

THE BANKING SECTOR IN 2015



FÉDÉRATION
BANCAIRE
FRANÇAISE

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editorial



Marie-Anne Barbat-Layani

Chief Executive Officer of the FBF



Frédéric Oudéa

FBF Chairman

CHALLENGES For the banking industry, 2015 was marked by several major trends: the growing importance of digital technologies, confirmation of the banking sector's role with respect to major societal issues such as energy transition, and considerable regulatory pressure. The macroeconomic environment also had an impact, with still-modest economic growth and an environment of historically low (and especially negative) interest rates. As a result, our sector faces the tremendous challenge of transforming in order to respond to our clients' changing practices and to finance the economy while still generating reasonable profits in a particularly restrictive regulatory environment.

REGULATORY PRESSURE

In terms of regulation, while the single supervisory mechanism for eurozone banks was in its first year, the construction of the banking union continued with the establishment of the Single Resolution Board. Furthermore, the Capital Markets Union project was launched, the new payments framework (PSD2) was adopted and the international standard for total loss absorbing capacity (TLAC) in the event of crisis was approved. Several major European texts have been transposed into French law. They cover dispute resolution, deposit guarantees, real estate lending, resolution of banking crises, etc. The agenda is crowded and regulatory pressure shows no sign of letting up: the Basel Committee has launched a process for reviewing risk calculations, which could potentially pose a major risk for all European banks.

UNCERTAINTY Considerable progress has been made in terms of banking regulation since 2008. However, our profession continues to deal with uncertainty over new capital requirements. The need for a clear, stable and realistic framework is greater than ever. Without one, banks can no longer do their job: financing the projects of individuals, large

corporates, VSEs/SMEs and public authorities, as well as responses to the major challenges facing society today, such as energy transition and infrastructure. In France, this is complicated by the tax burden, which creates additional challenges in terms of profitability, and weighs down employment in the banking sector due to a tax on wages.

CONSISTENCY The new regulatory provisions, the new banking supervision architecture and monetary policy must all be consistent, and share the same vision of financing growth and employment in Europe. This is a crucial issue: credit represents 80% of corporate financing in Europe versus 30% in the United States. Financial markets are increasing

their share (especially in France, where they account for 40% of corporate debt), but unless Europe is counting on shadow banking to finance its economy, the region needs its banks. On the strength of their performance as the best providers of credit to businesses in the eurozone, French banks are competing to continue offering ambitious financing, as well as fighting the risk that the French banking model's best practices, such as fixed-rate mortgages, may be called into question.



French banks are competing to continue offering ambitious financing, as well as fighting the risk that the French banking model's best practices may be called into question.

REINVENTING THE BANKING MODEL

The French banking industry follows a business model with specific values: inclusion, local roots, innovation, security and responsible lending. This is a banking culture that has made the banking industry one of the six major assets of the French economy, according to the OECD. They are the key to developing the French digital finance sector, and act as a driving force in helping our country meet the major challenges facing the world today. This model has changed so often: it is already reshaping its future so it can serve its clients.

Draft completed on 15 June 2016

KEY FIGURES

FOR THE BANKING SECTOR



Source: Banque de France

€1773.3

**BILLION IN BANK
DEPOSITS IN 2015**

Source: Banque de France

**74% OF FRENCH
PEOPLE**
BELIEVE THAT FRENCH BANKS
ARE KEY PLAYERS IN THE ECONOMY

Source: BVA image survey of banks - July 2015

€2,089
BILLION

**IN LOANS TO THE ECONOMY AT END-2015,
OR AN ANNUAL INCREASE OF 3.9%**

Source: Banque de France

**IN 2015 THE
HOUSEHOLD SAVINGS
RATE WAS 15.5%**

Source: Banque de France



371,600 EMPLOYEES IN 2015

Source: AFB



378 BANKS
IN 2015

Source: FBF



RETAIL BANKING REPRESENTS **67.1%** OF NET BANKING INCOME,
CORPORATE AND INVESTMENT BANKING **18.2%**
AND ASSET MANAGEMENT AND INSURANCE **14.6%**

Source: ACPR 2015

53%
AVERAGE TAX RATE FOR
BANKS IN FRANCE OVER
THE LAST FOUR YEARS

Source: FBF



39,000

PEOPLE HIRED IN 2015

Source: AFB



37,621

BANK BRANCHES
IN 2014

Source: ECB - 2015

78%

OF FRENCH PEOPLE HAVE A GOOD
IMAGE OF THEIR BANK

Source: BVA image survey of banks - July 2015

99%

BANKING PENETRATION AMONG
INDIVIDUALS IN FRANCE

Source: Banque de France



7 OUT OF 10 FRENCH PEOPLE ARE
SATISFIED WITH THEIR ADVISOR

Source: BVA image survey of banks - July 2015

50%

OF PAYMENTS
WERE MADE BY CARD IN 2014

Source: Banque de France



01

FINANCING

French banks work hard to finance the economy,
boosting growth and employment.
In 2015, credit outstandings increased by 3.9%, reaching
a record €2,089 billion. Individual clients and businesses
could fulfil their goals under favourable conditions.



BUSINESSES



INDIVIDUALS



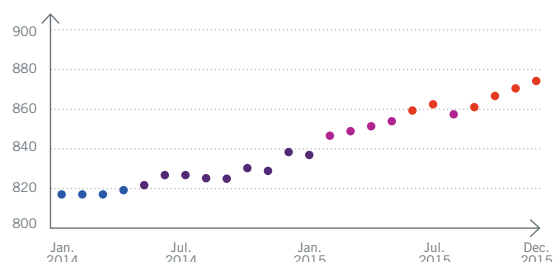
BUSINESSES

Providing funding for businesses, particularly VSEs/SMEs, is the top strategic priority for French banks. France is the country where these businesses can access credit under the most favourable terms in the eurozone.

The trend for corporate financing granted by French banks did not slow in 2015: **€239 billion in new loans** were distributed to businesses, representing a 4.1% increase in outstandings, **the best performance in the eurozone**. Outstandings currently amount to €871 billion.

DEVELOPMENT OF CORPORATE CREDIT OUTSTANDINGS

In € billion - Source: Banque de France



Increased access to credit for SMEs



Meanwhile, SMEs are finding their access to credit is constantly growing. **In 2015, more than 9 out of 10 SMEs obtained the investment loans for which they had applied** and 84% were granted short-term loans.

As a result, loans to VSEs/SMEs rose by 2% in 2015 for a total of €374 billion. Outstandings increased by 2.8% for VSEs alone.

Fewer than 3,000 businesses submitted their case to the French corporate credit ombudsman, a sign that access to credit is provided under favourable terms. This industry mechanism, implemented during the crisis of 2008, has never experienced such a low level of activity before: only **2,086 cases were heard in 2015**, a decline of 16% compared to 2014. The mechanism currently covers only a very small number of businesses. Meanwhile, French banks have worked to constantly improve their relationships with VSEs/SMEs.

Regular dialogue between banks and businesses

The relationship between banks and businesses is based on regular, transparent dialogue that should be endlessly reinforced.

The report by the Observatory for Corporate Financing published in 2015 confirmed that banks have respected the commitments made in June 2014 to promote this dialogue. The main commitments are:

- **Providing rapid responses** by giving an answer to any financing request from VSE clients within 15 days of the time the application was completed.
- **Explaining why a loan application was denied** by systematically providing a verbal explanation and possibly arranging an interview with a bank manager at the client's request.

- **Indicating** possible avenues of appeal, whether internal or external, in the denial notice, especially by pointing out the existence of the French corporate credit ombudsman.
- **Preparing** better data on cash loans and short-term financing. “Les Clés de la Banque” (FBF’s financial education service) has published a brief educational guide on short-term financing for VSEs.
- **Promoting greater stability of advisors** for VSEs by encouraging VSE advisors to remain at their positions.

SME MEETINGS

In 2016, FBF will continue to organise regular “SME Meetings” outside of the Paris region (25 meetings took place in 2015). With the support of its 105 regional committees, FBF is maintaining direct local dialogue between top bank executives and business leaders.

An increasing amount of market financing

The funding methods used by businesses are continuing to develop, with companies increasingly turning to capital markets. Between 2009 and 2015, this type of funding grew by 9 points as a percentage of total financing.

BREAKDOWN OF SOURCES OF FUNDING FOR BUSINESSES IN 2015

Source: Banque de France

39% from the market

61% from credit



Viewpoint



GUY CHIFFLOT

CEO, ORAPI GROUP

Is the ORAPI Group's success also the result of your successful partnership with your banks?

ORAPI is now a family-run medium-sized business with more than 1,300 employees. Created in early 1970 with several founding partners, the company developed with a focus on its two businesses: occupational hygiene and industrial maintenance. Our relationships with our banks are also structured around two pillars: local roots, as they are also located in Lyon, and trust. This relationship began when ORAPI was still a SME, and our dialogue has continued uninterrupted since the beginning.

Are bankers still part of your strategy today?

Our development is driven by international business: we have a presence in more than 100 countries, with 32 subsidiaries that we have acquired. Our banks have been there for us for 20 years, supporting us and funding our growth strategy. We have increased the size of our group twentyfold since the 2000s. This is a tremendous expansion, and as a result we need capital to keep investing.

ORAPI has entered a new stage and is getting funding from the markets.

We had our IPO in 2000 and, with the help of our bankers, we are always diversifying our sources of financing: from credit, of course, and also bond issuances. In July 2015, we carried out a private placement in euros through which we raised €12 million. Our bankers are helping us design financial transactions and carry them out under the best possible terms, such as by finding investors to subscribe to them.



Find the full interview on our website Aveclespme.fr.



INDIVIDUALS

In 2015 the credit market for individuals was marked by dynamic real estate lending and a rebound in consumer credit. Total outstandings rose by 4% to reach €1,055 billion. 46.5% of French households have a loan.



A highly dynamic real estate lending market

According to the 2015 report by the Observatory for Household Loans, 30.2% of households have mortgages. The number of transactions in both the new-build and resale markets rose substantially in 2015, reflecting extraordinary credit approval conditions (interest rates, duration of loans approved), the strength of the range of banking products and services and the renewal of public subsidies for new builds.

ANNUAL GROWTH IN MORTGAGE
OUTSTANDINGS WAS

3.9%

AT END-DECEMBER 2015, AMOUNTING TO
€866 BILLION

Source: Banque de France



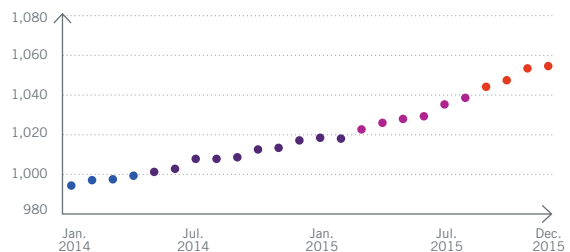
The Interest-free loan is changing in 2016 to make it easier to access credit. As a result, more French people can purchase their primary residence, whether it is a new build or renovated resale property. The main changes to the mechanism are: expanding the range of assets eligible for financing throughout all of France for renovated resale property, increasing the share of the project's cost that may be financed with interest-free loans to 40%, modifying the cap on resources and establishing a grace period for beneficiaries at all income levels.

The acceleration of consumer credit

In 2015 French residents increasingly turned to consumer credit to achieve their goals. 26% of consumers have consumer loans (versus 25.6% in 2014), of which 91.5% is to finance purchases of equipment such as cars, motorcycles, household items or even home renovations (according to the 2015 report of the Observatory for Household Loans). **The amount of consumer credit granted to households increased by 4.4% year-on-year** for a total of €153 billion.

LOAN OUTSTANDINGS TO INDIVIDUALS

In € billion - Source: Banque de France





DAY-TO-DAY BANKING

The banking relationship is based on local roots and trust. Banks offer all their clients effective solutions and services that are adapted to their needs.



EFFECTIVE
AND APPROPRIATE
SOLUTIONS



STANDING SHOULDER
TO SHOULDER
WITH VULNERABLE
POPULATIONS



EFFECTIVE AND APPROPRIATE SOLUTIONS

For French households, the portion of their budget that is used to pay for banking services is highly stable. At the same time, banks are implementing new solutions that make day-to-day banking easier.

French people have a strong relationship with their banks. 78% of them have a good impression of their bank and appreciate a banking model that ensures a close relationship. Advisors play a key role in this relationship and clients value them highly. **60% of French people want a dedicated advisor**, and 70% are satisfied with their advisor.

Source: BVA image survey of banks - July 2015

Stable fees

For more than 15 years, fees for banking services have risen less than inflation, based on the 2015 report of the Observatory for Bank Fees prepared by the Financial Sector Consultative Committee (CCSF). The report also emphasises their stability:

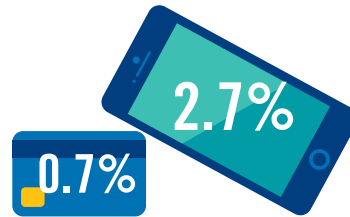


“In 2015, overall changes in prices from a standard sample of bank fees covering the services most commonly used by consumers, reveal that all of these prices remained almost unchanged for the first time since the Observatory was established.”

78% OF FRENCH RESIDENTS HAVE A GOOD IMAGE OF THEIR BANK

Source: BVA image survey of banks - July 2015

The total cost of bank fees represents only a modest share of household budgets.



FRENCH RESIDENTS DEDICATE 0.7% OF THEIR SPENDING TO BANK FEES, VERSUS 2.7% TO THEIR TELEPHONES.

Source: INSEE - 2015

MAKING BANK MOBILITY EASIER

The banking profession is making it easier for its clients to switch banks. It took the initiative to create a free client mobility support platform in 2009. Nowadays, when clients give their bank notice that they wish to switch, the bank must provide them with a statement of their transactions over the last 13 months so that they can notify their creditors of the change in banks and let their new bank know about regular transfers that must be performed. Starting in 2017, regulations will make it even easier to switch banks: the new bank will handle all the paperwork for the client. The CCSF reached a consensus on this new solution, which was proposed by banks.



New regime for loan insurance

Loan insurance reform came into effect in October 2015, after it was mandated by the 2014 Hamon Act. It allows borrowers to transfer loan insurance policies taken out with their bank or an insurance company to another institution within 12 months of subscription.

Banks provide their clients with a fact sheet listing the minimum guarantees required for the insurance policy transfer to be accepted so that clients can assess whether **guarantees are equivalent** under the old and new policies.

To facilitate this, banks, insurance companies, brokers and consumer associations have defined a common list of required minimum guarantees. From this comprehensive list, each bank has selected **11 criteria** that match its minimum requirements (plus four additional criteria if there is a guarantee covering loss of employment).

In the event that the insurance company transfer is rejected, the bank must provide a written explanation of the reasons behind its decision within ten business days of receiving the new policy.



On 25 November 2015, Banque de France began circulating **a new €20 bill** that is

more difficult to counterfeit. This bill is used in payments the most and represents nearly 52% of bills withdrawn from cash dispensers in France.

French banks have upgraded nearly 58,000 cash dispensers within the region, as well as automatic cash deposit machines and all machines that check bill quality after they are submitted by retailers or individuals.



BRANCHES PER 100,000 RESIDENTS
THE DENSITY OF THE BANK BRANCH NETWORK IN FRANCE MAKES IT POSSIBLE TO MAINTAIN A CLOSE RELATIONSHIP.

Source: ECB - 2015

UNCLAIMED ASSETS AND ACCOUNTS

The Eckert Act of 13 June 2014 on inactive bank accounts and unclaimed life-insurance policies entered into force on 1 January 2016. It strengthened protection for savers and their beneficiaries. It stipulates that the assets of bank accounts that have been inactive for more than 10 years, or more than 3 years if the account holder is deceased, will be transferred to the Caisse des Dépôts et Consignations (CDC), which will handle its custody and investment. In both cases, after 30 years without activity or claims, amounts will revert to the State.

Since 1 January 2016, the bank institutions must inform all account holders of the provisions of the Eckert Act. Starting on 1 July 2016, once a lack of activity on an account has been observed, the institution managing the account must inform the client – or their representatives or beneficiaries – informing them of the consequences of said lack of activity so that they can take action.



STANDING SHOULDER TO SHOULDER WITH VULNERABLE POPULATIONS

French banks are committed to supporting vulnerable populations. They offer them appropriate services while simultaneously conducting educational campaigns to prevent overindebtedness.

AERAS agreement:

creating the right to be forgotten

The AERAS (Insurance and Borrowing with Serious Health Risks) agreement, which entered into force in 2007, **is improving access to insurance and credit for people with serious health risks**. One of the new developments of 2015 involves the establishment of a “right to be forgotten” for cancer survivors. This important step forward is the result of a concerted effort by banks and other AERAS partners: insurance companies, associations of patients and consumers, and public authorities. This right to be forgotten means people who have had cancer no longer have to declare it when they take out loan insurance if a certain period of time has passed since they ended treatment.

This is a matter of freeing cancer survivors from the burden of the past and eliminating all trace of their previous condition, allowing them to apply for loans or simply purchase a home and plan for the future.



FRANÇOIS HOLLANDE
PRESIDENT OF THE FRENCH REPUBLIC
upon signing the agreement on the right
to be forgotten under the third cancer plan -
24 March 2015

IN 2014

420,000

FILES, I.E., 14.2% OF LOAN INSURANCE APPLICATIONS REVEALED A “SERIOUS HEALTH RISK”.

Source: FFSA

Accompagning vulnerable population

In order to promote financial inclusion, over many years French banks have implemented measures that make it easier for the most vulnerable members of society to access their accounts and payment instruments.

They have prepared a **specific range of products and services** with a maximum fee of €3 that makes it easier for these clients to use bank services. This range includes: a payment card with automatic authorisation, four SEPA transfers (including at least one recurring transfer) each month, two bank cheques per month, an account balance alert system and a special cap on transaction fees (€4 per transaction, up to a maximum of €20 per month).

Banks are also implementing **the right to basic banking services**: any French resident who does not have a current account in France can - if a bank refuses to open an account for them - notify the Banque de France, which will designate a banking institution of its choice to open an account within 3 business days of receiving the supporting documents it requests. The bank will cover the cost of basic banking service, meaning a set of services defined by law (account keeping, payment card, etc.)

Changes in ombudsman organization

The transposition into French law of European legislation on alternative settlement of consumer litigation (RELC – Out-of-Court Settlement of Consumer Litigation and RLLC – Online Settlement of Consumer Litigation) introduced major changes in 2016:

- the creation of a Mediation Assessment and Evaluation Commission, which will approve a list of ombudsmen in 2016 (elimination of the Bank Mediation Committee),
- the introduction of a statute of the consumer ombudsman,
- the possibility of on-line referral to the ombudsman,
- limiting the scope of mediation to disputes that are less than a year old.

The FBF offers an independent ombudsman service to banks that do not want their own ombudsman.

THE FBF OMBUDSMAN RECEIVED

4,182

REQUESTS IN 2015 (+28% COMPARED TO 2014), of which 2,328 fell within the ombudsman's jurisdiction.

Source: Ombudsman's 2015 Report to the FBF

Decrease in overindebtedness

The banking profession is working hard to fight overindebtedness and to protect the most vulnerable populations in various ways: first, by responsible lending, and by implementing local programmes to support and educate the relevant populations.

Credit institutions regularly offer ways to improve by **creating suitable, effective prevention tools to reduce overindebtedness**. Since March 2011, banks have also implemented a professional standard with several measures to help clients who have filed cases that are admissible to the overindebtedness commission. The bank commits to keeping their main account open and offers them, if necessary, services that are more appropriate for their situation. Providing support for households in difficulty is key to helping overindebted individuals. **The FBF is developing partnerships with associations outside the Paris region in order to provide better support for vulnerable populations in the field.**



As part of the French government's **social inclusion and anti-poverty plan**, the Minister of Economy and Finance asked the Banque de France to carry out a study to provide more information on the processes leading to household overindebtedness in order to create more effective policy to prevent and resolve cases of overindebtedness. This study helps us understand the type and timing of events and/or behaviour that, in combination with factors that create vulnerable personal and/or professional situations, may result in overindebtedness. This is an essential step for finding effective prevention methods.

IN 2015 THE NUMBER
OF CASES OF OVERINDEBTEDNESS
FILED FELL BY

5.9%



Source: Overindebtedness - A typological survey
Banque de France 2015

AFECEI Charter

The AFECEI (French Association of Credit Institutions and Investment Firms) Charter on banking inclusion and the prevention of overindebtedness was supplemented by additional support measures in 2015:

- establishing **early warning mechanisms** for clients in delicate financial positions,
- offering suitable internal responses to clients identified as being in delicate financial positions. Such responses include: **reviewing** financial issues **with the client**,

- suggesting, to the extent possible, payment, account management or credit **solutions** that are appropriate for their situation,
- providing **information on a third party** that could help them.



BUDGET ADVICE CENTRES

French banks participate actively in discussions

related to the national social inclusion and anti-poverty plan. They participated in the creation of Budget Advice Centres (*Points Conseil Budget*, or PCB). These centres will be responsible for preventing situations of overindebtedness and for helping overindebted households. The first level of assistance, known as “PCB1”, is open to everyone who wants advice on managing their budget better or who is in financial difficulty. The second level, known as “PCB2”, is meant for more complex cases. It makes it possible to intervene with creditors to find solutions and stabilise the debtor's position over the long term.

The pilot programme currently covers four regions: Ile-de-France, Nord-Pas-de-Calais Picardie, Alsace-Lorraine-Champagne Ardennes and Midi-Pyrénées Languedoc Roussillon. The plan is to eventually roll out PCBs nationwide.

03

INNOVATION & SECURITY

The digital revolution gives banks the opportunity to rethink their model through technological innovation and the reinvention of the client relationship. The development of new solutions and arrival of new stakeholders have, more than ever, made security concerns the focal point of attention.



THE DIGITAL
REVOLUTION



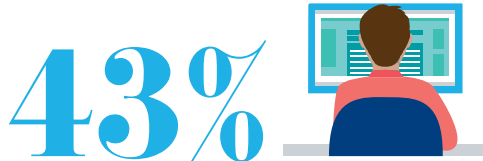
THE NEED
FOR SECURITY



THE DIGITAL REVOLUTION

French banks have a long and lively tradition of innovation, especially in the area of payments. With digital technologies, banks are at the centre of an ecosystem that is reinventing the client relationship.

Innovation is at the heart of the banks' strategy. Their close relationships with their clients have already led them to develop a multichannel offering that combines branch networks and telephone and internet services. Today, they are fully entering the digital age and responding to changes in their clients' behaviour. This development is marked by two trends: a decline in branch traffic and a rapid increase in the use of online banking services.



43% OF FRENCH PEOPLE WERE WILLING TO SIGN UP FOR AN ONLINE BANKING SERVICE IN 2015 VERSUS 26% IN 2010.

Source: BVA image survey of banks - July 2015

A positive ecosystem

To provide secure support for new methods of using their services, banks are investing in remote communication channels, such as through mobile apps. They are also adapting: they are rethinking the economic model of their networks while maintaining a close relationship with clients. The number of bank branches in France is adjusting, falling by 1.8% compared to 2009. However, the network remains denser than in other European countries.

The banking sector views the digital transformation as an opportunity that must be seized. In such a context, **FinTechs** are natural partners for banks in the process of digitising their banking services. As a result, the banks have established incubators that bring several start-ups together to accelerate their development. The relationship between banks and FinTechs can also take the form of partnerships, particularly with crowd-funding operators, with the aim of developing new services. The relationship can even take the form of a merger, with the goal of integrating new activities.



FBF - REVUE BANQUE INNOVATION AWARD

On 22 September Marie-Anne Barbat-Layani, Chief Executive Officer of the FBF, handed out the first 2015 RB Innovation Award. Created in partnership with *Revue Banque*, the purpose of this award is to annually honour a particularly innovative initiative in areas such as payments instruments, insurance, socially responsible savings, crowdfunding and even wealth management. The award-winner is chosen based on an internet vote on 10 candidates presented on the revuebanque.fr website. The 2015 winner was digital portfolio management firm Yomoni.

Finally, the digital revolution is also a revolution for employees. As part of the **Responsibility Pact**, banks have committed to establishing a digital data platform for all of their 370,000 employees. Recruitment (35,000 people hired in 2014) will focus more on more specialised employee profiles with better qualifications in order to meet client demand and improve advisory services and expertise.

Solutions that provide payment by transfer between individuals through their smartphones are part of the innovative new features that should be developed because they make day-to-day life easier. I also hope that contactless payment continues to be successfully developed.

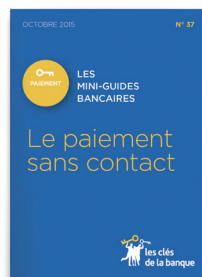


MICHEL SAPIN,
MINISTER OF FINANCE AND PUBLIC
ACCOUNTS
National Payments Conference - 2 June 2015

Increasingly secure and innovative means of payment

For the first time in 2015, card payments represented half of transactions completed in France, making it the most advanced country in Europe in this respect. The ability to develop secure and innovative payment instruments is one of the advantages held by French banks. They have been one of the driving forces behind preparations for the French government's **National Payments Conference**, for which a summary report was presented on 2 June 2015. On this occasion, the banking profession made

several commitments to promote the use of bank cards for small transactions (less than €15), particularly by significantly reducing the minimum amount of retailer fees.



In order to promote innovative payment systems, "Les Clés de la Banque" published a brief educational guide for individuals on contactless payment by bank cards and mobile phones.

Contactless payment was launched in 2012 and has been readily adopted by the French. In 2015, nearly 235 million transactions were carried out, amounting to €2.5 billion settled with 355,000 retailers that accept this payment method. Ultimately, 12 contactless transactions are completed per second. At end-2015, nearly two out of three cards were equipped with this feature and 100,000 more retailers accept it every year.

NEARLY **235**)))

**MILLION CONTACTLESS TRANSACTIONS
WERE COMPLETED IN 2015**

Source: GIE CB



Viewpoint

JEAN-HERVÉ LORENZI

President of the “Finance Innovation”
Paris financial services Cluster



How are the French banks positioning themselves to meet the challenge of the digital revolution?

French banking groups are based on a solid model based on certain unique features. One of them is a strong culture of innovation. French banks have first-class technological expertise. They benefit from the high-quality engineering education offered in France. The digital revolution is a challenge because it is transforming a lot of systems and organisations. Today, French banks have moved from awareness to action. They have all the advantages required to lead this revolution.



Is the banking sector under threat of Uberisation?

I don't believe so. It would be simplistic to describe the banking sector's digital revolution as Uberisation. We will see new entrants for certain specific services, but the banking services industry is based on solid fundamentals. The biggest is its ability to offer clients secure services with high added value.



How does the French banking and financial ecosystem promote innovation?

We are lucky enough to have a fantastic ecosystem that is very rich in terms of projects and technologies. It is up to banks to play the game, just as major pharmaceutical labs did with biotech. At the Finance Innovation Paris financial services Cluster, we receive a lot of high-quality, well-prepared applications. The banks should be able to finance and support them. It is a revolution, but they have a lot to gain as well.



THE NEED FOR SECURITY

The banking relationship is based on trust and security. In an environment of rising cybercrime, banks are continuing their efforts to combat fraud and ensure their clients' data is protected.

Trustworthy third-party banks

The banks' ability to protect the integrity of the financial system, both in terms of payments and protection of cyberdata, is an advantage given the increasing sophistication of cybercrime. As a result, the banks are constantly investing in system security and fraud prevention. French banks also benefit from high levels of trust on the part of their clients.

87%

OF FRENCH PEOPLE SAY THAT, WITH RESPECT TO THE SECURITY OF PERSONAL DATA AND BANK TRANSACTIONS, THEY TRUST BANKS MORE than the new players of the digital economy.

Source: BVA image survey of banks - July 2015

Security, especially in the payment processing chain, is measured by its weakest link.

In addition to the need for security, European legislation is designed to promote competition and break down national barriers. The intention is praiseworthy, as long as everyone is playing by the same rules. Given that their models are developed exclusively on the internet, FinTechs are exposed to a particularly high risk of

cybercrime. They must take that risk into account and develop IT security policies that match the best practices in the industry. The arrival of these new players (Google, Apple, Facebook and Amazon, third-party payment companies and integrators, FinTechs, etc.) must not result in weaker security.



TOWARD BETTER PROTECTION OF PERSONAL DATA

In 2016, new rules on the protection of personal data entered into force. A new European regulation replaced the 1995 directive, which was applied too unevenly within the European Union. The new platform of shared rules asserts the right to be forgotten, the need for a person's express consent to use data on that person and service providers' obligation to agree to transfer data to another service provider (the right to data portability). This new European regulation is aimed at increasing people's trust in the single digital market by giving them more control over their data in the online environment.

Key technological and regulatory choices

With the transposition into French law of the revised directive on payment services (PSD2), it is now time for banks to make major regulatory and technological decisions. As it is, this text responds to only some of the issues, in terms of security requirements that may be applied to new entrants, aggregators and third-party payment companies, and in terms of the protection of clients' bank details. Strong authentication was introduced and partial oversight of new players is planned, but there are still several problematic issues:

- security requirements applicable to third-party payment companies with respect to their relationships with clients and their banks (especially in terms of data storage) remain unclear;
- sharing of bank details with third-party companies is not prohibited;
- there are no provisions to improve the traceability of transactions in order to identify the responsibilities of each stakeholder.



Source: Card Security Observatory

At the European level, French banks are involved in the work of the European Banking Authority (EBA), which must prepare technical specifications that implement the directive. The responsibilities of each stakeholder must be clearly set out.

Financial security and transaction security are not the only things at stake. Given the threats of criminal and even terrorist organisations, this also poses a challenge to our collective security (cf. chapter 4).



“Les Clés de la Banque” launched a collection of guides on bank transaction security.

BLOCKCHAIN TECHNOLOGY: THE BANKING INFRASTRUCTURE OF THE FUTURE?

Originally developed for virtual currency, blockchain technology is used to store and transmit data. It is unique in that it is totally decentralised. Transactions carried out between network users are combined into blocks. Each block is validated, timestamped and added to the chain. The transaction is then deemed unfalsifiable and visible for the receiver as well as the rest of the network. It is a radical new concept for executing transactions and its potential lies in the features it offers: transparency, traceability of exchanges, security and cost optimisation. This technology can therefore open up new prospects for a variety of activities, including the banking sector. It seems like it can be applied to a multitude of areas: payments, securities, etc. French banks are studying, and in some cases experimenting, with this technology. They are also participating in several discussion groups in France and internationally. However, aside from its technical advantages, blockchain technology must be consistent with the goals of transparency and verifiability of transactions (anti-money laundering and combating the financing of terrorism, etc.).

04

RESPONSIBLE BANKING

Aside from their major role in financing the economy, French banks are working on societal challenges such as financing the energy transition, combating the financing of terrorism and providing financial education.



**MAKING
THE ENERGY TRANSITION
A REALITY**



**COMBATING
THE FINANCING
OF TERRORISM**



**PROVIDING
FINANCIAL
EDUCATION**



MAKING THE ENERGY TRANSITION A REALITY

French banks have worked for many years to promote a green economy, both in France and internationally. For the FBF, the 2015 United Nations Climate Change Conference (COP21) was an opportunity to publicise the key role played by banks in the energy transition.



The agreement signed at the end of the COP21 was a historic event welcomed by the French banking profession. It is a testimony to unprecedented governmental commitment to the fight against global warming. The Paris Conference was also a key moment in rallying the economic world around climate issues.

For French banks, this is an opportunity that must be seized. Their universal banking model already allows them to support the energy transition as they work alongside investors, individuals and businesses by financing their projects.

Recognised expertise

The French banking sector's expertise in corporate and investment banking and its significant skill in terms of infrastructure financing are well known. As a result, French banks are leaders in the “green bond” market. These green bonds are a response to investors’ desire for compliance with environmental, social and governance criteria. They play a key role in directing savings to the financing of socially responsible projects.

Banks also support individuals in their projects aimed at achieving a low-carbon economy. This commitment has resulted in financing solutions such as interest-free

eco-loans (éco-PTZ), loans for renovations that improve the energy efficiency of existing housing or even “green” loans for purchasing new or used zero-emissions, electric or hybrid vehicles.

7 **BILLION**
IN FINANCING WAS PROVIDED
BY BANKS IN 2014 FOR
ENERGY EFFICIENCY
PROJECTS.

Source: French National Housing Board

Finally, banks are developing “green savings”. Through their asset management subsidiaries, they are designing investment solutions. With their networks, they distribute SRI (Socially Responsible Investment) themed funds.

Banking networks are also increasingly offering innovative low-carbon services: the lifespan of bank cards has been extended and card payment helps reduce CO₂ emissions. The development of online banking services, remote transfers, and electronic signatures is helping to cut down on both travel and paper consumption.

Banks: businesses committed to fighting climate change

French banks follow sector-specific financing policies to promote a low-carbon economy. Internally, they are also adopting environmentally responsible practices that allow their employees, who are increasingly aware of environmental issues, to become involved in real-life projects and developments. They apply strict rules within their organisations and networks in order to improve the energy efficiency of their buildings and reduce the impact of employee travel. They have many, varied initiatives and their goal is ambitious: **cutting greenhouse gas emissions by 10%-20% per entity and per employee.**

Furthermore, FBF signed the Declaration on Climate Change of the Paris Financial Marketplace as part of Climate Finance Day in May 2015.

8 BRIEF MINI-GUIDES ON CLIMATE

have been published as part of “Les Clés de la Banque,” the French Banking Federation’s educational programme, to raise public awareness of bank products and services that promote the energy transition.



FBF: official partner of the 2015 United Nations Climate Change Conference



The FBF took part in the 2015 United Nations Climate Change Conference, of which it was an official partner. A conference on 24 November, attended by Michel Sapin, Minister of Finance and Public Accounts, has brought together a number of leading figures in a debate on the subject of “Expectations and Challenges in Financing the Energy Transition”.

The FBF took the opportunity to reiterate the need for a more appropriate economic, regulatory and tax framework that will allow banking institutions to play their role in financing the energy transition.

THE GLOBAL MARKET IS BOOMING WITH



BILLION ISSUED IN THE FORM OF GREEN BONDS IN 2014, INCLUDING \$17.5 BILLION ISSUED BY FRENCH BANKS.

Source: Climate Bonds Institute



Viewpoint

JEAN BOISSINOT

Head of Banking & Financial Sector Analysis - French Treasury



What are the challenges related to the energy transition?

In France, financing for the energy transition currently represents €35 billion in investment, i.e., dedicated funding, each year (in renewable energies, energy efficiency improvement, etc.). This is the most visible component of energy transition financing. Its main challenge is the financial sector's ability to support these investments.

The second challenge, which is broader yet also less focused, is the consideration of risks related to climate change (whether physical risks such as a natural disaster or "transition" risks related to the implications of emissions reduction). This understanding of the changes currently underway is required so that the financial sector as a whole can play a constructive role in the transition and in the reallocation of capital that it implies.



What actions are the financial sector taking?

To a certain extent, it is already taking action and treated the 2015 United Nations Climate Change Conference as an opportunity to understand the expectations with respect to these issues. But the Conference and the Paris Agreement have intensified this awareness. They helped the FBF reach a more mature level of involvement. The financial world has clearly understood the fact that in environmental terms the next 30 years will be different from the previous 30, that climate issues have become part of the landscape and they bring a number of risks as well as opportunities.



In particular, what are the expectations for the banking sector?

The banking sector can act as a catalyst because it is at the centre of a number of activities and financial decisions. What we can expect it to do is to systematically consider environmental aspects wherever that could make a difference: when analysing a SME's or a household's projects just as it does when financing transport or energy infrastructure. By understanding these issues, the sector can help spread the political message sent by the 2015 Climate Change Conference. The financial sector cannot and must not take the place of climate policy, but we cannot effectively implement an ambitious climate policy if financial players remain ignorant of climate issues.



COMBATING THE FINANCING OF TERRORISM

More than ever, combating terrorist financing is a priority for French banks.

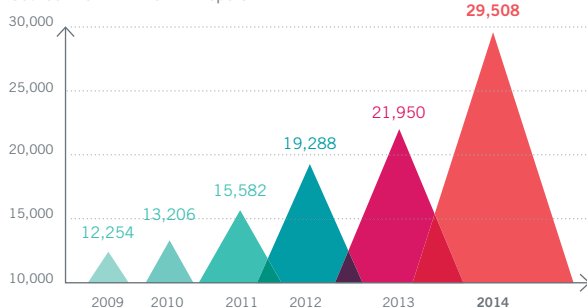
Maintaining the integrity of the financial system, as well as trust, without which a viable economy cannot survive, is one of the priorities of French banks. They have therefore spent many years doing their utmost to combat terrorist financing.

The banking sector fully respects regulations on combating terrorism, namely: freezing assets, systematically transmitting information and making suspicious activity reports to Tracfin.

French banks are the source of 80% of suspicious activity reports made to Tracfin.

NUMBER OF SUSPICIOUS ACTIVITY REPORTS MADE BY BANKS TO TRACFIN

Source: 2014 TRACFIN Report



A national action plan supported by the banking sector has been rolled out in order to more effectively combat terrorist

financing. It includes several components:

- a new procedure allowing “risky” accounts to be monitored,
- on 1 September 2015, the cap on cash payments was reduced from €3,000 to €1,000,
- since 1 January 2016, cash deposits or withdrawals carried out on a current or payment account in amounts greater than €10,000 must trigger a suspicious activity report,
- payment accounts are recorded in FICOBA (French national bank account database),
- any foreign exchange transactions in amounts greater than €1,000 must include an identity check,
- enhanced monitoring of “politically exposed persons”.

NEW TRACFIN PROCEDURE

The law strengthening existing provisions against organised crime, terrorism and their financing introduced a provision that allows Tracfin to notify entities governed by this law (banking institutions, notaries, casinos) of individuals or legal entities that pose a high risk of money laundering or terrorist financing. Under this framework, entities governed by this law must implement monitoring measures that may then result in suspicious activity reports.

FINANCIAL EDUCATION

In 2004 FBF began a financial education and awareness-raising programme called “Les Clés de la Banque”, directed at individuals, associations and businesspeople.

Raising young people's awareness of money matters

The French banking sector helps build social cohesion. These ties cover the entire region and are represented by 105 local FBF committees that invest in community-focused associations and businesses. Financial education is therefore one of the FBF's priorities.

2015 also saw the **“I invite a banker to my class”** campaign. This initiative was directed at classes with children between 8 and 12 years of age. Its goal was to educate them about their first situations involving money through a board game played in teams. The trial run involved **58 classes**, allowing us to teach **1,123 students** about basic budget issues.

Locally, the FBF's Banking Information and Regional Action Centre also works with the social services departments of public authorities or businesses to explain the relationship between the bank and vulnerable clients. In 2015, 10 awareness-raising sessions were organised for **200 social workers**.

The FBF signed **6 new partnership agreements with Écoles de la 2^{ème} chance** (Second Chance Schools), which aim to ensure the professional and social integration of young people with no diplomas or qualifications. With the help of regional FBF committees, more than **120 budget management workshops** were held in 2015 for *Écoles de la 2^{ème} Chance* (i.e. three times more than in 2014) for **nearly 1,000 student interns**.

Viewpoint



MOUSSA CAMARA

President of AGIR POUR RÉUSSIR

FBF partnered with Les Déterminés. What does it involve?

We started with a single observation: that the desire to start a business is twice as high among youth in low income neighbourhoods but a large percentage fail. Working together, we created a five-week training programme and a 6- to 12-month assistance programme. We select candidates based on their determination and not only their skills.

What are your ties with the banking world?

These young people are unaware of the value of banks even though they are crucial to their success. It is important that they see their banker when things are not going well, which can happen in any business, and when things are going smoothly. The banker is a partner. Young people are striving to refine their goals and that's why they should discuss them with banks. And of course, they'll need to borrow.

What does a partnership with FBF deliver?

FBF is a key partner for Les Déterminés. It makes it easier to form relationships with bankers. Under the partnership, FBF participates in training and assigns employees to support the projects. Following our initial meeting in 2015, FBF made a commitment and conducted interviews with young entrepreneurs: this helped them achieve progress and gave them exposure.





REGULATION & SUPERVISION

As a result of the financial crisis, a new regulatory and supervisory framework was set up for the banking sector. In Europe, this comprehensive framework relies on the Banking Union, for which additional progress was made in 2015.



ANOTHER STEP TOWARDS
A BANKING UNION



A REGULATORY
CHALLENGE

ANOTHER STEP TOWARDS A BANKING UNION

2015 marked the first anniversary of the Single Supervisory Mechanism (SSM) and the entry into force of the Single Resolution Mechanism (SRM), a new prevention and resolution mechanism for bank failures.

The first pillar of the Banking Union, the SSM, was set up on 4 November 2014. Its goal is to ensure efficient bank supervision while preserving their ability to finance the economy. The SSM places the eurozone's 4,700 credit institutions under the supervision of the European Central Bank (ECB).

The 129 largest banks, including **ten French banks**, have been placed under the direct supervision of the ECB.

A major challenge facing single supervision

The banking profession has supported all the initiatives aiming at strengthening single supervision. Furthermore, the French banking model emerged strengthened by the asset quality review organised by the ECB in 2014 prior to the implementation of single supervision. At the end of its first year of operation, the SSU made considerable strides although expectations are still very high. Against an environment marked by sharp international competition, **the unique characteristics of the European banking model, especially the universal banking model**, must be recognised by the SSM. And the single supervisor must now contribute to the emergence of a strategic vision on how the financing of the economy of the eurozone will work.

SINGLE SUPERVISORY MECHANISM (SSM)

- Set up on 4 November 2014
- 129 banks representing 82% of all bank assets are now placed under the direct supervision of the ECB

SINGLE RESOLUTION MECHANISM (SRM)

- The Single Resolution Board (SRB) becomes operational in January 2015.
- Resolution mechanism applicable to all European Union banks.
- Creation of a Single Resolution Fund (SRF), which is expected to reach a target size of €55 billion by 2024.

SINGLE DEPOSIT GUARANTEE SCHEME

*Not set up
at this time.*

**THE THREE PILLARS
OF THE BANKING UNION**
19 countries of the eurozone

Crisis prevention and recovery

The second pillar of the Banking Union, the Single Resolution Mechanism (SRM) entered into force as part of the **BRRD Directive** (Bank Recovery and Resolution Directive). This directive defines **a standardised crisis prevention and resolution procedure** with the objective of minimising the burden on taxpayers when an institution runs into trouble. The system relies on the bail-in principle and requires banks to hold enough resources to deal with potential financial distress. In France, the application of the BRRD Directive was accompanied by a reform of the ranking of bank creditors announced by the French Treasury Division in December 2015. It modifies the debt hierarchy and allows credit institutions to issue securities in a new category that would absorb losses in the event of liquidation.

The resolution mechanism also provides for the creation of a new authority, the Single

Resolution Board (SRB). Based in Brussels, the SRB decides on the advisability of applying resolution mechanisms to a bank. The Board is responsible for the planning and resolution phases of cross-border banks and the 129 banks directly supervised by the ECB. The national resolution authorities (in France, the Autorité de Contrôle Prudentiel et de Résolution or ACPR) remain responsible for other entities.

Among the tools at its disposal, the SRB may access the Single Resolution Fund (SRF). The Fund is gradually being built up by contributions starting in 2016, and is expected to reach the target level of €55 billion by 2024, equivalent to 1% of the guaranteed deposits of all institutions governed by the SRM. **French banks will contribute more than their share: €15.4 billion, representing 28% of the fund's target amount.**

THE NEW GEOGRAPHY OF REGULATION AND SUPERVISION

After eight years of intensive reforms, the landscape of bank regulation and supervision has changed profoundly in Europe. Along with Brussels, Frankfurt has now become a new banking capital.



1 LONDON

- European Banking Authority ⁽¹⁾
- IASB ⁽²⁾

2 BRUSSELS

- European Commission ⁽³⁾
- Single Resolution Board ⁽⁴⁾

3 FRANKFURT

- ECB and the Single Resolution Mechanism ⁽⁵⁾

4 PARIS

- ACPR ⁽⁶⁾
- High Council for Financial Stability ⁽⁷⁾

5 BASEL

- Basel Committee on Banking Supervision ⁽⁸⁾
- Financial Stability Board ⁽⁹⁾

(1) Prudential rules (2) International accounting standards (3) Community law (Payment Services Directive, structural reform, European Financial Transaction Tax, etc.)

(4) Resolution authority at the European level (5) Single Supervisory Mechanism of systemically important banks (6) Autorité de Contrôle Prudentiel et de Résolution

(7) Capital requirements buffers (8) Prudential standards (Basel III) (9) G20, Policy Agenda to Strengthen Financial Stability.

Even better protection for deposits

Banking system security and deposit protection have been strengthened with the entry into force of the European DGSD2 Directive. In addition to the multiple

resources internally available to banks to help them deal with difficulties, there is now a deposit guarantee scheme that has been harmonised at the European level, covering up to €100,000 per depositor per bank.

DEPOSIT AND SAVINGS GUARANTEES IN FRANCE



DEPOSIT GUARANTEE FUND

DEPOSIT GUARANTEE



- Deposits to current accounts and savings accounts (including PEL and CEL) are guaranteed up to **€100,000**.
- Deposits to regulated savings accounts (Livret A, Livret Bleu, LEP and LDD) have a special guarantee up to **€100,000**.

SECURITIES GUARANTEE



Guarantee that may cover as much as **€70,000** per customer and per institution (equities, bonds, mutual fund units and other financial instruments).

“TEMPORARY HIGH DEPOSIT” GUARANTEE



Special guarantee increasing coverage by **€500,000** over the standard maximum for each event, for “temporary high deposits” (lump sum payment of an inheritance, donation, sale of property, compensation for harm sustained by you or for termination of an employment agreement, etc.) deposited in a current account pending transfer to savings accounts (within a maximum period of three months starting on the date the money is credited to the account covered by the deposit guarantee).

PERSONAL INSURANCE GUARANTEE



Insurance guarantee provided by Fonds de Garantie des Assurances de Personnes (FGAP).

A REGULATORY CHALLENGE

The prudential framework for the banking sector has undergone a revolution since 2008. Such unprecedented regulatory change is a guarantee of stability as well as a challenge to the French model of universal banking with strong local roots.

Since 2008, the European Union has adopted **42 directives in the area of banking regulation**. These new rules strengthen the transparency and stability of the industry. In particular, the CRD IV Directive (Capital Requirements Directive), which came into effect on 1 January 2014, prompted major French banks to strengthen their “core” capital to meet the new capital margin requirements.

**THE CAPITAL RATIO (CET 1)
OF MAJOR FRENCH BANKS
WAS RAISED FROM 5.8% IN 2008 TO**

12% IN 2015
Source: Banque
de France - ACPR

In 2015 the European Union unveiled its **Action Plan on building a Capital Markets Union (CMU)**. The aim of the plan is to create conditions that will promote the new balance between bank lending and market financing. This change will not occur at the same pace for all businesses and should be conducted in an appropriate manner to avoid disrupting access to financing, especially for SMEs. One of the priorities of the Capital Markets Union is to create the conditions for effectively developing firm, transparent and standardised securitisation.

The evolution of the banking model

In addition to heightened capital requirements, there are now liquidity requirements (long-term leverage ratio), which compel bank institutions to hold more resources with terms longer than one year, including for their short-term requirements. This ratio negatively impacts their traditional maturity transformation business and compels banks to limit the size of their balance sheets.

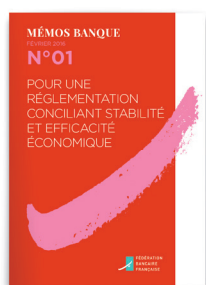
As a result of new prudential requirements, capital markets have been called upon to play an increasing role in financing Europe's economy.

The issue today is to determine whether the regulatory environment will allow us to continue to serve our clients within the framework of a financing model that has demonstrated its effectiveness. As for bank regulations, Europe should not be naïve.



FRÉDÉRIC OUDÉA
CHAIRMAN OF THE FBF
Les Echos - 14 September 2015

The FBF pays particular attention to the actual progress achieved in this area, as well as to the criteria and the labelling system for public guarantees.



After an unprecedented wave of regulations that began in 2008, the priority now is to reconcile the increased burden of prudential requirements with effective financing of the economy. In response to a European consultation, the FBF has published its five priorities and its recommendations.

A response to “too big to fail”

2015 marked the approval of the provisions of the new TLAC (Total Loss Absorbing Capacity) ratio on 15 and 16 November at the G20 Antalya Summit. The ratio establishes new requirements for global systemically important banks to allow them to continue performing critical functions even after a loss that exhausts its regulatory capital. By imposing these capital buffers, TLAC provides an answer to the question of how to deal with banks deemed “too big to fail”. This renders the plan to separate banking activities, now being debated in the European Parliament, obsolete. However, the TLAC ratio overlaps with the resolution mechanisms already planned in Europe, in particular the MREL (Minimum Requirement for Own Funds and Eligible Liabilities). It is therefore crucial to properly frame these two arrangements to avoid a cumulative effect that would negatively impact European banks and the financing of the economy.

ANOTHER CROWDED AGENDA OF MAJOR REFORMS IN 2016

Several major regulatory questions must be settled in 2016. They could have an important impact on the financing of the economy and on the universal banking model:

- The Basel Committee on Banking Supervision must finalise the Basel III reforms with a review of the assessment method for credit, market and operational risk. **The process has created a climate of widespread uncertainty about the new capital requirements meant to support banks, especially in Europe, and their ability to finance the economy.**
- The handling of interest rate risk in the bank portfolio raises special concern. The proposals being discussed within the Basel Committee are likely to radically change residential mortgages in France. There is a risk of switching from a market substantially dominated by fixed rate loans and collateral posted by the individual borrowers to a variable-rate market in which the individual will be exposed to interest rate risk.
- The application in 2018 of the new IFRS 9 accounting standard. This standard introduces new rules on credit risk impairment. It poses a considerable risk to the SME credit market, for which it requires that a provision for the statistical risk of loss be recognised upon granting the loan.
- The tax on financial transactions (TTF). Explored by 10 countries in connection with strengthened cooperation, the main impact of this plan, if it comes into being, will be to penalise corporate financing in the countries in question. The plan, which is inconsistent with the Capital Markets Union, will cause harmful fiscal fragmentation in the financial markets, particularly for Paris.

06

THE FRENCH BANKING INDUSTRY

The French universal banking model has demonstrated the resilience it gains through diversifying its revenues and its risks. Regulatory restrictions, the tax burden and the interest rate environment are negatively affecting their profitability.



**A ROBUST
INDUSTRY**



**PROFITS
UNDER PRESSURE**

01

A ROBUST INDUSTRY

French banks have increased their capital base by €100 billion since 2008. They are also key players on the labour market in France.

A resilient business model



According to the OECD, France's sound banking industry and its contribution to the financing of the economy are one of the six major strengths of the French economy.

Source: Economic Survey of France - April 2015

The banking industry is a strategic sector characterised by its original universal banking model. A single institution can include a complete range of businesses (retail banking, specialised financing, corporate and investment banking, asset management and insurance) thereby meeting the needs of all kinds of customers: individuals, professionals, SMEs, large corporates, financial institutions, public authorities,

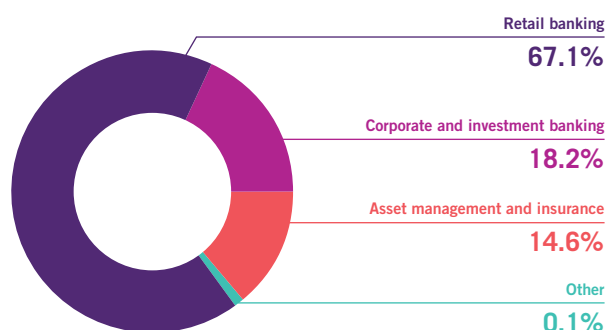
national governments, etc. **Universal banking** efficiently helps finance the economy under favourable terms.

The French banking industry has a resilient business model. **The diversification of sources of revenue and risks offers security and stability.** The results of the bank asset quality review and stress testing conducted by the European Central Bank in connection with the implementation of the Banking Union have amply demonstrated its soundness.

UNIVERSAL BANKING: A DIVERSIFIED BUSINESS

Breakdown of net banking income by core business line in 2015

Source: ACPR



Note: the "Other" line item reflects activities that are not linked to any specific business line.

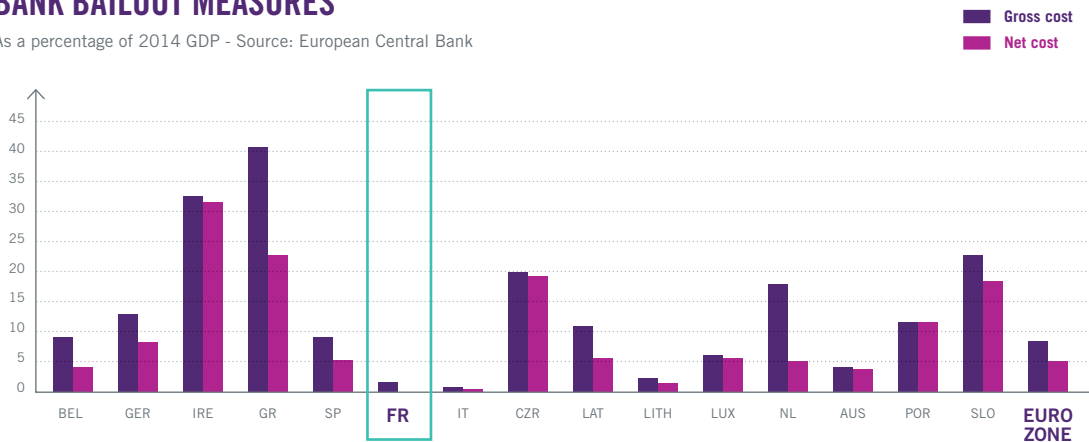
The fact is that French banks are very sound today (...) Their capital adequacy ratio, meaning their core capital in relation to their risks, doubled between 2008 and 2015, rising from 5.8% to 12%.



FRANÇOIS VILLEROY DE GALHAU
GOVERNOR OF THE BANQUE DE FRANCE
Hearing before the Finance Committee
of the National Assembly in Paris -
2 March 2016

CUMULATIVE GROSS AND NET COST OF EUROZONE BANK BAILOUT MEASURES

As a percentage of 2014 GDP - Source: European Central Bank



France is one of the few eurozone countries where banking support measures were not a drain on public finances. In one of its studies, the ECB stated that in France banking support measures even had a positive impact on the fiscal balance: cumulative income from financial assistance measures slightly exceeded spending. These numbers are comparable to those published by the Court of Auditors, which stated in its 2013 report that the rescue plan had brought in €2.3 billion to the State budget.

A dynamic player on the labour market

The banking industry remains a dynamic player on the labour market, **hiring more than 39,000 people in 2015**. These jobs have two main characteristics:

- They are permanent. Two-thirds of these new hires are employed under permanent employment contracts, compared to 2 out of 10 on average nationwide.
- The new employees are qualified: 47% of all new hires were holders of bachelors' or masters' degrees. 90% of new hires had at least 2 years of university education.

The banking industry dedicates 3.5% of its payroll to training its personnel (compared to an average of 2.7% among French corporations), which provides an example of how banks are making substantial investments in the skills and

career development of their employees.

Banks also place high importance on professional integration, especially in connection with work-study programmes that provide many young people with on-the-job training as they pursue their studies.

THE BANKING INDUSTRY, WHICH EMPLOYS
371,600 PEOPLE IN FRANCE, I.E.

2.3%

OF PRIVATE SECTOR EMPLOYMENT.

Source: (INSEE, 2015)

PROFITS UNDER PRESSURE

The low interest rate environment combined with high taxes is having a negative effect on French bank profits.

One of the leading business sectors in France

In 2015, in an environment that is still gloomy due to lasting low interest rates and sluggish growth, the six largest banking groups in France had combined net sales revenue of €146.3 billion (Source: ACPR). Their cumulative income rose 65.9% to €23.7 billion after the significant non-recurring costs of 2014.

The French banking industry contributes up to 2.7% of added value in France.

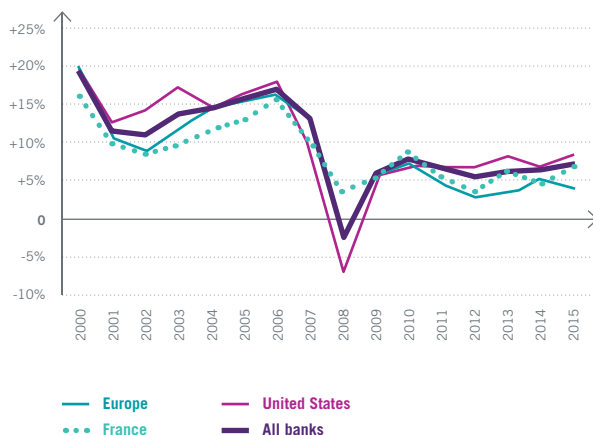
Return on Equity (ROE) came out at 6.7% in 2015 compared to 4.5% in 2014. This level of profits is still significantly lower than it was prior to the crisis.

Sector taxation is drawing money away from financing the economy

The tax burden carried by the industry has climbed to 53% of net profit before tax. Over the period spanning 2010 to 2017, French banks will incur €12.1 billion in additional costs (related to employment, tax and contributions to the resolution fund), on top of certain specific taxes. Payroll tax represents an annual contribution of €2 billion, unmatched by any other country. The measures announced by the government in February 2015, contributions to the fund for the support of local communities and the new contribution to assist hospitals, resulted in an additional tax bill of more than €1 billion. **New taxes of €1 billion translates into €10 billion less for financing the economy.**

COMPARATIVE RETURN ON EQUITY AMONG THE MAJOR INTERNATIONAL BANKS

Source: SNL and ACPR calculations (sample of 51 banks)



NB: "All banks" means the weighted average of the 51 banks in the sample, all geographic locations combined.

07

FBF

The French Banking Federation (FBF) is the professional body that represents all banks operating in France.



PRESENTATION



STRATEGIC PLAN



ORGANISATIONAL
STRUCTURE



PRESENTATION

The FBF's mission is to promote the banking and financial industry at the French, European and international levels. It defines the profession's positions and proposals with respect to public authorities and economic/financial authorities.

378 member banks⁽¹⁾

Credit institutions licensed as banks and the branch offices of credit institutions in the European Economic Area can, if they wish, become fully-fledged members of the FBF. The central bodies of cooperative or mutual banking groups and the AFB⁽²⁾ are also fully-fledged members.

(1) As of January 2016

(2) The French Bankers Association (AFB), representing 215 banks, sits on the FBF's executive committee.

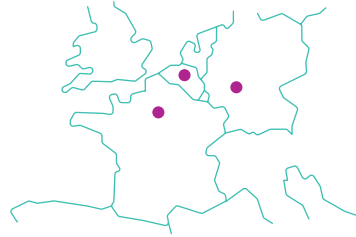
It is the professional body of commercial banks in the social sphere.

A staff of 120 employees

They work within the FBF or the AFB in conjunction with **more than 350 bankers** that come together in the FBF's commissions and committees. These bodies meet regularly to formulate positions and to launch initiatives. Decision-making relies on preparatory work by experts from the FBF and technical committees or **80 ad hoc working groups**. 1,300 working meetings are held every year in Paris. Discussions with members are also central to the work carried out by the FBF.

Influence in France and across Europe

Located in **Paris**, the FBF also maintains offices in **Brussels** and **Frankfurt**.



The FBF is also present throughout France via a network of **21 regional committees and 84 departmental committees**. This network calls upon the services of **2,500 bankers** who extend its actions, regularly meet with local business and government representatives and convey the positions of the industry, with particular focus on the media.

The FBF represents the French banking industry in **a number of French, European and international organisations:**





STRATEGIC PLAN

The FBF's implementation of its 2015-2017 strategic plan is reflected in several programmes organised around areas of strategic focus and developed within each department.

The role of banks in serving the economy

The FBF is working on several levels to promote the role played by banks in **responsibly financing the economy**, especially SMEs. A series of communications campaigns were conducted targeting the media, institutions or local audiences via the various bank committees: Other initiatives addressed the following themes:

- the **role of banks in society** as a key symbol of trust and security,
- the commitment of banks to promote **energy transition** in connection with the Climate Change Conference (COP21),
- **financial education** with, among other initiatives, the first ever "I invite a Banker to my class" campaign.

Banks in their national, European and international environments

The FBF promotes banking industry best practices with the authorities via a number of institutional conferences and contributions to regulatory plans likely to advance the banking business model (securitisation, CRD4/CRR, NSFR, TLAC, leverage ratio, etc.). In 2015, the FBF responded to 60 official consultations organised by the authorities, of which 98% were European or international.

A federation of members

The role of the FBF as a single voice of the profession has been reaffirmed. In order to increase the extent to which the concerns of all members are considered, the Executive Committee appoints representatives of **small and medium-sized banks to sit on** FBF committees.

The structure of a Federation that has adapted to its environment

FBF has adjusted to the new regulatory environment, opening an office in Frankfurt. This helps it carry out its main mission of speaking out on behalf of the banking industry in European and international policy centres. The Federation is also adjusting its internal structure:

- a **digital coordination unit** has been created to lead a digital banking working group with its members,
- a new working group will bring members together to discuss the **topic of CSR**,
- an economist's position has been created to complement the establishment of a **network of bank economists**.

IN 2015, THE FBF RESPONDED TO
60 OFFICIAL CONSULTATIONS INCLUDING

98%

AT THE EUROPEAN
OR INTERNATIONAL
LEVELS

Source: FBF

ORGANISATIONAL STRUCTURE



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Chairman of the FBF
Chief Executive
Officer of Société
Générale



Philippe Brassac
Vice-Chairman
of the FBF
Chief Executive
Officer of Crédit
Agriculture S.A.



Michel Lucas
Treasurer of the FBF
Chair of
Confédération
Nationale du Crédit
Mutuel⁽¹⁾



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Director & Chief
Executive Officer
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François Pérol
Chairman of the
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Valérie Bréard, Assistant



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Michèle Rossi

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Béatrice Layan

(1) Starting 21 March 2016, Nicolas Théry will take over as Chair of Confédération Nationale du Crédit Mutuel

Significant

JANUARY

15 Along with Paris Europlace, AMAFI, AFA, AFG, MEDEF and AFEP, the FBF co-signed a letter to the President of France to warn about the negative impact of the European Financial Transaction Tax would have on the 11 countries that rely on a wide tax base.

16 Joint conference of the FBF and the European Investment Bank (EIB) on support for innovative SMEs.

FEBRUARY

04 The FBF launched a new series of mini guides on security.

13 Signature of a Statement of Conclusions on the Responsibility Pact by the French Bankers Association (AFB): at least 40,000 new hires over the period between 2015 and 2017, and the development of work-study programmes.

18 The European Commission launched its consultation on the Capital Markets Union (CMU). The FBF supports this initiative, which aims to make it easier for businesses to access market financing.

24 French banks decried the further increase in their tax burden for the fund to assist local communities and hospitals that have taken out structured loans.

MARCH

09 First-ever “*I invite a Banker to my class*” initiative as part of “European Money Week”.

12 The FBF and the *Écoles de la 2^e Chance (E2C)* network entered into a national partnership agreement aimed at including budget workshops in young people’s educations.

31 Unanimous agreement of the CCSF (Financial Sector Consultative Committee) on a future banking mobility arrangement and the automatic transfer of bank account details.

APRIL

28 The FBF renewed the industry agreement on the business credit mediation mechanism until December 31st 2017.

MAY

06 The European Commission adopted its strategy for achieving a digital single market in Europe.

20 Adoption of the Fourth Directive on Anti-Money Laundering/ Combating Terrorist Financing.

22 The FBF became a signatory to the Declaration on Climate Change of the Paris Financial Marketplace at Paris EUROPLACE in preparation for the 2015 United Nations Climate Change Conference, COP 21.

JUNE

02 National conference on payment instruments: French banks announced a series of new commitments designed to promote the use and development of innovative payment instruments.

04 The half-year survey conducted by the ECB on SME access to credit placed France at the highest level, with a rate clearly above the eurozone average.

05 The G7 asked the Financial Stability Board to consider drafting a Code of Conduct for the banking professions.

09 The FBF contacted the European Commission on the impact that the Basel Committee requirements on the Net Stable Funding Ratio (NSFR) will have on the banks’ ability to finance the economy.

17 FBF attended the “Planète PME” trade show organised by the CGPME (General Confederation of Small and Medium Businesses).

18 The French government unveiled its draft law for a digital republic.

JULY

01 The European Fund for Strategic Investments (EFSI) Regulation was published. This initiative is a key pillar of the Investment Plan for Europe (Juncker Plan).

01 The FBF opened a representative office in Frankfurt.

06 Release of banking industry employment data: more than 35,000 new hires in 2014.

08 FBF showcased the contribution of banks during the Tour de France in connection with the “*Beau travail*” (“Nice work”) campaign organised by MEDEF.

events in 2015

20 During the Paris Financial Marketplace 2020 Committee meeting, the FBF reiterated its hope to see plans for the structural reform of banks at the European level abandoned or considerably scaled back.

AUGUST

18 Publication of the Energy Transition Act. Several of its provisions concern the banking profession, including environmental reporting and climate stress testing.

20 Banking mediation: transposition of the directive relating to the out-of-court settlement of consumer disputes.

SEPTEMBER

01 The decree lowering the cash or electronic funds payment threshold from €3,000 to €1,000 entered into force.

02 The newly revised AERAS agreement granted cancer survivors the “right to be forgotten”.

11 Along with its German, Belgian and Japanese counterparts, the FBF warned the Basel Committee on Banking Supervision about the necessity of protecting the banks’ ability to grant fixed-rate loans.

22 First RB Innovation prize: created by *Revue Banque* in partnership with the FBF, its purpose is to honour an innovative financial tech company in the domains of banking and insurance each year.

26 François Villeroy de Galhau submitted his report on the financing of capital spending to the Prime Minister.

OCTOBER

01 The obligation requiring banks to provide a list of equivalence criteria for minimum guarantees needed to obtain borrower's insurance entered into force.

07 Adoption of the revised Payment Services Directive (PSD2). The FBF requested practical implementation details related to guaranteeing customers’ security.

13 The FBF met with European Commissioners Valdis Dombrovskis, Jyrki Katainen and Jonathan Hill in Brussels.

15 The public authorities published the national strategy on payments.

NOVEMBER

04 First anniversary of the Single Supervisory Mechanism (SSM): the FBF hailed the positive outcome but said it hoped that the Single Supervisor would act as a stronger voice for the eurozone before international banking regulation bodies.

10 Release of the proposals on TLAC by the Financial Stability Board: the FBF underscored that the new ratio finalised the arrangement to improve the soundness of systemic banks and rendered the European plan to separate banking activities obsolete.

13 The AFECEI Charter on banking inclusion and the prevention of overindebtedness entered into force.

20 French banks reiterated their full commitment to combating the financing of terrorism.

24 2015 United Nations Climate Change Conference (COP 21): the FBF organised a symposium on the commitment of French banks to energy transition, attended by Michel Sapin, French Minister of Finance and Public Accounts.

25 Release of the report by the Observatory for Corporate Financing, which found that the measures taken by French banks in June 2014 promoting dialogue between banks and VSEs/SMEs have been implemented.

DECEMBER

13 The French Banking Federation welcomed the agreement on climate change reached at the conclusion of COP 21.

15 Adoption, on the basis of a tripartite agreement, of the new European regulation on the protection of personal data.

19 The European regulation on interchange fees for card payments entered into force.

28 Plan announced to reform the hierarchy of creditors of credit Institutions. The FBF hailed this plan, which strengthens the soundness of the banking system and the security of depositors.

Glossary

EBA European Banking Authority

AERAS S'Assurer et Emprunter avec un Risque Aggravé de Santé (Insurance and Borrowing with Serious Health Risks)

AFECEI Association Française des Etablissements de Crédit et des Entreprises d'Investissement (French Association of Credit Institutions and Investment Firms)

BRRD Banking Recovery and Resolution Directive (Directive 2014/59/EU of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms)

BSR Banking Structural Reform

CCSF Comité Consultatif du Secteur Financier (Financial Sector Consultative Committee)

CET1 Common Equity Tier One (core tier one ratio)

CRD 4 Capital Requirements Directive 4 (Directive 2013/36/EU of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms)

CRR Capital Requirements Regulation (EU Regulation No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms)

SRB Single Resolution Board

PSD2 Revised Payment Services Directive (EU Directive 2015/2366 of 25 November 2015 on payment services in the internal market)

EMIR European Market Infrastructure Regulation (EU Regulation No 648/2012 of 4 July 2012 on OTC derivatives, central counterparties and trade repositories)

EURO PP Euro Private Placements

LCR Liquidity Coverage Ratio (short-term liquidity ratio)

MiFID2 Markets In Financial Instruments Directive 2 (Directive 2014/65/EU of 15 May 2014 on markets in financial instruments)

MiFIR Markets In Financial Instruments Regulation (EU Regulation No 600/2014 of 15 May 2014 on markets in financial instruments)

MREL Minimum Requirement for Own Funds and Eligible Liabilities provided for in the BRRD Directive

SRM Single Resolution Mechanism

SSM Single Supervisory Mechanism

NSFR Net Stable Funding Ratio

OFE Observatoire du Financement des Entreprises (Observatory for Corporate Financing)

TLAC Total Loss Absorbing Capacity

TTFE Tax on European Financial Transactions



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