles of the Agreement, be terminated early upon payment of a balance by one party to the other.

Similarly, certain provisions of the Agreement may be supplemented or amended by the parties, provided they remain consistent with the general principles set out in Article 1 of the Agreement. These principles may not be disregarded, as they constitute the legal basis for the netting of the transactions provided by the law and set out the terms on which transactions are terminated and on which the balance is determined. Prior to December 1993, in the absence of legislation, transactions subject to netting on termination in the event of default of one of the parties, had to be transactions of the same kind having a sufficient connection, according to case law, so that termination and netting would be effective. From now on, transactions of a different kind, such as currency options and interest swaps may be netted in the event of their termination.

Thus the range of over the counter market transactions coming within the scope of the Agreement is extremely wide, and in fact covers all transactions final settlement of which occurs at a date subsequent to their conclusion and which are not governed by specific legislation (such as stocklending or repos).

The provisions of and the mechanism for termination, the third general principle of the Agreement, are set out in Article 2 (Termination Date) and Article 7 which sets out the different events of default (Article 7.1) and changes in circumstance (Article 7.2) and provides for the termination procedure.

According to the law, events of default called by the non-defaulting party permit the latter to terminate, automatically or upon notice, all foreign exchange and derivatives transactions under the Agreement, notwithstanding any legislative provision to the contrary. The non-defaulting party may thus from now on call for early termination purely by reason of the commencement of bankruptcy proceedings ('redressement judiciaire'). This constitutes an exception to the law of 25 January 1985 relating to the restructuring and liquidation of businesses.

The means of calculating the settlement amount are established using the method set out in Article 2 (definition of the concept of 'Replacement Value') and Article 8 (Calculation and Payment of Settlement Amount).

The positive or negative replacement value of a market transaction is calculated in the Agreement, by working out the arithmetic mean of quotations obtained by the non-defaulting party from prime market participants, on the assumption that such participants were assuming the rights and obligations under the transaction being valued on the termination date.

The Agreement does not alter the respective rights of the parties in relation to payment of the settlement amount. The balance, being the aggregate of the negative and positive replacement values for the transactions, is paid without limitation, irrespective of which party is the party entitled to the payment. Provisions which could have the effect of limiting or nullifying payments from the non-defaulting to the defaulting party are thus from now on removed.

It is however provided that in an event of default the non-defaulting party may be entitled to deduct from amounts due the other party sums payable by it to that party.

The Agreement also provides that technical provisions for each type of transaction are set out in schedules which form an integral part of the Agreement in the same way as the confirmations relating thereto. In this respect, together with the text of the Agreement, a series of schedules has been published which form part of the Agreement and contain, for each type of transaction, the financial provisions specific thereto. Schedules for interest rate or currency swaps, forward rates, certain options (PIBOR 3 months, notional contracts, OAT, interest swaps, BTAN) and interest rate guarantees, have been prepared. In addition, one schedule harmonises the definitions common to several transactions.

For certain transactions entered into between professionals it seemed desirable to formalise market practice by publishing annexes specific to certain schedules and forms of confirmation solely for use by parties to interbank transactions.

From the date of their publication the schedules and their annexes shall, for parties signing the Master Agreement, for all present and future operations covered by the Agreement prevail over all other AFB General Conditions or specific agreements, save as expressly otherwise agreed between the parties.

Market contracts referring to General Conditions previously published by the AFB shall also be covered by the new legal status given to netting by the law of 31 December 1993. Transactions thus concluded are subject to the terms of such contracts until the Parties adopt the Agreement as provided in Article 3 thereof.

The parties may limit the scope of the Agreement to certain types of transaction. They may also enter into one or more multiproduct agreements between them. This should be made clear in the schedule to each agreement by specifying the categories of transactions falling within the scope of each agreement.

As and when the market so requires, new publications will supplement the schedules already available. The schedules published may be amended by the AFB. The new and amended documents will come into force automatically from the date of their publication. They will be substituted for the previous documents in respect of transactions entered into after that date.

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