2004

2004 MANAGEMENT REPORT

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FEDERATION
BANCAIRE
FRANCAISE

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An economy based on trust

Handling some 350 transactions each second, today, banks are a pillar of society, financing economic activity from the smallest personal project to the investment needs of the largest corporations. The billions of transactions that banks handle each year are fundamental to the creation of wealth and to the very fabric of society. Moreover, since the introduction of the euro, the role of banks as a socially responsible corporate citizen has never been so important, with society turning more and more to banks for a solution to its problems.

At an average cost of 105 euros a year – roughly the price of two coffees a week – French banks offer one of the finest qualities of service in Europe and one of the lowest interest rates for borrowers. And yet, given consumer concerns as to their purchasing power, the cost of banking services remains a decisive issue.

Although French banks offer more free services than users have come to right fully expect, they nonetheless remain committed to combating unemployment and social exclusion by promoting each individual's right to have a bank account, by facilitating lending to the seriously ill, by inventing new types of alternative payment instruments for people who are not permitted to carry a chequebook and by supporting micro-lending.

In 2004, business creation and consumer spending were strong, and banks contributed to this. Today, however, growth is running out of steam and banks are being called on to provide more credit to both companies and consumers, as if this alone could dispel their fears that France's current budget deficit and social liabilities will eventually mean higher taxes and social security contributions.

With unemployment currently spanning around 10% of France's working population, French banks, which offer considerable hiring potential over the next few years, are asking that wage taxes on newly-hired employees be abolished. However, the reform of France's business tax, the "taxe professionnelle", threatens to increase the cost of hiring in the financial services sector.

Despite all of this, Brussels is apparently counting on an industrial patriotism which, unfortunately, deliberately excludes France's finance sector. That said, a strong economy is impossible without major banks. If anything, we should support the strong competitive edge enjoyed by French banks and assist them in promoting their business model throughout Europe.

Confusion as to the real issues, contradictions, excessive taxation and red-tape... Growth implies trust, and trust implies consistent policies, clarity and stability. Perhaps this is where we should start?

Tomorrow's European banking and financial services market

2004 was an exceptional year for the European Union, with ten new member states and a new leadership in the European Parliament and Commission. Europe is now more important than ever for France - and not just in terms of politics, but also in terms of its economy, particularly its banking and financial services sector and their customers. Today, France's banks are taking an active part in the European debate and making their voices heard in Brussels, as compounded by the amendments made to certain legislative texts such as the Directive on Financial Instruments Markets. The French Banking Federation (FBF) is also playing an active part in the debate on building a single market for banking and financial services that will benefit all Europeans.

THE EUROPEAN BANKING AND FINANCIAL SERVICES MARKET FROM 2005-2010: HOW BEST TO HARMONISE?

For France's bankers, building efficient, integrated financial markets and ensuring a dynamic and competitive offering of banking services is good for consumers, banks, other financial institutions and Europe in general. The European Commission's assessment of the progress of the 1999-2004 Financial Services Action Plan (FSAP) shows how important this is.

The results are clear: although financial markets are largely integrated, this is not the case within retail banking, which essentially remains a proximity service. The EU report issued upon the completion of the 1999-2004 FSAP points out that "direct cross-border activity first and foremost takes place in markets characterised by 'big volumes per individual transaction'". In contrast, "markets catering for retail customers, such as the market for consumer loans to households, have kept their local character".

Furthermore, the fact that the vast majority of the 42 directives adopted for the FSAP deal with investment banking and capital markets is an important point.

In light of this, the FBF has sought to establish the principles that should underlie the construction of a single market for banking and financial services in Europe and to define how harmonisation may be best implemented in each market segment. In March 2004, the FBF Chairman at the time, Philippe Dupont, went to Brussels to present its proposals to Frits Bolkestein, the EU's Internal Market Commissioner. In September, the FBF also replied to Brussels's consultation regarding the FSAP.

A pragmatic approach

The approach adopted by French banks today draws its roots from the FBF document entitled "Five Principles for a Unified European Banking and Financial Services Market" published in June 2003. Their proposals aim for the following three objectives:

- Adapt to real market needs without imposing a pre-determined model;

- Ensure effectiveness – harmonisation must be useful, cost-effective and simple;

- Promote healthy competition between companies that consumers can easily evaluate. This means that the principle of home-country law should not apply until all issues critical to cross-border competition are sufficiently harmonised.

Left page: Greek inscription from Theangela, 3rd century BC.

Above: Aegean hieroglyphic writing. Phaestos disk (Crete). 2nd millennium B.C.

The 2005-2010 work programme

For French bankers, harmonisation is not an end in itself, rather a means of building a single market for banking and financial services in Europe. In other words, a market where everyone has easy access to a broad and varied range of reliable, high-quality and competitive products and services to meet their specific needs.

■ Adopting a differentiated approach to harmonisation

French bankers believe that the same harmonisation model cannot be indiscriminately applied to all markets and have thus identified five areas that require a distinct approach:

1. Accounting and prudential standards, where harmonisation must be systematic without neglecting implementation and practices.

2. Investment banking and capital markets, where a high degree of harmonisation must be achieved, without however resulting in excessive regulation. A directive on post-market activities is absolutely essential.

3. The coordination of regulators, requiring resolute, gradual and pragmatic harmonisation.

4. Retail banking, where harmonisation must be targeted and reserved exclusively for those areas where it is genuinely required and primarily for those aspects that are necessary to effectively compare competitive offerings.

5. Payment systems and means of payment, whose harmonisation should mostly be left up to the banking industry since it implies considerable investment in infrastructures and technologies.

Cuneiform writing (4th to 1st millennium B.C.) / © akg-images.

■ Systematically using the most appropriate regulatory technique

In those cases where harmonisation is considered to be beneficial, pan-European legislation and regulations will be necessary. Furthermore, ever-closer co-operation between regulators and supervisors will also be necessary. If these principles are observed, harmonisation will be streamlined to focus on what is most essential and will promote competition while ensuring transparency and security.
The emergence of a pan-European banking market would make European banks more competitive in the global market and would also ensure that consumers obtain the best products at the best price, in an overall climate of trust.

FIVE CHAIRMEN FOR 15 EUROPEAN PARLIAMENT MEMBERS

FBF Chairman Daniel Bouton, several of the chairmen of the banks that make up the FBF's Executive Committee and Ariane Obolensky, FBF Managing Director, met with 15 European deputies from various countries last 26 October. Conscious of the role of the European Parliament in the adoption of new directives, the FBF's Executive Committee stressed how important some rather technical issues will be for the future of the European banking industry, its customers and investors.
As such, the day's menu included payment means, consumer credit and post-market activities.

NEW RULES FOR FINANCIAL MARKETS

After four years of negotiations, the new investment services directive – since renamed the Financial Instruments Markets Directive (FIMD) – has been adopted. This directive, which is a key building block of the FSAP, sets the regulatory framework for European financial markets and not only specifies the rules for competition between markets and financial intermediaries, but also the level of investor protection and the conditions whereby companies can raise funds through the financial markets.

Transparency will ensure healthy competition between markets

Throughout the negotiations, the French Banking Federation worked hard to defend the principles of transparency and equal access to all order execution systems that will be competing with each other, i.e. regulated markets, multilateral trading facilities (MTF) and internalisers(1). As such, the new directive stipulates:

■ transparency obligations for internalisers, who will have to quote a pre-trade bid/ask spread for transactions below a standard market size;

■ that limit orders that are not immediately executed by an internaliser must be sent to the regulated markets or to the multilateral trading facilities, since they are used for price formation;

■ that the prices that internalisers propose to some clients may be improved, subject to specific transparency requirements.

Ensuring that the rules are observed

In accordance with the Lamfalussy process, the Committee of European Securities Regulators (CESR) is now proposing "level 2" implementing measures that specify the procedure for implementing the basic "level 1" principles, particularly regarding the following:

■ pre-trade and post-trade transparency;

■ the obligation to execute orders at the terms most favourable for the client;

■ the rules regarding compliance, information and the marketing of financial instruments;

■ the definition of the internaliser's role.

There is much at stake here for the banking industry. First of all, rules must be carefully harmonised and adopted throughout Europe to avoid any competitive distortions between the member states when the directive is transposed into national regulations. Secondly, these rules must be easy to implement for banks.

Ongoing harmonisation of market activities

Investment banking and capital markets is one area that requires further harmonisation. French banks believe that a directive on post-market activities is a vital component of the new 2005-2010 Financial Services Action Plan.

Above: A bronze Chapenapi box with hieroglyphics inlaid with gold and silver. 25th dynasty, Egypt

Opposite: an example of Persian calligraphy – 19th century

(1) An approved intermediary who on an organised, frequent and systematic basis, executes equity trading orders for their clients in-house (for whom they generally hold a cash or securities account) by acting as a counterparty to the transaction, i.e. by taking the transaction on their own trading position.

CLEARING AND SETTLEMENT – A NEW DIRECTIVE FOR EUROPE?

The FBF has long advocated the pan-European harmonisation and integration of post-market activities, namely the clearing and settlement of securities - two functions that are an indispensable complement to the Financial Instruments Markets Directive.

Harmonising clearing and settlement activities will heighten Europe's competitive edge, most notably by reducing clearing and settlement costs on cross-border transactions which are currently 2.5 to 4 times higher than domestic transactions.

Some 250 million clearing and settlement transactions are carried out annually within the European Union for a total value of approximately 300,000 billion euros. Moreover, 90% of these transactions and 70% of their aggregate value is handled by central securities depositories with no financial risk.

Clearing:
An agreement between counterparties to process their respective instructions to transfer securities or cash between them, by "netting" them against each other. Clearnet is the clearing house used in France and by the other Euronext stock exchanges.

Settlement
A procedure for ensuring that securities are only delivered if payment has been made and vice-versa. Relit, Relit+ and Relit grande vitesse (RGV) are the market systems used for settlement in France.

The Commission should propose a directive

For the FBF, only a directive on post-market activities will enable the integration of European markets that not only ensures fair competition but is also able to fully meet the various requirements of the end users of these services, whether issuers of securities or investors. Future European legislation must acknowledge the fact that the activities of central securities depositories constitute a natural monopoly and determine a strict separation between these infrastructure activities and banking activities. Above and beyond competition issues, keeping institutions separate is also essential to limiting risk. The FBF's position is supported in France by the government, issuers and investors alike.

PARTIAL ADOPTION OF IAS 39 PENDING FINALISATION

IAS 39 governing financial instruments has been the subject of keen debate throughout the year, with European banks submitting that this standard proposed by the International Accounting Standards Board (IASB) is largely unsuited to retail banking activities and may prompt an artificial volatility in earnings and capital that bears little resemblance to the economic reality. The arguments presented by the banking industry have clearly had the desired effect, with the European Commission and Finance Ministers only partially adopting IAS 39 in November to allow more time to work on the points in dispute. The high-level working party formed in early 2004 and in which French bankers were very active, played an important role in achieving this result.

Talks continue

Work on this matter is continuing between the IASB, the regulators (Basel Committee and ECB) and the banking industry to improve the following aspects of the standard, which European banks consider to be inappropriate:

- Macro-hedging – banks ask that sight deposits (which have proven their stability as assets) be taken into consideration when hedging interest rate risk. This would involve adding a third hedging method to IAS 39.

■ Fair Value Option – while deciding to temporarily exclude this option, the European Commission has asked the IASB to submit an amended standard whose terms would be acceptable to regulators. Banks would like to be able to use this option in very specific and limited situations to correct various imperfections in IAS 39.
The IASB submitted its amendments to the Commission in December 2004.

French and European banks feel that these improvements are absolutely necessary to ensure that IAS 39 takes current best practices into account, does not distort the interpretation of earnings and does not disrupt financing mechanisms.

A fundamental reform

The new accounting standards – to be observed by some 7,000 listed European companies as of fiscal year 2005 – is of fundamental importance to the banking industry since it will serve as the foundation for the regulatory environment in the years to come.

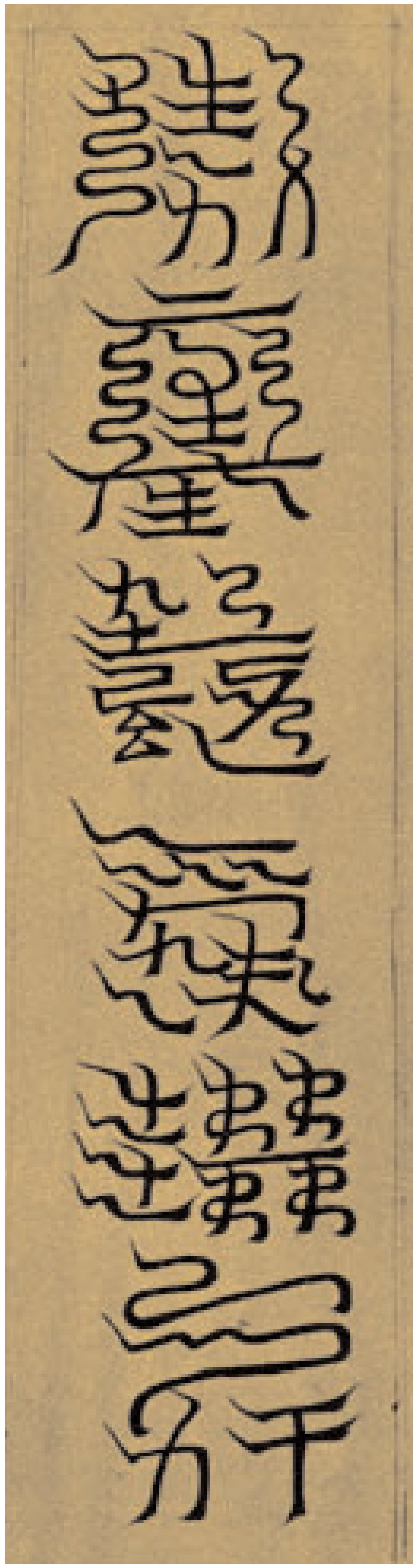
Basel and accounting standards will cost three billion euros
The switch to IFRS standards and the implementation of the new solvency ratio will cost French banks three billion euros.

SOLVENCY RATIO – BRINGING THE DIRECTIVE IN LINE WITH BASEL

In May 2004, the Basel Committee issued a new solvency ratio that will improve risk management within the banking industry as of 2006. It will also mean a fundamental change since the activities of its borrowers and the degree of risk they represent will have a greater impact on a bank's capital requirements. Credit risk will be more precisely weighted, differentiated, and more in tune with economic reality. Risks will be more thoroughly hedged and more effective risk assessment and management systems will be required.

Draft directive must be improved

On 14 July 2004, the European Commission proposed a draft directive that, like the Basel Capital Accord, is generally satisfactory. Nevertheless, some points can still be improved. Although the directive proposed by the Commission is largely based on the Basel Committee's recommendations, certain discrepancies in the proposed directive may distort competition. To avoid this problem, the Basel Committee recommendations and the proposed European directive must be coherent in terms of both their content and implementation timetables. In particular, French banks ask that the draft directive provide for the consideration of a group's capital adequacy at a consolidated level like the Basel Accord. Indeed, only a consolidated perspective will enable the accurate assessment of a group's position and, therefore, its effective monitoring and supervision.



Taoist manuscript in "heavenly" characters – 7th century China

This would not, for as much, prevent regulators from monitoring subsidiaries as and when they deem necessary. As such, the FBF regrets that, at its meeting of 7 December, the Council of Economics and Finance Ministers (ECOFIN) supported the Commission's proposal to calculate a separate solvency ratio for each bank group entity rather than a single ratio for consolidated groups as recommended in the Basel Accord.
The FBF hopes that the European Parliament will reverse this decision when it reviews the draft directive which clearly does nothing to encourage European integration.

Varying impact on clients

The new solvency ratio is not likely to have a major impact on large corporate customers since banks already carry out a thorough risk analysis. The impact on smaller companies and individuals is not easy to evaluate since the general risk components depend on the methods used and the risk determined for each type of customer, or even each individual customer. In all logic, this will result in a differentiation of risks that will work to the advantage of higher-quality customers and to the detriment of others.

CONSUMER CREDIT DIRECTIVE – YES, BUT…

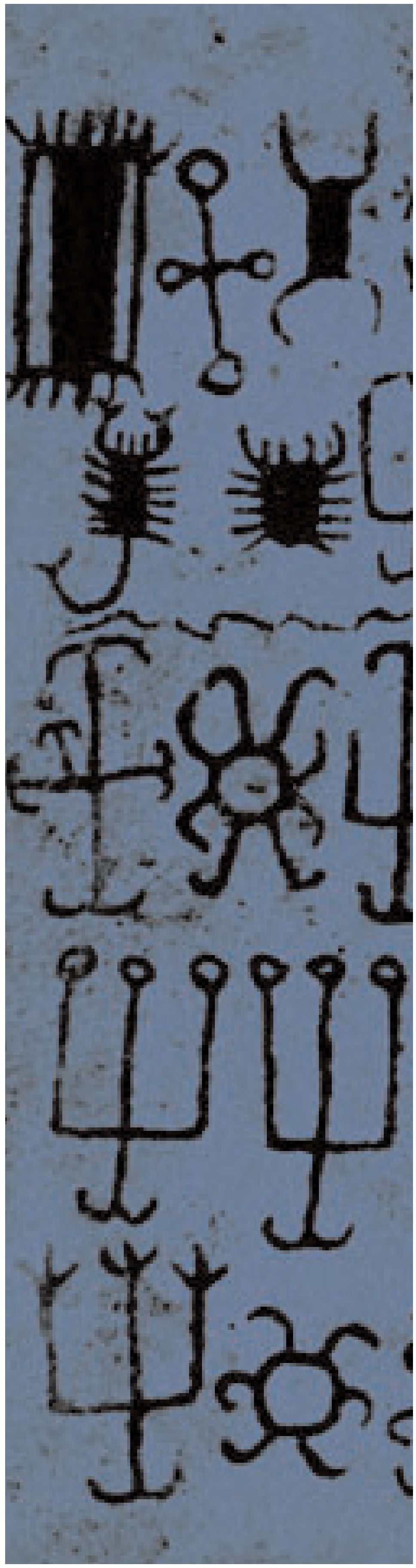
With 750 billion euros, or 8% of Europe's GDP, in outstanding loans, the consumer credit sector is a powerful engine for economic growth. This is why the banking sector has been so active for over 18 months in responding to the proposed "Consumer Credit" directive adopted by the Commission on 11 September 2002.

Although lending professionals believe that the harmonisation of rules across Europe is necessary to respond to changes in the consumer credit sector and in the needs of European consumers, this harmonisation must be carefully planned and implemented. Passed in its initial form, the first draft of the directive included a number of measures that were likely to seriously hinder the market.

When work on this directive began, market participants explained that many aspects of the proposed legislation would put excessive constraints on lenders and limit consumer freedom of choice, instead of heightening transparency within the consumer credit market. In fact, some of the measures initially proposed are even completely unworkable.

Initial proposal is substantially amended

This strong mobilisation on the part of European bankers succeeded in convincing European MPs that the proposed directive would impose severe constraints on lenders. The



Malagasy magical manuscript - 17th century.

vote after the first reading in the European Parliament on 20 April 2004 amended the initial text quite substantially, notably in eradicating those provisions that risked significantly limiting any recourse to this type of lending. Entire sections of the directive were simply removed, such as the measures to restrict door-to-door sales and prevent the use of personal data collected from borrowers.

In November 2004, after several months of negotiation with market participants and other interested parties, the European Commission issued a draft amendment that modified around 100 of the 150 provisions adopted by the Parliament and that reintroduced the principle of full harmonisation advocated by French banks.

Even though it includes many of the concessions obtained from Parliament, French bankers feel that the Commission's draft is still questionable in some key areas, such as its application to unsecured mortgage loans, the notion of responsible lending, and the 14-day withdrawal period.

A long road ahead

The Council of Ministers must now give its opinion of the European Commission's draft although it is unlikely to do so before the second half of 2005. The FBF is working alongside government officials in preparing for further negotiations which promise to be long drawn-out and difficult. Supported by the European Banking Federation, the proposal of French bankers for full and pragmatic harmonisation that focuses on the most important aspects of cross-border competition could constitute an acceptable compromise for everyone.

A COMMON FRAME OF REFERENCE FOR EUROPEAN CONTRACT LAW

The European Commission has taken several steps to prepare a single framework for European contract law, with the ultimate objective of building a common body of law for all EU member states. This notably involves defining a Common Frame of Reference (CFR) of principles, key concepts and rules in the area of contract law.
French banks feel that this work does not address their priorities as pointed out by the FBF during a conference organised by the European Parliament and Commission in April 2004. Indeed, banks believe that harmonisation in specific areas, such as consumer protection, would do more to promote cross-border transactions. However, with the Commission determined to move ahead, the banks have agreed to participate in a group of experts made up of market participants whose role will be to advise the Commission as it prepares the CFR.

MODERNISING THE CONVENTION OF ROME ON THE LAW APPLICABLE TO CONTRACTUAL OBLIGATIONS

The differences that exist between the national contract laws of EU member states makes the question of a single law applicable to all cross-border contracts all the more important. This is why the European Commission issued a green paper of recommendations for modernising the Rome Convention of 19 June 1980, which deals with the issue of applicable law.

Chinese caligraphy

The FBF responded to this consultation and was heard by the European Commission in January 2004.

The FBF believes that this Convention should be made an EU regulation, since its application in all member states would harmonise rules for dealing with conflicts between laws. To keep things as simple as possible, the FBF also feels that only the law of the consumer's country of residence should apply to all contracts between traders and consumers. However, such protection would only be provided in the event that the trader proposes its products or services in the consumer's country, through advertising, door-to-door sales and so on. This solution has a chance of being retained in the proposed "Rome I" regulation which is to be adopted by the commissioners in fall 2005.

And this shall be my dream to-night…

EMILY BRONTË

Banks and their customers – more transparency, more simplicity

With the growing range and diversity of banking services such as new retirement savings products and the reform of interest-free loans in 2004, comes a heightened need for information amongst customers. To ensure the development of their activities, today's banks are therefore committing to greater clarity and transparency and to ensuring that their customers have all the information they need to select the most competitive offering.

Autograph of Emily Bronte (English novelist, 1818-1848) / © Leslie Cabarga.

MAKING BANKING EASIER

On 9 November 2004, French banks proposed a series of measures based on the guidelines set by the French Ministry of Finance when it formed the Financial Sector Consultative Committee (CCSF) one month earlier. These measures are intended to make banking easier for consumers.
The main objectives are to:

■ enable customers to benefit from competing offerings,

■ enable anyone to have a bank account and ensure they are managed under the best possible conditions.

The French banking industry's commitments

1. To make bank charges easier to understand

■ Simplify access to banking rates and charges at branches and on websites.

■ Make bank statements easier to understand, with:
- visual codes for identifying charges;
- more explicit card payment descriptions;
- a glossary of basic terms to enable bank customers to compare products and services more easily.

2. To enable everyone to withdraw cash from their bank free of charge, whether they have a bank card or not

Branches will also do more to assist the elderly, handicapped, visually-impaired and any other persons who may have difficulty in using ATMs.

3. To assist customers with bad cheque incidents

■ Inform customers of the consequences of a bad cheque incident (including what and when they will be charged) in a letter sent prior to cheque refusal.

■ Charge a flat rate for each bounced cheque that includes all related charges.

4. To provide customers who do not have chequebooks with a means of payment

Said customers will be offered a "Range of alternative payment instruments" for a moderate monthly fee allowing them to make an appropriate number of payments by credit transfer, direct debit, interbank payment order or payment cards that require systematic authorisation.

5. To ensure that all French citizens have access to a bank account

■ Launch of a campaign to inform people of their right to a bank account, particularly those who are socially disadvantaged.

■ Ongoing training of branch staff.

■ Provision, within each branch, of a standard form letter that explains how to benefit from basic banking services when an application to open an account is denied.

6. To make it easier to switch banks

■ No charges for closing a current, passbook or similar account (e.g. Codevi, LEP savings book or other savings account).

■ Make a guide to closing and transferring accounts available in each bank.

7. To promote current account agreements

Inform customers at least once a year and propose an account agreement at each opportunity.

Many of these commitments are the result of previous bank initiatives or have been tested in a branch network, while others were inspired by work already carried out with consumer associations which has enabled their rapid implementation.

Monogram by Fred Goss Cooper for Frederic Goudy (American illustrator from 1865-1947) / © Leslie Cabarga

Implementation in early 2005

■ Account closures no longer incur any charges as of 1 January 2005.

■ Those measures that require more time to inform branch networks will be implemented by 1 March 2005. These include providing more information about banking service charges (brochures in branches or websites), the publication of a guide to closing and transferring accounts, facilitating the exercise of an individual's right to a bank account, the free withdrawal of cash from branches and more assistance for those persons that find it difficult to use ATMs.

■ The following projects, which require more groundwork, will be implemented later in the summer:

• the flat charge for bounced cheque is to be included in service charge brochures by 1 July 2005;

• the alternative payment instruments for customers without chequebooks;

• the glossary of key banking terms to facilitate the comparison of standard banking transactions.

■ Lastly, work on bank statements will not be completed until late in the year since quite a bit of time will be required to adapt bank information systems.

The FBF will keep the CCSF regularly informed of the progress of these commitments and a first report will be submitted before the summer.

Consumers held 195 million accounts at end 2003, including sight, time deposit, various savings and giro accounts.

Source: Banque de France

French consumers average 218 non-cash transactions per year.

The average for Europe is 140.

Source: ECB

There were 25,789 bank branch offices in France 2003, i.e. 361 more than there was five years ago.

There were roughly 42,000 ATMs in 2003, which is twice as many as in 1994.

Source: CECEI

Banking charges in France are within the European average
French bank customers pay an average of 130 euros per year for banking services, compared to an average of 145 euros for all Europeans. This price includes all banking resources, "packages", payment instruments, payment incidents, overdrafts and revolving loans.

Source: study by Mercer Oliver Wyman in July 2004

ONE THIRD OF CUSTOMERS HAVE AN ACCOUNT AGREEMENT

After the considerable efforts made by banks to promote account agreements, the number of customers who have signed such agreements doubled from 8 million in April 2004 to some 16 million in December, which is about one third of the entire national customer base.

Banks and associations come to an agreement

Consumer associations and banks working together in the Financial Sector Consultative Committee agreed in November 2004 that the Charter's requirement that account agreements be mandatory for new customers and optional for current customers be incorporated in the 2005 Finance Act.

The amendment passed requires banks to continue their information efforts until 31 December 2009. A letter dealing specifically with this issue will be sent out in 2005 to inform customers who have not yet requested their account agreement that they may still do so.

Informed customers

Almost 40% of French people surveyed confirmed that their bank informed them that account agreements would be available in 2004.

Seven out of ten French people consider that their banks provide sufficient information about how to use bank accounts and payment instruments.

Source: 2004 Survey by the Observatoire de l'opinion

FIRST RESULTS OF MEDIATION ARE IN

Since December 2002, all French banks have been offering their customers the possibility of referring any disputes they may have to an independent mediator. The Banking Mediation Committee, which is chaired by the Governor of the Banque de France, issued a report on the first year of mediation in 2004.

To date, mediators have received a little over 23,000 letters, with most disputes having to do with the operation of bank accounts, service charges and investments. Moreover, mediators have succeeded in responding to customer requests in an average of 40 days, which is less than the two months allowed. The fact that about half of mediator decisions are in the customer's favour shows that they are truly independent. Furthermore, in the vast majority of cases, the banks agree with the mediator's decision.

"Mediation definitely has its advantages for customers and banks alike. The high number of decisions rendered in favour of customers and implemented by banks can only improve relations between banks and their customers", the Bank Mediation Committee concludes.

1,043 letters addressed to the FBF mediator

126 banks have selected FBF mediator Benoît Jolivet as their mediator. In his first mediation report published in April 2004, Mr Jolivet indicated that of the 1,043 letters he received, only 62 directly qualified for mediation. Indeed, over one third of the letters received were forwarded to the relevant bank, since a solution was still available at a branch and customer service level. 70% of these complaints were handled to customer satisfaction. The FBF's mediator will present his second report at the end of March 2005.

Banking in the palm of your hand

The FBF has published a collection of mini guidebooks designed to provide consumers with practical and concise information about banking services. These "mini-guides" are distributed by the Banking Information Centre, the FBF's regional committees, branch networks and consumer associations. They may also be downloaded from www.lesclesdelabanque.com.

Some of the titles published in 2004:

- *Protect your personal data*
- *Your right to a bank account*
- *Rediscover consumer credit*
- *Obtaining a loan even with a health problem - The Belorgey Agreement*
- *Never write a cheque without sufficient funds*

NEW RULING GOVERNING INTEREST ON SIGHT DEPOSITS

The European Court of Justice's ruling of 5 October will require the French government to allow the payment of interest on sight deposits. This ruling was rendered in response to the question raised by the Conseil d'Etat, France's Supreme Administrative Court, which is to announce its decision in this respect in early 2005.

Bespoke banking

Each bank will have to adapt to this new regulatory environment as it deems appropriate in the interests of competition. Moreover, it will be up to each bank to come up with a new offering for its customers who, after all, already have access to a number of alternatives when it comes to earning interest on short-term deposits.

BELORGEY AGREEMENT - IMPROVED CONTENT AND CIRCULATION

In 2004, the banking industry amended its system for informing people with serious illnesses how they may benefit from borrower insurance. It also agreed to incorporate some of the demands made by patient associations into the Belorgey Agreement, notably regarding the term of loans and maximum lending amounts.

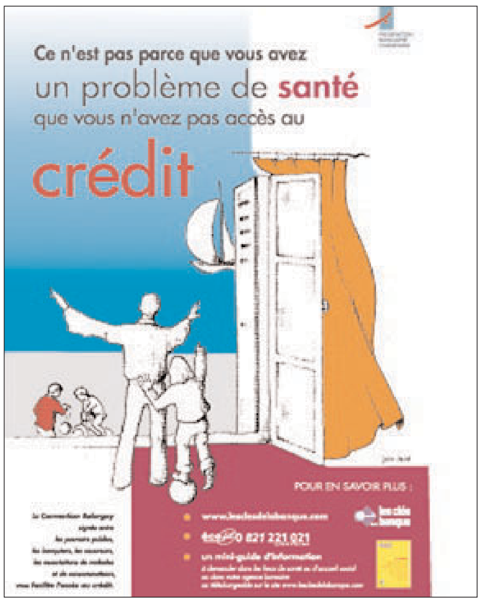
On 30 April 2004, the FBF made a commitment to the Belorgey Agreement Committee to provide the public with more information about this agreement. To achieve this objective, a task force headed up by the FBF and including the French Federation of Insurance Companies (FFSA), the French Inter-ministerial Mission for the Prevention of Cancer and various consumer and patient associations, designed and deployed the following information materials:

- A **poster,** to be put up by patient and consumer associations in physician and hospital waiting rooms, pharmacies and community centres. The poster explains that "Just because you have a health problem doesn't mean you can't get a loan".

- A **mini-guide** entitled "L'accès au credit malgré un problème de santé" (Obtaining a loan even with a health problem), which explains the necessary procedures and is available on the Internet from www.lesclesdelabanque.com.

- An **interactive voice server** which has been accessible since 5 July 2004 by dialling 0821221021 (0.118 euros per minute).

In 2004, the measures applying to consumer credit were extended to so-called "dedicated" loans, i.e. loans which are granted for a specific purpose but which are not secured by the item purchased. The Agreement is to be further enhanced in 2005, by extending the 12-year limit on mortgage and professional loans to 15 years, and the maximum amount from 200,000 to 250,000 euros.



All about banking

The *lesclesdelabanque.com* website which went online in March 2004, provides all the information a person needs to understand banking practices and regulations.

Constantly updated, the site provides real-time answers to visitor questions and new documents available for downloading.

The number of visitors is rising fast, with almost 700,000 page views and 85,000 visits during the first nine months.

"BANKS, MY BANK AND ME…" STUDENT MEETS BANKER IN STRASBOURG

In 2004, the Bas-Rhin banking committee and local education authorities worked together to organise "Banks, my Bank and me", a programme designed to present the world of banking to young people. Its objectives are to:

- inform young people about what banks do and thus help them become informed consumers of banking services;

Alain Rey, presenting "Démo des mots".

■ give them a better idea of the day-to-day operations of a bank and a more concrete understanding of the various banking professions.

In two years, this programme has allowed some 1,500 students to discover what banks are all about. It took a lot of commitment and work on the part of all of the bankers, school principals and teachers involved, as well as some logistics support from CFPB - a vocational training school for the banking industry – which, right from the outset, helped to prepare the materials designed by the FBF and organised into the following three themes:

■ What do banks do?

■ What can a bank do for me and how can I use its services?

■ What do you do in a bank and what kind of jobs are available?

After the initial phase, which ended in 2004, bankers and teachers worked together to make 19 presentations to 700 fifth-year students in 24 classes in six secondary schools in and around Strasbourg.

In the first quarter of 2005, this programme will be extended to interested vocational colleges and to sixth-year classes. Other FBF departmental committees are also to adopt this educational initiative.

GETTING THE WORDS RIGHT

What is the main cause of misunderstandings between banks and their customers? The answer is quite simply *"words"*. Banking language is full of technical jargon and terms that are often hard for non-bankers to understand - a terminology gap that is the cause of many of the complaints that banks receive. This lack of comprehension is also what gives the banking sector its *"frosty"* reputation, making consumers feel overly dependent. In order to establish a more *"balanced dialogue"*, consumers need to understand basic terms and concepts.

This communication issue is what prompted the FBF to sponsor a one-minute TV programme called *"Démo des Mots"* at 8:40 p.m. on TV channel France 2 every Saturday and Sunday from 20 March 2004 to 13 March 2005. Each programme, hosted by language expert Alain Rey who also hosts the *"Mot de la fin"* morning programme on the radio station France Inter, dealt with a word that is more or less directly associated with money*, with Rey using wit and humour to explore the word's etymology, various meanings, usage and history.

Just like the consumer information website, www.lesclesdelabanque.com, the series of *"mini-guides"* and initiatives to teach young people what banks do, these short *"Démo des Mots"* programmes are just one aspect of the major efforts the banking industry has undertaken to familiarise as many people as possible with banking concepts and terminology.

Furthermore, the public seems to have clearly understood the objectives of *"Démo des Mots"*. 57% of respondents to a post-test survey felt that it *"presented the words and vocabulary of money in an interesting manner"*, while 53% felt that its presentation was *"appealing"*. *"Démo des Mots"* also obtained a 70% approval rating from respondents who watched regularly.

**Such as draft, amount, provision, cash, etc..*

Signature of Hieronymus Bosch (Flemish artist, 1450-1516) / © akg-images.

MEASURES TO FACILITATE CONSUMER CREDIT

Outstanding consumer credit in mid-2004 represented 7% of GDP (113.7 billion euros), making it an important economic growth driver. That said, with the French somewhat concerned about the state of the economy, they are tending to borrow less. In May, the French Minister of Finance announced various measures to boost consumer spending under the Loi sur le soutien à la consommation et à l'investissement (the Consumption and Investment Support Act). One of these measures is, within a limit of 600 euros, tax relief of 25% on the annual interest paid on loans taken out to finance consumer goods prior to 31 May 2005. The maximum annual tax reduction is therefore 150 euros.

Banks commit to responsible lending

Consumer borrowing should not be encouraged without some precaution and the credit industry is henceforth committed to ensuring that consumers benefit in full from these new measures. They will also see to it that this initiative to encourage spending does not prompt some households to become over-indebted, although this is generally the result of an accident or other unexpected event.

This is why bankers have agreed to:

• only grant credit to a new customer after first checking the national payment incidents file and to verify proof of purchase,

• get in touch personally with each customer in the event of a significant late payment or payment incident.

Less than one household in two held a loan at end 2003

The number of French people in debt has been declining over the past two years. According to the OEM, which monitors consumer debt, 49.7% of households held a loan at end 2003, compared with 51.2% at end 2002. Most of this decline is due to fewer consumer loans, which have dropped off as economic uncertainty has eroded consumer confidence. 33.2% of households held a consumer loan in 2003, compared to 34.1% in 2002. Mortgage loans, on the other hand, have remained stable, with 28.5% of households repaying a mortgage at end 2003. The term of mortgage loans has also increased over the years, from an average of 11 years in 1992 to 15.5 years in 2003, enabling consumers to preserve their purchasing power despite inflation.

INTEREST-FREE LOANS - MORE TIME NEEDED

Without first consulting lenders, the French government announced in early September that it would replace interest-free loans with a tax credit for borrowers. Although the FBF supports the government's decision to extend its support to loans for older property as well as new, it believes that granting a tax credit to borrowers will not be as effective a measure as interest-free loans, particularly for low-income borrowers.

After initial negotiations with government officials, a solution was found whereby a tax credit would be granted to lenders instead of the subsidy they now receive under the current system. The principle of the interest-free loan has thus been preserved.

In late September, the government included this new measure in its 2005 Finance Act, effective as of 1 February 2005. The banking industry feels that it will be difficult to be ready in time given that the implementation decrees have yet to be issued and in light of the technical constraints in modifying management systems and training tens of thousands of employees.

• Over 900,000 interest-free loans have been granted since 1995, representing a total of 13.6 billion euros at end 2003.

• 75% of these loans were for new homes.

• In 2003, 100,000 households were eligible for interest-free loans.

NEW RETIREMENT SAVINGS PLANS ARE LAUNCHED

The Retirement Reform Act of August 2003, created two new types of savings products: the Popular Retirement Savings Plan (PERP) and the Group Retirement Savings Plan (PERCO). The objective was to enable everyone to save more money for retirement. Two decrees issued in April and May 2004 authorise banks to sell these new products.

A PERP is subscribed for individually through an association. All investments into the plan are initially tax-deductible and a taxable lifetime pension is paid upon retirement. A decree issued in April 2004 outlines various aspects of PERP plan management, the organisation of the Popular Retirement Savings Group and the modus operandi of the Supervisory Committee.

A PERCO is an employee savings plan established by a collective agreement at a professional, company, inter-company or industry level. A decree issued in May 2004 outlines the requirements for the early withdrawal of funds from the plan (i.e. in the event of disability, unemployment, over-indebtedness, etc.).

A Code of Good Conduct

In July 2004, the French Banking Federation adopted strict guidelines for the marketing of PERP plans, particularly regarding the pre-contractual information that must be provided to customers. Customer sales representatives must explain to customers how the PERP plan works and draw their attention to its specific characteristics. These guidelines gave formal expression to the rules that banks had already been observing for PERP plans.

"Is there a 'French exception' when it comes to savings behaviour?"

Over the past 15 years, household savings rates in France have been rising (to 16.7% in 2002) as in most European countries, where savings rates range from 15% to 17%. There is therefore nothing exceptional about French savings behaviour.

If social payment transfers in kind are included in disposable income (to obtain adjusted gross disposable income) the French savings rate falls three percent, due to the considerable weight of France's Social Security and National Education.

Source: IEM Finance study of household savings behaviour, April 2004.

EASIER FINANCING FOR SMEs

The French government is preparing a bill to facilitate the financing and transmission of small and medium-size enterprises (SME). Recent case law has created a climate of uncertainty that has made banks very prudent when it comes to lending to companies. This of course can make it very difficult for them to obtain credit, particularly the smaller companies. The banking industry therefore believes that the rules governing liability for abusive lending must be amended to limit the lender's risk to the amount lent, except in cases of fraud in concert with the debtor or clear meddling with the company's management. This reform would bring French law in line with current practices elsewhere in Europe.

Reforming liability for abusive lending

Lenders can currently be forced to pay compensation well in excess of the amount lent to a company in the event of bankruptcy. There are several reasons why this risk must be taken very seriously: it is hard to identify and evaluate since the criteria that the courts use to determine liability for abusive lending are quite vague; lawsuits are generally very long and the amount of compensation being claimed is often totally disproportionate to the amount of the loan.

NEW SOLICITATION RULES FOR BANKS AND FINANCIAL INSTITUTIONS

The measures governing the solicitation and sale of banking and other financial services introduced by the French Financial Security Act of August 2003 have now come into effect, with the issuing of the last two decrees and a ministerial order in September 2004. These new rules take new technologies into account and also deal with distance selling and solicitation over the Internet or telephone. Banks will thus have a more appropriate framework for marketing their products and services. The Act also enhances consumer protection.

These measures do not extend to the solicitation of business from qualified investors, people who are contacted at their own request, nor legal entities with total assets, assets under management or annual revenues of more than five million euros, or which employ over 50 people.

Key aspects of these new rules:

■ The professional requirements for agents who solicit business (solicitors) have now been specified, as have the minimum guarantees as to their professional liability. Solicitors outside of their offices must be able to furnish clients with a business card that conforms to the model specified in the ministerial order.

■ A database of authorised solicitors has been created and will be maintained by the Banque de France. It may be accessed by the general public to enable people who have been solicited to check that the solicitor is duly authorised.

■ A person who makes a purchase subsequent to solicitation is entitled to a "withdrawal period" of 14 days. A standard form for withdrawing from transactions has now been created.

Some measures will take more time to implement, particularly the preparation of the solicitor database for public consultation, which will be ready by 31 March 2005.

NEW BANKRUPTCY BILL BRINGS MUCH NEEDED REFORM

France could certainly do better when it comes to dealing with insolvent and potentially bankrupt companies. At present, 95% of bankruptcy proceedings end in compulsory liquidation, either immediately or after a failed attempt at recovery through receivership.

This situation – which is of course bad for lenders – is the result of various perverse effects of the Act of 1985 that were not corrected by the reform measures of 1994. Indeed, the current legal framework encourages companies to conceal their difficulties as long as possible so that, when creditor proceedings actually begin, it is generally too late to stop the company from going under.

This is why – after much discussion with all interested parties – the Ministry of Justice proposed a bill on 12 May that offers the following advantages:

■ the early tackling of business difficulties before insolvency thanks to a conciliation procedure (formerly *règlement amiable* amicable settlement) and a new protection procedure, partly inspired by US Chapter-11 bankruptcy rules;

■ greater legal security for the parties to the conciliation procedure agreement, particularly since the amicable settlement cannot be challenged once approved;

■ a protection procedure that is contractualised, through the formation of a creditor committee that must approve or reject the plan;

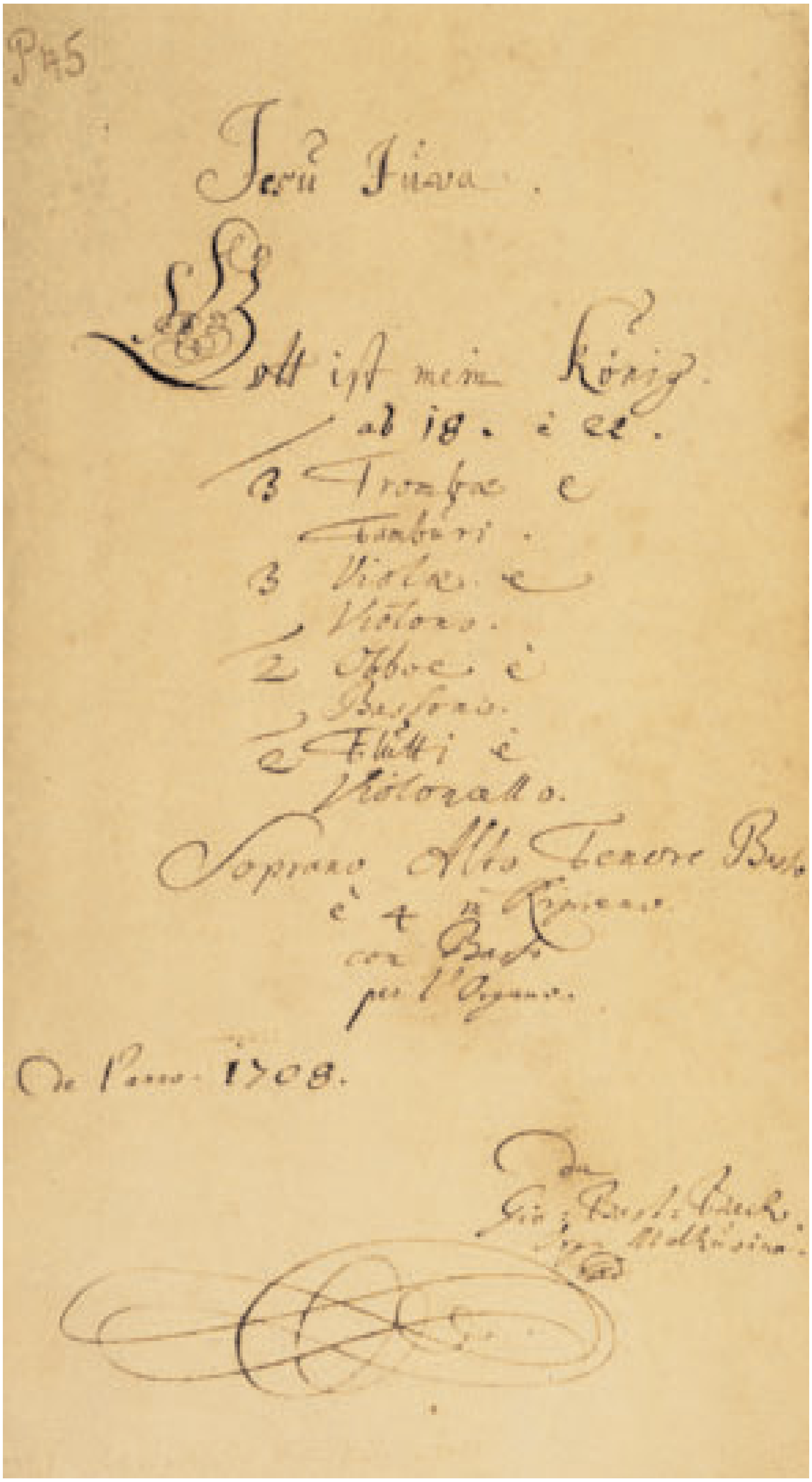
■ the extension of the option to transfer loans secured by collateral assigned to the buyer of the business to any type of business transfer.

Calligraphy by Arnold Bank (English calligrapher, 1908-1986) "A to M", 1955 / © Leslie Cabarga.

Uncertainties remain

Although French bankers applaud the considerable progress that has been made, they regret that the bill does not go further in contractualising creditor proceedings and feel that the courts still play too great a role in the business protection procedure.

Furthermore, much still remains to be clarified since some key measures will be set forth by decree, such as the limit below which there is no obligation to form a creditors committee for protection proceedings. Care must be taken to ensure that these proceedings are not reserved for only a few companies, which could result in a two-tier system.
This bill will be voted on in the first half of 2005



Johann Sebastian Bach (1685-1750), an original page from the cantata "Gott ist mein König" / © akg-images

The stamp of Japanese artist Toyo Sesshu (1420-1506).

Right page: autograph of Franz Listz (Hungarian composer and pianist, 1811-1886) for Anton Rubinstein (Russian pianist, 1829-1894)/ © akg-images.

WOMEN AND MONEY

For International Women's Day, on 8 March, IFOP published the results of a survey intended to develop a better understand of women's relationship to money(1). Commissioned by the FBF, the survey shows that this relationship is quite different from traditional stereotypes.

In terms of their perception, men and women have a very different relationship to money. In terms of their behaviour, however, they are actually quite similar. For both men and women, money is important and plays the same role - it represents security for the future and a means of enjoying life's pleasures now.

85% of women feel that money is an important factor in their life.

Money means emancipation

All women – especially those who are unemployed or with few professional skills – feel that earning money helps them assert themselves, both in society and within their personal relationships.

A close eye on day-to-day finances

There is still a clear distinction between the types of financial tasks that women perform. While women tend to play a much greater role in day-to-day money management, handling everyday expenses and paying bills, men tend to handle specific tasks, such as preparing tax returns or purchasing a relatively complex savings product.

63% of women do their accounts very often, compared with 44% of men.

55% of couples share all of their bank accounts and investments. However, amongst graduate and employed women, some money is often managed separately.

Both men and women have difficulty preparing for retirement

Most women still do not consider preparing for retirement to be their main reason for saving. In fact, only 32% cited this as their main motivation, far behind saving for a rainy day (74%) or their children's future (54%). Retirement only becomes a major concern requiring financial preparation after the age of 50.

"Money is like a woman. To hold on to it you have to pay it some attention otherwise it will make someone else happy."
Edouard Bourget

(1) Based on a telephone survey conducted in February 2004, on a representative national sample of 603 men and women aged 18 and above, and an additional sample of 203 working women.


herzlich —
auf —
Ant. Rubinstein

Building the European Payments Area

Payment systems and instruments play a big role in bringing Europe into the everyday lives of its citizens. Since the introduction of the euro, much has been accomplished in this area, such as the project to develop a new legal framework for payments, the banking industry's contribution within the EPC and the creation of a range of pan-European payment instruments - with particular emphasis on credit transfers, direct debits and debit cards. While helping to build the Single Euro Payments Area (SEPA), French banks are also working to improve France's national payment systems, with payment security considered to be a top priority.

Maurice Tabard (French photographer, 1897-1984), Peignot letters, 1931. Private collection

A NEW LEGAL FRAMEWORK FOR PAYMENTS IN EUROPE: WORK IN PROGRESS

In late 2003, the European Commission issued a consultation paper on the creation of a single legal framework for payments in Europe. The purpose of this framework is to make payment systems and instruments more efficient and secure and ensure fair competition according to the same simple rules for everyone. Regardless of the type of payment instrument used, European citizens and companies will benefit from the same degree of protection and legal security.

Following this consultation – in which French banks played an active part – the Commission indicated that the legal framework would take the form of a directive in respect of most aspects, with FATF recommendation No. 7 being implemented in the member states through a regulation.

Draft directive: Room for improvement

The FBF believes that the draft directive in its current form may bear risks for consumers and the stability of the payments industry.

After many meetings with Brussels authorities, banking industry representatives obtained several positive changes. However, some areas may still pose problems. The FBF recommends the following changes:

■ **Limit the directive's scope to strictly European transactions**

According to the Commission, the directive should apply to all currencies and as soon as any one of the two payment service providers (i.e. the payer or the payee) is located in the European Union.
The FBF feels that this cannot be enforced and would end up making European payment service providers less competitive.

■ **Strengthen rules to protect consumers and maintain the distinction between consumers and SMEs**

Clearer and more consistent rules are definitely required. Furthermore, the Commission's proposal of applying the same protection rules to SMEs as to consumers would reduce the range of services available to smaller companies.

■ **Further define the legal status of payment institutions**

To ensure the adequate protection of customers, the legal status of payment institutions should also include strict rules as to minimum capital, specialisation, the allocation of customer funds and supervisory authorities.

The Commission plans to submit a final directive proposal by the summer of 2005.

FATF recommendation No. 7 - A long-awaited regulation

The banking industry is pleased to see that a regulation to implement FATF recommendation No. 7 is currently being drafted. This recommendation governs the information that payment institutions must provide in the payment messages they send to each other. To ensure that this recommendation is interpreted and enforced in a coherent manner across all member states, European banks requested in 2003 that the Commission make this recommendation a European regulation and that it recognise the European Union as a single jurisdiction.

EPC – PAN-EUROPEAN PAYMENT INSTRUMENTS FOR 2010

In June 2002, banks and their European federations formed the European Payments Council (EPC) for the purpose of creating a "Single Euro Payments Area" (SEPA), in which all Europeans are able to make payments in euros with the same ease and efficiency regardless of where they happen to be in Europe(1). 2004 saw the launch of the pan-European direct debit scheme and the drafting of the EPC's road map for 2010.

A new means of payment is born: pan-European direct debit

In June 2004, the EPC decided to create a new payment instrument: pan-European direct debit. This pioneering initiative reflects the extent to which European bankers are keen to make a concrete contribution to the construction of Europe.

Since each member state has its own legal framework and technical standards for direct debits, it is indeed easier to create a new exclusively European and standardised payment instrument from scratch, rather than to try to harmonise the various national models.

The use of a single standardised means of payment will facilitate the sale of goods and services throughout the internal market. European direct debit is similar to the debit system used in France. A customer authorises a company to deduct the amount of the invoices it owes from its account. In addition, the system affords creditors (i.e. companies, government agencies and public utilities, such as water, power and other companies) broader market access since it may be used for all euro payments in Europe.

The EPC is to draw up detailed specifications for this new payment instrument by mid-2005. A pilot project is to be launched for the first transactions by end 2006.

Priorities between now and 2010

In 2004, the EPC acquired its own legal personality by becoming an international non-profit association under Belgian law. Today, the EPC is currently undergoing reorganisation - essentially to include the ten new EU member states - and is considering alignment with the European Committee for Banking Standards (ECBS).

At the request of the ECB, the EPC is organising a seminar at the end of the year to present its vision of European payment systems and means in 2010 and how they can be achieved. The end objective is to offer consumers and companies a unique range of pan-European payment instruments, with the following three priorities over the next five years:

- propose a model for pan-European credit transfers. This will require further work on the Credeuro and ICP conventions as well as some thought on the use of IBAN;
- provide pan-European direct debit to all interested consumers or business customers;

(1) SEPA includes the 25-member EU as well as Iceland, Norway, Liechtenstein and Switzerland.

Jaspers Johns (American painter, 1930), Grey Numbers, 1958 / © akg-images

■ offer eurozone customers "pan-European" cards they will be able to use throughout the eurozone. In addition to this new project, the EPC will continue its efforts to fight fraud by migrating cards to the new, more secure EMV standard and working with the ECB to set up a European fraud database.

Other European payment projects

The cash recycling resolution was presented to the ECB in late 2004. The guidelines provided by the EPC enabled banks to adopt and defend a common position. The ECB's draft regulation specifies the technical specifications for machines used to check banknotes before they are placed into ATMs for distribution to the public.

To enable banks to monitor the progress of the SEPA, the EPC has developed progress indicators for the main projects, which includes cards, EMV migration, credit transfers and PEACH payment infrastructures.

Europeans and their bank cards

■ 62% of Europeans have a bank card.

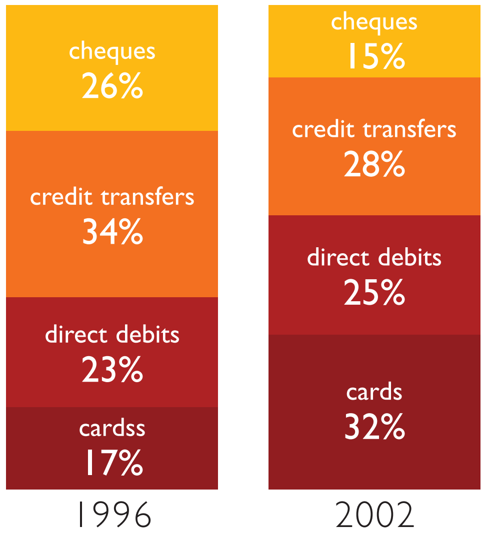
■ Card payments account for 33% of transactions (including payments and withdrawals) excluding cash.

■ Card transactions are growing 15% per annum.

■ Cards are used for 83% of cross-border payments, which only account for 1% of European transactions.

Source: EPC, Cards Working Group

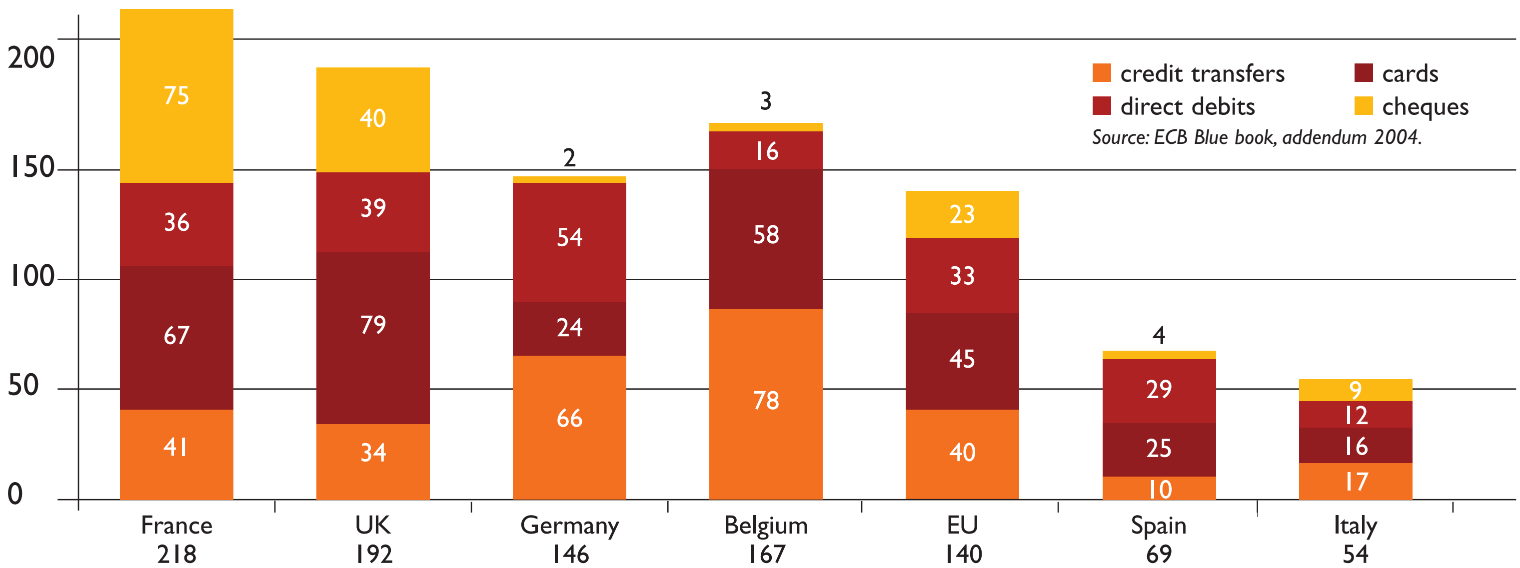
BREAKDOWN OF NON-CASH PAYMENTS IN THE EU, BY VOLUME
Change 1996 / 2002



Source: ECB Blue book, addendum 2004

Jaspers Johns (American painter, 1930), Zero to Nine/0 to 9, 1958 / © akg-images

NUMBER OF TRANSACTIONS PER CAPITA IN THE EU IN 2002



BANKS: INVESTING IN SECURITY

For each type of payment instrument, banks are investing in new technologies and taking new initiatives to increase awareness amongst all Europeans.

Card security monitoring body issues first report

The Security Act of 15 November 2001 and the decree of 2 May 2002 provided for the creation of a special body to monitor card security, the Observatoire de la sécurité des cartes de paiement. Chaired by the Governor of the Banque de France, this body began its work in 2003, with the following main objectives:

- to monitor the implementation of the measures adopted by card issuers and retailers to increase payment card security;
- to monitor advances in card technology;
- to compile fraud statistics.

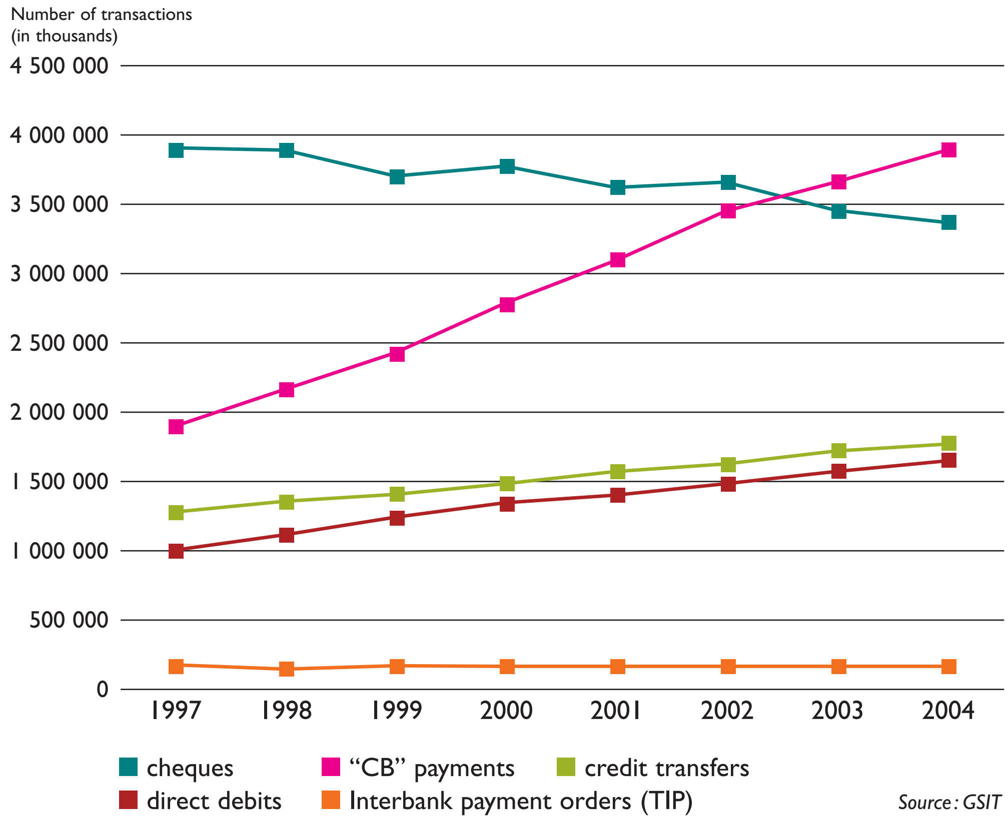
Use of cards in France in 2003

- **48 million bank cards** with payments and withdrawals totalling 275 billion euros. In only 3.1% and 5.1% of transactions is the purchaser and the card issuer respectively not a French resident.

- **From 30 to 35 million store cards** with payments totalling 20 to 25 billion euros. Most cannot be used to make purchases abroad.

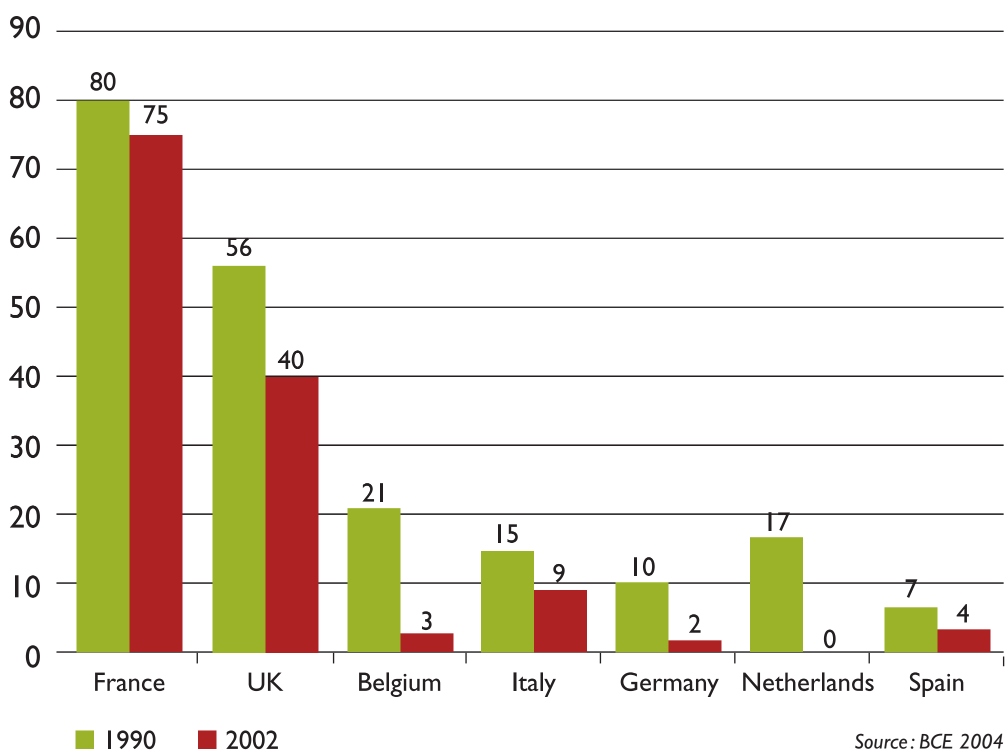
Source: Observatoire de la sécurité des cartes de paiement (card security monitoring body)

INTERBANK TRANSACTIONS IN FRANCE
From 1997 to 2004



Source: GSIT

NUMBER OF CHEQUES PER ANNUM AND PER CAPITA IN EUROPE
From 1990 to 2002



Source: BCE 2004

Statistics on payment and withdrawals fraud using French payment systems in 2003 show that there was very little fraud in France, representing only 0.031% or 88 million euros, whereas cross-border fraud has increased to 185 million euros.

Migration to the EMV standard forges ahead

The findings of the card security monitoring body show that fraud must be fought on both a European and a global level. To increase the security of chip cards, all interbank cards throughout the European Union will be migrated to the EMV standard. Several countries are switching directly from magnetic stripe cards to the EMV chip. In France, this migration will involve the Visa and MasterCard network and will be co-ordinated by the CB consortium(1). By end 2004, banks had converted 60% of their ATMs to the new technology.

Online banking and shopping - the importance of information

Online banking and remote payment solutions are increasingly popular in France. According to Médiamétrie/Netratings, the websites of the eight largest banking groups receive almost nine million visits a month, and 9.5 million people made online purchases in 2004, which is twice as many as in 2003. This success is the result of a high-quality service that enables customers to manage their money and make purchases anytime and anywhere.

(1) Groupement des Carte Bancaires "CB".

To provide this service, banks must make considerable investments in security. In order to ensure the highest level of security for online banking services, French banks are committed to:

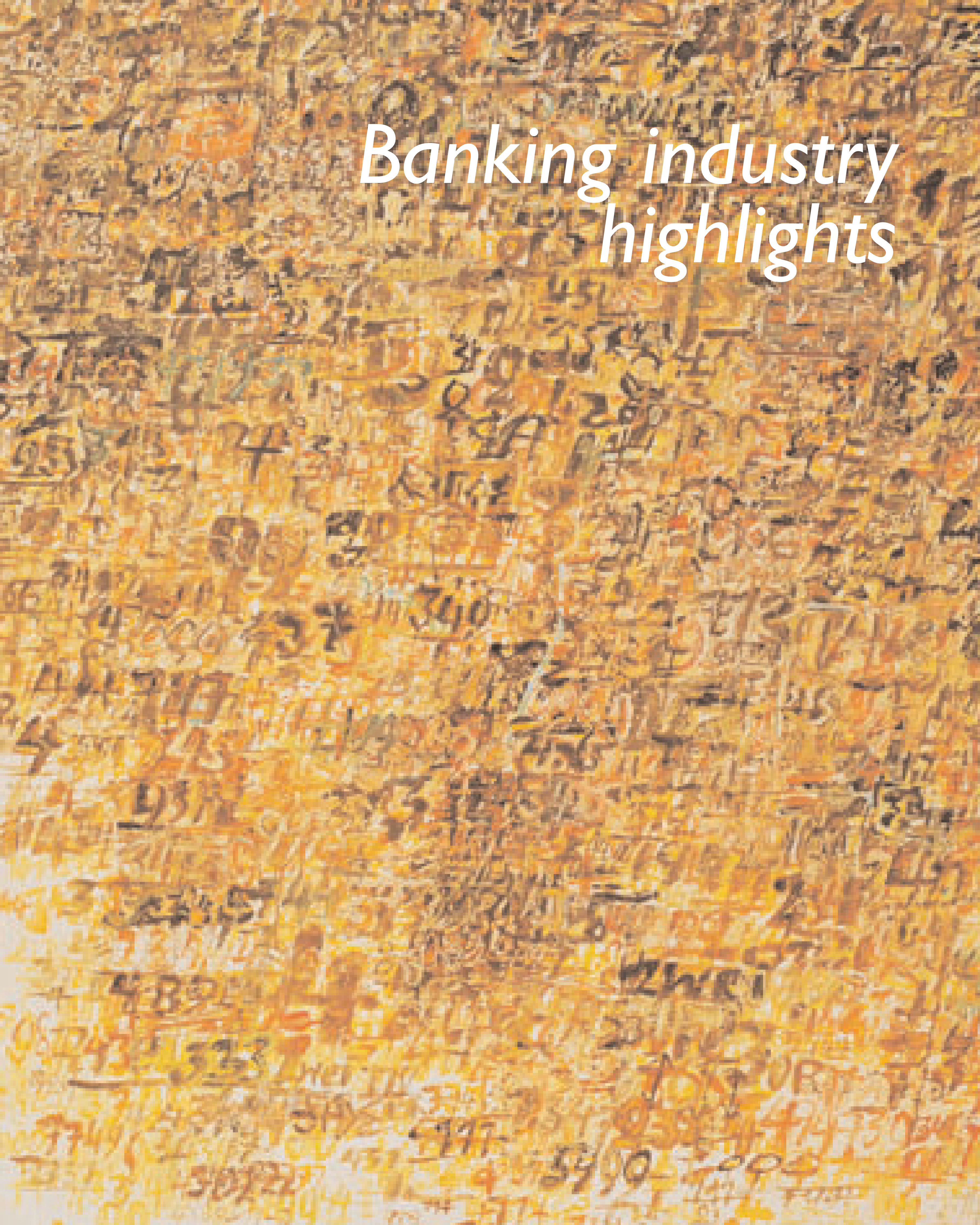
- Continuously implementing the most recent technologies to enhance the security of their websites and communication networks,
- Informing their customers as to any precautions they should observe when logging onto online banking sites. Users must make sure, for instance, that their computers are protected from viruses.

A guide to payment security

The security of all payment systems – and therefore the confidence that consumers have in these systems – is not only a question of investment on the part of banks, but also depends on everyone's observance of good security practices. This is why the FBF has provided a guide to security rules and good practice which may be downloaded from its website. Observing the simple advice it provides will considerably reduce security risks.
For each means of payment and each type of remote purchase (whether via the Internet, telephone, etc.) the guide indicates the main risks that may be encountered and how to avoid them. If, however, a problem does occur, the guide indicates how to minimise its consequences by checking bank statements, sales slips, notifying the bank, etc.
With technologies changing so fast, the FBF updates this guide at least once a year.

Kurt Schwitters (German painter, sculptor and poet, 1887-1948), "U 11", 1921 © akg-images.

Banking industry highlights



With aggregate staff of over 400,000, the banking industry is one of the private sector's largest employers and looks to be a major source of job creation in the years to come. Indeed, some 30,000 to 40,000 new recruits will be needed each year to compensate for those taking retirement and to meet the industry's growing needs. As such, it is vital that the tax burdens that weigh so heavily on the financial services sector be lightened and why French banks have requested the abolition of wage tax on new recruits alongside the reform of France's "taxe professionnelle".

Gerhard Hoehme (German painter, 1920), "Zahlenraum", 1959 / © akg-images.

PREVENTING MONEY LAUNDERING AND TERRORISM

Banks are playing a key role in the fight to prevent money laundering and the financing of terrorism thanks to a massive and unprecedented effort to train employees across all departments. That said, to ensure that these initiatives are a success, banks need to apply clear and consistent rules, particularly since their criminal liability may be at stake. Although there is an increasing body of French and international laws and regulations, no progress has been made toward full harmonisation, without which truly effective action is impossible. Now that a third directive is being drafted, the banking industry feels that the requirement to report suspicious activity must remain rational so as to effectively sanction the most serious offences.

A key role in reporting suspicious activity

Banks and credit institutions alone accounted for 76.6% of the 9,007 suspicious activity reports submitted to Tracfin in 2003, as well as for 80% of the reports that resulted in legal proceedings.

An unprecedented training initiative

French bankers undertook a massive programme to train their employees, in all departments, in the prevention of money laundering. Supported by Tracfin, this programme was developed jointly by France's major banks, the CFPB (a training centre for the banking profession) and a vocational training specialist.
This joint effort resulted in a collective training programme made available to a large number of banks, particularly the smaller institutions.

Two new laws extend the scope of suspicious activity reporting obligations

Two new laws once again modified banks' obligations in 2004, notably by extending the scope of suspicious activity reporting requirements.

- A law enacted in February to reform the status of certain legal professions extends reporting obligations to transactions that may be linked to corruption or fraud detrimental to the European Communities. This comes on top of the obligations that banks already have to report any money or transactions they suspect may be linked to drug trafficking (since 1990) or organised crime (since 1993).

- A law enacted in March to adapt the legal system to today's criminal practices extended the reporting obligation to include transactions that could serve to finance terrorism.

At end 2004, 106 different banks had already purchased a license to this programme, enabling the training of some 327,000 employees.

The 3rd directive: for a harmonised definition of money laundering

Less than three years after the adoption of the 2nd directive on the prevention of money laundering, the Commission presented a 3rd directive to replace those currently in application on 30 June 2004. The proposed text extends the scope of suspicious activity reporting and money laundering to include all offences punishable by a term of imprisonment of over one year. It also transposes the FATF's 40 new recommendations published in June 2003.

The FBF, like the EBIC(1), hopes that the directive will propose a harmonised definition of money laundering that focuses on the most serious offences. To be as effective as possible, definitions must be harmonised at both a European and international level.

In December 2004, the Ecofin Council reached an agreement on the draft directive which is currently being debated in Parliament.

Asset freezing – new consolidated electronic file is available

After two years of negotiation, the FBF is pleased to see that the European Commission has created an electronic file that lists all natural and legal persons whose assets must be frozen.
Indeed, given the multitude of European regulations that deal with asset freezing, the process is extremely complex for banks, particularly since the regulations cannot be processed electronically. The "Taliban" regulation of May 2002, for example, was amended for the 41st time in December 2004. Since late 2001, the FBF maintains a website for its members that lists all relevant legislation and regulations.

TRANSPORTING FUNDS - SECURITY AND SAFETY FIRST

Two decrees issued in March 2004 have amended regulations concerning the protection of cash-in-transit personnel and requirements for branch distribution facilities. However, these decrees only partially address the findings of the report submitted by the inter-ministerial task force in 2003 that supported the use of alternative transport means.

Banks will now have a choice between armed and unarmed transport. This means that using an unmarked vehicle equipped with a banknote dyeing system is no longer considered "exceptional" - a significant improvement since such devices discourage violence. Unmarked vehicles now require a passenger as well as a driver, both of whom must be unarmed and in plain clothes. They cannot transport divisional coins.

As for the equipping of cash distribution facilities, requirements are now less strict when transport vehicles are equipped with a banknote dyeing system. If no separate route is possible, a video-monitoring and alarm system may be sufficient upon authorisation.

Number of theft attempts in French banks

	1999	2000	2001	2002	2003	2004
Number	741	974	937	760	600	489*
% change		31,4	-3,8	-18,89	-21,05	-18,5*

**The 2004 figures may be modified, due to the time required to record data*

Paul Klee (1879-1940), "Einst dem Grau der Nacht enttaucht", 1918 / D.R.

(1) The European Banking Industry Committee (EBIC) consists of several European credit associations, including the EBF, EACB, ESBG, European Mortgage Federation and Eurofinas, etc.

LA POSTE - DON'T BANK ON IT…

When reviewing a bill to regulate post office activities in January 2004, the Senate passed an amendment to set up a postal credit institution on 1 July 2005. This legislation, which was adopted after muted debate, goes beyond the plan signed with La Poste in late 2003 since there is no limit to the activities in which La Poste may engage.

Throughout 2004, the FBF pointed out that the plan to create a public postal bank with 17,000 branches would severely handicap the French banking industry, which is already facing strong competition. Above all, it would in no way satisfy the need for the heightened presence of public institutions in rural or disadvantaged communities and it would be naive to think that the new bank would be sufficiently profitable to finance the transformation of La Poste's other activities.

For the future public sector postal bank to operate its financial activities under comparable competitive terms, La Poste will have to give up many of the privileges it currently enjoys. This implies profound changes in the laws and regulations that presently apply to La Poste, such as staff employment benefits and conditions, taxation and the use of the brand name. The competent authorities, particularly at a European level, will have to make sure that the activities of the new public sector bank are compliant with the rules of transparency and fair competition.

INTERNAL CONTROL - BANKS WANT CLARITY AND EFFICIENCY

Over the summer, the Comité Consultatif de la Législation et de la Réglementation Financières (Advisory Committee on Financial Legislation and Regulation) proposed a draft order to amend CRBF (French Banking Regulation Committee) regulation No. 97-02 on internal control. The most significant aspects of this draft order are the introduction of a requirement to control the risk of non-compliance with banking and financial regulations, the monitoring of outsourced activities and the linking of control assignments.

This reform comes in addition to the Basel Committee's consultation paper on the compliance function and the consultation paper on outsourcing issued by the Committee of European Banking Supervisors (CEBS) - two projects intended to heighten the accountability of the executive bodies of credit institutions and investment firms.

What the banking industry proposes

French banks are in favour of revising internal control systems to adequately address the increasingly complex nature of financial transactions. However, it is absolutely essential that the new system does not prevent or distort competition and that it meet the needs of all banking groups, regardless of their organisational structures. This is why, after many meetings with representatives of the various banking functions most directly concerned (compliance, legal, risk management, trading, etc.) the FBF recommends that:

- the definition of key notions be clarified, particularly the concepts of outsourcing and non-compliance risk, since they are currently too broad and vague;
- organisational requirements be made more flexible: the draft directive modifies the role of the internal control officer and creates three new functions that report to the executive committee: ongoing control, periodic control and non-compliance risk control. Banks propose combining the functions of ongoing control and non-compliance risk control and would generally like more flexibility as to procedure;
- implementation be postponed until late 2005, except for long-standing outsourced activities for which implementation would not be until end 2006.

A CODE OF CONDUCT ON MANAGING CONFLICTS OF INTEREST IN FINANCIAL RESEARCH

In September 2004, the French Banking Federation and the AFEI (the French Association of Investment Firms) published a Code of Conduct on managing conflicts of interest in financial research. This Code is intended to inform interested parties as to the strict rules that banks and investment firms must observe since, more often than not, investors, particularly foreign investors, are unaware of these principles.

Promoting best practices

This Code is also intended to provide a synthesis of the practices of financial institutions and of current and future national and European regulations. It specifies the rules for detecting, preventing and managing conflicts of interest.

In particular, this Code reviews the roles of compliance officers and financial analysts, the various rules designed to ensure the objectivity of financial analysts (personal transactions, remuneration, Chinese walls, etc.) and the rules regarding the disclosure of financial analyses.

It seeks to be as clear as possible, with simple principles written in plain and concise English and French. This is important since it is intended for a very broad public that includes professional and individual investors, banks, investment firms and issuers of securities. The Code and its glossary are very useful tools for professionals since they are immediately accessible in electronic form.

Changing with Europe

This Code of Conduct will be adapted as European regulations evolve and already factors in the most recent provisions of the Market Abuse Directive on insider trading and market manipulation. It will also be subsequently amended to take into account the work in progress on the Financial Instruments Markets Directive.

BUSINESS AND WAGE TAX DISCOURAGE HIRING

In January 2004, President Jacques Chirac launched a project to reform France's "*taxe professionnelle*", or business tax.

This reform has very important implications for both local authorities and the business community. Its objective is to put an end to what has proven to be a major handicap for French companies in the international competitive arena, without compromising the fiscal resources of municipalities and other local government entities.

French banks feel that any reform of this tax should take their specific characteristics into account, particularly if taxation is to be based on value added. This is because banks and insurance companies are the only industries to bear a double tax burden on their costs since they not only pay business tax, but also wage tax. Put together, these two taxes represent an average of 5% of the value added of banks, i.e. more than the total tax burden on costs in other industries.

Abolish the wage tax on new recruits

This very heavy taxation must be abolished to encourage employment in the financial services sector. This is why French banks ask that along with the business tax reform, the wage tax be abolished on future recruits. It would indeed be extremely counter-productive for the banking industry – which over the next few years is expected to hire more than 30,000 people a year – to have to bear an even greater payroll tax burden, especially considering that said recruits will essentially be white-collar employees and that aggregate payroll costs already represent almost 60% of this industry's value added.
The Fouquet Commission, which is composed of parliament members, local government officials, business leaders and government agencies, issued a report on the business tax reform on 15 December 2004.

Jean-Baptiste Blom "Ô tour de mon amour, autour de mon amour", 2003.

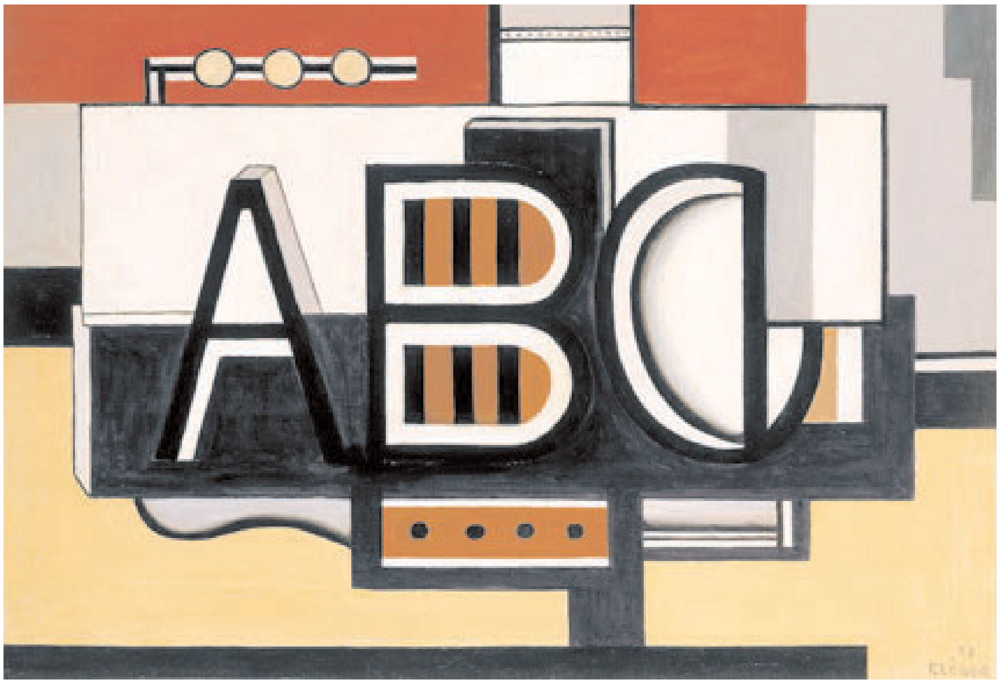
The reform proposes a new taxation method based essentially on value added and the abolishment of regional business tax. It is expected to be included in the 2006 Finance Act and to come into effect in 2008.

French banks pay an average annual aggregate wage tax of 1.8 billion euros which currently represents over 10% of labour costs in the banking industry.

PUTTING THE CUSTOMER FIRST

The banking profession has undergone profound change over the past fifteen years as a result of technological advances, new customer needs and increased competition. Now that banks must clearly be more customer-oriented, marketing and sales are a core activity, having ousted the technical and administrative functions there were so important a decade ago.

Indeed, the last ten years have seen a substantial decline in the number of production personnel (back-office technicians, credit analysts, etc.) and a significant increase in the number of support staff (legal, marketing, HR, IT, etc.) and above all commercial staff (e.g. customer account managers, reception staff, etc.). In fact, the latter now account for almost 45% of bank employees and this trend is expected to continue over the next few years.



Fernand Léger (1881-1955), still life "A.B.C.", 1927 / photo RMN.© Fernand Léger / Adagp Paris 2005

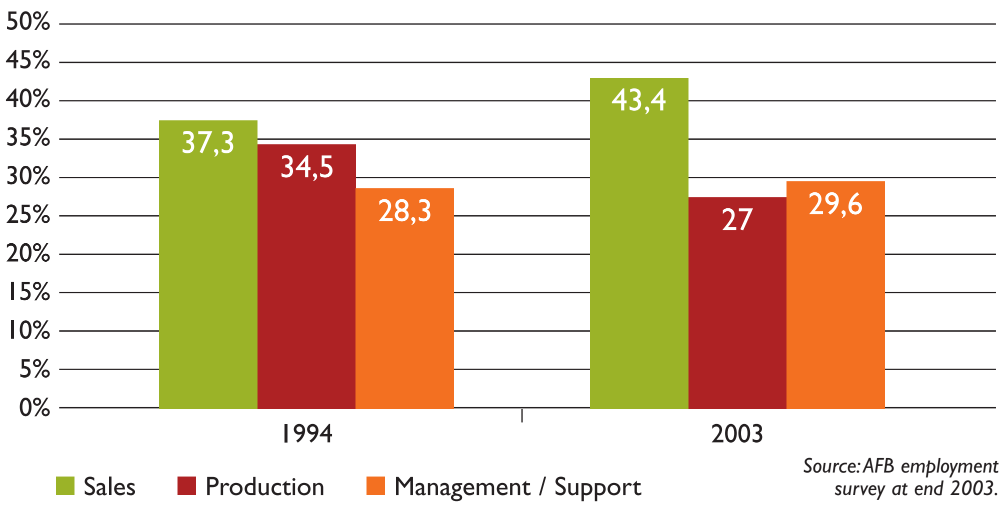
Training – 75% of bank employees received at least one type of training in 2003

The banking industry provides much more training for its employees than most other industries. Banks spend an average of 1,500 euros a year per employee on training, compared to an average of 660 euros in all economic sectors.

Source: Cereq

Employees by basic category

Over the past ten years there has been a considerable shift from back-office to commercial functions.

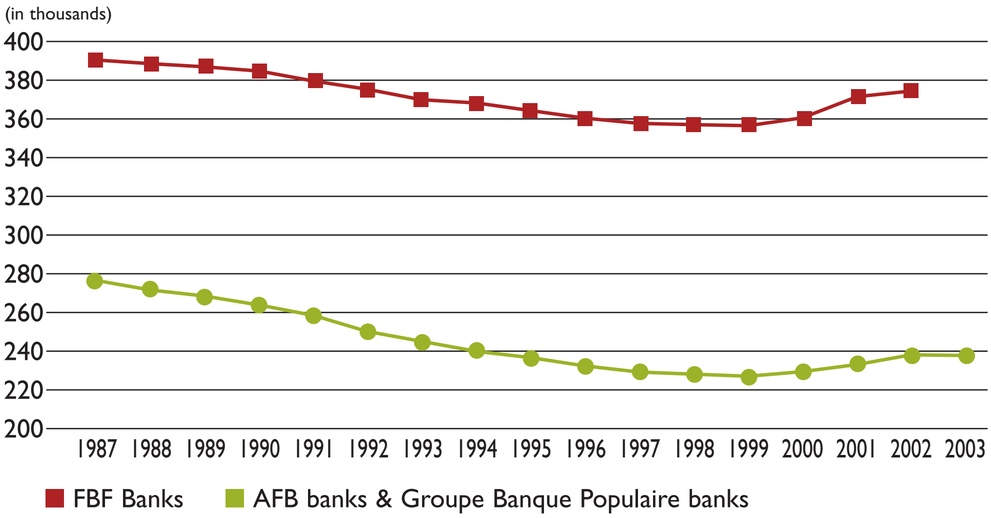


Source: AFB employment survey at end 2003.

WORKFORCE AND RECRUITMENT

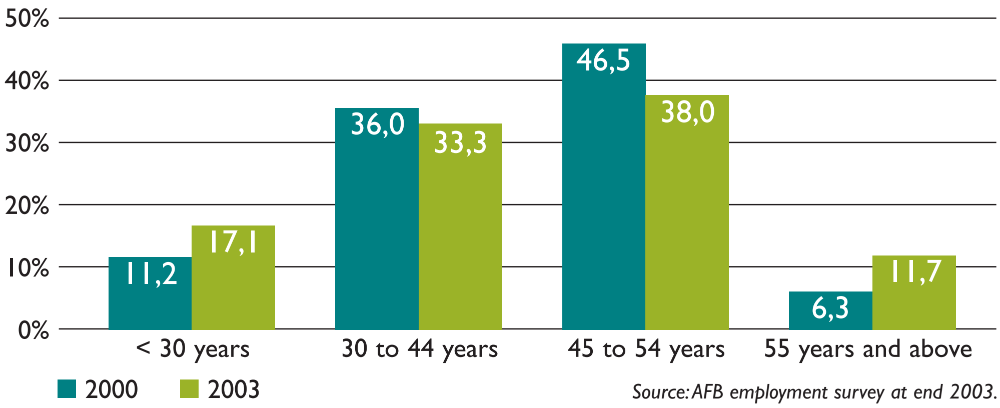
Employment trends in banking

The aggregate workforce in the banking sector picked up in 1999 and accelerated slightly between 2000 and 2001, mainly as a result of growth in the industry, the changeover to the euro and the introduction of the 35-hour working week.



Employees by age group

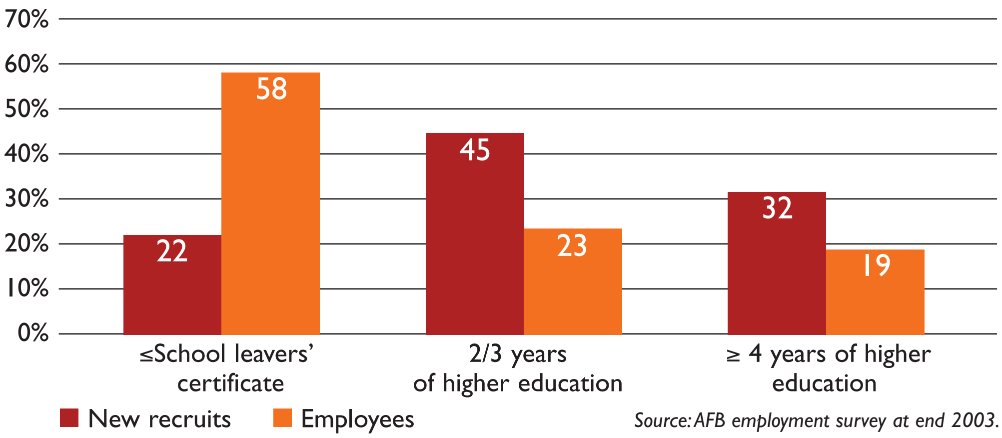
With the number of employees aged 55 and above increasing, banks have been making substantial efforts to hire young people, particularly those under the age of 30.



Source: AFB employment survey at end 2003.

Employees and new recruits by level of qualification in 2003

Changing job requirements require heightened qualifications



Source: AFB employment survey at end 2003.

AFB – INTENSE SOCIAL DIALOGUE IN 2004

The banking industry's social partners met on numerous occasions in 2004, notably to discuss key issues such as vocational training, retirement before the age of 65 and pensions.

The industry also had to take account of the new collective bargaining rules under the "Fillon" Act of 4 May 2004, which – as bankers initially pointed out – poses some serious problems. By requiring a majority agreement rule at both a company and industry level, these new rules risk having a negative impact on social dialogue.

Negotiations did however result in the following:

■ **An agreement on retirement before age 65** was signed in July 2004, by two unions, but was vetoed by the majority and therefore cannot be implemented. This agreement enabled companies to continue to retire employees once they turn 60, provided that they are eligible for a full pension. The aim of this agreement was to enable employers and employees to make the transition between the current situation where many people retire before 60 (notably through early retirement schemes) and future requirements which, from 2010 to 2015, will inevitably mean retirement as of age 60 and above as people are entering the workforce at an older age and the law requires that they work longer to qualify for a full pension.

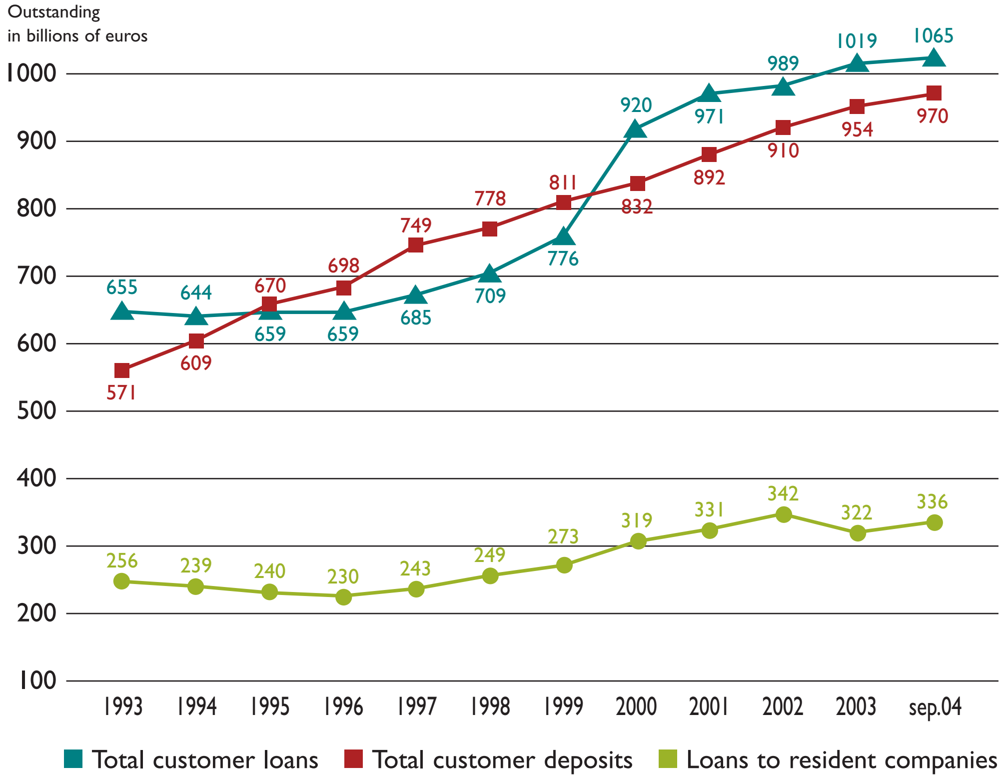
■ An agreement on ongoing vocational training

was signed on 26 November 2004 by three unions. This agreement essentially governs the implementation of the "professionalisation" contracts stipulated in the inter-professional agreement of 20 September 2003 and the Act of 4 May 2004. It also provides for the creation of a body for monitoring employment trends in the banking industry.
The new "professionalisation" contracts will replace the former training and qualification contracts and are intended to boost the recruitment of young people (over 2,000 were recruited in 2003 under work placement programmes). The agreement also introduces the notion of "professionalisation periods", a concept pioneered by the inter-professional agreement and incorporated into French law. The purpose of these periods is to keep employees with unlimited-term contracts – particularly those aged 45 and above – employed by enabling them to develop their professional skills. They are a concrete example of the principle of lifelong learning.

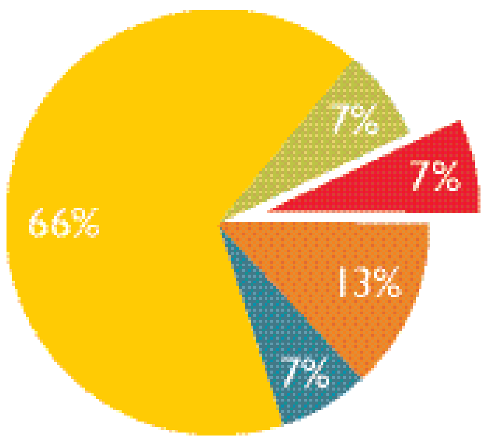
This agreement is the first phase of wider negotiations on training in the banking industry. A second phase will deal such aspects as each employee's right to individual training, yearly training plans, leveraging experience, mentoring and institutional bank training programmes, etc. A global agreement is expected by the end of 2005.

BANKING ACTIVITY IN 2004

FBF bank loans and deposits from 1993 to 2004



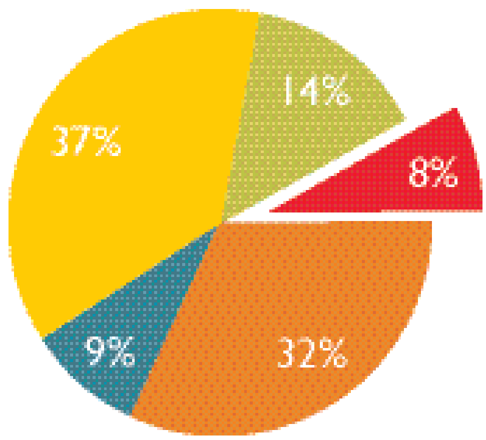
Breakdown of FBF bank deposits in 2004
(data to September)



Resident deposits:
- Company deposits
- Individual customer deposits
- Non-resident deposits
- IE deposits[(1)]
- Sundry deposits[(2)]

(1) Individual entrepreneurs
(2) Insurance companies, government agencies, financial customers, etc.

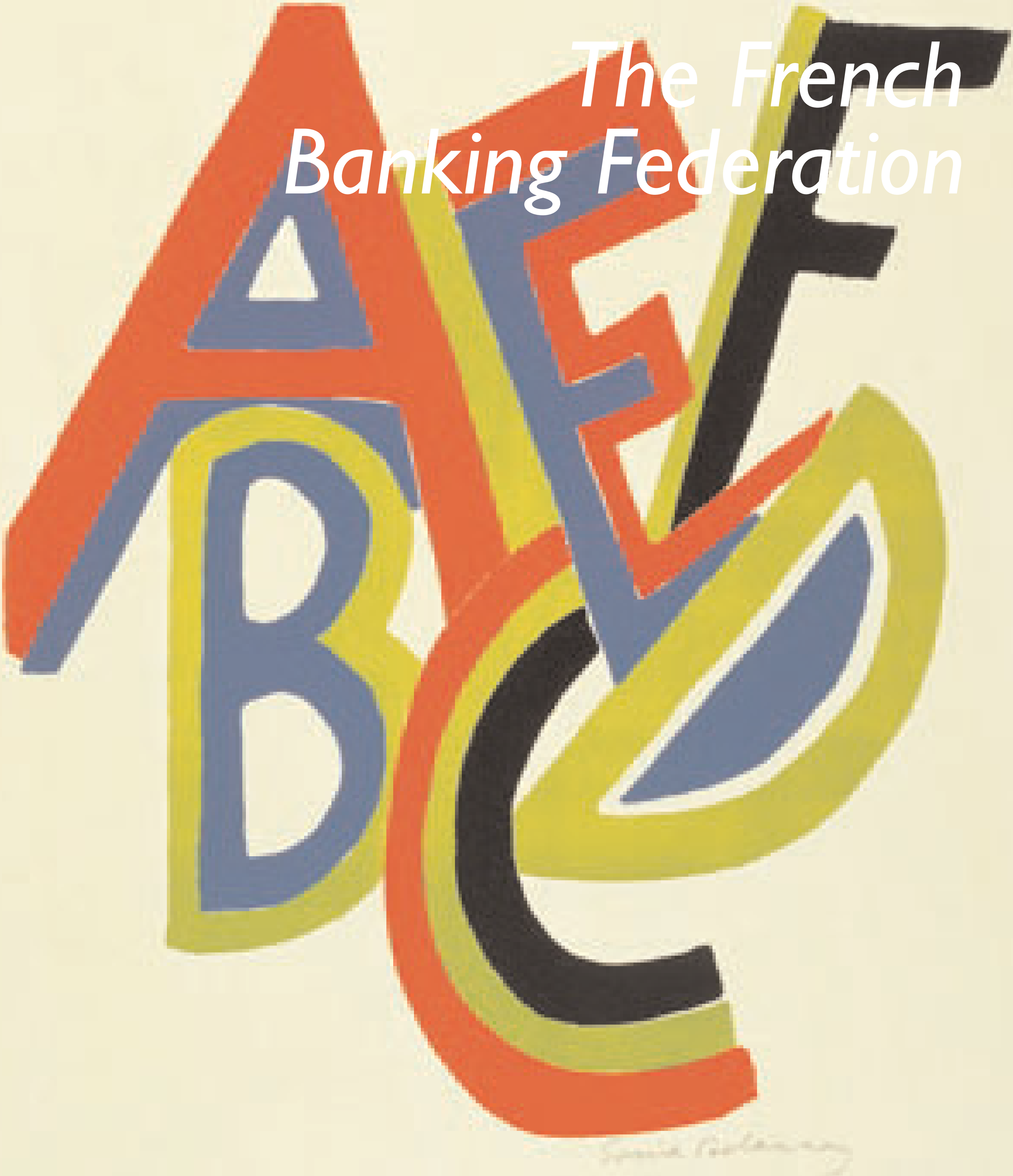
Breakdown of FBF bank loans in 2004
(data to September)



Resident loans:
- Loans to companies
- Loans to individual customers
- Loans to non-resident customers
- Loans to IEs[(1)]
- Sundry loans[(2)]

(1) Individual entrepreneurs
(2) Insurance companies, government agencies, financial customers, etc.

The French Banking Federation



ROLE AND TASKS

The FBF has four core tasks which are reflected in its organisation:

■ Information - Member services

• handles day-to-day dealings with FBF members, including responding to questions, organising meetings, etc,

• transmits information to banks, notably concerning new regulations in effect or in preparation and the FBF's work.

■ Banking business and research,

which provides a full spectrum of banking expertise and oversees the FBF's commissions and committees in such areas as Retail banking and Direct banking, Investment banking and Capital markets, Risk control and Prudential banking, Payment systems and Means of Payment, Legal and Tax Affairs, etc. Also negotiates and collaborates with various French and European government and regulatory authorities.

■ Communication and external relations,

which covers all forms of external communication at both a national and regional level, relations with government officials and parliament members, the media and consumers[(1)], young people, the teaching profession and other professions and associations. Its role is also to anticipate political, economic and social change and promote the role of banking and banks in society.

■ European & international affairs

This department, now based in Brussels, is responsible for:

• relations with EU institutions and with various bodies representing the banking and financial services sectors in Europe;

• monitoring non-EU issues and relations with global banking trade associations;

• monitoring specific issues that concern foreign banks established in France.

The FBF's regional activities and committees

The French Banking Federation is represented throughout France by 21 regional committees and 88 local or departmental committees composed of the banks of a particular region or French administrative department. These committees represent the banking profession in dealings with various regional or local institutions (MEDEF, Chambers of Commerce and Industry and consular bodies, etc.).

They provide a forum for dialogue between the banking industry and users of banking services throughout France.

(1) For example, the Banking Information Centre website at www.lesclesdelabanque.com and the mini-guides which provide practical information for consumers.

THE FBF'S REGIONAL ACTIONS TO INFORM YOUNG PEOPLE AND IMPROVE CUSTOMER RELATIONS

The FBF's regional, local and departmental committees which, in 2003 and 2004, took the form of 109 associations, provide an ideal forum for exchanging ideas and information with the general public.

In 2004, these committees worked to improve the image of banking by bringing the FBF's message directly to young people and consumers.

■ Informing young people

Initiatives to inform young people serve two purposes: to introduce them to banking and its services, and perhaps to what might be a future career for them.

• The "Banks, my bank and me..." initiative launched by the Bas-Rhin departmental committee was intended to both "educate" future consumers of banking services and introduce young people to career opportunities in banking (see page 16).
Other committees are conducting similar actions in the departments of Loire, Savoie and Haute-Savoie.

• Certain initiatives to promote educational, career and recruitment opportunities are more specifically geared toward students with two to five years of college education. These actions have proven to be effective in promoting regional and local recruitment needs, training opportunities and profiles sought. Moreover, they also enable universities, business schools, the CFPB and secondary schools to work together in providing a forum where local bankers, human resources managers, students, young professionals and teachers can meet, ask questions and share experiences.
Most of these events generally end with a job fair, where students can meet with bank representatives at their stands to obtain further information about specific types of career opportunities.
Some of the most noteworthy initiatives of this type in 2004 were conducted by the committees of Brittany (500 visitors in Rennes in April), Basse-Normandie (350 visitors in Caen in October) and Var (600 visitors in Toulon in November).

■ Reaching out to consumers

In 2004, the FBF departmental committees distributed tens of thousands of mini-guides to municipal and regional institutions, consumer associations, and various welfare organisations. The "Belorgey Agreement" mini-guide and poster, for example, were distributed in June to 180 local contacts, including patient and consumer associations, healthcare sector representatives, hospitals, clinics and community centres.

Meetings to discuss the relationship between banks and their customers provide the perfect opportunity to meet with consumer associations and present the lesclesdelabanque.com website.
These gatherings, designed to be as informative and objective as possible, provide an ideal opportunity to ask and answer questions and to get to know each other. Some of the most noteworthy examples are the meetings organised by the Haute-Alpes, Alpes-de-Haute-Provence (at Sisteron in November) and Vaucluse (June) department committees.

Partnerships were formed with local newspapers and radio stations in 2004 to produce a series of regular articles or short radio programmes dealing with money management and other practical matters. These programmes and articles are based on questions sent into the *lesclesdelabanque.com* website and are broadcast by the *France BLEU Melun, France BLEU Poitou* and *France BLEU Gard Lozère* radio stations and published in various local newspapers, such as the *L'Est Républicain, Le Républicain Lorrain* and *La Dépêche du Midi*.

Tested for the first time in 2004, these initiatives will be intensified in 2005.

The Executive committee in 2004

The founding members of the French Banking Federation are ex-officio members of the Executive Committee. They are represented on a permanent basis by a designated individual who must be either the Chairman or Chief Executive Officer.

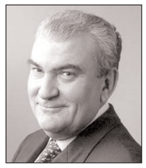
Daniel BOUTON
Chairman of the FBF[1]
Chairman and Chief Executive Officer of Société Générale

Jean LAURENT
Chief Executive Officer of Crédit Agricole SA

Étienne PFLIMLIN
1st Vice-chairman of the FBF[2]
Chairman of Confédération Nationale du Crédit Mutuel

Baudouin PROT
Chief Executive Officer of BNP Paribas

Charles MILHAUD
Treasurer of the FBF
Chairman of the Executive Board of Caisse Nationale des Caisses d'Épargne et de Prévoyance



Philippe DUPONT
Chairman of Banque Populaire Group

Pierre RICHARD
Managing Director and Chairman of the Executive Committee of Dexia[3]
Chairman of the Supervisory Board of Dexia Crédit Local

Ariane OBOLENSKY
Managing Director of the FBF

FBF Commissions and Committees

The FBF's Executive Committee has set up three Commissions and four Technical Committees, appointed their chairmen and specified their organisational rules. The role of the Commissions is to examine technical banking issues and draft proposals. When these proposals concern the banking industry as a whole, they are submitted to the Executive Committee for review.

RETAIL BANKING AND DIRECT BANKING COMMISSION
Chairman: Jean LAURENT,
Chief Executive Officer of Crédit Agricole SA

TAX COMMITTEE
Chairman: Patrick SUET
Deputy Corporate Secretary of Société Générale

RISK CONTROL AND PRUDENTIAL BANKING COMMISSION
Chairman: Philippe DUPONT[4]
Chairman of Banque Populaire Group

LEGAL COMMITTEE
Chairman: Jean-Louis GUILLOT[5]
Head of Legal Affairs of BNP Paribas

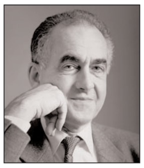
INVESTMENT BANKING AND CAPITAL MARKETS COMMISSION
Chairman: Michel PÉBEREAU
Chairman of BNP Paribas

PAYMENT MANAGEMENT COMMITTEE
Chairman: Philippe CITERNE
Chief Executive Officer of Société Générale

ACCOUNTING COMMITTEE
Chairman: Gérard GIL
Chief Accounting Officer of BNP Paribas

(1) as of July 2004, succeeds Philippe Dupont.
(2) as of July 2004, succeeds Daniel Bouton.
(3) as of July 2004, succeeds Charles de Croisset.
(4) as of September 2004, succeeds Daniel Bouton.
(5) as of November 2004, succeeds Gérard Gardella.

Member Services, Internal Management
(and AFB Social Affairs)
Olivier Robert de Massy



Information - Member services
Florence Coville

Human Resources,
Finance and IT management
Suzel Berthelet

General services
Michel Bonnet

AFB Social affairs
Jean-Claude Guéry

Banking Business
and Research
Pierre de Lauzun

Payment Systems and Means of Payment
Bernard Dutreuil

Retail Banking and Direct Banking
Françoise Palle-Guillabert

Investment Banking and Capital Markets
Jean Tricou

Risk Management and Prudential Banking
Sylvie Grillet-Brossier

Taxation
Pierre Reynier

Legal Affairs
Annie Bac

Ariane OBOLENSKY
Managing Director

Security

Communication
and External Relations
Valérie Ohannessian

Media / Publications
Colette Cova

Governmental Relations
Séverine de Compreignac
Frédérique Cayron

Regional Activities
Bertrand Adam

Banking Information Centre
Philippe Caplet

Communication
Brigitte Auriol

European
and International Affairs
Jean-François Pons

European Relations

FBF representative in Brussels
Pascale Brien

in Paris
Hubert d'Étigny

International Relations
Alain Gourmelon

AFB Export

FBF – key figures

500
member banks

26 000
permanent branches

48 million
customers

420 000
employees, representing 1.6% of the working population and France's 3rd largest private-sector employer

60 million
current accounts

3%
of GDP

1 235 billion
euros in loans*

995 billion
euros in deposits*

12 billion
payment transactions processed each year

38 000
ATMs

*Source: Commission Bancaire – data to June 2004.

Affiliated entities

Le Comité Français d'Organisation et de Normalisation Bancaires (CFONB) - *(French Banking Organisation and Standardisation Committee)*
Created in 1930, this body governs the standardisation and organisation of banking activities in France. It is authorised to act as a standards bureau of AFNOR (French standards association). Its scope of competence extends to the standardisation of means of payment, the organisation of exchange systems, the standardisation of "bank/customer" exchanges, and standardisation in the areas of marketable securities, security, certification, etc.

Revue Banque Group
This group is structured around three major poles of activity: magazines and periodicals (Banque magazine, Banque & Stratégie, Banque & Droit, Banque & Marchés); "Club Banque", a monthly news programme; and publishing, with a broad range of publications aimed at banking professionals or broader categories such as students, teachers, researchers, businesses, etc.

L'OPCA-Banques
A joint fund raising body accredited by the French Banking Association, OPCA-Banques fulfils two tasks: it handles the financing of continuing vocational training schemes and provides banks with advice and support in organising these courses.

French Banking Association (AFB)

Before the FBF was founded, the AFB fulfilled a dual role as the professional body for commercial banks and a professional banking association. It now coexists with the FBF, but focuses solely on its social role (management of the collective labour agreement relating to AFB and Groupe Banque Populaire banks). Moreover, the AFB is a full founding member of the FBF, and represents, in particular, small and medium-sized banks, as well as foreign banks with operations in France.