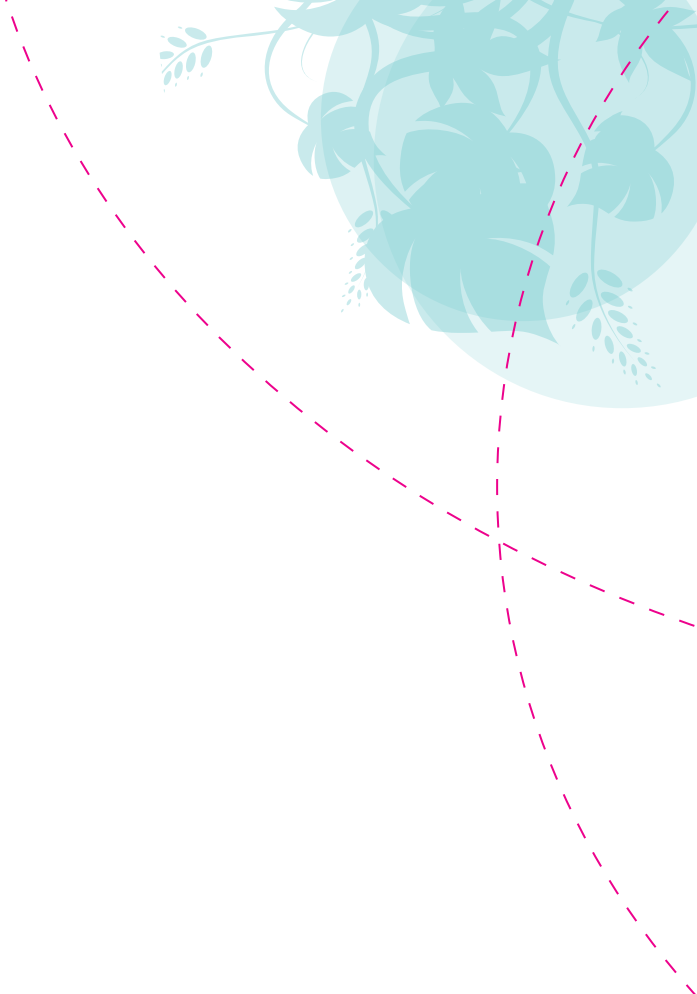




MANAGEMENT REPORT **F.B.F. 2010**



FEDERATION
BANCAIRE
FRANCAISE



Movement is life...

Our environment is changing and our banks along with it. Human silhouettes in action, moving through an environment both natural and urban, in harmony, the two worlds reconciled. More than an illustration... an aspiration. This is the sense of hope convened by the FBF in the animated fresco created especially for its new website, and reinterpreted here for our Management Report.

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EDITORIAL



ARIANE OBOLENSKY
CHIEF EXECUTIVE OF THE FBF



FRANÇOIS PÉROL
CHAIRMAN OF THE FBF

| LET'S TALK ABOUT BANKS
AND LET'S GET SERIOUS



2010 was a pivotal year for **the reform of the international financial system** ("Basel III", European supervision, etc.). France's regulatory framework was also changed, with the Consumer Lending Act, the Banking and Financial Regulation Act, and payment instruments. All of these changes had a very structuring impact on banking activities and organisation.

Through the resilience of their business model, based on disciplined, responsible management and business diversity, French banks carried on financing the economy at much better-than-average volumes and conditions compared to the European Union as a whole. In 2010, outstanding loans to the economy rose by 4% on 2009. The increase concerned households and VSEs/SMEs.

French banks continued their efforts to **improve information** and the accessibility of banking services for their clients following the publication of the Pauget/Constans report. These new measures complement the many initiatives already underway and will be implemented in the first half of 2011. The ACP and AMF are responsible for ensuring compliance with these professional rules. To this end, a system consisting of three categories of documentation was set up: professional standards, best practices and recommendations, setting forth the purpose of each body of documentation. These efforts reflect the determination of French banks to maintain clear and responsible relations with other players, based on compliance with their commitments.

In order to clear up the misunderstandings and avoid any confusion, French banks decided to publish a collective communication underscoring the dedication and commitment of their 400,000 employees, hard at work for the French people. Dubbed the "Parlons de la banque et parlons-en vraiment" communication (Let's talk about banks - And let's get serious), a full page article was published in the press in December 2010. French banks also stressed that they had not caused the crisis, that they had learned lessons from it in terms of banking regulation, and that French taxpayers had not been made to pick up the tab, unlike what happened in other countries.

Drawing on their strengths, French banks got involved in the effort to reform international regulations. The rules adopted within the "Basel III" framework are very restrictive for banks in terms of capital and liquidity. Even though French banks have the ability to adapt to the new prudential rules, "Basel III" will automatically weigh on the financing of the European economy in terms of volume and cost of credit. Banks are already under a tremendous burden, and adding any more capital requirements or new levies is tantamount to placing a tax on credit.

International reform is a strategic issue for Europe. It must not establish more restrictive regulation than other financial centres, and particularly the United States, which have a more flexible interpretation of certain G20 principles (e.g. compensation of market professionals). Under France's presidency in 2011, the G20 must strive to effectively implement comparable rules between the different financial centres and economic players. The consistent application of the new G20 rules is crucial, not only for the stability of the financial system, but also for growth and jobs in Europe.

KEY EVENTS AT THE FBF IN 2010

JANUARY

1. The FBF turns 10 in 2010.
6. The AERAS Agreement, in force for three years, is renewed.
18. At the meeting of the High level Committee, the banking industry offers proposals to restimulate the corporate bond and securitisation markets under healthy conditions.
22. Publication of the ordinance on the merger of licensing and supervisory authorities in the banking and insurance professions.
25. The banking profession implements a collective approach to develop MCAs (personal assisted microloans) nationwide.

FEBRUARY

3. The FBF signs a partnership agreement with France Active to encourage job seekers to start their own businesses and to promote professional bank microcredit.
12. A decree establishes the French list of non-cooperative governments and territories: banks have an obligation of transparency on their operations in these tax havens.
17. In conjunction with the CFPB (Training centre for the banking profession), the FBF launches a new anti-money laundering training tool.

MARCH

5. French banks announce a lending budget of EUR 96 billion for businesses in 2010.
9. The Rectified Finance Act for 2010 instigates an exceptional tax on compensation paid to market operators.
16. According to the report published by the French Household Credit Observatory, one of every two households had an outstanding loan in 2009.

APRIL

1. In conjunction with the AMAFI and the ASF, the FBF publishes professional best practices on risk management.
16. The FBF answers the Basel Committee's consultation document on the draft reform of "Basel III" solvency and liquidity rules.
22. For the FBF, the taxes on banks being considered by the IMF will not help ensure the stability of the international financial system.

MAY

5. Some twenty European banks convene in Madrid to express their interest in creating a system of European cards (Monnet project).
5. The 2009 report of the Mediator to the FBF showed an increase of almost 38% in the use of mediation.
20. Baudouin Prot, Chairman of the FBF, inaugurates the second "Tour de France" providing a forum for senior bank managers to make contact with SMEs.

JUNE

4. The National SEPA Committee takes stock of France's migration to European payment instruments.
7. The new SEPA Council meets for the first time in Brussels.
- 26-27. The G20 Toronto Summit confirms its objective of "building a more resilient financial system that (...) supports strong and stable economic growth".

JULY

1. The new AMF scheme for the professional certification of market participant knowledge and expertise enters into force.
2. The law of 1 July 2010 on the reform of consumer credit is published in the Journal Officiel.

23. Results of European stress tests: French banks are amongst the most solid banks in Europe.

AUGUST

1. The agreement between the EU and the US on bank data transfers to combat terrorism financing enters into force.

25. The prudential control of credit institutions is enhanced by decree, in application of the European "CRD II" directive.

30. A decree sets forth the terms and conditions for holding and transmitting information to the tax and customs authorities on transfers of funds outside the country.

31. Publication of decrees governing, as from 1 September, advertisements for revolving credit and loan repurchases.

SEPTEMBER

1. François Pérol, Chairman of the Management Board of BPCE, succeeds Baudouin Prot as Chairman of the FBF.

4. Banks update their KYC data, in accordance with anti-money laundering regulations.

21. Following the release of the Pauget / Constans report, banks propose a series of measures to improve bank-customer relationship, within the framework of the CCSF (Financial Sector Consultative Committee).

28. The FBF launches a new version of its website fbf.fr.

OCTOBER

1. The limit on the deposit guarantee is raised from EUR 70,000 to EUR 100,000.

20. The European Commission publishes a communication on crisis management in the financial sector.

22. The French Banking and Financial Regulation Act steps up regulation of market operators and financial markets, and aims at supporting the financing of the economy.

NOVEMBER

1. French banks offer the SEPA Direct Debit.

1. The reform of the FICP (register of individual loan repayment incidents) and excessive debt treatment proceedings enters into force.

11-12. The FBF is pleased to note that the G20 Seoul Summit recognised the importance of comparable rules at the international level.

24. The reform of European supervision is adopted. It enters into force on 1 January 2011.

26. The FBF receives the Bank Committee Convention.

DECEMBER

2. The FBF publishes a professional standard to make it easier to read price brochures.

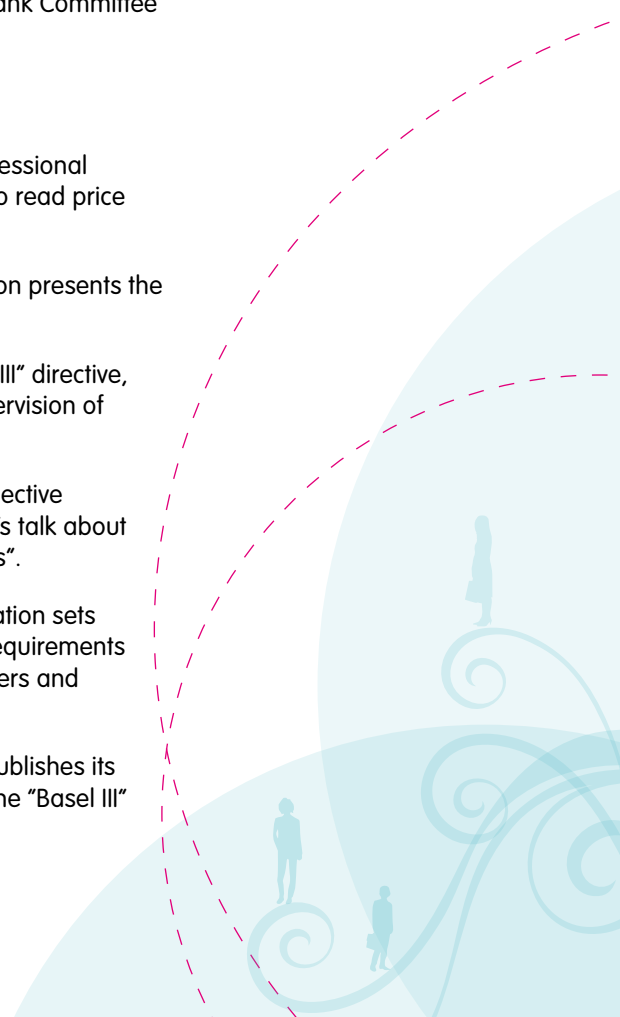
8. The European Commission presents the draft revision of the MiFID.

14. Publication of the "CRD III" directive, in particular enhancing supervision of remuneration policies.

15. The FBF publishes a collective communication entitled "Let's talk about banks – And let's get serious".

16. A draft European regulation sets new technical and pricing requirements for EUR-denominated transfers and direct debits.

16. The Basel Committee publishes its final recommendations on the "Basel III" capital reform.





01 | REFORM OF THE INTERNATIONAL AND EUROPEAN FINANCIAL SYSTEM

International reform: for consistent rules

07

The “Basel III” framework, calling for banks to shore up their capital, will have impacts on the financing of the economy in Europe. There is still progress to be made in the operation of the markets.

“Basel III”: substantial capital requirements

| In November 2010, the G20 ratified the Basel Committee’s recommendations on bank solvency and liquidity. The final version of the “Basel III” framework was published in December 2010.

| French banks are supportive of this reform. They are concerned, however, about the consequences of certain measures, in that the considerable capital enhancement called for will undermine banks’ ability to finance the economy and, in particular, will weigh on the volume and cost of credit. The entire European economy will be affected, given that **nearly 80% of its financing is provided by banks**, as opposed to the US economy, which is predominantly market-based.

| French banks would like to see the transposition of “Basel III” into EU legislation serve as an opportunity to adapt European regulations to the conditions of operation of the banking industry in Europe, so as not to needlessly undermine economic activity.

| The key points of the reform are as follows:

- ▶ the minimum capital ratio is set at **7%** (including a capital conservation buffer of 2.5%), which is much higher than the “Basel II” ratio. French banks have confirmed they will be able to meet this ratio by the end of the transition period;
- ▶ a countercyclical capital buffer, **ranging from 0% to 2.5%**, can be called for by the national authorities, to keep lending growth from getting out of control;
- ▶ French banks are displeased with the establishment of a leverage ratio, set at **3% minimum**, as it is unrelated to risk and therefore unnecessary. This ratio is to be included in Pillar 1 as from 1 January 2018. For the FBF, it should simply be used as an indicator, at the national regulator’s discretion alone;
- ▶ the reform provides for harmonised supervision of liquidity, with the implementation of two mandatory regulatory ratios. The FBF considers the assumptions used to be excessive, both in terms of the one-month ratio and the one-year ratio, and would like to see adjustments made at the European level.

No surcharge for systemic risk

| For the banking profession, it is crucial to avoid any additional capital requirements, which would make it even harder to continue financing the economy. Imposing a capital surcharge on certain so-called systemic banks would do nothing to prevent crises and would have a negative impact on credit. The systemic risks incurred by the financial system stem largely from the operation of the markets. Accordingly, advances need to be made in the organisation of the derivatives market, notably including the development of central clearing houses.

FRENCH PRESIDENCY OF THE G20 IN 2011

As G20 President in 2011, France has decided to tackle the fundamental imbalances of the global economy by building into its platform the reform of the international monetary system and the operation of the commodities markets. The FBF would like to see progress made in these challenging fields.

▶ **The capital conservation buffer** is designed to absorb losses in the event of intense economic stress.

▶ **The leverage ratio** is the ratio of a bank’s Tier 1 capital to its total assets.

The conditions of an effective international reform

| French banks applaud the G20 Seoul Summit for recognising the importance of comparable rules at the international level in the interest of ensuring long-term financial stability and preventing unfair competition between financial centres and their operators, whether they are banking institutions or not. Effective crisis prevention calls for heightened supervision of all players, the reform of unregulated market operations, and appropriate crisis resolution mechanisms.

In favour of realistic accounting standards

| In the FBF's view, no progress was made in the reform of international accounting standards in 2010. The proposals made by the US and international accounting regulators do not meet the targets of financial stability and convergence laid down by the G20. Far from learning the lessons taught by the crisis, the two accounting standards bodies continue to focus on market value for financial instruments, even though the crisis demonstrated that market value in fact exacerbated the effects of the crisis towards the end of 2008.

| As for the convergence of accounting standards at the international level, this goal can only be reached if said standards reflect the reality of banking activities. Virtually the entire international banking community agrees that it is crucial that fair value only be applied where there is an active and liquid market, and according to the business model of the company in question.

Financial supervision: Europe sets up new authorities

The FBF welcomes Europe's new supervisory structure, which is a major step forward in the supervision of transborder banking groups.

ENHANCED CONTROL OF RATING AGENCIES

The European compromise of 15 December 2010 on the revised regulation of rating agencies stepped up their supervision by subjecting them, as from July 2011, to control by ESMA. The European Commission plans to further reinforce the supervisory system in 2011, particularly regarding the rating of government debt issues and competition between rating agencies.

| The reform of banking and financial supervision in the European Union provides for two levels of supervision as from January 2011, resulting in:

- ▶ the creation of a European Systemic Risk Board chaired by the European Central Bank;
- ▶ the establishment of three sector supervision authorities: the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA). These three bodies will replace the European supervisory committees (CEBS, CEIOPS and CESR) and will have new mission statements. They must promote the harmonisation of rules and supervision in the European Union. Where regulations are breached, they hold binding power over the national supervisors.

| The banking profession welcomes this reform as an effective response to the deficiencies of fragmented national supervision, which has proven inadequate in dealing with transborder groups.

Creating an effective crisis resolution mechanism

09

The reform of deposit and securities guarantee systems needs to be coordinated with crisis management initiatives in the financial sector.

Preventing and managing bank failures

| The financial crisis highlighted the need to create more effective crisis management systems at the national level, as well as mechanisms to handle failures of transborder banking groups. To this end, the European Commission is considering creating a European framework for preventing and managing financial sector crisis and shoring up struggling banks. This would notably include the development of bailout or resolution plans detailing the provisions that need to be taken to deal with an institution's financial problems. The Commission also proposes granting powers to the supervisory authorities that would enable them to take quick action to resolve problems as early as possible.

| The banking profession supports the development of mechanisms for the orderly liquidation of struggling institutions. They should be financed through existing guarantee funds – with an extension of their powers, if need be – and not through the creation of additional resolution funds. To set up a consistent framework for crisis management, Europe must establish a harmonised law governing the treatment of struggling banking groups. Barring the highly exceptional case of the near total liquidation of the institution in question, this mechanism must avoid hurting the interests of ordinary creditors, including depositors (senior debt).

| The Commission could introduce draft legislation as early as spring 2011.

For the consistent revision of guarantee funds

| On 12 July 2010, the European Commission published new draft legislations aimed at revising the "deposit guarantee schemes" and "investor compensation schemes" directives. The guarantee and investor compensation funds would be pre-funded and a solidarity system would be set up between European funds. These proposals will be examined by the European Parliament and the Council of the European Union in the first half of 2011.

| For the banking profession, this reform must first and foremost take its place within a global approach to European crisis management. Moreover, the industry believes the amount of ex-ante reserves to be set aside is inappropriate.

| As regards the securities guarantee, a complementary study should be conducted on the impact a bank's failure would have on investors, within the framework of the securities law applicable in each country. After all, a bank's failure does not have the same impact on investors depending on whether they hold a right of ownership on securities (which is the case in France) or are merely creditors.

THE SECURITIES LAW DIRECTIVE MUST GUARANTEE INVESTOR PROTECTION

In November, the European Commission launched a public consultation on the harmonisation of securities law. The FBF considers that any legislative initiative in this area must guarantee the protection of investors, primarily by recognising the investor's right to ownership of securities, or at least by allowing countries that already have this right to maintain it.



Enhancing the stability of the European financial markets

The European Commission has proposed to regulate derivative products and short selling, and to revise the Markets in Financial Instruments Directive. Management of alternative funds is being regulated for the first time in Europe. The FBF welcomes these initiatives.

REGULATED REMUNERATION POLICIES

The Capital Requirements Directive "CRD III" of 24 November 2010 implemented prudential supervision of remuneration policy, designed to prevent excessive risk-taking. These provisions were transposed into French law by the Decree of 17 December 2010, which amended the existing regulation and complemented the FBF AMAFI professional standards. European banks have asked the other G20 member countries to adopt the same measures.

UCITS DIRECTIVE SOON TO BE TRANSPOSED

On 1 July 2010, the European Commission adopted the "UCITS IV" implementing measures. The "UCITS IV" directive promotes the integration of the European investment fund market. The FBF is involved in the implementation of the directive's transposition into French law, scheduled for 1 July 2011.

Derivatives clearing houses

| The financial crisis demonstrated the importance of market and post-market infrastructures for financial stability, which is why the banking industry welcomes the Commission's draft regulation of 15 September 2010 governing derivatives activities, primarily through the establishment of central clearing houses.

| Central clearing houses would reduce systemic risks by limiting the impact in the event one of the co-contracting parties in a derivatives transaction defaults. For the FBF, these infrastructures should be established by monetary area, based on the currency of the derivative in question, in order to have direct access to the central bank's liquidity.

| French banks also approve of the improvement in transparency on the derivatives markets. To further this effort, the Commission has proposed to record derivatives transactions in databases supervised by the European Securities and Markets Authority.

| The Commission would like to see the regulation adopted in 2011 and implemented in 2012.

Greater transparency in short-selling

| Short-selling is important to the smooth operation of the markets. It consists in selling a security without owning it at the time of sale, but with the intention to buy it at a later date, prior to delivery. This increases the market's liquidity and plays a role in the price discovery process.

| This practice must be regulated, however, in the event of high price volatility. To this end, the draft regulation published by the Commission in September 2010 improved transparency on short-selling transactions and created a harmonised framework at the European level. The European Parliament and the Council of the European Union are to examine the proposed regulation in early 2011.

| French banks would like to see adequate transparency on these types of transactions and stronger rules to prevent market abuse. They approve the proposed regulation, which gives greater intervention authority to the regulators.

Revision of MiFID: improving the structure and operation of the markets

| On 8 December 2010, the European Commission published a consultation on the revision of the Markets in Financial Instruments Directive (MiFID). This initiative comes three years after MiFID's entry into force. The directive notably opened market order trading systems to competition. The revision is the result of public consultations carried out in the first half of 2010 on the equity markets, investor protection and rules applicable to market intermediaries, and the declaration of transactions. The FBF took an active role in these projects.

| The Commission wants to see more transparency and improved efficiency on the financial markets, incorporating advances in technology and market trends, along with greater investor protection.

| For French banks, the revision of MiFID is a major legislative stepping stone that will enhance the rules of market operation, improve transparency and thus provide solutions to the problems raised by the crisis. In this respect, the improvement of transparency on the equity markets and transactions in other markets is important.

| Furthermore, it is important to take account of the measures already taken, particularly in the United States.

| The European Commission could propose new legislation as early as spring 2011.

The European Union regulates alternative management

| The directive on Alternative Investment Fund Managers (AIFM) was approved on 11 November 2010, with the aim of governing these activities in the interest of enhancing investor protection and financial stability.

| The directive introduced risk control and supervision rules, according to which national supervisors will be able to work with the European Securities and Markets Authority (ESMA) to cap a fund's leverage where it poses a risk to the stability of the markets. As regards remuneration, fund managers must also comply with the same rules as banks.

| The French banking industry sees this directive as a major advance in the regulation of alternative investment funds. However, it also believes these measures should be expanded at the international level to ensure that equivalent competition rules are applied in the entire asset management profession.

| For the first time, the new legislation authorises the trading of non-EU products on the European market: under certain conditions, portfolio managers and funds located outside the EU will be eligible to receive the European passport, enabling them to freely sell their funds on the European market as from 2015. Alternative managers and funds domiciled in Europe will be able to obtain the European passport as from 2013.

THE FBF AND AMAFI COORDINATE ON THE FINANCIAL MARKETS

The FBF works closely with AMAFI (French financial markets association), on matters relating to the strengthening of financial stability. Headed by Chief Executive Pierre de Lauzun, AMAFI brings together financial market intermediaries and professionals in France.

► Alternative management

is a portfolio management approach applied by some investment funds in order to obtain the maximum return on invested capital. It consists in diversifying the portfolio's composition while combining various hedging, arbitrage, leverage and other techniques...

A global framework to protect retail investors

The FBF supports the European harmonisation of rules governing the sale of investment products.

| On 26 November 2010, the European Commission opened a public consultation with a view to improving the sale of packaged retail investment products (PRIIPs), which have not been covered by European rules up to this point (unit-linked life insurance policies, structured term deposits, etc.). The objective is to increase the transparency and comparability of these products by harmonising the key information provided to clients with the information already defined for UCITS. The Commission also wants to extend certain MiFID provisions, currently under revision, to these investment products. It plans to publish a draft directive in 2011.

| French banks believe the implementation of a coherent and harmonised global framework for the sale of all financial products would strengthen investor protection. To this end, the rules must be harmonised at the European level for all distributors.

Key figures

The French banking sector in the top ranks of the EU.

The French market is largely open to foreign banks

| At the end of 2009, **France totalled 214 foreign establishments**, most of which (over 63%) involving European companies. These credit institutions are predominantly from the UK, Germany and Italy. 78 foreign establishments in France are from non-EU countries, predominantly from the US.

ACP

| France is the **second European country**, after Luxembourg, in terms of the number of banking subsidiaries of European origin, with **66 subsidiaries**.

| It is also 2nd in terms of the number of bank subsidiaries from non-EU countries (55 subsidiaries, after the UK).

| In addition, France is one of the leading EU countries in terms of the banking coverage of its branches (with one branch for 1,676 inhabitants).

ECB, EUROPEAN BANKING STRUCTURES, SEPTEMBER 2010

Nearly 8,400 banks in the European Union

| **2 million people** worked in the European Union's **8,360 credit institutions** in 2009.

| The European banking sector totals almost **230,000 bank branches**.

| At the end of 2009:

- ▶ outstanding loans to financial companies amounted to **EUR 5,786 billion**,
- ▶ outstanding loans to individuals reached **EUR 6,917 billion**.

ECB, EUROPEAN BANKING STRUCTURES, SEPTEMBER 2010

The FBF's fruitful relations in Europe and abroad

13

The FBF communicates regularly with European and international institutions on initiatives germane to the profession. It maintains continuous relations with foreign banking communities as well.

The Executive Committee of the FBF in Strasbourg and Brussels

| In February 2010, the key leaders of the FBF's Executive Committee met with some twenty European deputies in Strasbourg to present the positions of French banks on the main European and international areas of focus, and to answer their questions. The topics addressed included: post-crisis reforms, Basel Committee proposals, systemic risk, etc.

| Over the course of the year, the FBF's Executive Committee also met a number of times with the European Commissioner for Internal Market and Services.

The FBF meets with 30 foreign banking delegations

| The FBF also communicates regularly with the banking associations of foreign countries, in Europe as well as outside the European Union. In 2010, the FBF welcomed some ten foreign banking delegations in Paris. These delegations came from the European Union, China, Croatia, Morocco and Tunisia, to name a few. It also met with about twenty foreign delegations in the United States, Northern Africa, and Arab countries.

| The FBF's relations extend to international organisations such as the IMF, World Bank, OECD and WTO, as well as to financial authorities in foreign countries (central banks, treasury departments, etc.). In the United States, for example, the FBF is received by representatives of the Federal Reserve, Securities and Exchange Commission (SEC), US Treasury Department, Federal Deposit Insurance Corporation (FDIC) and Congress.

| These meetings provide an opportunity to discuss major issues in the banking industry, such as G20 decisions, reforms in regulation and supervision, international cooperation, etc.

50 responses to consultations

| Each year, the FBF participates in a growing number of consultations launched by the authorities. In 2010, it answered about 50 consultations opened by the European authorities (European Commission, CESR, CEBS, etc.), international bodies (Basel Committee, IASB, IOSCO, etc.) and foreign institutions (FASB, etc.).

| These consultations addressed many issues, including the reform of international solvency and liquidity rules, the revision of the Markets in Financial Instruments Directive and the standardisation of derivatives products on the OTC markets, IAS/IFRS accounting standards, protection of personal information, etc.

ARIANE OBOLENSKY ON THE EBF'S EXECUTIVE COMMITTEE

For the second year in a row, Ariane Obolensky, Chief Executive of the FBF, chaired the Executive Committee of the European Banking Federation (EBF). As such, she took part in many European initiatives over the course of 2010. The EBF represents close to 5,000 commercial banks established in the European Union.

ANOTHER STEP FORWARD FOR THE PAN-EUROPEAN PAYMENTS

See the chapter on Payment Instruments, page 29.



02 | BANKING INDUSTRY HIGHLIGHTS



New regulatory framework for the banking sector

15

In 2010, the Banking and Financial Regulation Act and the implementation of the new Prudential Supervisory Authority (ACP) established a new post-crisis regulation system.

Enhanced banking and financial regulation

| The FBF was significantly involved over the entire course of the discussions on France's Banking and Financial Regulation Act. It was adopted on 22 October 2010, with the aim of strengthening supervision of financial players and markets, and supporting the financing of the economy to facilitate the economic recovery.

Stronger framework of financial supervision

| The Act provided for the creation of a Financial Regulation and Systemic Risk Council in charge of assessing risks in the industry. This Council is being set up in January 2011.

| The powers of the French financial market authority, the AMF, were also reinforced: in particular, it can restrict the trading conditions of financial instrument in the event of exceptional circumstances threatening the stability of the financial system. It also can punish incidents of market abuse in derivatives. The Act also limits the practice of naked short-selling.

Establishment of the Prudential Supervisory Authority

| The Prudential Supervisory Authority (ACP), created by ordinance dated January 2010, was formed by the merger of the banking and insurance control authorities. The new authority is notably in charge of overseeing the financial stability as a whole and received the additional mandate of ensuring consumer protection.

| The Banking and Financial Regulation Act vested the ACP with the power to set up supervisory colleges in order to improve supervision of transborder groups.

Promoting the financing of the economy

| The law of 22 October 2010 also modernised the public offers scheme in the interest of improving business financing. Some measures, such as the development of credit-insurance and the merger of OSEO's operational entities, were carried out specifically for SMEs.

| New "covered bonds" were created to promote the refinancing of household mortgages.

Tax on financial activities

| The Finance Act for 2011 created a new, so-called "systemic" bank tax assigned to the State budget. Its cost has been estimated at EUR 500 million for 2011. For the banking industry, this decision was unwarranted in that, unlike other countries, the French taxpayer was not expected to foot the bill for the banks. Temporary government aid brought EUR 2 billion to the public budget. Furthermore, this new tax will have the same impact as an additional capital requirement, already set to increase considerably thanks to "Basel III", and will have a negative impact on the financing of the economy.

AN EXCEPTIONAL TAX ON VARIABLE COMPENSATION

In 2010, French banks paid an exceptional tax on bonuses, amounting to EUR 250 million. They disapproved of this decision, even though they were among the first to adopt common principles on variable compensation for financial market professionals.

A BETTER GUARANTEE FOR DEPOSITORS

On 1 October 2010, the deposit guarantee limit was raised from EUR 70,000 to EUR 100,000 per client and per bank. Moreover, the compensation period was shortened from two months to 20 business days. To finance the higher limit, the banks are asked to pay an exceptional contribution of EUR 270 million in instalments of EUR 90 million over three years.



Compliance: the banking industry takes the initiative

French banks take further steps to enhance the security of the banking system.

Industry commitments in three categories

| In 2010, the FBF ranked all of the commitments, codes and recommendations applicable to the profession, which it has been developing for several years now. The purpose of this body of work is to effectively disseminate best practices, particularly in the area of customer relationship. They are now divided into three categories:

- ▶ **professional standards** are normative professional or compliance rules for all member institutions. Banks are therefore obligated to apply them;
- ▶ **professional best practices** are deemed appropriate by the banking profession to meet the legal, regulatory and ethical requirements of the industry, without necessarily being the only way to go about it;
- ▶ **recommendations** do not fall within the two previous categories. Nevertheless, it is appropriate for industry professionals to take them into account.

Banking industry still active in the fight against money laundering

| In conjunction with the CFPB (Training center for the banking profession), the FBF launched a new anti-money laundering training tool in February 2010, completely overhauling the 2003 training kit and incorporating the changes provided for the 3rd directive. It addresses the entire range of banking personnel.

| Anti-money laundering efforts continued to bear fruit: of the 17,310 notifications of suspicion received by Tracfin in 2009 (+19% in one year), three-fourths were submitted by the banking sector.

TRACFIN, ANNUAL REPORT, MAY 2010

Banks implement the new AMF certification

| In compliance with the professional certification system instigated by the AMF, banks must ensure that their employees in certain key positions (financial analysts, sales staff in charge of informing and advising clients on financial instruments, etc.) are knowledgeable about regulations, market operations and financial services. To this end, banks can either perform an internal evaluation or make sure each employee passes an external AMF-certified exam. The certification process concerns persons hired (or transferred) since 1 July 2010.

Two specialised committees

| In accordance with the Banking and Financial Regulation Act, banks must set up two specialised committees: one responsible for monitoring risk management policy and the other for reviewing the company's remuneration policy.



Ariane Obolensky, Chief Executive of the FBF, presents the anti-money laundering training programme to the members.

STRESS TEST: SOLID FRENCH BANKS

The Europe-wide stress test conducted in July 2010 demonstrated the solidity of the French banking sector. In the worst case scenario, French banks have an average Tier 1 ratio of 9.3%, i.e. significantly above the threshold defined by the regulators.

Educational initiatives to explain the role played by banks in France

In 2010, the FBF carried out a number of communication initiatives aimed at underscoring the active role of the banking sector in our country.

It published a brochure entitled “Banks in France”, explaining – with figures to back it up - that French banks are solid, that they effectively finance the economy in a challenging environment, that they are one of the top private-sector employers in France, and that they are continuing to hire.

In December 2010, French banks banded together to launch a collective communication highlighting their initiatives and the daily commitment of the 400,000 banking sector employees working to serve the French people. This campaign, dubbed “Parlons de la banque et parlons-en vraiment” (Let’s talk about banks – And let’s get serious) received a full-page spread in the national and regional daily press. French banks are thus seeking ways to expand the many collective and individual initiatives taken to meet their clients’ expectations.



“PARLONS CLAIR”
(LET’S BE CLEAR) BOOKLET



FBF COMMUNICATION

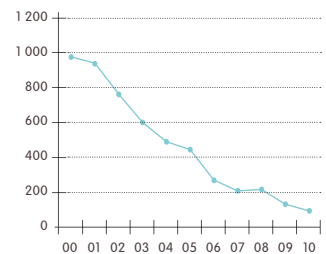
Security figures

Hold-ups down substantially

The number of hold-ups in bank branches continued to decline in 2010, with a total of 92 hold-ups⁽¹⁾ versus 135 in 2009 (down 32% year-on-year). In addition, the number of ATM assaults dropped in 2010 from 59 to 37.

The preventative measures taken by banks, which meticulously follow security procedures concerning their customers, employees and sites, are continuing to improve the situation. This decline can also be attributed to the actions taken by the police.

CHANGE IN THE NUMBER OF ARMED HOLD-UPS (2000-2010)



FÉDÉRATION BANCAIRE FRANÇAISE

⁽¹⁾This figure is provisional and may be adjusted once the data have been consolidated.



Social dialogue in the banking industry in 2010

Dialogue between the AFB and the unions carried on actively in 2010. Talks were opened to address training and security at bank branches, with two major agreements signed.



AN INFORMATIVE BROCHURE ON INCIVILITY

is distributed by the AFB to all bank employees working with clients, be it face-to-face, on the telephone or in writing. It helps them identify acts of incivility or violence, and gives practical advice on how to prevent or react when faced with this type of behaviour.

A collective agreement on incivility...

| In January 2010, the agreement on incivility and violence in commercial relations with clients was signed by all the unions. Entered into for an unspecified term, its main purpose was to define the nature of incivility incurred and to identify preventative measures to ensure the safety, as well as the physical and emotional well-being, of bank employees.

| The agreement also provides for the recommendation of support mechanisms for victims of incivility (psychological help, legal assistance, etc.), and an annual evaluation of such occurrences at the collective level. The 2009 review was presented to the joint technical committee in July 2010.

| In accordance with the agreement, the AFB is also developing an informative brochure for employees (see inset).

...and on banking professions

| In conjunction with the employers and trade unions, the AFB entered into an agreement in March 2010 on "key professions" in the banking industry. The purpose of this agreement is to factor in the changes which have taken place in the banking professions in recent years (regulatory changes, technological developments, etc.).

| The "list of key professions and examples of standard posts" appearing in the collective agreement was updated. It includes 26 key professions and 40 new standard posts, illustrating the considerable diversity of professional activities in the banking sector.

| This agreement provides bank employees with better visibility in their careers, while offering a broader perspective on the various opportunities available to potential applicants.

AFB/APEC partnership to promote the employment of executives

| The AFB and APEC (Association for the employment of executives) signed a partnership agreement, which took effect in April 2010, to facilitate contacts between executives and banking institutions. The partnership, entered into for a period of two years, primarily aims to offer target audiences (university graduates, experienced executives, etc.) a better understanding of the banking professions.



Jobs in banks

French banks continued to recruit at high levels in 2009. Despite the crisis, the banking sector remains one of the top employers in the private sector, with over 380,000 employees.

19

Nearly 32,000 new hires in 2009

Banks continued to hire actively in 2009. Although the hiring rate declined slightly (7% versus 9% in 2008), it nevertheless remained high, with banks hiring close to 32,000 people in 2009.

Nearly two-thirds of these were under-30s. The share of 40-54s is on the rise, however, at 10.5% in 2009 vs. 7.7% in 2008.

Diverse profiles

Like every year, newly hired employees came from a variety of backgrounds in 2009: 14.7% held less than a 2-year degree or high-school diploma. New hires with 2-3 year degrees accounted for 43% in 2009, going on to fill sales positions (client reception, CRMs, etc.).

For several years now, the level of education of new hires has been steadily increasing: 4-5 year degree holders accounted for 42.3% of new hires in 2009 (vs. 35.3% in 2001), taking positions in support functions (internal audit, marketing, human resources) or in network sales (wealth management advisors, professionals, etc.).

50.5% of bank employees are executives

For the first time, in 2009, over half of the personnel in the banking industry were executives. The escalation in terms of educational background, combined with continuous training, significantly raised the overall qualification level of employees across the board. Almost 3% of non-executives obtained executive status in 2009.

The percentage of women executives has also improved. Women made up 42.7% of executives in 2009, compared to 31% 10 years ago. Hence, the target of 40% women executives by 2010, defined in a professional agreement on gender equality, has therefore already been reached.

Study on diversity and hiring in the banking sector

In 2010, the Banking Professions Observatory conducted a study entitled "Diversité et recrutement dans la banque" (Diversity and hiring in the banking sector). The study provided a comprehensive picture of the innovative practices and initiatives undertaken by banking institutions to promote "atypical" hiring (hiring people from disadvantaged suburbs and districts, training for the least qualified individuals, integration of disabled workers, etc.). The heads of diversity for major banking groups and the trade unions discussed this issue at a roundtable hosted by the Observatory in December 2010.

CHANGE IN STAFF BY MAJOR PROFESSIONAL CATEGORY (%)

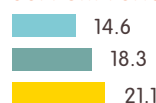
SALES FORCE



TRANSACTION PROCESSING



SUPPORT FUNCTIONS



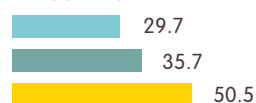
ASSOCIATION FRANÇAISE DES BANQUES

CHANGE IN THE RATE OF EXECUTIVES AND NON-EXECUTIVES ON STAFF (%)

NON-EXECUTIVES



EXECUTIVES



ASSOCIATION FRANÇAISE DES BANQUES



03

BANKS & THEIR CUSTOMERS

Bank-customer relationship: easier-to-understand fees

21

Following the publication of the Pauget/Constans report, banks have proposed measures, within the framework of the Financial Sector Consultative Committee (CCSF), with the aim of enhancing transparency in fees charged for retail banking services.

Clearer, easier-to-read price information

| In order to make its prices easier to understand and compare, the banking industry adopted a professional standard defining the presentation of fees leaflets. These leaflets are structured with a standardised table of contents, and the first few pages contain a standard table of the fees charged for ten banking services. From January 2011, this standard table appeared on bank websites.

| Over the month of January, clients received the new brochures for fees which will enter into force on 1 April 2011. The content of packaged services is more detailed in the new brochures and at the time of subscription.

| As from end-June 2011, each month banks will indicate total bank fees and overdraft limit on their clients' account statements.

| Furthermore, glossaries of the most commonly used terms in the financial sector, updated by the Financial Sector Consultative Committee in June 2010, are available on the FBF and bank websites. The glossaries are meant to be educational, making banking vocabulary clearer and more accessible.

Preventing payment incidents

| Banks have continued their efforts to prevent payment incidents. They have improved their efforts to communicate with their clients to better anticipate situations likely to result in payment incidents and to adjust the amounts of overdraft facilities. They have also offered to issue warnings on account balances by various means of communication (online, SMS text message, etc.) and have also continued to widely distribute the "systematic authorisation" debit card, which is an effective management tool for certain budgets.

Better incorporating the needs of vulnerable clients

| For more vulnerable clients with a need for greater security, the dedicated offer of non-cheque payment alternatives (gamme des moyens de paiement alternatifs au chèque – GPA) includes two new services. These clients benefit of a minimum number of account balance warnings and the payment incident is reduced to a modest amount, with a limit per day and/or per month. Rather than wait for the full implementation of this system, banks offered a transitional solution in early 2011, which at least limit the invoicing of payment incident fees within the scope of the existing offer.

| Implementing these measures is a big project for banks, requiring major organisational adjustments, information system changes and training, especially given their determination to get the programme up and running as quickly as possible. The Prudential Supervisory Authority (ACP) is responsible for ensuring compliance with these commitments.

MANY INITIATIVES SINCE 2004

French banks have been improving the transparency of banking services for several years. Prices are easily available online and at bank branches. Since 2009, an annual summary of bank fees has been sent to clients. Mobility assistance service has also expanded significantly.



Measures to enhance responsible lending

In 2010, banks worked to improve information on credit, promote personal microcredits and assist deeply indebted individuals.

LENDING ON THE RISE, RECORD LOW INTEREST RATES

At the end of December, outstanding household loans were up 6.2% year-on-year to **EUR 1,050.5 billion**.

BANQUE DE FRANCE,
JANUARY 2011

The average interest rate on property loans stood at **3.29%** in December.

OBSERVATOIRE CRÉDIT
LOGEMENT/CSA, JANUARY 2011

► An “assisted personal microcredit” (microcrédit personnel accompagné) is a small loan issued to individuals who find it difficult to obtain a conventional loan. Borrowers must be monitored by a social worker over the entire term of the loan.

Main provisions of the consumer credit reform

| The law of 1 July 2010 reforming consumer credit transposed the European directive of April 2008. The law brought major changes governing all consumer loans with a maturity of more than one month ranging from EUR 200 to EUR 75,000. The measures have been deployed over several months, from September 2010 to May 2011.

| In some cases, the law laid down practices already applied by banks. Prior to granting a loan, the lender must verify the borrower’s solvency and check the FICP (register of individual loan repayment incidents), already a longstanding practice in the industry. The lender must also provide the borrower with a standardised, precontractual information sheet on the terms and conditions of the loan. The law also formally established a bank’s duty to explain and to inform its clients, while extending the retraction period from 7 to 14 days. These measures will take effect in May 2011.

| Since September 2010, the law has provided for greater supervision of loan advertising. For example, the interest rate of the loan must be printed in larger characters than those used for promotional interest rates.

| The term “renewable loan” will become exclusive, replacing the terms revolving loan and permanent loan. Each monthly statement must indicate the estimated remaining reimbursement period and each payment deadline must include a minimum principal repayment. This measure will take effect in May 2011.

Success for the “assisted personal microcredits”

| In accordance with the consumer credit reform, banks are required to provide information on their microcredit activity.

| At end-September 2010, banks granted nearly 6,000 “assisted personal microcredits” (microcrédits personnels accompagnés), up 55% on the first nine months of 2009. This figure reflects a determined effort to develop this type of loan. In January 2010, the FBF set up a microcredit coordination team to work with the major banking networks and main social aid networks.

| In addition, through its programme dubbed “Keys to Banking” (Les clés de la banque), the FBF is continuing to develop partnerships with associations that work with the most vulnerable populations. It has published a mini-guide to teach the general public more about assisted personal microcredits.

More help for deeply indebted individuals

| The law of 1 July 2010 also made improvements to procedures for handling excessive debt, with the aim of helping deeply indebted individuals get out of debt. These provisions entered into force on 1 November 2010. They specifically addressed the maximum duration of excessive debt plans, reducing this period from 10 to 8 years, the modernisation of the FICP (register of individual loan repayment incidents) and the continuity of banking services.

| The banking industry will be publishing a professional standard, once it is approved by the Ministry of the Economy, on relations between banks and deeply indebted individuals. This standard will define the conditions for maintaining their accounts and providing them with appropriate banking services.

| Banks are also furthering their initiatives to prevent excessive debt. In March 2010, the FBF published a practical guide to help families learn to better manage their budgets. The guide, prepared with specialists in social welfare, is part of the FBF's financial education programme for the general public.

| Registration on the FICP was reduced from 8 to 5 years for individuals placed on a personal recovery plan and from 10 to 5 years for those on an incident-free repayment plan following an excessive debt procedure. Furthermore, the FICP was modernised, in the interest of improving its responsiveness. Data is now recorded and removed from the FICP over time.

| In July 2010, a Committee was tasked with preparing a report on the creation of a national register of individual loans (a positive register) recording all loans (consumer and property) that would be placed under the authority of the Banque de France. The Committee comprised elected officials and representatives of banks, associations, the government and the Banque de France.

Loan insurance at the borrower's discretion

| The law on consumer credit confirmed the commitment of the banking profession: accordingly, when taking out a property loan, clients are free to choose between the insurance offered by the lending institution or other insurance, provided it offers an equivalent guarantee. This provision comes in addition to the banks' initiative of providing each client with a standardised information sheet, making it easier to compare different insurance offers.

"PTZ +": a new home-buying facility

| The zero interest rate loan is being replaced by the "PTZ +" loan starting on 1 January 2011, in accordance with the Finance Act of 29 December 2010. This new facility is reserved for first-time buyers and is not subject to income conditions. The amount of aid is determined based on the type of home (new or existing), its energy efficiency performance and geographic location. At the same time, the reform enacts the elimination of the tax credit on homeloan interest and the "pass foncier" as of 31 December 2010.

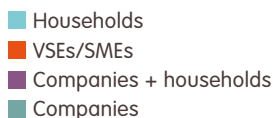
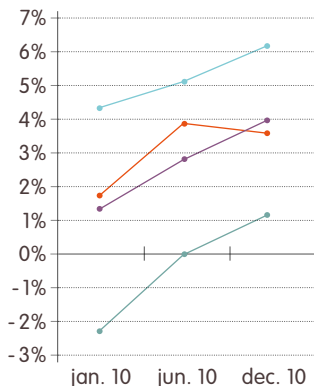
► **The FICP (register of individual loan repayment incidents)** collects data on loan repayment incidents reported by credit institutions. It also contains information on excessive debt procedures.



Banks working with VSEs/SMEs

In today's environment of poor growth, banking networks have made a strong commitment to promote the financing of the economy, and particularly VSEs/SMEs.

INCREASE IN OUTSTANDING CREDITS OVER 2010



BANQUE DE FRANCE, JANUARY 2011



François Pérol, Chairman of the FBF, meets with CEOs of SMEs in Marseille.

Lending is expanding at a faster pace

| In 2010, outstanding loans to the economy rose by **4%** year-on-year, both in terms of loans to businesses and to households. This figure significantly outperformed that of economic growth, which is still hindered by the crisis and the lack of visibility in many business sectors.

| For VSEs/SMEs alone, outstanding loans picked up by **3.6%** in 2010. Credit lines provided to and used by VSEs/SMEs increased further than those for all companies combined (+1.2%).

| This puts France above the European average. **75%** of French SMEs stated having received all loans applied for in H1 2010, which is the highest rate in Europe, where the average is **63%**⁽¹⁾. On the whole, France is one of the strongest countries in Europe in terms of increased lending. In some European countries, the financing of the economy, and particularly loans issued to businesses, has continued to decline.

Initiatives in favour of VSEs/SMEs

| French banks are taking a number of different measures to help support SMEs in today's ever-turbulent recovery phase. In March 2010, they announced they were earmarking **EUR 96 billion** for VSEs/SMEs in the form of short-term loans (EUR 58 billion) and new MLT loans. The total financing budget in 2010 was up 3% versus 2009.

| Also in March 2010, the FBF indicated that banks were reducing response times to 15 days on applications for loans to finance operating requirements, upon receipt of the completed application. This effort to improve relations with SME clients has been well-received, with 77% of CEOs calling it an important initiative⁽²⁾.

Maintaining communication in the field

| From May to September 2010, the heads of the main French banks took turns travelling to the French regions to meet with SMEs. After an initial series of meetings in late 2009, over 2,400 CEOs of SMEs expressed their concerns regarding the economic situation and relations with banks. These meetings were organised by FBF banking committees in several different cities (Cergy-Pontoise, Grenoble, Marseille, Lille, etc.).

| Reaffirming the importance of maintaining close communications, CEOs of SMEs and bankers were able to address matters at the heart of their relations, such as access to financing, capital increases, help in resolving problems and in seizing opportunities, etc.

Close banking relations

| The relationship between a bank and an SME is one of close ties and the contribution of expertise over the long term. Similarly, the FBF works through banking committees to enhance local relations with Prefectures and other government departments, the Banque de France, chambers of commerce and industry, representatives of MEDEF (French business federation) and the CGPME (French federation of SMEs), professional federations and associations in support of VSEs and start-ups... For example, over 300 bankers take part in the departmental commissions for the financing of the economy, with the Prefectures and public finance divisions.

| Moreover, banks are continuing to take an active part in credit mediation for businesses. Since the system was created as a result of the crisis, banks have helped nearly 13,000 struggling companies obtain support for their businesses⁽³⁾.

Easier access to bank credit for job-seekers starting their own companies

| In the interest of providing concrete help to job seekers attempting to start their own business, the FBF and France Active entered into a partnership in February 2010. This collaboration resulted in a new collection of practical guides entitled "Keys to Banking – How to ?" (Les clés de la banque - Comment faire?) and local initiatives with FBF committees. Regional/departmental agreements were signed in Brittany, Nord-Pas de Calais, Yvelines, Languedoc-Roussillon and Franche-Comté. Projects are given a greater chance of long-term success through high-quality assistance and easier access to credit thanks to a guarantee.

New developments in the "Keys to Banking" programme for professionals

| The FBF has continuously added to the practical information on banking and money ever since it launched the "Keys to Banking for professionals" (Les clés de la banque – Professionnels) website in 2009, with new dashboard models, practical guides (nine so far, including the most recent additions on bill collections and preparing a financing plan).

| The collection of practical "How to ?" guides, prepared in conjunction with France Active, is distributed by both networks. These guides are specifically designed for young entrepreneurs and people interested in starting their own business, with titles like "I have a development opportunity", "I am a job seeker and I want to start my own business", "I want to buy a car".



"KEYS TO BANKING" WEBSITE FOR PROFESSIONALS



LATEST ISSUES OF PROFESSIONAL MINIGUIDES

⁽¹⁾ECB survey, 22 October 2010

⁽²⁾IPOP survey on bank/SME relations, May 2010

⁽³⁾Report of the Credit Mediator for Businesses, 9 December 2010

Key figures: bank-customer relationship

Banking services for all

| **99%** of French people over 18 years of age have a bank account, i.e. one of the highest rates in Europe.

CREDOC SURVEY, APRIL 2010

| France totalled **nearly 39,000 bank branches** at end-2009 (including La Banque Postale points of sale).

ACP, 2010

| France totalled **54,638 ATMs** in 2009, i.e. nearly double the amount over the past 10 years.

GIE CB, 2009 PROGRESS REPORT

| Bank cards were accepted at **over 1.3 million** locations at end-2009 (stores, automated payment systems, online sales and ATMs).

GIE CB, 2009 PROGRESS REPORT

| **Over 82%** of clients prohibited from using cheques were using modern payment instruments at end-June 2010: non-cheque payment alternatives (Gamme de moyens de paiement alternatifs au chèque - GPA), systematic authorisation cards or low-end packages including this card.

CCSF, 2009-2010 ANNUAL REPORT

Vulnerable households: improved access to banking services

| **99%** of poor households had a deposit account in 2010.

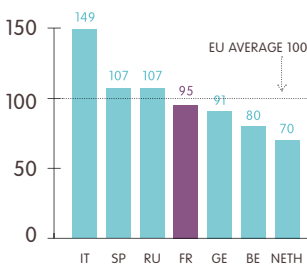
| **80%** of households living on minimal incomes had a payment card (39% in 2001) and **68%** had a chequebook (59% in 2001).

| **Over 4 out of 5** vulnerable households were globally satisfied with relations with their bank.

CREDOC SURVEY, APRIL 2010

AVERAGE BANKING FEES INDEX

(base 100 = European average)
determined using fees charged on various product groups: loans, deposits, day-to-day banking.



BAIN & COMPANY STUDY,
SEPTEMBER 2010

Fees for banking services below the European average

| On the whole, fees charged for banking services (loans, savings, day-to-day banking) are lower in France than the European average. Taking a base of 100 (EU average), France is one of the least expensive countries for banking services, with an index of 95.

BAIN & COMPANY STUDY, SEPTEMBER 2010

| After decreasing by **5.31%** on average in 2010, fees for banking services stabilised in January 2011 according to a CLCV survey.

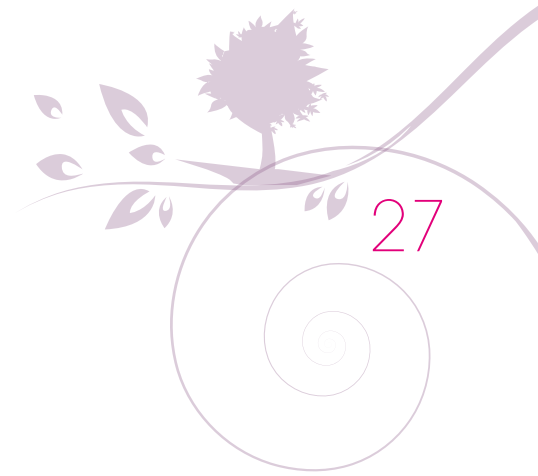
| The "Testé pour vous" (tested for you) index recorded a gradual decline in day-to-day banking fees over the past 5 years, with an index of 96.3 in 2010 (base 100 in 2005).

A mostly positive image of banks, despite the crisis

| **74%** of French people had a positive image of their bank in 2010.

| **71%** were satisfied with their Customer Relationship Manager (+4 points year-on-year).

IFOP SURVEY, JUNE 2010



Improved information on prices and services

| **75%** of French people believed they were well-informed about the day-to-day management of their bank account in 2010 (+4 points year-on-year).

| **59%** of French people remember receiving an annual summary of bank fees six months after its delivery (+5 points vs. 2009).

| More than 6 out of 10 French people have a clear understanding of the annual amount of their bank fees (+7 points year-on-year).

IFOP SURVEY, JUNE 2010

| **Nearly 52 million clients** had an account agreement at the end of June 2010, i.e. **85%** of retail clients (vs. 24 million in October 2005).

CCSF, 2009-2010 ANNUAL REPORT

Mobility is a reality

| **Over one million mobility guides** were distributed by the FBF and French banks (excluding those downloaded online).

| **8%** of French people opened an account in a new bank over the past 12 months.

| Nearly 24% of French people had accounts with several banks in 2010.

IFOP SURVEY, JUNE 2010

Changing bank practices

| While **97%** of French people visited their bank branch in 2010, an increasing number of people are using the internet. **75%** of internet users visited their bank's website in 2010 (+4 points year-on-year).

| One out of two French people visit their bank's website at least once a week (19% once a day).

| Most people use the internet to check their accounts (62%) and transfer funds (49%).

IFOP SURVEY, JUNE 2010

Half of French households have a loan

| **49.5%** of French households had a loan in 2010.

| **30.5%** of French households had a property loan and **30.1%** had a consumer loan.

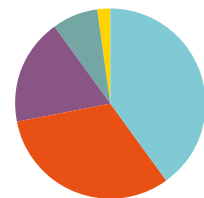
HOUSEHOLD CREDIT OBSERVATORY, JANUARY 2011

Persistently strong savings

| The savings rate for French households was **16.1%** in Q3 2010.

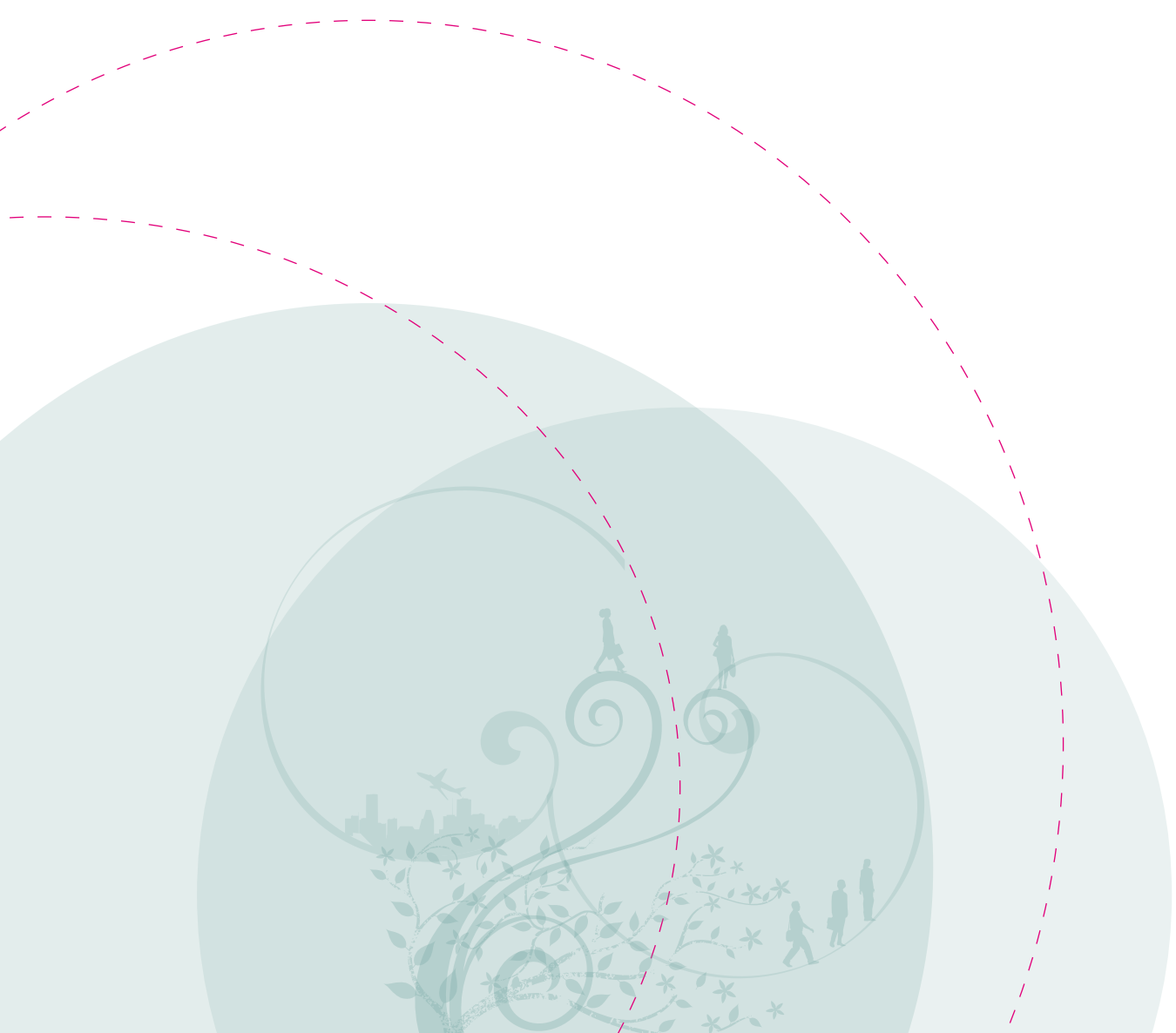
BANQUE DE FRANCE, JANUARY 2011

OUTSTANDING INVESTMENTS OF FRENCH HOUSEHOLDS AT END-JUNE 2010



BANQUE DE FRANCE, JANUARY 2011

04 | PAYMENT INSTRUMENTS



Another step forward for the pan-European payments

French banks made available the SEPA direct debit in November 2010. The European Commission is proposing deadlines for the end of migration to SEPA.

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The SEPA direct debit: a new European payment service

Since 1 November 2010, French and European banks have offered a new payment instrument: the SEPA direct debit. This service can be used to debit an account in order to pay invoices issued by French suppliers or creditors located in other SEPA countries. Up to now, there had been no such service for carrying out direct debits in euros between different countries.

The SEPA direct debit offers new features compared with the already existing French direct debit:

- ▶ the consumer has only one form to fill in and sign, and deliver to the creditor, instead of two separate authorisations for the national direct debit (one for the supplier and the other for the bank);
- ▶ the information accompanying the payment is more detailed.

The implementation of the SEPA direct debit is a gradual and transparent process for consumers.

SEPA transfers continue to grow

The National SEPA Committee, chaired by the Bank of France and the FBF, regularly monitors the use of SEPA transfers, which have been offered by French banks since January 2008. The number of SEPA transfers rose sharply in 2010 due primarily to the take-up by government offices and social security bodies which issue approximately 45% of national transfers.

Risk of stemming the migration to SEPA

In accordance with the banking community's request, the European Commission's proposed regulation of 16 December 2010 provides for national transfer and direct debit systems to be replaced by the new SEPA instruments, 12 and 24 months respectively after entry into force of the regulation.

However, this proposed regulation infers technical changes, whereas SEPA payment instruments have already been introduced. Moreover, it prohibits any remuneration of interbank services that the banks are obliged to provide each other for direct debits without any realistic economic model being proposed. For the banking profession, these measures are likely to disrupt the migration to SEPA and penalise those that have already carried out the necessary work.

SEPA Council for the governance of European payments

The SEPA Council, co-chaired by the ECB and the European Commission was set up in 2010. It brings together high-level representatives from the payment market. It is designed to clarify the management of the SEPA project.



A MINI-GUIDE TO THE SEPA DIRECT DEBIT

In order to inform the public about the features of the SEPA direct debit, the FBF has published a "Keys to Banking" mini-guide, in partnership with the National SEPA Committee. It can be downloaded on the FBF's websites.

A NEW PAN-EUROPEAN CARD SYSTEM

In May 2010, 25 banks in some ten European countries joined forces to develop the "Monnet project". Its aim is to examine the setting up of the first pan-European card system. The work covers the services offering, the technical architecture and economic and security aspects. Once the results are known, each bank will reach a decision in 2011 on its involvement in the setting up of the new card system. Supported by the European authorities, the "Monnet project" forms an integral part of SEPA.

Changes in payment instruments in France

The banks wish to facilitate the use of modern payment instruments.

Modernising everyday payment instruments

| The banking profession has been actively involved in the projects launched in October 2010 under the Financial Sector Consultative Committee (CCSF) with a view to modernising payment instruments. The work consists primarily of:

- ▶ the definition of a new interbank service enabling the consumer to carry out, in complete security, a money transfer to an individual, an association or a creditor through different channels (internet, mobile phone, ATM, etc);
- ▶ discussions on changes in the TIP (French interbank payment order), currently highly appreciated and which meets a very specific use, with a view to its migration to SEPA;
- ▶ a CCSF study on the use of cheques.

| Moreover, together with invoicers and consumers and under the aegis of the CCSF, the banking profession is examining solutions to allow better control of direct debit dates and limit repeated presentations in the event of incidents.



CHEQUE WITHOUT SUFFICIENT FUNDS: THE UPDATED MINI-GUIDE

In September 2010, the FBF updated its guide of practical advice "never write a cheque without sufficient funds".

Card payments: projects to improve the service and transparency of contracts

| The French banks are developing their technological offering with the rollout on different sites of contactless card payments. In Nice, in particular, a large-scale joint project was launched in May 2010 with mobile phone payments.

| The banks are also endeavouring to make further progress on the transparency of the conditions of service to retailers. In this way, they intend to contribute to the work that the Minister of the Economy, Finance and Industry has proposed to introduce in this area.

"Surcharging" does not lead to a decline in prices

| At the FBF's request, Edgar Dunn & Company has carried out a study on the impact of the potential introduction of a "surcharging" system in France.

| Currently prohibited in France, surcharging is the application by the retailer of additional costs to the standard price displayed and related to the use of certain payment instruments.

| According to the study's findings, the introduction of surcharging in France would not generate lower prices for consumers, nor would it procure any benefits for society as a whole, whereas there are numerous abuse risks. In addition, French consumers surveyed are very much opposed to such a measure.



Online banking and payments: secure systems

The banks use the best technologies to enhance the security of online banking and payments. This security is widely acknowledged by internet users.

Internet authentication: enhanced security

In 2010, the banks generalised the strong authentication systems with a non-reusable code to ensure even greater security for online payments. The diversity of these systems increases the general security: they can take the form of a calculator that generates a unique code, or a code sent by SMS that can be used only once, or a digital certificate...

These solutions comply with the protocol such as 3D Secure used by major card systems. This protocol describes the general organisational structure between the retailer, the retailer's bank, the cardholder and the cardholder's bank. It requires the involvement of retailers which must also be equipped with these solutions.

Confirmation of the boom in online banking

The use of internet banking continued to grow in 2010: 75% of internet users consult their bank's website (an increase of 4 points in one year) and one out of three internet users logs on to this bank's website once a week. This trend is reinforced by the widely recognised security of logging on to an online banking service: this is secure for 71% of internet users.

Customers use online banking primarily to consult their account (62% of internet users) or carry out transfers (49%). 32% of internet users also log on to their bank online to obtain information on products and services, receive their bank statement (26%) or carry out simulations before applying for a product (25%). The internet is also used by 15% of internet users to compare their bank charges with those of other banks. However, only 10% stated that they have applied for savings or investment products online and 7% have applied for consumer finance.

IFOP SURVEY, JUNE 2010

Card fraud: a still very low rate

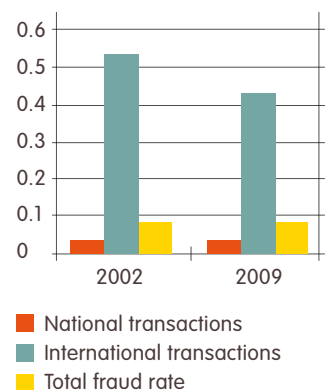
The fraud rate⁽¹⁾ for card payments and withdrawals recorded in 2009 in French systems amounted to 0.072% for a total amount of EUR 342.4 million:

- ▶ 58% of fraud concerns international transactions⁽²⁾ (59% in 2008) whereas these account for around 9% of the value of card transactions recorded in French systems;
- ▶ in France, the fraud rate for national transactions remains very low (0.033%). It declines to 0.014% for local payments where the card is physically used (at the point of sale or in an ATM).

OBSERVATORY OF PAYMENT CARD SECURITY, JULY 2010



TREND IN THE CARD FRAUD RATE



OBSERVATORY OF PAYMENT CARD SECURITY, JULY 2010

⁽¹⁾Amount of the fraud compared with the total amount of transactions.

⁽²⁾Transactions by a French cardholder abroad or by a foreigner in France.

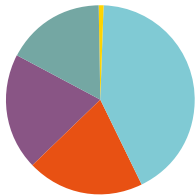
Key figures: payment instruments in France

More than 16 billion payments in 2009

| 16.4 billion payment transactions were carried out by individual and business customers of French banks in 2009 (excluding cash payments and card withdrawals), representing an increase of **3.3% in one year**.

BANQUE DE FRANCE, OCTOBER 2010

BREAKDOWN OF PAYMENT TRANSACTIONS IN FRANCE IN 2009



- 42.2% Card payments
- 20.1% Cheques
- 19.8% Direct Debits
- 17% Transfers
- 1% LCR/BOR

BANQUE DE FRANCE, OCTOBER 2010

The card, still the preferred method

| The card (interbank or private) remains the most used payment instrument since it accounts for more than **42.2%** of total transactions, or an increase of 5.8% in one year.

BANQUE DE FRANCE, OCTOBER 2010

| For a purchase amounting to EUR 25, 52% of French people prefer to pay by card (an increase of 1 point in one year). For the same amount, 34% prefer to pay in cash and 14% by cheque.

IFOP SURVEY, JUNE 2010

| In 2009, **90.6 million** cards (interbank or private) were estimated to be in circulation in France (vs. 84.5 million in 2008), including:

- ▶ 62.4 million "interbank" cards (such as CB, Visa and Mastercard). They represent a total transaction value (payments and withdrawals) of EUR 429.4 billion;
- ▶ 28.2 million "private" cards, representing a total transaction value of EUR 24.2 billion.

OBSERVATORY OF PAYMENT CARD SECURITY, JULY 2010

The cheque continues to decline...

| While the cheque continues to be used extensively with **20.1%** of transactions carried out using this payment instrument, its decline accelerated in 2009: -5.6% over one year, vs. -4.5% in 2008.

...soon to be joined by the increase in direct debits

| Direct debit now represents **19.8%** of payment transactions, or an increase of 8.3% in one year.

BANQUE DE FRANCE, OCTOBER 2010

THE SEPA TRANSFER

has experienced a sharp increase in France with the take-up by government offices. At end-December 2010, SEPA transfers carried out using the CORE system represented **10.41%** of total transfers processed.

BANQUE DE FRANCE

At European level, 13.9% of transfers carried out in the euro zone were in SEPA format at end 2010.

EUROPEAN CENTRAL BANK

More than EUR 24,000 billion exchanged

| The total amount of payments made in 2009 was EUR 24,139 billion, an increase of around **3.3%** vs. 2008. This amount represents more than 12 times French GDP.

| In value terms, transfers represent nearly **85%** of the total amount of payment transactions carried out in France, or EUR 20,503.4 billion exchanged.

| Meanwhile, cheques and direct debits represent respectively 7.6% and 4.4% of the total amount of transactions.

BANQUE DE FRANCE, OCTOBER 2010

The average amount of a payment transaction is:

- ▶ EUR 555 for a cheque,
- ▶ EUR 7,354 for a transfer,
- ▶ EUR 234 for a direct debit,
- ▶ EUR 77 for a card withdrawal,
- ▶ and EUR 49 for a card payment.

BANQUE DE FRANCE, OCTOBER 2010

Key figures: payment instruments in Europe

82 billion non-cash payments were carried out in the European Union in 2009, or **an increase of 4% in one year** with 20% carried out by French people. This uptrend can also be observed for card payments (nearly 40% of all transactions), with transfers or direct debits totalling respectively more than 27% and 26% of payments.

ECB, SEPTEMBER 2010

Varied uses

A European citizen made on average **164 payments** in 2009, including:

- ▶ 63 card payments,
- ▶ 45 transfers,
- ▶ 43 direct debits,
- ▶ 11 cheque payments.

However, practices remain mixed. Accordingly, a Swedish person makes more than 181 card payments in a year, a French person 107, a German person 29 and a Bulgarian less than 2.

ECB, SEPTEMBER 2010

The cheque is in constant decline

The use of cheques is increasingly rare, with 6.6% of transactions carried out in Europe in 2009, representing **a decline of 7.5%** vs. 2008. However, whereas it has almost disappeared in many countries (less than one cheque per year and per inhabitant in Germany, Austria, Belgium, etc.), the figure is between 20 and 30 per year and per inhabitant in Ireland, Cyprus or the United Kingdom. Moreover, a French person still signs more than 51 cheques per year. As a result, **more than 60%** of cheque payments issued in Europe are carried out in France.

ECB, SEPTEMBER 2010

Transfers represent 89% of the total amount of payments

The total amount of payments carried out in Europe was **EUR 227,000 billion** in 2009. Transfers represented 89% of this amount, with the remainder split between direct debits (7%), cheques (3%) and cards (less than 1%).

ECB, SEPTEMBER 2010

EMV standard in general use at end-2010

The migration of card systems to the EMV standard continues throughout Europe. The progression is in line with European banks' commitment to complete this migration by end-2010. The EMV standard should help enhance the security of cross-border payments.

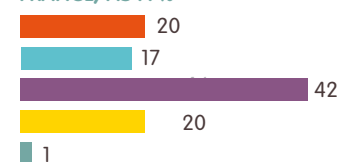
At end-March 2010, EMV migration was almost complete in France: **100% of CB cards**, 99.8% of terminals and automated machines, and 100% of ATMs are EMV compliant.

At European level, 69.8% of interbank cards circulating within Member States are compliant with EMV standards (increase of 2.3 points in one year). However, the situation differs from one country to another.

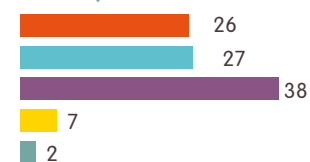
OBSERVATORY OF PAYMENT CARD SECURITY, JULY 2010

BREAKDOWN OF PAYMENT INSTRUMENTS IN FRANCE AND IN EUROPE IN VOLUME, IN 2009

FRANCE, AS A %



EUROPE, AS A %



- Direct debits
- Transfers
- Cards
- Cheques
- Others

ECB, SEPTEMBER 2010





05 | THE FBF

The French Banking Federation's missions and organisation

35

Missions

The French Banking Federation (FBF) promotes the banking and financial services industries in the French, European and international markets, and sets out the industry's positions and proposals to officials and regulatory authorities in the fields of business and finance. The FBF also issues professional standards, best practices and recommendations, and makes its experience available to its members. Its mission also includes keeping members among French banks informed of anything that may concern their activities.

Organisation

To fulfil its mandate, the FBF is structured around three departments:

Banking and Financial Activities and Research

This department offers a full range of banking expertise, and oversees the FBF's commissions and committees in areas including retail banking and direct banking, investment banking and capital markets, risk control and capital adequacy requirements, payment systems and instruments, and legal and tax issues. It also negotiates and works with various French and European government and regulatory authorities.

Information and External Relations

The role of this department is to anticipate changes in the political, economic and social environment, promote the role of the banking sector in society and keep the general public informed. It is responsible for public affairs, including relations with government officials, the media, consumers, young people and teachers. It makes sure that banks are kept informed, and organises the activity of the FBF's regional committees.

European and International Affaires

This department, part of which is based in Brussels, handles relations with EU institutions and the various bodies representing the banking and financial services industries in Europe. It monitors international issues and relations with global banking associations, and deals with issues that specifically concern foreign banks operating in France.

The FBF's members

The FBF represents French banks and foreign banks that have set up subsidiaries or branches in France, whether they are from Europe or elsewhere.

Credit institutions that are authorised to operate as banks in France and branches of credit institutions based in the European Economic Area are fully entitled to become members of the FBF, which is their professional body⁽¹⁾. Other ipso facto members include the central bodies of cooperative and mutual banking groups and the AFB.



425 BANKS

belong to the FBF, including universal banks, online banks, investment banks, private banks, local banks, etc.

The list of FBF members is available at: www.fbf.fr / La Fédération Bancaire Française/ adhérents FBF

⁽¹⁾ The French Monetary and Financial Code stipulates that all credit institutions must belong to either a "professional body" or a "central body". These bodies are affiliated with the AFCEI, which represents credit institutions and investment firms with the government.

The FBF's statutory bodies

(as at 31 December 2010)

The FBF Executive Committee

The founding members of the FBF are ex-officio members of the Executive Committee. They are represented by an individual who must be either the Chairman or the Chief Executive Officer. Each year, the Executive Committee appoints one of its members to act as the FBF's Chairman.



FRANÇOIS PÉROL
 FBF Chairman
 Chairman,
 Groupe BPCE



FRÉDÉRIC OUDÉA
 FBF Vice-Chairman and Treasurer
 Chairman and Chief Executive,
 Société Générale



JEAN-PAUL CHIFFLET
 Chief Executive Officer,
 Crédit Agricole S.A.



MICHEL LUCAS
 Chairman,
 Confédération nationale
 du Crédit Mutuel



PIERRE MARIANI
 AFB Vice-Chairman
 Chief Executive Officer and
 Chairman of the Management
 Board of Dexia S.A.



BAUDOIN PROT
 Director and Chief Executive,
 BNP Paribas



ARIANE OBOLENSKY
 FBF Chief Executive

Commissions and committees

The Executive Committee has formed three commissions and five committees, and appoints their chairman. Their role is to review various technical issues that affect the banking industry and make proposals. When these proposals concern the banking industry as a whole, they are submitted to the Executive Committee for review. The commissions and committees are made up of about twenty members from different banks.



**Retail Banking and Direct
 Banking Commission**
 Chairman:
JEAN-PAUL CHIFFLET
 Chief Executive Officer,
 Crédit Agricole S.A.



**Risk Control and Prudential
 Banking Commission**
 Chairman:
FRÉDÉRIC OUDÉA
 Chairman and Chief Executive,
 Société Générale



**Investment Banking
 and Capital Markets
 Commission**
 Chairman:
MICHEL PÉBEREAU
 Chairman, BNP Paribas



Accounting Committee
 Chairman:
GÉRARD GIL
 Chief Accounting Officer,
 BNP Paribas



Tax Committee
 Chairman:
PATRICK SUET
 Corporate Secretary,
 Société Générale



Legal Committee
 Chairman:
JEAN-LOUIS GUILLOT
 Off Counsel to the General
 Management,
 BNP Paribas



**Payment Management
 Committee**
 Chairman:
JEAN CLAMON
 Managing Director,
 BNP Paribas



Compliance Committee
 Chairman:
PATRICK WERNER
 Chairman,
 La Banque Postale

The FBF's information mission

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Sharing the experiences of member banks in France

| The FBF organised about 20 panel discussions with member banks in 2010, dealing with issues such as the reform of prudential standards (Basel III), the fight against money laundering and consumer lending. These events allowed nearly 3,000 bankers to gain information on these topics, and to discuss them with specialists.

| The FBF also has an Extranet reserved for banks. Every month, bank employees consult an average of more than 117,000 pages on the site.

More than 100 banking committees in the field

| The FBF has a network of 106 committees (21 regional and 85 departmental). In 2010, they worked actively on issues bearing on the financing of the economy and relations with VSEs/SMEs (see page 24).

| To inform young people about jobs in banking, the committees also organised four job forums in 2010, in Orléans, Rouen, Clermont-Ferrand and Nantes. A total of over 1,500 students attended these events. Similarly, the committees took part in a number of events devoted to job openings for young people, organised by local authorities, universities and secondary schools. The "Banking, My Bank and Me" programme is conducted with seven school authorities in France, taking the form of educational activities on the operation of the banking industry.

| In conjunction with the "Keys to Banking" programme, the committees continued to partner with players in the social economy, within the framework of social work programmes set up by community centres, general councils and associations. Two new partnership agreements were signed in 2010 with the City of Marseille and the Loire-Atlantique department.

The "Keys to Banking": an information centre for the general public

| The FBF's "Keys to Banking" programme helps the general public, self employed people and young adults gain a better understanding of banking and money. To reach people in need of assistance, it also targets people working in the social economy. The various target groups can access the programme on the www.lesclesdelabanque.com website.

| The site offers a collection of mini-guides covering various topics. There are now about 50 mini-guides targeting individuals and self-employed peoples. In 2010, two new collections were added: "Situations de vie" ("Life situations") for individuals and "Comment faire ?" ("How-to ?" guides) for self employed people. The latest guides cover SEPA direct debits, "microcrédits personnels accompagnés" (personal assisted microloans), small businesses, not to mention the special editions on Socially Responsible Investment (SRI) and personal budget management.

TWO NEW "KEYS TO BANKING" COLLECTIONS

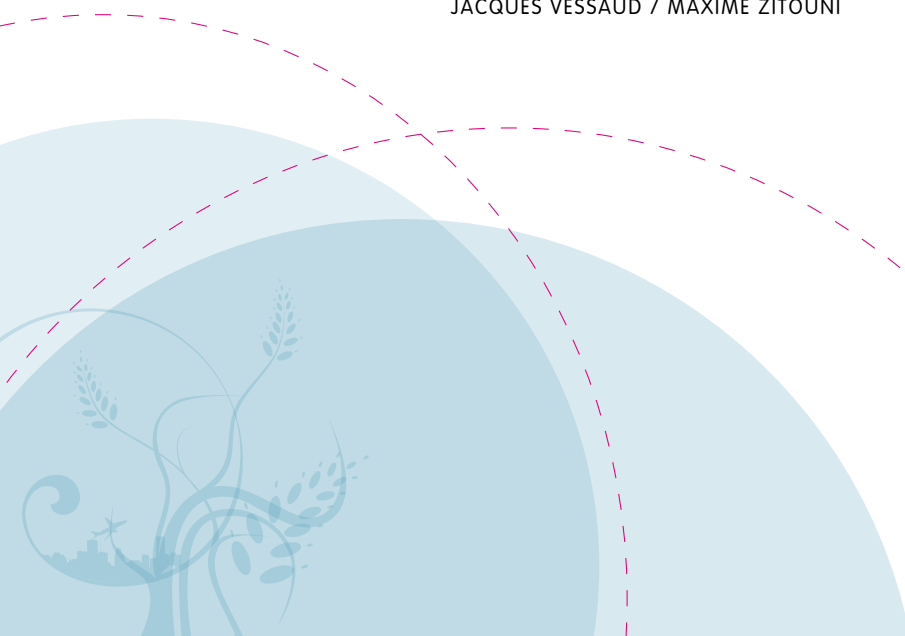


The "Life Situations" guides examine the major phases of a life project from the standpoint of a consumer situation or concern.



The "How-to ?" guide collection explains the steps a self employed person must take in developing a small business or project.

FLORENCE AMBLARD / LAËTITIA ARRENAULT / SYLVIE AUGROS / SYLVIE AURÉ / FRANÇOISE AURÉJAC / OLIVIER BALMONT / MARIE-AUDE BARDOU / PATRICIA BARRAUD / KATIA BARTEK / LUCIE BATIER / VÉRONIQUE BÉAL / SYLVETTE BELTRAME / KENZA BENQEDDI SOPHIE BERTOMEU / LAURENT BERTONNAUD / LAURÈNE BETITO / ÉLISE BINET / JEAN-MARC BING / XAVIER BLEUSE / FABRICE BORONAT / MARIE-CLAUDE BOURCIER / GWENOLA BRIANT / CÉDRIC CEFBER / HENRY CHEYNEL / YVES COLLOMBAT / CORINNE COTTIN / SARAH COURDAVAULT / ÉLISABETH DA CUNHA / ÉLISABETH DANTON-PETIT CAROLE DE GAULLE / ANTOINE DEHELLY / ASTRID DELACOUR / PATRICIA DÉSUERT / MICHELYNE DIDIN / MARIE-CLAUDE DOLOIR / FRÉDÉRIC DUCAMP / BÉATRICE DURAND VICENTIA FACHINAN / SYLVIE FEDIDA / NICOLE FLAH / LYDIA FLOM-SADAUNE / FABIENNE FONTAINE / CATHERINE GAILLON / RAPHAËL GARCIA / ANTOINE GARNIER MARTINE GAUTHIER / BRIGITTE GAYRAL / EMMANUEL GEAY / BARBARA GICQUEL / MARIE GILLOUARD / CHRISTIANE GIRARDEY / THIBAUT GOULART / BENOÎT GOURISSE FRANCIS GRAVET / GÉRALDINE GUILLAUMOT / MARINE GUYON-GODET / MARIE-FRANCE GUZNICZAK / JACQUES HARASSE / VÉDI HEKIMYAN / VALÉRIE HOREL / CÉLINE HOUEHUNPE / ISABELLE HUARD / MÉLANIE HULIN / JEAN-FRANÇOIS JONDEAU / FRANÇOISE LACLAU / DELPHINE LACONDE / FLORENCE LE TEXIER / CHRISTINE LEDUC GENEVIÈVE LHOMME / OLIVIER LHOMME / CAMILLE LY / LÉONIE MAGDELEINE / ODILE MAMANE / ANNE MARAIS / XAVIER MENDIBOURE / AUDE MESNARD / MIGUEL MONTEIRO / SANDRINE NICOLAS / AUDREY PARODIN / FABIEN PELLUCHON / BERNARD PIERRE / JÉRÔME RAGUÉNÈS / ANNE-LAURE REBOUL / HÉLÈNE RICAUD / DANIELLE RINEAU / MICHÈLE ROSSI / ANNA SAMOCKA / STÉPHANE SAUGÈRE / TANIA SAULNIER GUILLAUME SOLER / HUGUES STUPNICKI / MALIK TABI / GHISLAINE TAYOUNG / ESTELLE TOULLEC-MARQUOT / BRUNO VANDEWALLE / MARIO VAN DOORN / DAVID VERFAILLIE JACQUES VESSAUD / MAXIME ZITOUNI



AFB

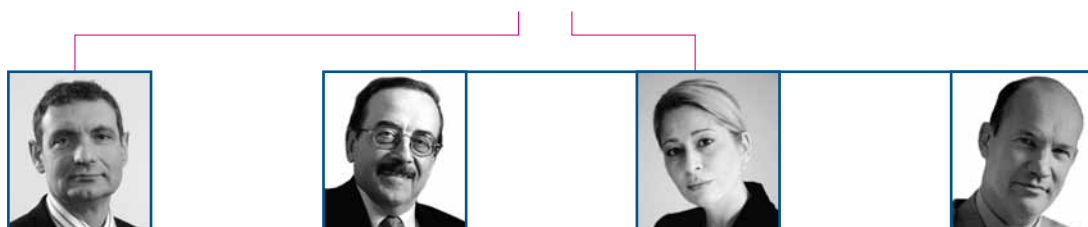
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IN BRUSSELS

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The FBF's affiliated entities



A NEW FBF.FR WEBSITE

In September 2010, the FBF overhauled its website, www.fbf.fr, to make browsing easier and provide faster access to content. The site offers new services (RSS flow, alerts) giving users real-time access to current events in the banking sector: key figures, publications, press releases, etc. Nearly 10,000 internet users have subscribed to the newsletter and alerts.

The Association Française des Banques (AFB)

| The AFB is a founding member of the FBF. As such, it sits on the Executive Committee, where it represents in particular small and medium-sized banks and foreign banks operating in France. The AFB is also the professional body of commercial banks with respect to the social aspects of the January 2000 collective bargaining agreement. Through OCTA-Banques, the AFB has collected the apprenticeship tax since 2006.

OPCA-Banques

| A joint fund-raising body of the member banks of the Association Française des Banques, OPCA-Banques has three main functions: collecting contributions to training funds, advising banks in the area of training, and allocating funding for bank training initiatives.

The Comité Français d'Organisation et de Normalisation Bancaires

| Created in 1930, the CFONB oversees the standardisation and organisation of banking activities in France. It is authorised to act as a standards bureau within AFNOR, the French standards association. Although its work mainly concerns payment systems and instruments, it also deals with securities.

The Revue banque Group

| The Revue Banque Group has four distinct activities: journals (Revue Banque, Banque & Stratégie, Banque & Droit, Bankers Markets & Investors); organising seminars (Club Banque, Atelier, Rencontre Banque & Droit, Rendez-vous de Banque Assurance, Conférence), publishing with a collection of about 200 publications targeting banking professionals, academics and students; and running the banking and finance bookshop, with 13,000 titles available online at www.revuebanquelibrairie.com, as well as a service aimed at professionals and libraries. All of the Revue Banque Group's activities are available at www.revue-banque.fr.



FOUR SECTIONS ON LESCLÉSDELABANQUE.COM

The site www.lesclesdelabanque.com received close to 1.6 million hits in 2010 (+10% over 2009). The site is divided into four distinct sections: individuals, self-employed people, young adults and players in the social economy.

The FBF banks in figures

- ▶ 425 banks
- ▶ Nearly 39,000 branches*
- ▶ More than 380,000 employees, making the industry one of the biggest sources of private sector jobs in France
- ▶ More than 30,000 new hires per year
- ▶ 72 million current accounts
- ▶ €2,084 billion in loans**
- ▶ €1,576 billion in savings***
- ▶ 16.4 billion payment transactions processed every year
- ▶ 54,638 ATMs
- ▶ Nearly 3% of French GDP over the last 10 years

* including La Banque Postale points of sale.

** as at end-March 2010 (loans to French residents by credit institutions operating in mainland France).

*** as at end-March 2010 (deposits by French residents with credit institutions operating in mainland France).

Source: Banque de France

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