
FBF 2005

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Particle collisions and paths in a bubble chamber © HR Bramaz/ISM

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THE FRENCH BANKING FEDERATION *(TIRÉ À PART)*

Role and tasks, organisation chart and key figures

Baudouin PROT
Chairman 2005

Ariane OBOLENSKY
Chief Executive Officer

Dynamism

2005 marks a big step forward in the relationship between banks and their customers. Working with consumer organisations, French banks have fulfilled their commitments to make banking simpler and more accessible. The work that has been accomplished enables customers to compare competitive offerings and switch banks more easily, simplifies banking and also facilitates access to bank account and payment services. Some examples of the measures implemented by French banks in 2005 include allowing customers to close accounts free of charge, publishing a guide to closing and transferring accounts, providing a range of alternative payment instruments for people who do not have a chequebook, and a campaign to heighten the general public's awareness as to their banking rights. This means that all French men and women, regardless of their personal situation, now have access to banking and payment services that suit their individual needs.

The success of these actions proves the effectiveness of a pragmatic approach based on dialogue and a consensus between all parties involved - an approach that makes it possible to develop best practices and transpose them into professional standards that serve the interests of both banks and their customers. Accordingly, French banks will be working in this same spirit of responsibility and commitment this year to draw up a code of good conduct for the marketing and sale of financial products.

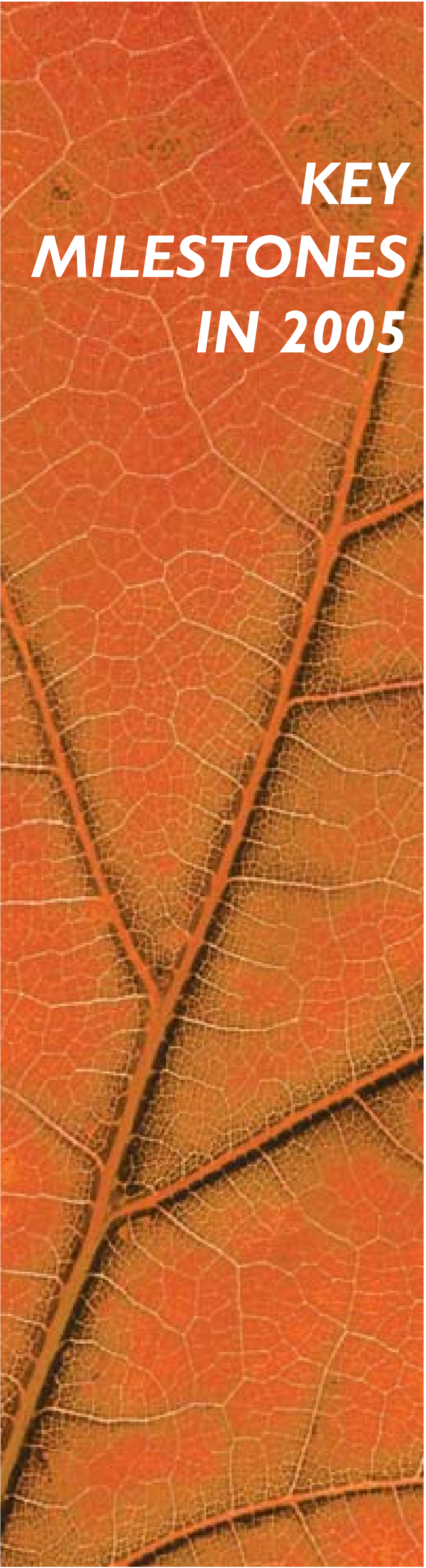
The FBF also worked hard in 2005 to ensure a solid foundation for investment banking activity in Paris. Indeed, investment banking is of strategic importance today as Europe's stock exchanges consolidate and its financial markets undergo widespread structural change. It is for this reason that French banks have also been working with other major European financial centres to define their vision of a more efficient European post-trade infrastructure and have asked the European Commission to take steps in this direction.

Taxation continues to handicap French banks. To enable France's banking industry to create even more jobs, the FBF has asked the government to abolish the wage tax on all newly recruited personnel. Despite this obstacle, French banks have been contributing positively to employment over the past few years, with over 4,000 new jobs created in 2005.

Banking is one of the 21st century's most promising industries and professions and one in which the French are increasingly excelling on a global scale. The FBF has been active in Brussels, promoting an ambitious project for the financial services sector in 2005-2010, to enable the true integration of retail banking services. All barriers to consolidation in this sector must be removed so that European banks can compete with major US banking groups and thus preserve their independence.

Ramifications of a maple leaf © Denis Bringard/Sunset

KEY MILESTONES IN 2005



Red Oak leaf in detail © Johan De Meester/Sunset

JANUARY

1. First stage in the commitments by French banks to make banking simpler: waiver of all charges on the closure of bank accounts.

28. In keeping with recent legislation to protect consumers and improve their confidence, banks provide more information on revolving loans and the automatic renewal of contracts.

FEBRUARY

11. A new law on equal rights and opportunities for the disabled is enacted. Banks work to make their branches and services more accessible to the disabled.

25. The CCLRF approves the amendment of Regulation 97-02 on internal control. Banks reorganise and set up systems to verify the conformity of their operations, a vast project that will improve risk control.

MARCH

1. In keeping with their second series of commitments, banks make it easier for their customers to transfer their account to another bank. The FBF publishes its guide to account closure and transfer.

1. Banks implement two measures to strengthen the Belorgey Agreement, which enables people with serious health risks to obtain death insurance coverage on their loans: 1) longer terms for qualifying mortgage and professional loans, and 2) an increase in the total amount that may be lent.

APRIL

18. The FBF launches a vast media campaign to inform people of their banking rights, with the theme: "Anyone can have a bank account".

25. The FBF's mediator issues his report for 2004.

MAY

9. The FBF issues a White Paper on the future French postal bank, alerting the government and the European Commission on the need to ensure transparency and fair competition.

19. The banknote and coin recycling decree comes into effect. Banks are now allowed to recycle coins and notes under certain conditions.

JUNE

7. The 3rd directive on money-laundering is adopted. Banks will adapt their systems and organisation accordingly.

8. As the summer holidays approach, the FBF reiterates its best practices on the use of payment instruments, particularly abroad.

22. The FBF, MEDEF and CCIP issue a joint handbook to help very small and medium-sized firms prepare for Basel II solvency ratio reforms and new IAS/IFRS accounting standards.

28. With the support of the FBF, the Ministry of the Interior and the Banque de France, the "Vigie Billet" association launches a campaign on the theme of "A stained banknote is probably a stolen banknote".

JULY

1. After 15 years of talks, the Savings Taxation Directive enters into effect.

1. French banks present their plans to implement their 3rd series of commitments to the CCSF, notably the creation of a range of alternative payment systems and instruments for people who are denied chequebooks.

20. The DDAC Act – which has been adapted in line with EC legislation governing the financial markets – is enacted, thereby completing the transposition of the Market Abuse Directive into French law. The FBF and AFEI (the French association of investment firms) work to prepare a professional standard for reporting transactions suspected of market abuse in financial markets.

26. The law on personal services establishes the "universal service cheque". The previous month banks had made concrete proposals to ensure the effectiveness of this high value-added payment tool.

26. The Bankruptcy Act reforms the rules governing abusive lending.

26. The Act of July 26, 2005, "to promote economic confidence and modernisation", allows the government to reform mortgage lending rules by ordinance.

AUGUST

1. The FBF replies to the European Commission's consultation on its Green Paper on Financial Services Policy for 2005 to 2010.

SEPTEMBER

1. Baudouin Prot is named FBF Chairman for one year.

13. To implement the CETPE employment cheque service for very small businesses, the FBF's chairman signs an agreement with Renaud Dutreil, the Minister of Small Business and Commerce, Philippe Bas, the Minister of Social Security, and Jean-Luc Tavernier, Chairman of ACOSS.

21. The European Payments Council (EPC) adopts basic rules governing the use of payment cards in Europe and consults national banking communities on the implementation of bank transfers and direct debits in the Single Euro Payments Area (SEPA).

OCTOBER

1. In keeping with the FBF's commitments, a full range of non-cheque payment instruments is made available in all branch networks.

10. The FBF's chairman meets in Brussels with Neelie Kroes, EU Competition Commissioner.

11. The Capital Adequacy directive is adopted - a regulatory text, based on the Basel Committee's recommendations and on which bankers had been working for over three years.

NOVEMBER

7. The FBF and AFEI organise a symposium on the theme "Financial market activities in Paris – what do stakeholders really want?" Priority actions are defined.

15. The FBF, the AFEI, the Association Française de Gestion, the Fédération Française des Sociétés d'Assurances, the Groupement des Mutuelles d'Assurances, the Fédération Hospitalière de France, and Mutualité Française address a letter to French Prime Minister Dominique de Villepin requesting the abolishment of wage tax on newly hired employees.

16. The members of the FBF's Executive Committee meet with European Parliament members in Strasbourg.

22. Jacques Delmas-Marsalet presents a report on the marketing of financial products. The FBF participates in the consultation launched by the French Ministry of the Economy.

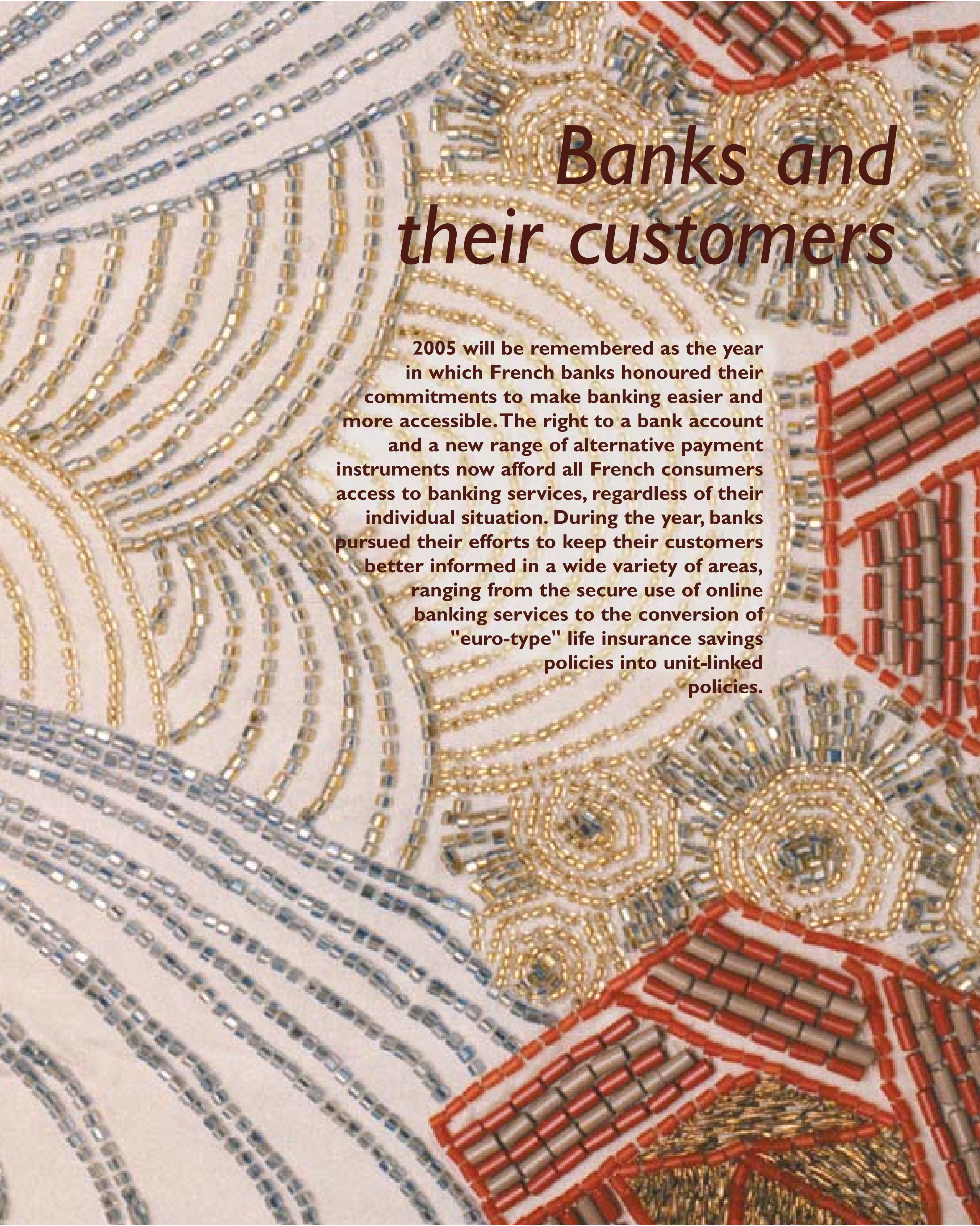
DECEMBER

1. The European Commission presents its draft directive on payment services in the internal market. French banks played an active role in preparing this draft.

13. The FBF issues its commitments to best practices in converting "euro-type" life insurance savings policies (with capital guarantees) into unit-linked policies.

30. The Remedial Finance Act of 2005 ratifies the reform of taxation on capital gains on securities, much awaited by the business community and also favourable to consumers.

31. The banks implement their last series of commitments agreed with the CCSF.



Banks and their customers

2005 will be remembered as the year in which French banks honoured their commitments to make banking easier and more accessible. The right to a bank account and a new range of alternative payment instruments now afford all French consumers access to banking services, regardless of their individual situation. During the year, banks pursued their efforts to keep their customers better informed in a wide variety of areas, ranging from the secure use of online banking services to the conversion of "euro-type" life insurance savings policies into unit-linked policies.

FRENCH BANKS HONOUR THEIR COMMITMENTS TO MAKE BANKING EASIER

By the end of 2005, the French banking industry had fulfilled all of the commitments it had made in November 2004 to the Consultative Committee for the Financial Services Sector (CCSF) to make banking simpler and more accessible. These commitments included:

- facilitating everything that enables customers to compare competitor offerings and change banks;
- making bank accounts easier to use;
- making bank accounts and payment instruments more easily accessible to everyone.

These objectives were achieved according to the schedule set in December 2004. To ensure that as many people as possible would benefit from these new measures, banks also instigated a number of information campaigns aimed at their customers and at the general public. Local bank committees organised over 80 information meetings with social workers, consumer associations and other groups in France's different regions and departments. Some 5,000 employees and volunteers throughout France were thus informed and trained in various areas over the year.

Promoting competition

■ Since January 1, 2005, account closure fees are no longer charged.

■ As of March 1, 2005, rates for banking services are indicated on bank websites. Brochures indicating basic rates for services are also available in 26,300 branch offices.

■ Also since March 1st 2005, the following steps were taken to make it easier for customers to change banks:

- A free guide on closing and transferring accounts was made available in branch networks. The guide can also be downloaded from the fbf.fr and lesclesdelabanque.com websites, as well as from a number of corporate bank websites.
- Banks also provided their customers, at a reasonable price, with a list of all of their current account's automatic and recurring transactions.

■ In 2005, banks sent a special information letter to propose an account agreement to those customers who had not yet signed one. They also made it a point to promote these agreements when meeting with customers at branches.

■ Since September 2005, a glossary of some 90 key banking terms explaining common banking transactions has been posted on the FBF and bank websites. This glossary is also available in the form of a "mini-guide". Starting January 1, 2006, Banks will apply these terms in their rates brochures.

In 2005, 5% of French customers had changed banks over the past 12 months, compared to 4% in 2004.
36% had more than one bank, compared to 32% in 2004.
(IREQ survey)

■ At end 2005, a visual code (symbols) was provided on individual customer account statements to distinguish charges specified in an account agreement and other account operation fees.

■ By the end of the year, the key terms used to identify 39 common banking operations were harmonised and used on account statements.

■ Banks begin the long and difficult task of working with billing companies and retailers to simplify descriptions of credit card transactions on account statements.

A multicoloured tulip field © Skyscan/SPL/Cosmos

Tracery of silver, copper and gold embroidery, © Julio Donoso/Corbis Sygma

Easier access to all banking services

- Since March 1, 2005, anyone can withdraw cash from his or her home branch office free of charge.
- Branch staff help the elderly, disabled and visually impaired enter branch offices and use automatic teller machines.

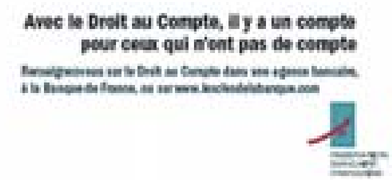
Heightened public information on banking rights

Since March 1, 2005, French banks have been sending everyone who has been refused a bank account a standard letter that explains what they must do to exercise their right to open an account and use the associated free basic banking services.

On April 24, 2005, the French Banking Federation launched a press and radio campaign to inform the general public of their banking rights. The FBF also distributed one million "Le droit au compte" (Your right to a bank account) mini-guides and made information kits available to various welfare organisations.

This campaign has increased the public's awareness of their banking rights by seven percentage points, particularly among the most disadvantaged members of society who are most likely to need basic banking services. According to an IFOP survey conducted in May 2005, 53% of people in financial difficulty and who have been involved in a payment incident are now aware of their banking rights, an increase of 30%. The number of people with a basic banking account thus rose more than 37% in 2005 and it is estimated that over 125,000 people have applied for a basic banking account since the facility was made available.

- Among the various products and services it offers, each bank will propose a range of non-cheque payment instruments for people who do not have cheque-books or for whom banks are required by law to deny cheque-books. The alternative payment instruments proposed must include a suitable number of bank transfers, direct debits or interbank payment forms, and a payment card that requires systematic authorisation. These new services were first presented on July 1 and rolled out on October 1.
The French government is committed to ensuring that Treasury and local government entities will accept these alternative payment instruments.
This offering enables secure payments at a very reasonable price of about 3 euros a month. By comparison, the government's subsidised electricity rate for low-income consumers is 5 to 7 euros a month (excluding consumption), and 7 euros for the basic telephone service.



Agreement reached on charges for payment incidents

- On July 1st 2005 French banks began to systematically send out letters to notify customers when their account is overdrawn. This letter specifies a date by which they must replenish their account and indicates when and how much they will be charged for this incident.
- Each bank sets a lump-sum charge for a bad cheque incident. This charge, which since July 1st 2005 is indicated in the relevant rates brochures, became effective on October 1st 2005.

In short, the right to a banking account and alternative non-cheque payment instruments enable everyone to benefit from the basic banking services so necessary in today's world.

Mediation – new ombudsmen directory

According to the Bank Mediation Committee (chaired by the governor of the Banque de France), bank ombudsmen received over 19,000 letters in 2004. One sign of the independence and fairness of these mediators is the fact that 47% of their decisions are in favour of customers. 122 banks referred 914 customer complaints to FBF ombudsman Benoît Jolivet in 2004. The banking industry is pursuing its efforts to inform customers of this service since many are still unfamiliar with what it entails, even though it has been available since late 2002. For the past two years, the FBF has published a mini-guide on how to settle disputes with banks, and has been keeping welfare organisations in France informed of mediation through its local committees. The FBF also posts the list of ombudsmen prepared by the Bank Mediation Committee in 2005 on its website at fbf.fr.

MARRYING GREATER ACCESSIBILITY WITH GREATER SECURITY FOR THE DISABLED

In keeping with France's new law on equal rights and opportunities for the disabled, enacted in February 2005, banks and all buildings accessible to the public have 10 years to make their premises and services easily accessible for the disabled.
At the start of the year, banks began to work closely with government officials and representatives of various associations to find pragmatic solutions that take into account the various types of disability and strike a balance between accessibility requirements and safety and security priorities.
The FBF has been asked to give its opinion on the implementing decree governing accessibility requirements and will thus be able to point out the specific needs that banks have.
The ministerial orders that will enact this new law are expected in early 2006.

Much has already been done

Banks have already taken steps to adapt their facilities to accommodate the disabled:

- Branches have been modified when their overall configuration allows this, and further modifications should be facilitated as man-trap doors are gradually replaced with sliding doors.

- In some branch networks, over 80% of automatic teller machines meet the accessibility standards established for those with impaired mobility.

- An audiotel or telephone system enables the blind and visually-impaired to access almost all available services and information.
Most banks also propose free Braille bank statements and terminals equipped with raised keypad characters.

- For the hard of hearing, all banks offer a broad spectrum of online services.

BELORGEY AGREEMENT ON BORROWER INSURANCE IS IMPROVED

In March 2005, the Belorgey Agreement was strengthened with the following two measures:

- The term of mortgage and professional loans that qualify for the Belorgey Agreement was extended from 12 to 15 years.

- The total amount that may be borrowed under qualifying mortgage and professional loans was increased from 200,000 to 250,000 euros.

The Belorgey Agreement enables people with serious health risks to obtain death insurance on their loans.

The progress made has confirmed the banking industry's belief that a process of discussion and mutual agreement is the best way to arrive at an effective and pragmatic solution. Banks are attentive to their customers' requirements and to changes in risks. They are working constructively with government authorities and other signatories to amend the Belorgey Agreement in favour of borrowers.

BANKS WORK TO FACILITATE LIFE INSURANCE POLICY CONVERSION

The Act of July 26, 2005 "to promote economic confidence and modernisation", allows a life insurance savings policy with a capital guarantee to be converted into a unit-linked (multi-investment) policy with no loss of prior tax advantages. To ensure the success of this new measure, FBF member banks have made a commitment to ensure that it is implemented correctly and fairly throughout their branch networks.

This conversion means that policy-holders will switch from a policy where the insurer assumes the investment risk, to a "unit-linked" policy that is invested in more speculative financial instruments. Under such unit-linked policies, the insurance company agrees to "pay" a specific number of units but makes no guarantee as to their value, which depends on the behaviour of financial markets. Such an important change requires that customers be carefully informed and advised so that they are fully aware of the consequences of their investment decision and can be certain that it is the best choice for their particular needs, in accordance with their net worth, age, personal situation and investment horizon.

The French Federation of Insurance Companies (FFSA) has also made a similar moral commitment.

With this further step – which follows the code of conduct governing the marketing of PERP savings plans that banks and insurance companies adopted in July 2004 – French banks wanted to make sure that the new opportunities enabling the sale of equity-based savings products would be in the best interests of both individual and companies and the overall economy alike.

NEW MEASURES FOR "SOCIAL LOANS"

In its Finance bill for 2006, the French government included a measure that effectively takes the FGAS Social Accession fund[1] and allocates it to the national budget. Financial institutions have contributed over half of the €1.4 billion in this fund.

The country's banks, which were not consulted on the measure, subsequently announced on September 28, that if such a measure was adopted they would be forced to stop granting guaranteed zero-interest loans and "social accession" loans. Indeed, France's banking industry feels that the measure could jeopardise the current system which enables them to grant some 70,000 loans a year to lower-income individuals, most of whom are eligible for an APL housing allowance.

In early November, the government agreed to meet with banks to discuss the future of the FGAS fund and the terms of its liquidation. This resulted in an agreement that preserves a joint private/public sector guarantee on social accession loans and guaranteed zero-interest loans. An agreement was also reached concerning the terms of FGAS liquidation.

A solution in the name of continuity

Banks will thus be able to continue to grant "social loans", which enable low-income households to purchase a home and which have proven their effectiveness in enabling access to credit at good terms. Recent trends in both the housing and labour markets make such guarantees more necessary than ever to enable a home purchase, which is fundamental to social cohesion.

1) Founded in 1993 by the French government to make it easier for lower-income households to obtain a home loan, the FGAS fund compensates private lenders when borrowers default on their "social accession" loans, which the fund guarantees, and on some zero-interest loans.
The fund's assets currently total about 1.4 billion euros, of which banks have contributed 840 million.

River and tributaries, Australia
© Bernhard Edmaier/ SPL/Cosmos

LEARNING TO DRIVE ON €1 A DAY: LESSONS IN ROAD SAFTEY AND MANAGING YOUR MONEY

Since last October, young people between the ages of 16 and 25 can finance their driving lessons by taking out a "1 euro a day driving school loan". The objective of this initiative sponsored by the Ministry of Transport and Public Facilities, is to stop young people from driving without a license because they cannot afford to pay for driving instruction. Within a very short time, France's banks were able to make the necessary IT investment and propose this new loan, which is particularly complex in terms of regulatory, accounting and logistical requirements.

Participating banks grant zero-interest loans with no set-up fees, to be paid back in monthly instalments of about 30 euros. This therefore also teaches young people to manage a monthly budget. Although young borrowers or their parents must meet specific credit-worthiness criteria, banks are doing their best to ensure that as many young people as possible are able to qualify.

BANKS MOBILISE TO INCREASE INTERNET SECURITY

Half of French web surfers consult their bank account online and 9 out of 10 are satisfied with the services available[1]. Consulting bank accounts and conducting bank transactions online have thus become the second most-common type of Internet activity[2].

Although these online services are easy to use, they have required a lot of investment on the part of banks, in order to protect access to data and secure data transmission using encryption technology and other techniques, etc. Banks have also implemented alert procedures and regular transaction monitoring to determine whether thresholds or volumes should be adjusted.

However, Internet security also depends on the behaviour of Internet users, who must observe some basic rules of prudence. This is why French banks have also undertaken actions to raise awareness of the risks involved. In 2005, for example, the FBF helped sponsor an information campaign to teach people how to use the Internet more safely. This involved the distribution of almost 3 million brochures, comic strips and books in branch offices and on bank websites. The objective is to make Internet users more aware of some basic rules of security, such as how to detect and avoid phishing[3] and why they should install an anti-virus.

Banks also send letters to their customers, post alert messages online, etc. The FBF also regularly updates its practical guide to secure online banking, which is available on the fbf.fr and lesclesdelabanque.com websites.

1) Ireq 2005 survey
2) Ipsos 2004 survey
3) Phishing: A contraction of "fishing" and "phreaking" (the hacking of a telephone system) that refers to ascam involving the sending of a mass e-mail message that fraudulently claims to be sent by a company known to the victims, such as their bank or an auction web site message. The objective is to deceive them into providing confidential information on a dummy web site.

Miami, Florida© Altitudes /Yann Arthus-Bertrand

EUROPEAN WOMEN SAY YES TO CREDIT

For Women's Day, last March 8th, the FBF commissioned a survey from IFOP to understand how women in four European countries – France, Germany, the United Kingdom and Italy – use and feel about credit. The FBF learned that 82% of European women were willing to use credit, but mainly to finance important purchases (such as a home, car or children's studies) and not for less essential needs, such as a vacation or an impulse purchase.

64% of French women see credit as a financial management tool that enables them to spread their purchases out over time (compared to the European average of 50%) and not as a way to live beyond their means.

61% of French women feel they are "well informed" about credit, compared to an average of 52% in Europe.

Although a large majority of women are somewhat wary about credit, over half feel that it is a part of their day-to-day life. Their fears generally cause them to be more vigilant. British and French women, who make the most use of credit, are the first to point out the danger of its abuse.

ONE OUT OF TWO HOUSEHOLDS HAVE AN OUTSTANDING LOAN

According to France's OEM, which monitors consumer debt, 50.2% of households held a loan at end 2004[1]. This breaks the downward trend observed since 2001, with 52.9% of households in debt at the end of the year and 49.7% at end 2003, representing a 3.2 percentage point decrease in two years. It is mainly the increase in mortgage lending (particularly for first home purchases) that has increased the overall debt level. In 2004, 29.1% of households were repaying a mortgage loan, compared to 28.5% in 2001. This may be attributed to mortgage terms getting progressively longer, going from an average of 11.1 years in 1992 to 15.9 years in 2004. 56% of young people below the age of 30 are currently repaying a mortgage or consumer loan. Over the next six months, 5.5% of households say they intend to take out a mortgage loan, vs. 5.3% in 2003. However, due to the uncertainty of the economic outlook, only 4.6% plan to take out a consumer loan, vs. 6.1% in 2003.

1) Annual Sofres survey based on a sample of 12,000 households.

Microscopic photo of the scales on a butterfly wing. Enlarged 500 times
© Claude Nuridsany/Marie Pérennou

ABUSIVE LENDING REFORM GIVES AN ESSENTIAL BOOST TO BUSINESS FINANCING

The recent reform of lender liability for abusive lending under the Bankruptcy Act enacted last August will encourage more business lending. One of the Act's articles reduces legal uncertainty for lenders by specifying the three cases in which they may be held liable: fraud; clear meddling with the company's management; and a guarantee that is excessive in proportion to the amount of credit granted. Until now, legal precedent in the complex and ambiguous area of abusive lending has proven to be a veritable obstacle to lending to small and medium-sized companies.

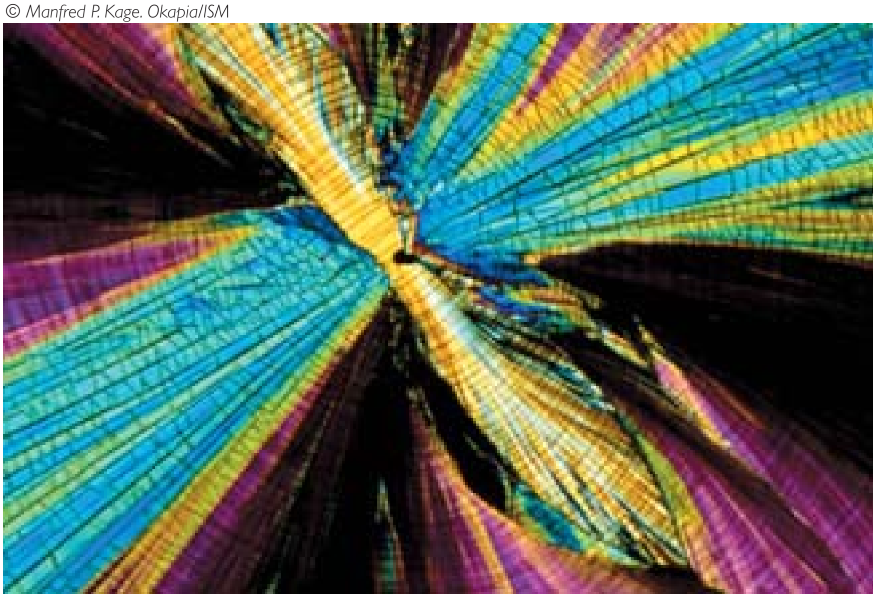
Reform is backed by the business community

This reform – which was enthusiastically received by both lenders and such associations representing the business community as MEDEF, CGPME and Croissance plus – will enable companies to obtain credit more easily. It is in keeping with the government's efforts to promote economic growth and employment, two objectives that depend on business development. This reform not only clarifies existing legislation but also brings French law in line with current practice elsewhere in Europe.

64% of small and mid-size French companies believe they could not have succeeded in their projects without bank credit.

Source: Eurobarometer 174 "SME access to finance" survey, October 2005.

Crystallized dopamine. A chemical mediator and a neurotransmitter of the central nervous system © Manfred P. Kage. Okapia/ISM



Banking industry highlights

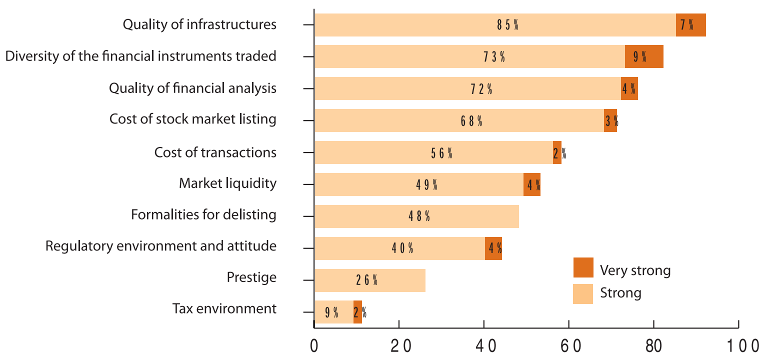
If it is to grow and prosper, France's banking industry must have a conducive environment. This is why French banks recently asked that the wage tax on newly recruited staff be abolished. It was also under the FBF's initiative that financial institutions joined forces to decide a common strategy for developing a solid foundation for investment banking activity in Paris. French banks also worked hard throughout the year to inform Paris and Brussels authorities that certain aspects of the project to create a new "postal bank" could give it some unfair competitive advantages.

PARIS FINANCIAL INSTITUTIONS MOBILISE TO PROMOTE INVESTMENT BANKING

Investment banking is fundamental to financing economic activity and a major source of high value-added employment. Moreover, in response to the consolidation of stock markets and other profound changes in European financial markets, the French financial community feels that this key activity must be firmly consolidated in Paris and developed.

What securities issuers think about Paris

In each of the areas below, do you think that Paris is very strong, strong, poor or very poor in comparison with other financial centres?



AFEI-FBF symposium

The French Banking Federation (FBF) and the French Association of Investment Firms (AFEI) organised a symposium last November 7 that brought together some 150 leading Paris financial institutions. At this symposium, Accenture presented an original study on the investment banking sector. Although this study revealed that French banks and investment firms were very successful in equity derivatives and financial analysis, it also noted that capital markets were relatively small in France and that there was no guarantee that past success could be preserved, despite some strong advantages, such as a high national savings rate, top-notch securities issuers, leading financial intermediaries in some markets and world-class educational institutions.

The relatively lower importance given to financial market activities has very serious implications for France's economy and growth, as French investors continue to prefer low-risk investments that do not promote the creation of a solid and faithful shareholder base. Furthermore, this situation deprives France of the tax revenue it could otherwise obtain from well-paid jobs in the investment banking industry.

The Parisian investment banking market is not only hampered by an unfavourable fiscal and regulatory environment, but also by a "culture" that is somewhat distrustful of innovation, risk-taking and financial markets in general.

Changing mentalities

To change this situation, market participants agree that banks and investment firms must undertake major collective actions to:

- Contribute to the preparation of French and international standards. It is in everyone's interest, working with national regulatory authorities, to create an environment that is conducive to the development of high-performance financial products capable of meeting the needs of both investors and companies.
French financial institutions must also play a greater role in the international bodies that are currently shaping the legal framework for financial activities.

- Help shape future banking and investment infrastructures, by promoting a European directive for post-market activities and helping to determine the role and governance of European stock markets as well as rules for clearing, settlement and delivery.

- Mobilise the ideas and efforts of all participants in the Paris market, whether French or foreign.

What do Paris financial market operators really want?
FBF-AFEI symposium, November 7, 2005

photo credit: Yves Denoyelle

Telecoms silicon microstructure "microswitcher", © HR Bramaz/ISM

NEW POSTAL BANK MUST NOT DISTORT COMPETITION

Ever since the Act on the Regulation of Postal Activities was passed in the spring of 2005, thus allowing the creation of a postal bank, the FBF has been waging a battle to make sure that this new entity operates under similar competitive conditions to those of other banks.

The FBF's White Paper

In May 2005, the FBF published a White Paper on the postal "bank" which it then sent to government officials and to the authorities in Paris and Brussels responsible for making sure that the future postal bank complies with banking regulations and competition law. This White Paper points out that it is in the general interest that the future "bank" operate in a transparent manner and in compliance with the rules of fair competition and governance that apply to all of its competitors.

A completely new type of bank in Europe

It is still not clear exactly how the future postal "bank" will operate. This is mainly due to its organisational structure, which is unique in that the bank will be separated from the La Poste network, even though the latter will handle most banking transactions without itself being a bank. The FBF's White Paper points out the various contradictions and ambiguities of this complex arrangement – which is without precedent in the banking industry – and reviews the requirements that are inherent to secure and efficient banking.

Motorway system in Ludwigshafen, Germany© Maximilian Stock LTD/SPL/Cosmos

These requirements, which are essential in protecting customers and ensuring balanced market operation, include:

- A reliable cost-accounting system to make sure that postal activities do not cross-subsidise banking activities.
- A precise indication of the fees that the postal bank will have to pay for La Poste's services.
- A clearly defined employee status.
- The setting up of similar control systems and procedures to those of other banks.

Through its ceaseless insistence that all banks must absolutely play by the same rules, the FBF has succeeded in improving some aspects of this project.

CECEI approves the new bank

In October, CECEI (the Credit Institutions and Investment Firms Committee) examined the postal bank project and, after three meetings, approved its creation on November 30.

The FBF recognises this decision.

It is now up to the Commission Bancaire to monitor this new entity and make sure that it complies with banking laws and regulations.

According to the new law, the Cour des comptes must prepare a report over the next two years on the bank's operation and relations with the other La Poste enterprises.

MARKETING FINANCIAL PRODUCTS – GOOD CODES OF CONDUCT ARE THE WAY FORWARD

At end November, the Ministry of the Economy and Finance released for consultation a report by Jacques Delmas-Marsalet on how to improve the marketing of financial products. This report made various recommendations concerning information, advisory and other requirements that are based largely on current practice in the banking industry. The report recommends that the best way to implement these measures would be to allow the banking industry to establish codes of good conduct. The FBF is pleased to see that the utility of such codes is recognised.

A pragmatic approach

The FBF indeed prefers the use of codes of conduct, which are already upheld in most European countries and are included in most banking industry standards. The Commission Bancaire is entrusted with ensuring that codes are observed in accordance with the specified compliance criteria. The banking industry – which has one year to draft these codes of conduct – will in early 2006 issue its observations on the report, certain aspects of which can and should be improved. In any event, bankers will make sure that recommendations result in pragmatic measures in the interests of both banks and their customers.

SECURITY – FEWER HOLD-UP ATTEMPTS

	2000	2001	2002	2003	2004	2005
Number	974	937	760	600	490	445*
Change		-3,80 %	-18,89 %	-21,05%	-18,33%	-9,18%*

** Due to the time required for data consolidation, figures for 2005 are not yet definitive.*

Jackson Pollock, "Reflection of the Big Dipper" (dripping technique) 1947, AKG-images © Adagp, Paris 2006.

ABOLISH THE WAGE TAX ON NEW RECRUITS

Under the proposed Finance bill for 2006, the French government will decide to allocate the wage tax to the overall social security budget starting next year.

For the various financial, medical, associative and other sectors that must pay this tax this new measure presents two major risks. First of all, it makes some social security funding dependent on this relatively unstable financial resource. Secondly, it will make it impossible to abolish this tax which weighs heavily on wages and employment, at a time when the government has made fighting unemployment a national priority.

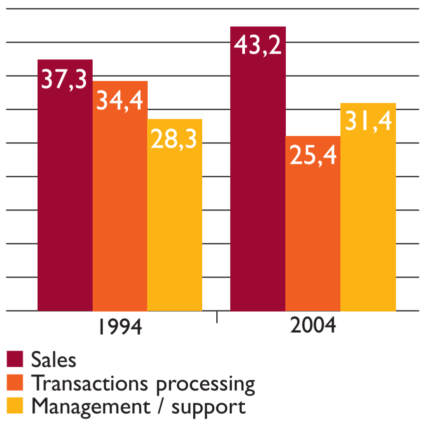
This is why financial, insurance and healthcare professionals are asking the government to abolish the wage tax on newly hired personnel. By doing so, the government would strongly assert its intention to fight unemployment in France, with only a modest and very gradual impact on its budget. For financial sector firms, who will be recruiting substantially in the future and are exposed to global competition, it is essential that this tax be abolished. This wage tax – which exists in no other major European country – costs French banks some 1.8 billion euros a year. It discourages hiring in all industries where it is levied and encourages private-sector companies to relocate.

An original initiative
Representatives of the seven sectors that must pay wage tax sent a joint letter to the French Prime Minister on November 15. This letter was signed by the Association Française des Entreprises d'Investissement, the Association Française de Gestion, the Groupement des Mutuelles d'Assurances, the French Banking Federation, the Fédération Française des Sociétés d'Assurances, the Fédération Hospitalière de France and Mutualité Française.

HUMAN RESOURCES: STEPPING UP RECRUITMENT AND QUALIFICATIONS

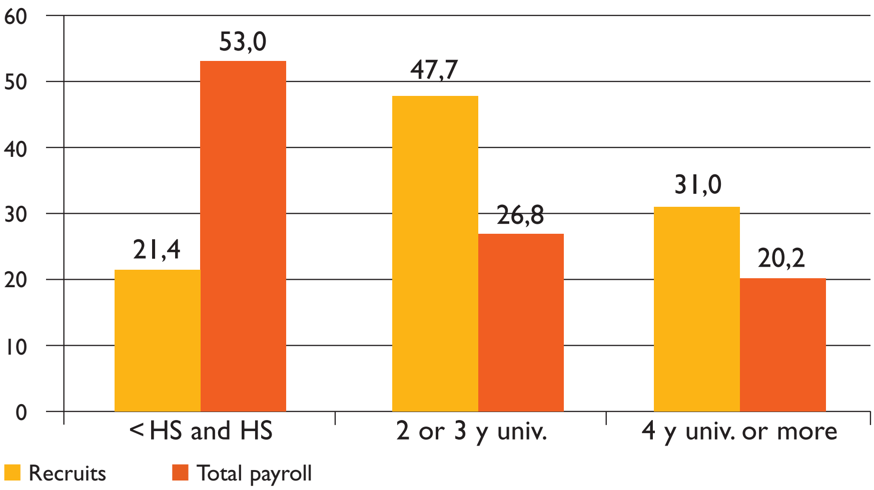
Employment and skills requirements in the banking industry are continuously evolving. Jobs are increasingly customer-service oriented and require a higher level of education and skills. For example, in 2004, almost 80% of the people hired by banks had two to five years of university-level education. Banks are also making big efforts to train their employees. This explains why managerial/executive level staff accounted for almost 38% of total bank personnel in 2004, i.e. 10 percentage points more than in 1997. Moreover, one manager/executive out of three in 2004 was a woman. By comparison, managerial/executive level staff account for about 15% of France's overall working population.

Change in workforce composition (in %)



Source: AFB employment survey at end of each year.

Education levels of recruits and staff in 2004 (in %)



Source: AFB employment survey at end 2004.

AFB SIGNS FIVE AGREEMENTS IN 2005

Industry negotiations were actively pursued and productive in 2005.

In February, a wage agreement for 2004 and an agreement on bank industry pensions were signed. In March, the AFB and four unions signed an agreement on retirement before the age of 65. This agreement allows companies to continue to retire employees once they turn 60, provided they are eligible for a full pension. In exchange, the companies must make specific employment and vocational training commitments. This agreement enables companies and employees to make the smooth transition to the future deferment of the retirement age.

Key training agreement is signed

On July 8, 2005, the AFB and four unions signed an industry-wide agreement on training. This agreement, which introduces some progressive new features, will play a key role in shaping training policy in the banking industry. For example, it provides new opportunities for earning diplomas and qualifications, enables employees to exercise their individual training right and shows that both banks and unions are determined to support the hiring of young people. It also sets rules for various training methods (such as the "professionalisation" period and mentoring) and firmly establishes three new banking industry institutions: the CPNE (the Joint National Committee on Employment); the Observatoire des métiers (Employment Intelligence Unit) and OPCA-Banques.

A new version of the AFB's website **(www.afb.fr)** that deals exclusively with employee issues was launched in May 2005.

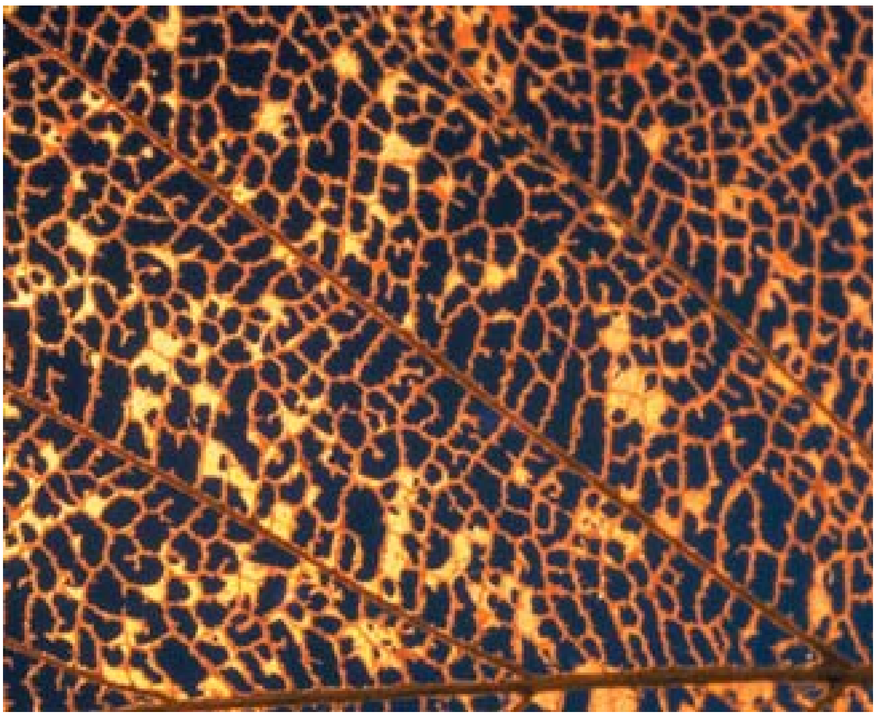
In December, a wage agreement for 2005 was signed. It includes higher minimum salaries for each qualification level as of January 1, 2006, and an increase in the individual salary guarantee in 2006.

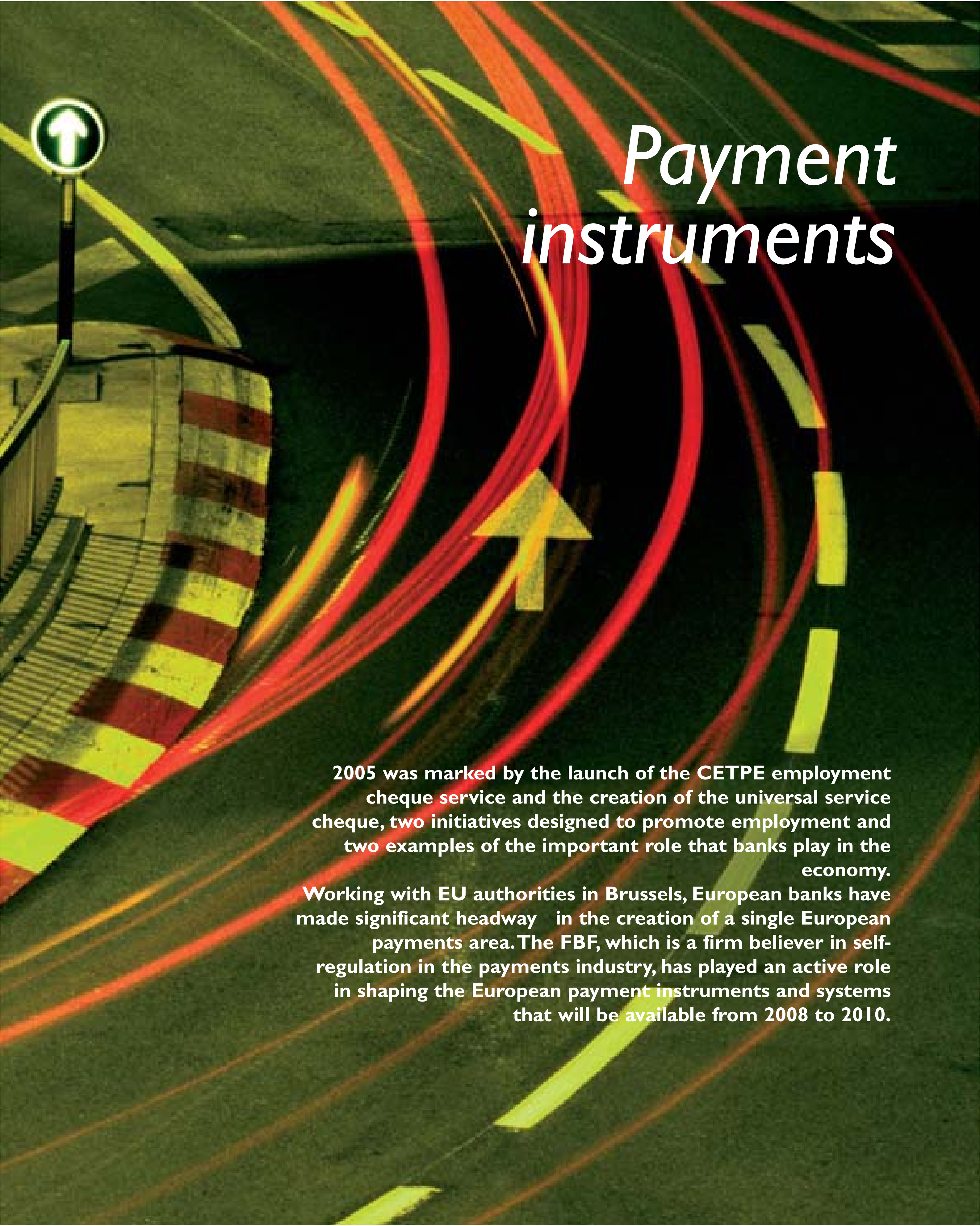
The Observatoire des métiers (Joint Employment Intelligence Unit) completes its first year

The Employment Intelligence Unit was set up in the spring of 2005 to monitor employment trends and qualifications in the banking industry and to ensure equal opportunity between men and women. It is managed jointly by banks and unions.

During its first year of operation, it focused on setting up a statistics database andconducting studies.
One such study deals with the composition, motivations and training requirements of employees aged 45 to 50.
Another study compares career opportunities between men and women. The results of these studies will be submitted to the Unit's joint steering committee in 2006.
In 2006, industrial negotiations and social dialogue are likely to focus on sex discrimination and the implementation of the training agreement signed in July 2005.

Structure of the leaf © Archie Young/SPL/Cosmos





Payment instruments

2005 was marked by the launch of the CETPE employment cheque service and the creation of the universal service cheque, two initiatives designed to promote employment and two examples of the important role that banks play in the economy.

Working with EU authorities in Brussels, European banks have made significant headway in the creation of a single European payments area. The FBF, which is a firm believer in self-regulation in the payments industry, has played an active role in shaping the European payment instruments and systems that will be available from 2008 to 2010.

Night circuit© Michaël Derez.

THE CETPE, A NEW SERVICE FOR VERY SMALL BUSINESSES

In August 2005, the French government launched the CETPE - an "employment cheque" designed to facilitate hiring and administrative formalities for "very small businesses", which are companies that employ five people or less. Bankers are playing a very active role in setting up this new service, to make sure that it gets off on the right foot and as soon as possible. In September, Baudouin Prot, the Chairman of the AFECEI[1] and of the FBF, met with Renaud Dutreil, French Minister of Small Business, Commerce and Craft Industries, Philippe Bas, French Minister of Social Security and Jean-Luc Tavernier, Chairman of ACOSS[2] to sign the agreement that would create this new tool. Among other things, banks agreed to promote the CETPE and process the associated transactions.

On September 1, 2005, France's 2.2 million "very small businesses" were able to use this new service. Bank branch networks will be available to explain how this service works and issue the special CETPE "chequebooks".
To simplify things as much as possible banks also propose a 100% paperless service.

A high value-added service

The CETPE employment cheque service uses special "books" that contain the administrative forms that employers need to report the information required to calculate their social-security contributions. The employment notification form, labour contract, social-security statement and payslip can thus all be handled in a single step.
Employers have a choice of three options:

- Fully electronic processing, which is simple and reliable. The employer fills out and sends in the various administrative forms over the Internet, pays salaries by bank transfer and social security contributions are automatically debited from the employer's account .
- A combined paper and electronic option. The employer's CETPE books contain only administrative forms and salaries are paid by bank transfer.
- An "all paper" option, with books that also include bank cheques for paying employees.

In 2006, banks will be working with ACOSS to coordinate their websites to inform customers more efficiently and facilitate transactions processing.

(1) The French Association of Credit Institutions and Investment Firms
(2) The Central Office of Social-Security Organisations

Photo credit: Yves Denoyelle

Members of the FBF's Executive Committee meet with government officials to sign the CETPE agreement. From left to right: Etienne Pflimlin, Pierre Richard, Charles Milhaud, Renaud Dutreil, Baudouin Prot, Philippe Bas, Philippe Dupont and Daniel Bouton.

BANKERS MAKE CONCRETE PROPOSALS TO IMPROVE THE UNIVERSAL SERVICE EMPLOYMENT CHEQUE

In spring 2005, Jean-Louis Borloo, French Minister of Employment, Labour and Social Cohesion, announced the creation of the "universal service cheque" (known as the CESU), to encourage the development of personal service jobs. Banks quickly mobilised to support this project. Since 98% of French consumers have one or more bank accounts, there is no doubt that banks have a key role to play in CESU's success. The objective is to consolidate and enhance the functionality of standard service employment cheques (chèque emploi service) and service vouchers (titre emploi-service). Two types of CESU will be available:

■ The Special Payment Voucher CESU (the CESU TSP), the amount of which is specified and paid in advance. Issued by a specially authorised body or a bank, these employment cheques are purchased by the employer and given or sold to the employee. The employer may also make a matching payment.

■ The Cheque CESU. These are issued by banks and include a bank cheque and administrative forms. They may in the future be adapted to more modern payment instruments.

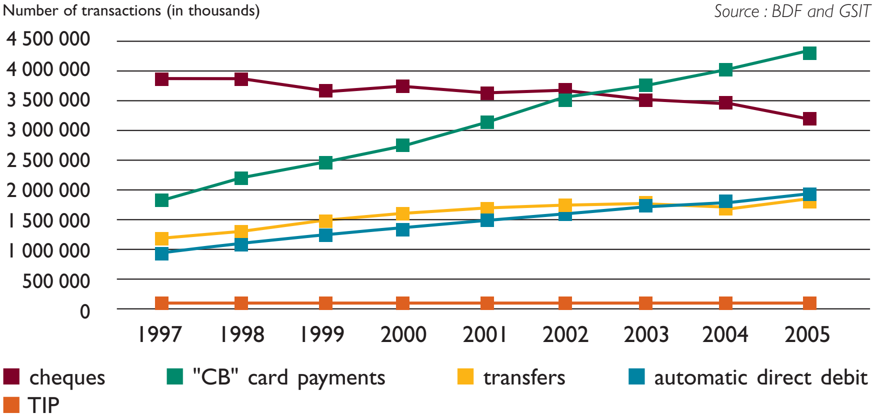
The success of the CESU employment cheque depends on how widely it is made available. This is why the law governing the development of personal services which created the CESU authorises 43,500 bank branches and post offices to cash special payment voucher CESUs. Employees can thus cash their payments more rapidly and conveniently and with greater security. This requires that banks and voucher issuers agree on payment terms and on each party's specific responsibilities with respect to verifications and payment deadlines. The FBF has made concrete proposals to issuers and to the Agence nationale des services à la personne (National Personal Services Agency) on how to organize the cashing of CESU. Once government officials and issuers have validated the procedures proposed by the banks, banks will need a few months to adapt their information systems to enable the cashing of CESU TSP.

Bankers are also offering to begin work on a "paperless" CESU. This would enable CESU employees to be paid by bank transfer like most salaried employees. Social security forms could also be filled out online, which would reduce administrative formalities for employers, employees and the government.

Change in interbank transactions in France from 1997 to 2005

Number of transactions (in thousands)

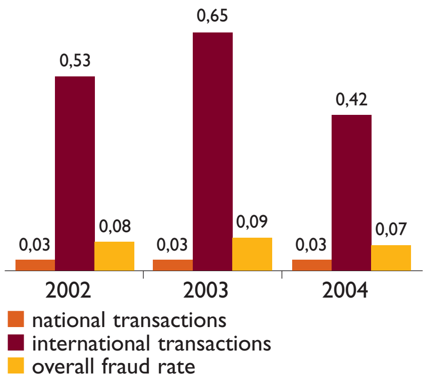
Source : BDF and GSIT



CARD FRAUD DROPS SHARPLY IN 2004

According to the Observatoire de la sécurité des cartes de paiement (a body created to monitor the security of payment cards), the total value of fraudulent card payments and withdrawals in French systems declined by 11.7% in 2004, to 241.6 million euros.

Fraud rate (en %)



Source : Observatoire de la sécurité des cartes de paiement

The fraud rate[1] on international transactions (either transactions by French cardholders abroad or by foreign cardholders in France) is decreasing. The rate of fraudulent national transactions is stable and very low. Online payment fraud in France also fell 22% in value terms and 25% in volume terms from 2003 to 2004. This shows that banks are continuously improving transaction security, by protecting confidential card data more effectively and using new identification techniques and systems for automatically detecting unusual transactions.

(1) total fraud divided by the total amount of transactions

MONEY RECYCLING DECREE IS ISSUED

On May 19, 2005, the decree on the recycling of euro banknotes and coins was published in the Journal Officiel. This decree implements the common recycling policy set forth by the European Central Bank (ECB) for the euro area. Banks can now verify banknotes themselves in branch offices, use them to replenish ATMs and install "self-service" teller machines capable of automatically "recycling" notes[1]. By reducing the number of cash transport operations, banknote recycling can reduce the risks associated with transporting money.

Before they can recycle cash, banks must first sign an agreement with the Banque de France. These standard-form agreements were made official by a ministerial order published in the JO on July 16, 2005. The new recycling system entered effect in January 2006. The agreements specify the means to be employed (especially the equipment) and the procedures that banks and their service providers must observe. Banks must also immediately hand over all euro notes or coins "which they have sufficient reason to believe are counterfeit" to the Banque de France or government mint authorities. As requested by the banking industry, equipment testing and certification have been harmonised throughout the euro area.

1) automatic machines that can receive banknotes from the public, verify and sort them by quality, and then redistribute them.

Key figures

- *There were over 1.6 billion banknotes circulating in France in 2004 with a total value of 45 billion euros, and 8 billion coins worth 1.9 billion euros.*

- *Banknotes return to the Banque de France between 4 and 6 times a year depending on their denomination.*

source Banque de France

VIGIE BILLET IS COUNTING ON YOU TO PREVENT MONEY THEFT

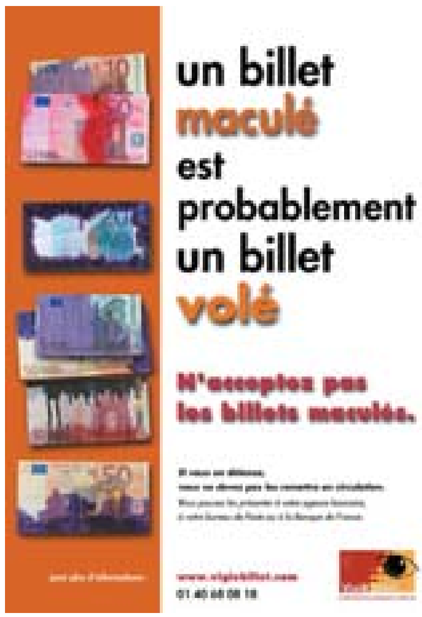
In June 2005, the Vigie Billet association launched a campaign to inform the general public and merchants that "A stained banknote is probably a stolen banknote". This campaign is supported by the French Ministry of the Interior, the FBF and the Banque de France. Its objective is to prevent stained banknotes from being passed on and thus discourage money theft by making it much more difficult to spend stolen money. Increased awareness of this problem also makes it easier to detect criminals trying to pass off stained notes.

There are many different types of devices capable of invalidating banknotes by staining them during robbery attempts. The use of such equipment is growing very rapidly in France and 60% of cash delivery facilities are now so equipped. Staining systems may also be used, for example, when transporting money, in ATMs, in bank teller tills or merchant cash registers.

The information campaign uses posters, informative brochures for merchants, a website (vigiebillet.com) and a voicemail service to spread the message.

To facilitate the withdrawal of stained notes from circulation, the Banque de France and banks have set up a procedure for banknote collection and reimbursement.

An initiative of this type was launched in the UK in 2001 and similar trials are being prepared elsewhere in Europe.

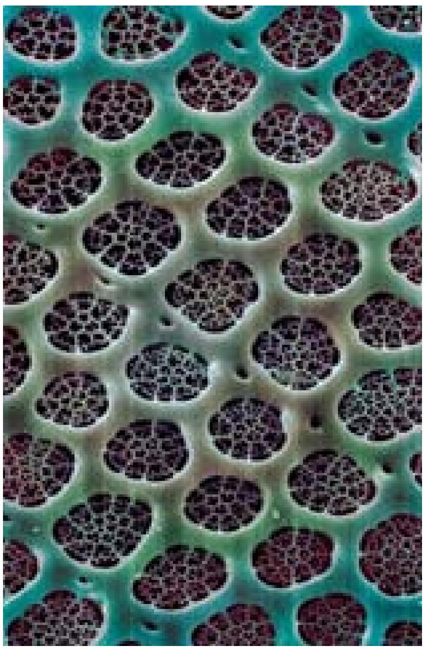


BANKS TO START OFFERING NEW EUROPEAN PAYMENT INSTRUMENTS IN 2008

Starting in 2008, consumers and businesses will be able to make payments by bank transfer, direct debit or card anywhere in Europe, as easily as in their own country. Working through the European Payments Council (EPC), European banks have made firm commitments to the European Commission and intend to fulfil their obligations on schedule.

On September 21, 2005, the EPC adopted the basic rules for using cards in Europe. It is also working on specifications for bank transfers and direct debits[1] in SEPA that enable creditors to issue direct debits for their customers anywhere in Europe.

Microscopic view of algae
© Steve Gchmeissner/SPL/Cosmos



French banks contribute their expertise

French banks are closely involved in the construction of this Single Euro Payments Area (SEPA)[2]. Their expertise in high-volume transactions means they have much to contribute. Indeed, the French clearing system handles 11 billion transactions a year, well ahead of the British system (Europe's second largest) which handles four billion. This is why French banks decided to invest in the construction of a Pan-European system for low-value payments to replace the SIT automatic clearing system. STET – a company founded in late 2004 by a group of French banks – has been working on this project throughout 2005 and is preparing a service offering for other European banking communities that promises substantial synergy gains.

Pan-European competition

These payment systems will simplify the lives of consumers throughout Europe. Wherever they happen to be they will be able to make a highly secure payment as easily as in their own country. Business customers will have access to a larger market and will benefit from heightened competition between European banks. Uniform payment standards will also make payments easier to manage. Nevertheless, SEPA is a vast and complex project. Business models vary considerably between countries and payment instruments were designed for domestic use. Furthermore, cross-border payments still only account for 2% of non-cash payment transactions in Europe.

Development work will begin in 2006

Starting this year banks will begin to adapt their IT and other systems. In 2008 they will start providing their customers with SEPA-compatible cards and allow them to make SEPA direct debits and bank transfers. Payment service providers will then gradually migrate their national payment systems to accommodate SEPA instruments, mostly in accordance with customer needs. By 2010, national infrastructures will be brought up to standard or eliminated. French banks will of course make sure that users are provided with the same quality of service they have always enjoyed.

According to the ECB, French banks handled 22% of the 59.7 billion non-cash payment transactions conducted in 25-member Europe in 2003.

1,900 payments are processed in 25-member Europe each second.

(1) A generic term that refers to "direct debit" type operations. In France, this term includes conventional direct debits and TIP interbank payment orders.

(2) SEPA Europe includes the European Union, Iceland, Norway, Liechtenstein and Switzerland.

A NEW LEGAL FRAMEWORK FOR PAYMENTS

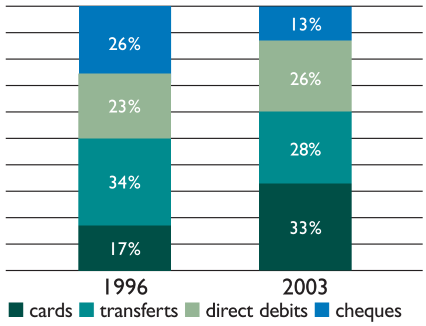
In parallel with this, on December 1, 2005, the European Commission presented a draft directive on payment services in the internal market. The French banking community welcomed this initiative so essential in creating a harmonised European payments area. Moreover, the FBF contributed to the preparatory work and many aspects of current French practice are included in the proposed directive, such as the requirement to provide rates information in advance and the irrevocability of payments.

Nevertheless, French and European banks believe that some aspects of this draft directive must be improved to ensure adequate security for customers and a healthy competitive environment for market participants. For example, the new payment institution status provided for in the proposed directive will leave consumers less protected. The Commission's draft creates two distinct bodies of rules; one for banks and another for the new payment institutions. This is confusing for consumers, who, depending on which type of service provider they choose, will not enjoy the same level of protection. European banks had proposed that the new payment institution status be supplemented with rules to ensure the same prudential supervision and financial guarantees required of banks.

The draft directive will be examined by the EU Parliament in early 2006.

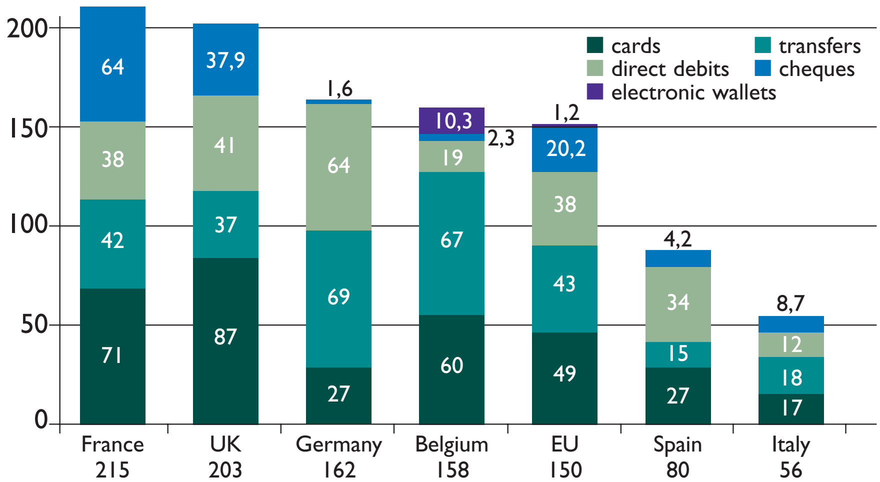
French banks will continue to work with the European Parliament, Commission and Council to make their voice heard. When the necessary adjustments are made, they hope that this directive will be rapidly implemented in the EU member states, with full harmonisation. The banking industry does indeed need a stable and uniform European legal framework to develop SEPA payment systems and instruments.

Development of non-cash payment instruments in the EU from 1996 to 2003 (by volume)



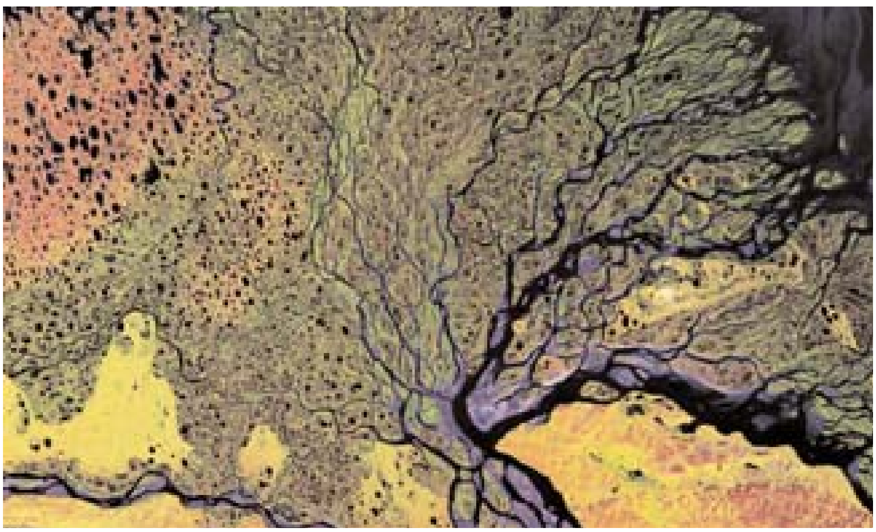
Source: ECB Blue Book (15-member EU).

Number of payments per EU resident in 2003



Source: ECB Blue Book published in August 2005 and based on 2003 figures (EU 15).

Lena river delta, Russia© Nasa/SPL/Cosmos



European Banking and Financial Services Market

The new financial services policy for 2005-2010, the new bank solvency ratio and negotiations to amend the proposed consumer credit directive are all developments that bear the mark of the active lobbying of French banks in 2005. The project to build a European market for banking and financial services over the next few years has made their efforts more essential than ever. French bankers believe that success will require a pragmatic approach, particularly when it comes to developing an integrated retail banking sector -a core building block in tomorrow's single banking market.

Railway junction © Patrick Giardino/Corbis

A PRAGMATIC APPROACH TO THE INTEGRATION OF EUROPEAN BANKING AND FINANCIAL SERVICES MARKETS

The integration of Europe's banking and financial markets will have its economic and social advantages for both consumers and businesses. This is why the FBF – in its June 2005 response to the European Commission's consultation on financial services policy for 2005-2010 – encouraged the Commission to pursue an active and pragmatic policy in constructing a unified European banking and financial services market. However, to ensure maximum effectiveness, the FBF feels that the means proposed to achieve some key objectives should be reconsidered.

The FBF's position

The FBF is convinced that the integration of the retail banking sector must be actively pursued, since retail activities will be a key component of the single European banking and financial market. However, progress here has lagged that achieved in wholesale markets, where much has been accomplished. The Commission will only achieve its objectives if its initiatives are both realistic and useful. Hence the FBF's recommendation of a pragmatic approach of "targeted" full harmonisation, i.e. full harmonisation that is limited to those aspects that are essential to the cross-border marketing of products and services.

Regarding wholesale markets, the FBF still believes that a directive on "post-market activities" (clearing, settlement and delivery) is necessary. This would promote the emergence of European service providers capable of meeting the needs of market participants (particularly in terms of governance) while also avoiding any abusive monopolistic behaviour.

With regard to payments systems, the FBF approves the emergence of a single European payments market, with instruments that can be used throughout Europe. It is convinced, however, that to achieve this objective market realities and customer preferences cannot be neglected and that self-regulation will meet user needs more effectively than legislation. Once the basic legal principles have been established, the creation of the Single Euro Payments Area must be handled essentially by market professionals to ensure maximum efficiency and security.

The Commission's priorities over the next five years

In its White Paper on Financial Services, published last December after consultation with market participants, the European Commission specified the following five priorities: 1) ensure implementation of existing rules and effective enforcement; 2) observe "better regulation" principles; 3) improve supervisory convergence; 4) strengthen competition between service providers, particularly in retail markets, 5) increase European influence in global financial markets.

THE EUROPEAN APPROACH TO THE SOLVENCY RATIO

Starting in 2007, European banks will be using a new solvency ratio pursuant to the EU directive adopted last fall. This directive was based largely on the Basel Committee's recommendations in 2004, for:

- more precise risk measurement;
- stronger prudential supervision;
- greater transparency with respect to the financial markets.

French banks support this reform, provided that the European system maintains fair competition between financial market participants both within and outside of Europe (particularly within the United States) and that it will promote the integration of banking and financial services markets.

However, one of this directive's basic principles is prudential supervision at the "non-consolidated" level of a banking group entity, whereas Basel II recommended supervision on a consolidated basis, or with respect to the entire group, which is more effective and more consistent with the methods that banking groups currently use to manage risk.

Compromise reached on consolidated basis supervision

After French banks requested a few changes, a compromise solution was agreed. They succeeded in having the "same risk same risk weighting" rule added to the directive for all intra-group operations in France, provided that all group entities meet their obligations with "full solidarity", and therefore with no restrictions as to time or amount. Furthermore, at the banking industry's request, the issue of European banking group supervision on a consolidated basis will be re-examined in five years when the directive is reviewed. EU Commission officials are to use this time to harmonise various aspects such as the implementation of the "lender of last resort" rule, deposit guarantee systems and liquidity monitoring, which will smooth the transition to consolidated basis supervision

French banks lead the way

The reform provides for three distinct approaches to risk management. Leading French banking groups have chosen the most advanced approach, which is based on the use of internal models, since this is more consistent with their risk management methods. Implementing new risk management tools is a formidable project that will cost the banking industry over 1.5 billion euros.

A guidebook for SMEs

In June 2005, the FBF, MEDEF and the CCIP published a small guidebook to help France's approximately 3 million small and mid-sized enterprises (SME) prepare for changes in regulations and prudential standards. One of their objectives was to inform small businesses that the new solvency requirements for banks will have no direct impact on their ability to borrow, although the cost of credit will depend more on each customer's specific characteristics and borrowing requirement (i.e., the loan term and guarantees). The guidebook provides a few tips to help SMEs prepare for these changes. These include developing closer relations with their bank manager, paying greater attention to indicators that may affect their credit worthiness and keeping abreast of their credit rating with the Banque de France.

Torrent, Paul Klee, 1934 © Adagp, Paris 2006.

NEW DRAFT DIRECTIVE ON CONSUMER CREDIT

After three years of debate, the European Commission presented its amended draft directive on consumer credit in early October 2005. Indeed, European banks and manufacturers had opposed the initial draft which they felt threatened the development of the consumer credit market - an important consideration since this very large market (over 900 billion euros in outstanding consumer credit in 2004) which plays a key role in enabling people to finance their personal projects is a key driver of economic growth.

Bankers still deem the draft to be inadequate

This new draft directive is more balanced and therefore more realistic for French banks which operate in a regulatory environment that is already quite strict. Moreover, it avoids the negative effects that could have resulted from the maximalist draft proposed in 2002. However, the complex combination of common harmonised rules, national consumer laws and mutual recognition now proposed will complicate cross-border lending and could also distort competition to the disadvantage of banks that operate in countries that offer a high degree of consumer protection, such as France.
Despite the Commission's announcement of a directive based on targeted full harmonisation, French bankers feel that member states still have too much leeway. Although the new draft will no doubt have less of a negative impact on domestic consumer credit activity than the initial draft, it will not enable the construction of a unified European market for consumer lending. This is why several aspects of the draft directive should be revised.

Some indispensable improvements

Given this situation, the FBF, in collaboration with various European lending trade groups, will be working hard throughout 2006 to have both the European Council and Parliament improve this draft directive. Efforts will focus on:

- strengthening the full harmonisation of specific rules to prevent competitive distortions between lenders, while making sure not to hinder cross-border lending;

- changing specific measures that are still deemed unfavourable by the banking industry. This includes, in particular, the reduction of the 14-day cooling-off period, which appears to be too long (particularly if it is suspensive), and the exclusion of all unsecured property loans, which currently fall within the scope of the directive.

September 11, 2002: The European Commission issues its first draft directive.
April 2004: Parliament makes significant changes to the draft.
October 7, 2005: The Commission issues an amended draft.
November 15, 2005: The Commission presents its proposed directive to ECOFIN.

Fan of tiny organic mollecules. Microscopic photograph (magnification: 160), © Pierre Noyrez

GREEN PAPER ON MORTGAGE LENDING – MAKING OFFERS EASIER TO COMPARE

In its response to the Commission's Green Paper on mortgage market integration, the FBF supports the creation of a large Europe-wide mortgage lending market. This, however, is a very complex undertaking that will take time. Today's domestic real-estate lending markets already operate efficiently, and since proximity between borrowers and lenders is a key factor, loans for property purchases are rarely made across borders. More integrated European mortgage lending markets would afford lenders greater economies of scale, thereby allowing them to spread their risks and stimulate innovation. Consumers also stand to benefit from the ability to compare offerings more accurately and from a broader range of products and services. The most realistic scenario for the development of cross-border lending is for lenders to propose their services beyond their domestic market, since there is little chance that consumers will look for a home loan outside of their native country. It will therefore be supply that stimulates demand. Accordingly, the Commission should only intervene when this is economically justified.

Some specific aspects should be fully harmonised

French banks therefore generally do not believe that loan contracts should be harmonised at the European level.

There is a risk that this could result in standardised products and stifle innovation. The FBF recommends a realistic and pragmatic approach of "targeted" full harmonisation that focuses on what is essential to enable effective comparison of loan offerings. This would require harmonisation of the annual percentage rate (APR) calculation method and its various components. Similarly, the terms and conditions of early loan repayment should also be harmonised.

Once the consultation phase is complete, the Commission is expected to issue a White Paper in 2006 indicating the concrete measures it intends to implement.

Mortgage credit or home loans?

The FBF believes that European legislation should not only be based on the concept of mortgage credit, but also that of real-estate credit, (or home loans) to reflect the two distinct ways that loans are classified in Europe:

- *In some member states, the key factor is whether or not mortgage collateral is granted. Loans are either mortgage loans (even when not used to purchase real property), or consumer loans.*
- *In other countries, loans are classified according to their purpose. Loans are either real-estate loans (even when no security is provided) or consumer loans. In France, for example, only 32% of home loans involve a mortgage, 36% are secured by a mortgage loan promise and can be refinanced with a "covered bond", 13% have some other type of guarantee and 19% are not guaranteed.*

FBF AND AFEI WORK TO TRANSPOSE THE MIFID DIRECTIVE INTO FRENCH LAW

The Markets in Financial Instruments Directive (MiFID) is scheduled to enter effect on November 1, 2007. Considering the magnitude of the changes involved and the complexity of the new rules, this leaves very little time to prepare. This directive will profoundly alter the landscape of European financial markets and will have major strategic, organisational and technological implications for all banks.

This is why the FBF and AFEI formed a working group as early as 2005 to prepare for the transposition of this directive into French law. Among other things, the group is working on the rules to be observed in the various markets (regulated market, MTF and internalisation) and on the status of investment services providers (approval and organisation).

In 2005, the European Commission also issued for consultation four working documents on MiFID implementation measures, pursuant to level 2 of the Lamfalussy process. It is expected to present its proposals in early 2006.

These implementation measures are of major importance since they specify such things as the definition of systematic internationalisation, the rules that investment services providers must observe to ensure "best execution" of orders in their customer's interest, disclosure and advisory duty obligations and rules for pre- and post-trade transparency.

THIRD DIRECTIVE ON MONEY LAUNDERING – ADAPTING VIGILANCE TO RISK

The directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing was published in the EC Official Journal on November 25. This directive seeks to co-ordinate the implementation of the FATF's 40 recommendations throughout Europe.
As recommended by European banks, the directive has adopted a more pragmatic approach to the prevention of money laundering. Vigilance requirements have been adjusted in proportion to risk, so that more attention can be devoted to the most challenging situations.

The directive expands the scope of suspicious activity reporting, which now applies to revenue from any serious offence which, under the new directive, is defined as participation in drug trafficking, fraud that is detrimental to the European Community's financial interests, corruption, terrorism, and participation in any offence that is punishable by a term of imprisonment of at least one year. This last point poses a problem in France, where, unlike other countries, this criterion applies to all economic and financial crimes and misdemeanours, including tax fraud.

Unless national laws are amended, the sheer number of suspicious activity reports that will have to be submitted to report such offences will make preventing money laundering less effective. Furthermore, this difference in penal policy risks distorting competition between EU member states.

What it will mean for banks

The member states have until November 2007 to transpose this directive. Banks will have to update their systems and procedures and also train their employees accordingly. To keep up with these constant changes in legislation and regulations, the FBF, in partnership with the CFPB and Tracfin, has developed an open-ended training programme that it has made available to the entire banking industry. Today, over 335,000 bank employees (over 80% of the total bank workforce) benefit from this training.

A European regulation for FATF recommendation No. 7

On July 26, 2005, the European Commission presented a draft regulation to transpose the FATF's 7th recommendation (concerning terrorism financing and disclosure of information concerning originators of wire transfers). French banks welcome this uniform transposition of this recommendation into EU law. Although this draft regulation is satisfactory overall, it must be assured that there are no conflicts with French law in other areas, such as asset freezing. The first reading in European Parliament is scheduled for June 2006.

SAVINGS TAXATION DIRECTIVE COMES INTO EFFECT

The directive on the taxation of savings income became effective on July 1, 2005. This marks the end of the long and difficult task of developing a taxation framework for savings, which began 15 years ago in order to prevent the migration of savings as capital movements in Europe were liberalised.
The directive provides for the systematic and mandatory exchange of information between the member states to enable interest income to be taxed in the country of the beneficiary's residence. During a transitional period, three states will be exempted from this requirement but will apply a specific withholding tax. This is not tax harmonisation, since each member state will be able to tax interest income received by its residents from another member state according to its domestic law.
The directive applies to interest on all types of loans or other claims. For example, for non-residents with investments in France, this would include the following savings instruments: Codevi, mortgage-savings accounts, PEP savings plans, LEP accounts, negotiable debt securities, treasury bills, capitalisation bonds and contracts, short-term notes (bons de caisse), current accounts and some UCITS mutual funds mainly invested in fixed-income instruments.
The new directive modifies the relationship between customers and tax authorities. Information concerning interest paid is now exchanged automatically between the member states, with banks providing this information.

AN OVERVIEW OF BANKING IN FRANCE

Palm tree © Vaughan Fleming/SPL/Cosmos II

I. A DYNAMIC SERVICE INDUSTRY

II. FRENCH BANKS AND THE ECONOMY

III. A HIGHLY REGULATED SECTOR

A bank is a credit institution authorized to carry out banking operations. Only banks are authorised to receive sight deposits and term deposits of less than two years from the public *(Article 511-9 of the French Monetary and Financial Code).*

In addition to this "official" definition, a bank is a company that operates like any other business. It has employees, customers, shareholders and an obligation to turn a profit.... Banks also play a key role in financing and developing economic activity. By granting credit from the funds deposited and by providing sophisticated financial services and reliable payment instruments and systems, banks help people achieve their projects, however big or small.

A DYNAMIC SERVICE INDUSTRY

BANKING SECTOR IS STRONG

Over the past few years French banks have been doing very well. There are basically two reasons for this strong performance: the efforts that banks have made to streamline their activities and the strong overall demand for banking products and services.

At end 2004, the net profit of the five largest French banking groups totalled 14.1 billion euros, a 32% increase over the previous year. According to the Banque de France, this performance is in line with that of the leading global banks. The return on equity of French banks in 2004 was 12.6%. This was also consistent with the EU 25 average of 12.2%. ROE ranged from 15.5%[1] to 18% for Spanish and UK banks respectively, and stood at 3.9% and 10.6% for German and Italian banks.

At end 2004, the combined assets of France's seven largest banking groups totalled 3,327 billion euros, i.e. twice the nation's GDP.

Source: Commission bancaire

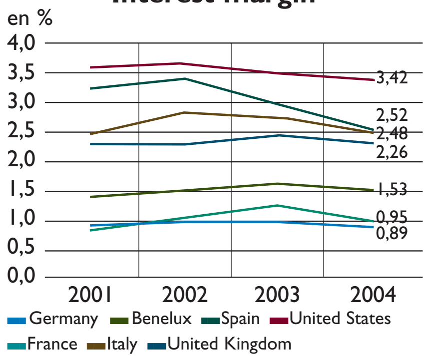
1. Growing rapidly

The total consolidated net banking income (NBI) of the five largest French banking groups was 63.4 billion euros in 2004 – an increase of almost 13% on the previous year. This is quite a substantial increase, considering that the average NBI of banks in nine of the largest EU economies[2] was 5.5%.

This may be explained by the growth of the banking industry both abroad and in France, particularly as regards real estate credit. The French banking industry is also particularly strong in specialised financial services and asset management, and French banks have developed a broad range of retail banking products and services.

98% of French households have a bank account (one of the highest levels in Europe) and 36% have accounts in more than one bank.

Interest margin



Source : Banque de France Bulletin, October 2005

The French market for banking services is highly competitive. The increase in lending-related income is mainly the result of greater lending volumes rather than higher interest margins. Lending margins are low for French banks. In 2004, interest margins stood at a mere 0.95% in France, compared to 2.52% in Spain and 3.42% in the United States[3].

1) European Central Bank – "EU banking sector stability".
2) Benelux, France, Germany, Italy, Japan, Spain, Switzerland, United Kingdom and United States.
Source: Banque de France Bulletin, October 2005.
3)Banque de France Bulletin, October 2005

Key terms

Net Banking Income (NBI): *gross income earned by a bank on all banking activities (credit intermediation, market activities, financial engineering services, etc.), before general expenses, depreciation & amortisation, provisions and taxes. NBI is the equivalent of annual revenue for non-financial companies.*

Interest margin: *net interest income as a percentage of average interest-bearing assets (bank deposits, securities and loans).*

2. Controlling risk

Low credit risk cost

In addition to the high volume of business activity, the excellent financial performance of French banks is also the result of their sound risk management, which has reduced their risk cost. In the first half of 2005, the credit risk cost for France's four largest banking groups was only 3.2% of NBI, one of the lowest levels in Europe's seven largest countries. By comparison, the risk cost of the largest British and Italian banks was 10.4% and 6.6% of NBI[1] respectively.

Solid balance sheets

The leading French banking groups have an average solvency ratio of 11.5%, which is considerably higher than the regulatory minimum[2]. This enables French banks to absorb shocks to the economy and smooth out economic cycles, without having to cut back on lending.

3. Restructuring without job loss

The French banking industry has also reorganised and streamlined its activities. According to the CECEI (the Credit Institutions and Investment Firms Committee), there were 24 mergers and 20 acquisitions in the French banking industry in 2004, a figure that is consistent with the trend observed over the past few years. The number of banks has declined from 552 in 1994 to 425 in 2004. Banks have therefore succeeded in restructuring without destroying jobs.

Recent mergers

1999: *BNP - Paribas*

1999: *Crédit Mutuel - CIC*

1999: *Banques Populaires - Natexis*

2000: *HSBC - CCF*

2003: *Crédit Agricole - Crédit Lyonnais*

2003: *Caisse d'Epargne - and the French subsidiary of the Italian group San Paolo IMI*

2004: *Caisse d'Epargne - compagnie financière Eulia and CDC Ixis*

CONTRIBUTING TO GROWTH

According to INSEE (the French statistics bureau), banking activity accounted for 3.1% of value added in France in 2004. This was more than the automobile industry (1.1%), the farming and food-processing industries (1.9%) and the energy industry (2.3%). On December 30, 2005, of the 10 largest market capitalisations on the Paris stock market three were banking groups.

1. Creating jobs

Today, France's banks employ some 400,000 people, indirect employment excluded. By comparison, the automobile industry employed 230,000 in 2004 and the energy sector 200,000, according to INSEE. This makes banks one of the largest private-sector employers in many regions. To meet its growing needs, the banking sector has been recruiting heavily, with a hiring rate of almost 10% in 2004. Therefore, despite the large number of people who have retired and who will continue to do so (over a third of bank employees were aged 50 and over in 2004) banks have been net creators of jobs over the past few years. The aggregate bank payroll rose 0.5% in 2004, after increases of 1.1% and 3.3% in 2002 and 2001 respectively.
Banks are also hiring a lot of young people (over two-thirds of new recruits are under 30) and a high proportion of people with college educations. According to an AFB employment survey, at end

1) Banque de France Bulletin, October 2005
2) Commission Bancaire

December 2004, 48% of new recruits had two to three years of college education.

2. *Investing in training*

Banking is one of the industries that provides the most training to its employees. Although large companies in France must spend at least 1.6% of their payrolls on training, banks spend an average of 4%. According to an AFB survey, 75% of salaried bank employees received training in 2003.
French banks are strong believers in work-study programmes. In 2004, banks employed almost 3,500 people under "professionnalisation" or apprenticeship contracts. Not only do such programmes enable these employees to earn a two-year or higher level college degree, they are also often offered a permanent labour contract.

GLOBAL DYNAMISM

1. *Establishing an international presence*

French banking groups are expanding their international operations. At end 2003, French credit institutions operated 913 offices in 83 countries. Large French banking groups obtained 15.7% of their assets within the European Union. Although a respectable figure, this is not as much as some groups in Europe's smallest countries. According to the Commission Bancaire, this is because these banks have reached the limits of their small domestic markets and have invested massively abroad.
Furthermore , France is one of the few countries to have penetrated the US banking market, along with the United Kingdom, Germany and Holland.

2. *World-class players*

Three French banks with a combined market capitalisation of 131 billion euros at end September 2005, rank among the world's twenty largest banking groups by that measure[1]. In terms of capital, five French banks were among the global top 25 in 2004[2]. Only the United States has as many banks that are this big.

1) Reuters, cited by Banque de France
2) The Banker, July 2005

II. FRENCH BANKS AND THE ECONOMY

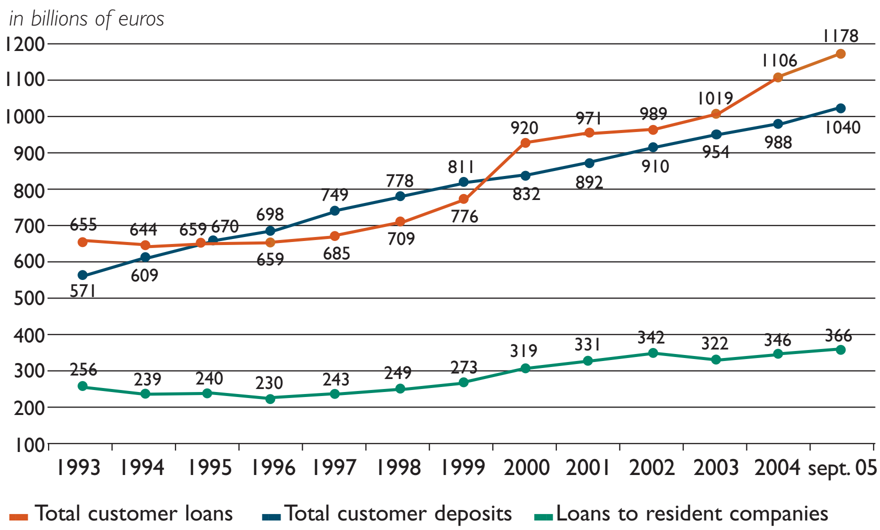
AN ESSENTIAL ROLE

1. *Financing economic activity*

With 1,178 billion euros in loans outstanding at end September 2005, i.e. four times the nation's budget, French banks play a fundamental role in financing economic activity.
They convert savings into credit that is used to finance a wide variety of business projects, sometimes of a particularly complex and risky nature. In providing credit, banks stimulate economic growth over the near-term by facilitating consumer spending and home purchases and over the long-term by enabling companies to invest in the resources they need to develop their business.

According to the Banque de France, credit granted to business enterprises by French credit institutions rose 9% in 2005.

Increase in FBF member bank loans and deposits from 1993 to 2005



■ Supporting consumption

54% of French people know that credit is good for the economy[1]. At end March 2005, French credit institutions had 116 billion euros in outstanding consumer credit. French credit institutions offer consumers attractive interest rates, with 4.45% for a consumer loan of less than one year, compared to an average of 6.62% for the euro area[2]. According to the OEM, which monitors consumer debt, one third of French households were repaying some form of consumer credit in 2004. Half of these consumers could not have purchased what they wanted if they had not obtained credit[1].

What is consumer credit used for?
- ***57% of households use it to purchase a car or motorcycle;***
- ***30% use it to make a substantial purchase for their home (furniture, appliance, TV, etc.)***

Source : OEM, published in May 2005 and based on November 2004 figures.

■ Facilitating home purchase and real estate investment

At end March 2005, credit institutions had granted consumers a total of almost 376 billion euros in real-estate loans. According to the OEM, 29.1% of French households were repaying a real-estate loan in 2004, compared to 28.5% in 2003.

Interest rates on property loans are particularly low in France. In the second quarter of 2005, French consumers could obtain a real estate loan for a term of 10 years or more at an interest rate of only 3.90%, compared with 4.76% in Italy and an average of 4.09% for the euro area[2].

In addition to this, advantageous home-purchase savings plans further facilitate real estate purchase and investment. According to Crédoc, the French banking industry is apparently meeting the needs of French consumers since 84% believe that it is better to own a home than to rent.

50.2% of French households used credit in 2004, compared to 49.7% in 2003.

Source : OEM

■ Helping small and mid-size businesses achieve their goals

Banks play a key role in small-business creation and development. 64% of French SME believe they could not have carried out their projects without bank credit. What is more, banks are apparently doing a good job lending since 60% of French SME consider that a bank loan can be easily obtained, compared to a European average of 46%. Indeed, only 6% of French SME say that they need easier access to credit to develop their business which is the lowest rate in Europe[3].

Credit granted to SME by credit institutions totalled over 353 billion euros at end December 2005. Two thirds of this was granted to very small businesses representing an annual increase of 10%.

Source : Banque de France

2. Advising large companies and supporting them in capital markets

At end December 2005, outstanding loans to large companies totalled 149.4 billion euros. But the relationship between banks and their large corporate customers goes far beyond lending. For example, banks can provide tailored solutions for a broad spectrum of projects, ranging from the restructuring of a family business to going public. They can also provide complex long-term structured financing for major international projects. In 2005, banks assisted with 507 mergers and acquisitions in which the purchaser, the seller or the parent company was French, representing a total of 160 billion dollars[4].

French corporations that issue securities can also draw on the expertise of top-notch financial intermediaries, with skilled teams

1) TNS Sofres survey conducted in October 2004 for the ASF.

2) Source: Eurostat, customer negotiated rate excluding loan charges, Q2 2005.

3) Source: Eurobarometer 174 "SME access to finance", October 2005 (SMEs with 1 to 249 employees).

4) Thomson Financial, M&A Global Financial Advisors Review, Q4 2005.

offering best-in-class financial analysis[1]. In fact, French investment and merchant banks present a certain number of advantages. For example, France has some of the world's largest custodians, capable of offering their clients a full range of services, including: payment and final settlement of transactions, cash management and forex trading. That said, although France offers an abundance of savings solutions, most is invested in products that do not require investment banking expertise, which is why the French financial community is currently examining ways of promoting investment banking in France.

3. Putting savings to work

The wide variety of savings products that French banks offer – with a broad spectrum of liquidity, guarantee and risk options – has encouraged a large proportion of French households to invest their savings. Eighty-three percent have a tax-exempt savings account, while 59% have invested in a life insurance policy, the second most popular savings vehicle. After these come home-purchase savings accounts (41%), securities (24%) and employee savings plans (17%)[2].

At end March 2005, French banks managed 271 billion euros in consumer and business deposits in current accounts, and 556 billion euros in special tax-exempt savings accounts ("Livrets", Codevi, LEP, PEL, and PEP). Long-term savings accounts (PEP and PEL) represented 43% of this amount.

1) Accenture study commissioned by the FBF the AFEI: "Investment banking in Paris: Creating the conditions for a collective dynamic", November 2005.

2) INSEE, "Patrimoine, quand les ménages prennent de l'assurance", May 2005.

Savings: French specialities

As in other European countries, the savings rate in France is high, at almost 16%. However, some specific aspects of French savings are worthy of note:

- *If social payment transfers in kind (which are a form of consumption) are included in disposable income, the French savings rate falls three percent due to the considerable weight of France's social security and educational services.*

- *The high level of government deficits - In all countries a strong correlation between household savings and government deficits can be seen, since, according to the Ricardian equivalence, consumers expect taxes to be increased to pay for deficits.*

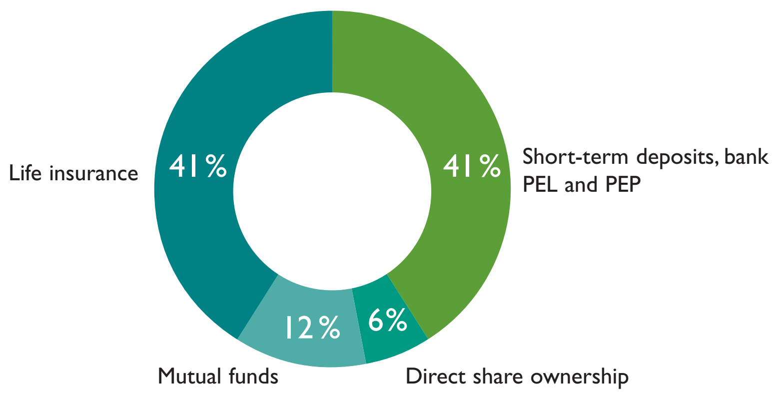
- *Due to the lack of pension funds compared with other countries, the French have invested heavily in life insurance savings products.*

All forms of savings are not created equal in terms of their economic efficiency, the main factor determining their impact on growth being the term of the savings instrument and the purpose for which savings are used. Economically speaking, savings are only useful when they pave the way for future consumption and are invested in productive assets.

By converting savings into credit, banks put them to use in the economy. To promote longer-term savings in higher risk endeavours, the government must clearly make this its policy and provide the necessary means.

Household savings in 2004

Source: Banque de France, cited in the Delmas-Marsalet report



4. Facilitating transactions

Bank payment systems and instruments play a key role in enabling economic transactions between consumers, retailers and large companies, and thereby contribute to economic growth.

In 2005, banks handled over 11.2 billion interbank non-cash payment transactions.

Banks have also set up special systems for large-volume requirements, such as for the cash management of a large industrial group, or the payment of an exceptionally large contract. This is because the slightest delay in the completion of a major deal or a debtor's default may have serious consequences.

With such systems, banks handle about 430 billion euros a day. In fact, the amount of money exchanged through national interbank systems in just four days exceeds France's annual GDP.

Banking services available any time and anywhere

■ 98% of French households have a bank account. This is one of the highest rates in Europe. Even the lowest-income consumers have access to day-to-day banking services.

■ There were 26,370 bank branches in France in 2004. Banks opened an additional 581 branches in one year.

■ There were 43,700 ATMs at end 2004. These machines require considerable investment to keep them properly maintained and ensure security, since their cash is usually replenished once a week, and even once a day in heavy-traffic areas.

■ Half of French Internet users visit their bank's web site and nine out of 10 say they are satisfied with their banks online services.
(Ireq 2005).

■ At 130 euros a year, or about 11 euros a month, fees for banking services in France are lower than the European average of 145 euros[1]. This average price covers all banking resources, "packages", payment instruments, payment incidents, overdrafts and revolving loans.
The revenue from these services is used to pay employee salaries, finance innovation and invest in the new technologies required to provide online services, increase transaction security, etc.

1) Source: study by Mercer Oliver Wyman in July 2004

Ensuring a favourable environment for French banks

France's banking industry is fundamental to its economic growth. Banks enable a wide variety of personal and business projects ranging from car purchases to bridge construction. They are also major employers and invest heavily in training their staff. It is therefore in France's interest to preserve a strong banking system capable of providing high value-added products and services.
A simulation by Accenture shows that the 25,000 investment and merchant banking jobs in France account for 3.2 billion euros (1%) of the government's revenues.

1. Strong profits will be necessary to stand up to European competition

The successful takeover of the UK bank Abbey National by the Spanish bank Santander Central Hispano in 2004 has revived the prospect of large-scale cross-border mergers in Europe. According to the CECEI there were four cross-border mergers in the banking sector in 2004. Many market observers predict an increase in cross-border deals in 2006, particularly in the banking industry, due to strong cash flows, low market volatility and low interest rates in the euro area. Given this situation, the entire business community and large corporations in particular must be able to count on the support of world-class banks.

2. Preventing taxes and regulations from causing competitive distortions

For French banks to maintain their ranking across Europe and around the world and continue to contribute to economic development, they must be able to compete with other European and global banks on a level playing field. To achieve this, the taxes levied exclusively on French banks should be eliminated. France's wage tax, for example, costs the French banking industry about 1.8 billion euros each year - quite a burden for an industry that continues to create jobs and employs a large proportion of highly skilled people.

It is also essential that European banking and financial markets be harmonised in a fair and pragmatic manner, particularly in such areas as consumer credit. Proper transposition of European legislation into national law is just as important. No competitive distortions resulting from regulatory and enforcement discrepancies between the member states must be allowed. For example, for the Markets in Financial Instruments Directive (MiFID), the European Commission will issue implementation measures in 2006. The member states must then transpose these rules into their national laws by February 2007 for them to take effect in November 2007.

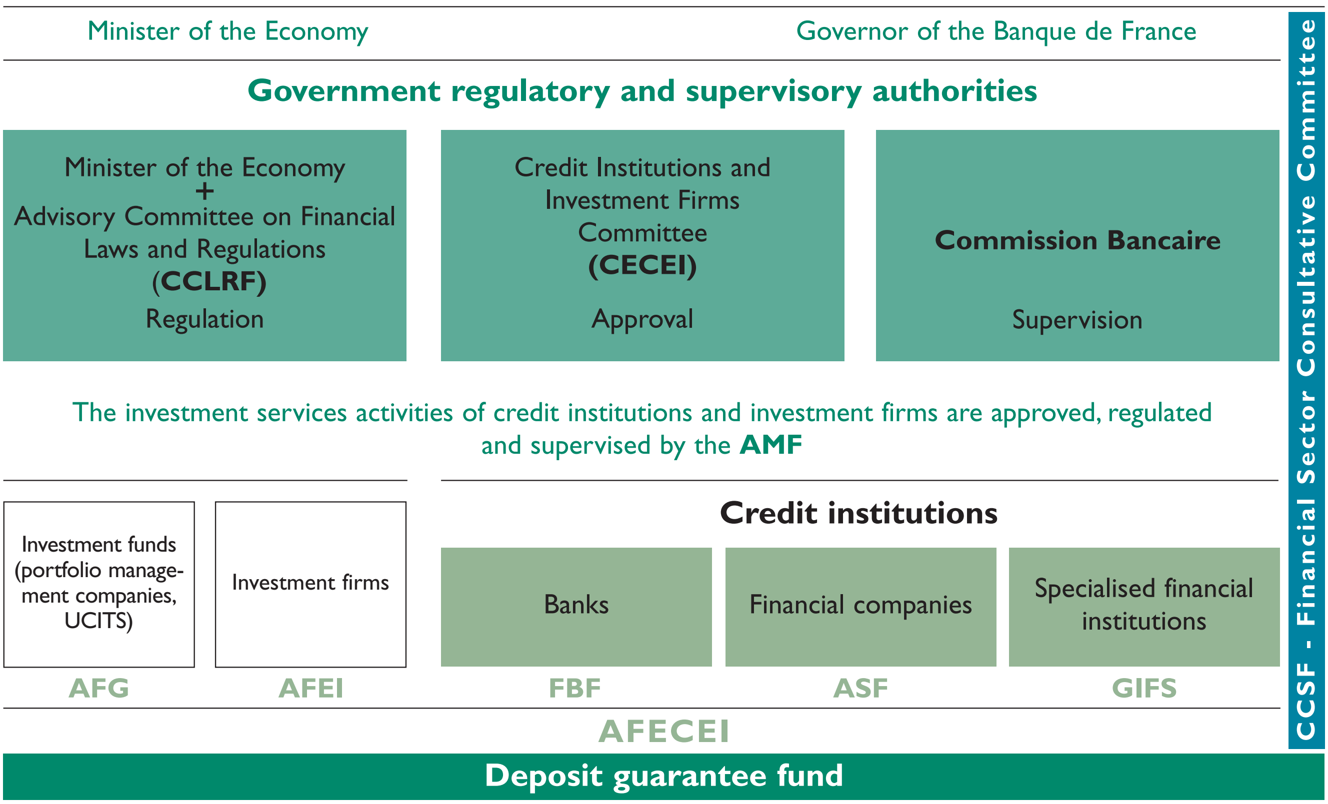
Transposition of EU directives has very important implications.

The rules adopted will have a considerable impact on the degree of market transparency, and the transposition of these measures into each member state's law must ensure uniform enforcement to prevent competitive distortions.

III. A HIGHLY REGULATED SECTOR

French banking activities are subject to the French Monetary and Financial code, and all dealings with consumers are subject to the French Consumer Code.

1. Organisation, regulation and supervision of the French banking sector



2. The increasing role of European legislation

Europe makes over 70% of all regulations for the banking industry, covering all markets and activities. For the 1999-2004 FSAP, over 40 European directives were adopted to regulate financial instruments markets, takeover bids, market abuse, distance marketing of financial services, UCITS, the prevention of money laundering and savings taxation.

Banking industry milestones:

1958: *central bank lending restrictions are removed*

1984: *the Bank Act establishes the principle of "universality" and the legal status of "credit institutions" giving them the exclusive right to conduct banking activities*

1988: *an international solvency ratio (the Cooke ratio) is adopted*

1990: *foreign exchange controls are abolished*

1993: *a single European banking market is established*

1999: *a single currency is created*

January 1, 2002: *euro banknotes and coins are introduced*

1999/2004: *first Financial Services Action Plan (FSAP) is launched*

EU advisory committees help build a unified European banking market

The European Banking Committee (EBC) directly advises the Commission on legislative matters. As for the Committee of European Banking Supervisors (CEBS), it is composed of senior representatives of EU member state banking authorities and central banks.

The CEBS serves as a liaison between the Commission and national government authorities and also makes sure that EU measures are correctly and uniformly enforced. The work of the Committee of European Securities Regulators (CESR) in the area of securities is extremely important for the banking sector. This advisory committee is composed of representatives of the national regulatory authorities and of the European Commission. One of its main functions is to assist in determining directive implementation measures.

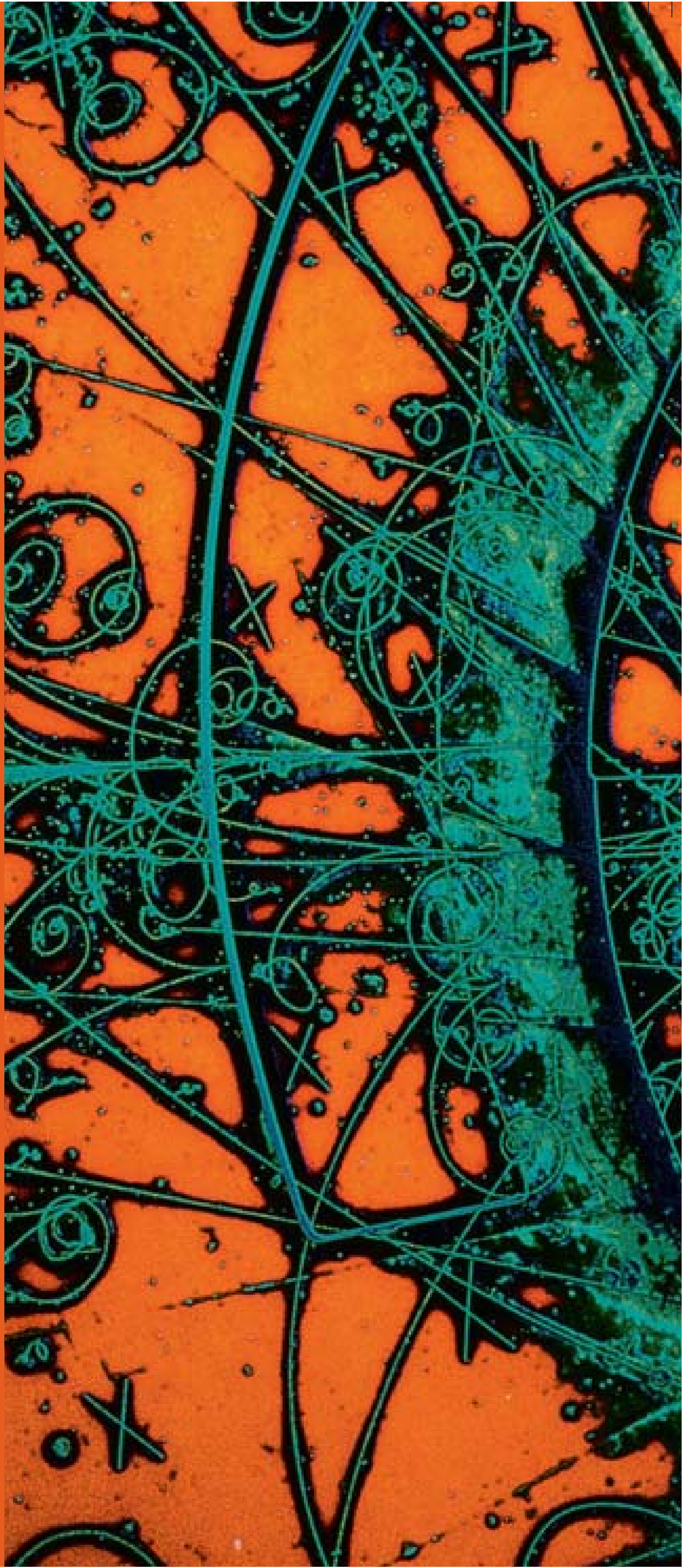
Key 2004 data for the 7 banking groups that form the FBF's Executive Committee in 2004:

	BNP Paribas	Crédit Agricole SA	Crédit Mutuel	Dexia Crédit Local	Groupe Banque Populaire	Groupe Caisse d'Epargne	Société Générale
NBI (€ bn)	**18,82**	**12,51**	**8,75**	**1,6**	**7,64**	**8,97**	**16,42**
Operating income (€bn)	**6,55**	**3,18**	**2,58**	**1,11**	**2,54**	**2,21**	**4,91**
Net profit, group share (€bn)	**4,66**	**2,20**	**1,49**	**0,70**	**1,06**	**1,78**	**3,12**
ROE* (in%)	**16,8**	**13,6**	**10,6**	**18,63**	**14,1**	**10,8**	**18,9**
Capital (€bn)	**35,02**	**30,81**	**18,2**	**4,32**	**17,2**	**22,7**	**23**
Payroll	**94 892**	**62 001**	**56 760**	**3 199**	**44 509**	**52 800**	**92 000**

** ROE (Return on equity. Ratio of net after-tax profit to shareholder equity)*
Sources: bank press releases and annual reports

FEDERATION
BANCAIRE
FRANCAISE

Exchanging, flowing, circulating, channelling, collecting, distributing, guiding, orienting... all terms that describe the essential characteristics of networks – the theme for the photos in this year's management report.
Where there is no flow there is no life, and where flows are not channelled and controlled there is no direction or policy. Money – that of each person, company or institution – must also flow fluidly if it is to enrich our society, our economy and our individual lives, and controlling and optimising these flows is what the French Banking Federation strives to do each day.



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