

THE BANKING SECTOR IN 2016



FÉDÉRATION
BANCAIRE
FRANÇAISE

	editorial	2
	KEY FIGURES FOR THE BANKING SECTOR	4
01	THE FRENCH BANKING INDUSTRY	6
02	FINANCING	10
03	DAY-TO-DAY BANKING	14
04	INNOVATION & SECURITY	20
05	RESPONSIBLE BANKING	26
06	REGULATION & SUPERVISION	32
07	FBF	38
	Significant events in 2016	42
	Glossary	44

editorial



Marie-Anne Barbat-Layani

Chief Executive Officer of the FBF



Philippe Brassac

FBF Chairman

2016 was a good year for the French banking industry. Bank results were good, as well as the banking industry's image which, with 68% of people surveyed having a good opinion, was at its best in 10 years.

The strength of our industry is an asset in the face of the challenges that must be met: regulatory challenges with the work of the Basel Committee, uncertainty over the future of the European Union following the Brexit vote, an unprecedented economic and interest rate environment, and the increasingly fast pace of digital transformation.

INDEPENDENCE

The banking industry is a strategic, forward-looking sector that provides fuel for the French economy to subsidise growth and increase employment. In France, we have a solid, stable banking system that is the best in Europe at financing the economy.

Financing for businesses and individuals rose significantly faster in France than in the rest of the eurozone, and faster than GDP. As such, protecting our financing model is a matter of defending our independence, both for our country and for Europe.

Critical decision-making centres can be found in our territory: four of the nine biggest banks in the eurozone are French.

REGULATORY RISK

In order for France to make the most of these advantages, its banking industry must be recognised and supported, or at least its wings should not be clipped. The banking industry is not opposed to regulations: they provide a framework and security for stakeholders and consumers, as long as they are appropriate. The major financial leaders at the G20 meeting agreed that the financial stability agenda is full, and additional regulatory requirements are unnecessary. The work being carried out by the Basel Committee, meant to ensure the comparability of risk measurement, should take this into account and avoid standardising the risk approach along the lines of a single banking model (i.e., the model favoured by English-speaking countries).

PROFITABILITY

Profits improved, but were still far below pre-crisis levels, especially for retail banking. The unprecedented low interest rate environment that characterised all of 2016, the constant tightening of regulations, higher capital requirements, and excessive taxation of the banking industry, which resulted in an average tax rate of 51% over four years and in specific taxes such as the payroll tax, are holding back an industry in the midst of digital transformation.

INNOVATION

Banks are digital players. Their investments, capacity for innovation and ability to mobilise the Fintech ecosystem make banks the natural leaders of the digital financial movement in France. Digital technology accelerates changes in how clients use their services and transforms the client

relationship, without changing the fundamentals that have always characterised our model: local roots, trust and security. As such, technological innovation must be accompanied by high security, as well as guaranteeing that funds and personal data are protected. It seems obvious that all organisations that develop and market identical services and activities should be

governed by the same regulations. This is by no means an expression of a fear of competition or a rejection of new ideas.



*The French
banking system:
an island of stability
in a world
of uncertainty*

CHALLENGES

Major regulatory issues must be resolved in 2017, against an uncertain global backdrop marked by the inauguration of the new President of the United States and the determination of US authorities to loosen regulations, by negotiations on Brexit implementation and the related issue of the Paris financial market's competitiveness in terms of taxation, social capital and regulations, and finally by the French and German elections. Our wish is that the excellence of our banking industry and the fundamental role it plays in our country be recognised, and that the important political decisions to be made provide French banks with an environment that will allow them fully exploit their potential to serve the economy.

Draft completed on 04/04/2017

KEY FIGURES

FOR THE BANKING SECTOR



EUROPEAN LEADERS

4 OF THE TOP 9 BANKS
IN EUROPE
ARE FRENCH

/ The Banker - July 2016 /

2.7%

THE BANKING SECTOR'S
CONTRIBUTION TO TOTAL
VALUE ADDED IN FRANCE

/ INSEE - 2015 / FBF /



2,169

BILLION EUROS IN LOANS
TO THE ECONOMY

/ Banque de France - December 2016 /

9 SMES OUT OF 10



GOT THEIR INVESTMENT
LOAN APPLICATIONS
APPROVED

/ Banque de France -
4th quarter 2016 /



46.4%

HOUSEHOLDS
HAVE A LOAN

/ Observatory for Household
Loans - 2016 /

911



BILLION EUROS IN LOANS TO
BUSINESSES

/ Banque de France - December 2016 /



364 BANKS

37,567

BRANCHES (i.e., 570
branches per 1 million
inhabitants)

/ ACPR - 2016 / ECB - 2015 /

51%

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

/ FBF - 2015 /

78%

OF FRENCH PEOPLE HAVE A GOOD
IMAGE OF THEIR BANK

/ BVA image survey of banks - 2016 /

7 OUT OF 10
FRENCH PEOPLE

ARE SATISFIED WITH
THEIR ADVISOR

/ BVA image survey of banks -
2016 /



39,000

PEOPLE HIRED IN 2015

/ AFB /



371,600

EMPLOYEES / FBF scope - 2015 /



67%

OF INTERNET USERS USE
DIGITAL BANKING SERVICES TO
MAKE ONLINE PAYMENTS

/ BVA image survey of banks - 2016 /

29

CONTACTLESS
PAYMENTS
PER SECOND

/ GIE CB December 2016 /

81

MILLIONS OF PAYMENT
CARDS IN FRANCE

/ ECB - 2015 /



01

THE FRENCH BANKING INDUSTRY

The French banking industry currently finds itself in an unprecedented situation. It must meet three major challenges at the same time: digital transformation, a low interest rate environment and an increasing number of regulatory constraints.



A STRATEGIC
INDUSTRY



PROFITS UNDER
PRESSURE



A STRATEGIC INDUSTRY

The strength of the French banking industry was confirmed in 2016. The universal banking model and the diversification of revenue and risks allow French banks to survive in an uncertain banking environment.

A robust sector

The strength and competitiveness of the financial industry in an increasingly competitive European and international context are crucial for a country's independence. **A powerful and efficient banking system supports growth to the fullest.** Without strong banks, a strong economy is impossible.

With banks that rank highly among international banks, which means that critical decision-making centres are based in France, finance is a strategic industry in our country.

Four French banks are ranked among the top nine European banks and the top twenty worldwide (The Banker, 2016 - balance sheet size).



France's solid banking industry and its contribution to the financing of the economy form one of the six great strengths of the French economy.

Source: OECD -Economic Survey of France - April 2015

The banks' capital (capital adequacy ratio) has doubled since 2008, rising from 6% to 12% in 2015 (ACPR).

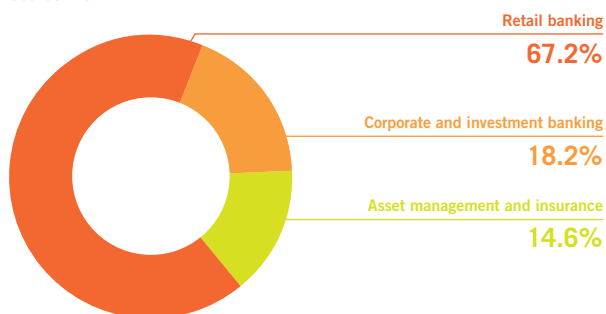
French banks continued to improve their financial structure in 2016: at the end of the year, the CET1 ratios of all four major French banking groups were higher than the minimum required (11.50%). The average CET1 ratio is 12.95% versus 12.13% the previous year.

A universal banking model serving all clients

The universal banking model is an innovative business model that is unique to France, **bringing together a full range of banking and financial business lines within a single institution.**

BREAKDOWN OF NET BANKING INCOME BY CORE BUSINESS LINE IN 2015

Source: ACPR



Banks provide all of the services that businesses, individuals and institutional investors may require: deposits and loans, insurance, savings and asset management, Corporate and Investment Banking (CIB), specialised services, etc. This model helps diversify revenue sources by client and region.

Universal and local banking is an efficient way to help finance the economy under favourable conditions. With 37,567 bank branches in France in 2015, **the French bank network is denser in France than in other European countries.**

A COMPETITIVE PARIS FINANCIAL CENTRE



During the “Paris Europlace International Financial Forum”, the FBF praised the measures announced by public authorities to promote the Paris financial centre, along with innovation, growth and employment: the new tax regime for expatriates residing in France was extended from five to eight years, the reduction of corporate tax was gradually brought down from 33% to 28%, and the one-stop shop for welcoming companies and their employees.

These measures support commitments made by local authorities in the Ile de France region in June 2016 during the “Paris, Welcome to Europe!” conference.

Despite everything, some political decisions negatively impacted the competitiveness of the Paris financial centre, such as increased taxes on financial transactions (higher rate and expansion of transactions affected) and on free share awards.

A dynamic player on the labour market

The banking industry played a major role in the labour market with **more than 39,000 hires** (FBF scope). That was 4,000 more than in 2014. These are stable jobs: more than 60% of hires were for permanent positions (versus 20% on average in France) and required qualifications: +47% were for holders of bachelors’ or masters’ degrees (AFB scope).

The total number of people employed by the French banking sector is more than 371,600. However, this number has been trending downward for three years. (-1.2% and -1.5 %). In France, the banking sector represents 2.3% of private sector employment (INSEE, 2015).

Training: a special focus

The banking sector dedicates 3.5% of its payroll to training its employees (the average among French businesses is 2.7%). French banks 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. In 2015, French banks pursued an active work-study policy with more than 6,000 contracts.

A strong commitment to professional integration

The industry has embarked on the implementation of a plan to integrate young people who face difficulties finding employment. With this initiative, it encourages partnerships with associations. Two such partnerships have been signed with the **Agency for Education with Sport (APELS)** and the **Federation for companies working for professional integration (FIE)**.



THE PROFITABILITY CHALLENGE

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

A high-performance sector

In an unfavourable environment, the combined net banking income of the four biggest French banks fell by 1.2% in 2016. It fell to €122.5 billion in 2016 versus €124 billion in 2015. However, French banks benefited from a clear reduction in cost of risk (-20.5% to €9.2 billion in 2016).

In their communications, the banks also emphasised that in 2016 they continued to implement plans to cut costs. By doing so, the four main French banking groups were able to bring in more than €20 billion in net profits in 2016, up 3.0% compared to 2015.

This was critical for them **to continue building up the capital required to finance the economy**, with increasingly strict regulatory requirements.

The issue of profits

However, the ongoing low interest rate environment continue to negatively impact retail banks: the net interest margin is under pressure and the year was marked by another wave of home loan renegotiations.

Regulators are increasingly concerned about the profitability of the banking sector.

6.7%

**RETURN ON EQUITY IN 2015 WAS
HALF OF WHAT IT WAS IN 2008.**

Source: ACPR

A level of tax that undermines the competitiveness of the sector

High taxes weigh heavily on the competitiveness of the sector, as well as its ability to finance the economy and employment. Taxes on banks have continuously increased, and were at **an average rate of 51% over four years**.

Banks paid approximately €15.3 billion in tax to the French government (excluding social security contributions) for 2015, up by nearly 10% compared to 2014.

Furthermore, bank employment was directly impacted by the **payroll tax**, which was also rather high: **€2 billion on average each year**.

Between 2010 and 2017, French banks incurred **additional costs** (related to employment, tax and contributions to the resolution fund) totalling nearly **€13.5 billion**.

02

FINANCING

French banks are at the heart of the real economy: they finance business development and help individuals achieve their goals.



BUSINESSES



INDIVIDUALS

BUSINESSES

French banks drive growth. They have made financing businesses, especially VSEs and SMEs, a top strategic priority.

Banks partners with businesses

Increased lending to businesses put France in first place in the eurozone, at 4.9% over one year, while the eurozone average was 2%.

Loan outstandings to businesses reached **€911 billion at end-2016**. Over one year, that was more than **€266 billion in new bank loans** to French businesses.

These are critical for their ability to compete: the majority (80%) of loans were used for a capital project, with outstandings rising by 5.1%.

Businesses are also financed through market issuances, for which banks provide assistance. Medium-sized businesses and larger SMEs also use this kind of financing (EuroPP, etc.). Market financing totals **€592 billion at end-2016** (+7.4% compared to 2015).

VSEs/SMEs accounted for half of loans to businesses.

Retail banking networks financed **more than a million VSEs/SMEs**.

In an environment where access to credit was good and interest rates encouraged businesses to carry out projects, French VSEs/SMEs benefited from **€385 billion** in loans outstanding, up 2.7% over one year.

Nine out of 10 SMEs obtained the requested investment loan.

Improvement in the relationship between banks and businesses

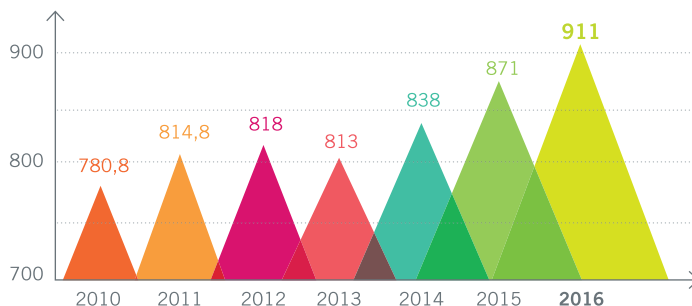
In this highly competitive market, each bank seeks to differentiate itself through the quality of its services, competitiveness of its products and close relationships with businesses.

In 2016, banks implemented **four FBF professional recommendations** to improve transparency in the prices of short-term financing for professionals and VSEs:

- 1. Completing a glossary** to better understand the pricing of each solution presented in brochures.
- 2. Introducing a new way of presenting tariff lines per short-term financing product** in brochures.

CORPORATE CREDIT OUTSTANDINGS

In € billions - Source: Banque de France



3. Organising an annual meeting, without exception, between professionals/VSE leaders and their bankers to review their short-term financing needs.

4. Creating a new reporting service that covers aggregate annual fees paid for short-term bank financing products that are most used by VSEs and professionals.

Testimonial



STÉPHANIE ANDRIEU

Chief Executive Officer and co-founder of Urbasolar

Urbasolar develops, builds and operates solar power facilities in France and around the world. Innovation was behind the very creation of Urbasolar, which is located in Montpellier.

“Urbasolar is a highly capital intensive business that requires long-lasting, high-volume credit lines”, explained Stéphanie Andrieu. Furthermore, the business expanded significantly over a short time (20% to 30% over the last few years).

“Our bankers have become true partners in financing our investments and cash flow requirements. Together, we have built a very close relationship: they believe in our business, we keep them updated on a regular basis and they meet our need for debt financing to expand”.

Urbasolar has 95 employees, brings in €66.1 million in revenue and has €22.7 million in capital.



Close dialogue

Dialogue between a business and its banks is absolutely essential. It must be transparent and occur on a regular basis. To help foster these discussions, the banking profession took several measures:

- **SME meetings organised by FBF outside of the Paris region** between the leaders of major banks and more than 5,000 SMEs in 2016.
- A practical website dedicated to SMEs, **AVECLESPME.fr**, featuring fact sheets and videos.
- Continuous dialogue with VSE/SME representatives at the national level and in the field: chambers of commerce, industry and agriculture, and associations of employers and professionals (MEDEF, CPME, U2P, etc.).
- **Business debt mediation** in which banks actively participate. **The number of mediation claims filed has fallen to 85% since 2009**, demonstrating the improvement in dialogue.

Partnerships

For the second year in a row, FBF took part in **“Planète PME”**, the annual SME trade fair organised by the CPME (French SME employers association).

“We are growth”, was this year’s theme, in line with robust access to credit for SMEs, stimulating projects and growth.

The FBF and **WikiPME** worked with entrepreneurs to answer their practical questions: how should they maintain a dialogue with their bank? How should they present their projects, in what form, and with which documents? What are the advantages and disadvantages of the various kinds of financing available? etc.



INDIVIDUALS

Nearly one out of every two households has at least one home loan or consumer loan. 2016 was a record-breaking year for home loans.



Banks finance households

Loan outstandings to individuals amounted to **€1,096 billion**, up 4.5% over one year.

Home loans increased: 4.3% year-on-year to reach **€899 billion** in assets, in a still-favourable interest rate environment.

France led the eurozone (2.7% on average) in the growth of mortgage outstandings.

The long-term, fixed interest rate for new mortgages (for any amount) was 1.5% on average at end-December 2016.



INTEREST-FREE LOANS

Banks play a fundamental role in helping millions of households buy property for the first time, securely and under attractive terms. They welcomed the new interest-free loan platform, and worked hard to ensure they reached a wide audience.

Under the developments that came into effect in 2016, more households could use interest-free loans to purchase their primary residence, whether it was a new build or renovated resale property.

Rebound in the percentage of households with a mortgage

According to the Observatory for Household Loans (OCM), **the percentage of households with mortgages recovered in 2016, reaching 30.7%** (versus 30.2% in 2015).

This increase was primarily driven by the growth in loans to first-time buyers (23.3% versus 22.6% in 2015).

A study by Crédit Foncier showed that the reduction of interest rates in France between 2008 and 2016 raised household purchasing power. As such, in 2016, **households' real estate purchasing power rose by a total of 29%** compared to 2008.

Acceleration of consumer credit

The growth of consumer credit outstandings stepped up the pace in France: at end-December 2016, annual growth reached 5%, i.e. **€161 billion**.

OCM stated that **89.8% of consumer credit** was used to finance purchases of equipment such as cars, motorcycles, household items or even home renovations.

03

DAY-TO-DAY BANKING

The banking relationship is based on local relationships and trust.



THE CUSTOMER
RELATIONSHIP IS NOW
MORE VITAL THAN EVER



SUPPORT FOR
FINANCIALLY
VULNERABLE
POPULATIONS



THE CUSTOMER RELATIONSHIP IS NOW MORE VITAL THAN EVER

Banks aim for client satisfaction and acquisition, by offering new and existing clients effective solutions and services that are innovative and appropriate for each client's needs.

The image of the profession is improving

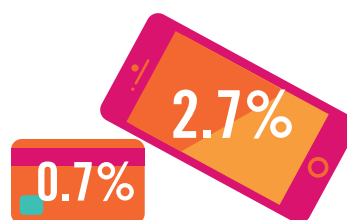
With **favourable opinions at 68%⁽¹⁾**, the image of French banks was at its **highest in 10 years** confirming steady improvement with positive opinions increasing by 16 points since 2010. The image that each French person had of his or her bank remained stable, with **positive opinions at 78%**.

Among the aspects of the positive image of French banks: **convenience**, based on both the competence of advisors and the effectiveness of the digital services provided. We should also mention **trust and security**, recognised as one of the banks' advantages. Finally, the key role banks played in **financing the economy** was widely confirmed. This proved their benefits.

Modest change in bank fees

According to the 2016 report of the Observatory for Bank Fees prepared by the Financial Sector Consultative Committee (CCSF), increases in bank fees are "under control".

The Observatory also felt the changes in pricing reflected the spread of account handling fees, as is the case everywhere in Europe. The same report showed that, in fact, **they appeared on the fee statements of only 20% to 30% of clients**.



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

Source: INSEE - 2015

Accessible and transparent reporting

The banking sector is one of the only market sectors with such **transparent pricing**. Clients are notified of changes in pricing two months before they go into effect. They are also easy to check, whether within the branch or on each bank's website. To make **comparisons easier**, the banks adopted a standard format for summarising each pricing brochure and used shared terminology for the vast majority of banking services. The standard text that listed all the major services used by clients was presented at the beginning of each brochure and has been defined in conjunction with consumer organisations. Clients know exactly what their bank charges them with monthly statements and an annual statement.

(1) Source: BVA image survey of banks - 2016

New step forward in banking mobility

2016 was spent preparing for the implementation of the new banking mobility platform (provided for by the Macron law, which came into effect on 6 February 2017) that further improved services for clients changing banks that have been offered by French banks since 2009.

The client only has to carry out one transaction. All they have to do is sign **a mobility mandate** for their new bank and provide it with the details on their account at their previous bank. The new bank then carries out, on their behalf, all of the necessary formalities to inform all parties with which they have recurring direct debits or direct deposits of the change in banks. All of these steps must be carried out within a maximum of 12 business days. The new system is free for the client.

Meanwhile, those parties are legally required to inform the client/employee within 10 business days that they have received their new bank details and notify them when the change will come into effect.



Change of loan insurance

Loan insurance reform came into effect in October 2015, after it was mandated by the 2014 Hamon law. It allowed borrowers to substitute loan insurance policies taken out with their bank or an insurance company with the policies of another institution within the 12 months following the issuance of the loan offer.

The banks give each client with a real estate loan **a personalised fact sheet** listing the analytical criteria that will help them understand whether the amount of guarantees under the old and new policies are equivalent.

To improve the implementation of this system, banks, insurance companies, brokers and consumer associations defined a common list of required minimum guarantees.

From this comprehensive list, each bank selected **11 criteria** that matched its minimum requirements for each loan (plus four additional criteria if there was 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 10 business days of receiving the new policy.

For the last year, the system for establishing whether guarantee amounts are equivalent has been applied by all appropriate professionals and institutions. This was already reflected by a clear improvement in guarantees offered and by significant declines in the price of this type of insurance throughout the market.



CCSF

PROGRESS REPORT ON LOAN INSURANCE
GUARANTEE EQUIVALENCE, NOVEMBER 2016

Changes in banking mediation

In France, banking mediation underwent some well-known changes in 2015, including the creation of a Mediation Assessment and Evaluation Commission, which was responsible for updating the list of consumer ombudsmen that would be sent to the European Commission.

The Mediation Assessment and Evaluation Commission included the FBF ombudsman on this list.

In their 2015 report, the independent ombudsman that ensures the role of ombudsman for a certain number of banks (the others having their own one) explained that beyond **a better knowledge of the existence of an ombudsman by costumers**, the increasing number of mail received is due to the **ability to directly refer to the ombudsman online through the website** (<http://lemediateur.fbf.fr>) **or by sending an email**.

2,328

CLAIMS FELL WITHIN THE SCOPE OF THE FBF OMBUDSMAN, OUT OF 4,182 RECEIVED IN 2015

Source: FBF Ombudsman's 2015 Report

Mediation requests are primarily related to: payment methods (fraudulent use of bank cards and online payments), account operations (procedures for closing an account) and credit transactions (notifications sent to clients and response deadlines). Legal disputes over pricing fell significantly.

Eckert law / unclaimed policies

One year after the law on inactive bank accounts and unclaimed life insurance policies came into effect, nearly €3.7 billion in assets had been transferred to the Caisse des Dépôts et Consignations (CDC) and were waiting to be claimed by beneficiaries.

For banks, this represented **5.5 million inactive bank accounts and passbook savings accounts transferred** in 2016, i.e. **€1.9 billion**, including ordinary securities accounts, equity savings accounts (PEA) and SME equity savings (PEA - PME) accounts.

The average amount transferred was €345.

Banks worked closely with the CDC and were extremely proactive in identifying inactive bank accounts. They contacted account holders before reactivating them and, if required, transferring the relevant amounts to the CDC.

WHAT IS AN INACTIVE ACCOUNT?

A bank account is deemed inactive if no transaction has been carried out within a 12-month period and if, over this same period, the account holder - or their representative - has not in any way contacted the bank, or carried out any transaction in another account opened in their name. Interest payments and deductions of fees and commissions related to management, closure or products and services related to these accounts were not considered transactions.

If the account holder died but none of their beneficiaries laid claim to the assets and deposits registered to the account in the 12 months following the date of death, the account was deemed inactive.



Throughout 2016, bankers carried out important reporting and educational work by providing information tools to the public, such as Brief Educational Guide No. 29: What happens to inactive accounts?



SUPPORT FOR FINANCIALLY VULNERABLE POPULATIONS

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

The right to basic banking services extended in Europe

The right to basic banking services has been in place in France for approximately 30 years. The procedure used to guarantee the right to basic banking services makes it possible for a person who does not have a bank account, if a bank has refused to open an account for them, to ask the Banque de France to appoint a bank that should, under the terms provided under the law, open an account for them with free basic banking services. This applies even for people on the national register of household credit repayment incidents or the central cheque register (listing people for whom at least one bank has withdrawn the right to issue cheques or use bank cards), or who are overindebted.

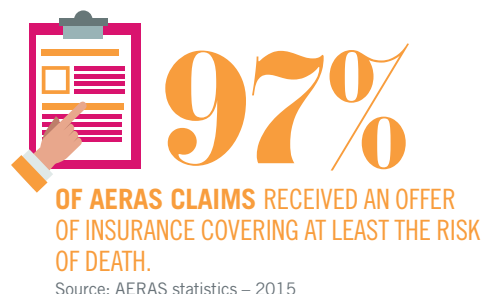
Regulatory texts published at the end of December 2016 gave the right to basic banking services to everyone living in European Union member states.

AERAS agreement: creating the right to be forgotten

The AERAS (Insurance and Borrowing with Serious Health Risks) agreement, which entered into force in January 2007 and has been expanded on a regular basis ever since, is a unique platform in Europe that is the result of an agreement between banking and insurance professionals, associations of patients and consumers, and public authorities.

The amendment to the AERAS agreement includes an agreement on the right to be forgotten, i.e., the right of a person taking out loan insurance not to disclose whether they have had cancer if at least 10 years have passed since the end of their treatment regimen. This period is reduced to five years if the treatment was for childhood cancer.

This is a major step forward to ensuring survivors can be insured. As a result, they can **take out loan insurance under the same terms as a person who has never had health issues**, without being excluded, and without having to pay additional premiums due to their previous illness.



In February 2016, **a reference table** was adopted by the AERAS agreement's governing bodies. It established, for six different types of illness (viral hepatitis C, testicular cancer, thyroid cancer, certain types of breast cancer, melanoma, and cervical cancer), specific periods that start at the end of treatment and after which, if these periods

have elapsed without recurrence of the cancer, survivors can obtain insurance under conditions that are similar to the standard. This table will be updated in accordance with advances in treatment and available epidemiological data.

Prevention of overindebtedness: a historic drop in the number of claims



The banking industry makes regular efforts to combat overindebtedness and protect the most vulnerable populations: by **lending responsibly**, offering **support and education programmes** in the field to the populations in question and **creating appropriate and effective prevention tools** that can reduce overindebtedness.

Banks also implemented several measures to help clients who filed cases that are admissible to the overindebtedness commission. The bank is committed to keeping their main account open and offers them, if necessary, services that are more appropriate for their situation.

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,
- reviewing financial issues with the client,
- suggesting payment, account management or credit solutions that are appropriate for their situation,
- providing information on a third party that could help them.

Providing support for households in difficulty is key to helping overindebted individuals.

The FBF works with banks to develop partnerships with associations outside the Paris region in order to provide better field support for vulnerable populations.

The numbers bear witness to the industry's dedication: for the second year in a row, the number of claims filed with the offices of overindebtedness commissions fell, **with a decline of 5.9% in 2015 and an additional 10.9% in 2016.**

Budget Advice Centres



French banks participated actively in efforts related to the national social inclusion and anti-poverty plan. They helped establish and launch

a pilot programme for Budget Advice Centres (Points Conseil Budget, or PCB). As such, a number of banks and the FBF participated in the Steering Committee that defined the role of PCBs. PCBs are intended to serve all households seeking information, assistance and even support in managing their budgets. **The goal is to help inform and educate households on budgeting in order to prevent or resolve their issues.**

The pilot began in 2016 in four regions and was organised and steered by a monitoring committee, of which FBF was a member. Through a series of discussions with PCBs, this committee dealt with matters related to the reception and monitoring of the individuals receiving support, as well as on the preferred structure for coordinating all of the PCBs. The monitoring committee discussed the best way to expand the PCB programme.

04

INNOVATION & SECURITY

The banking sector is leading a deep digital transformation that is steering it to reinvent its relationship with its clients by developing new solutions. This, and the arrival of new entrants, is making security concerns the focus of attention.



THE DIGITAL
REVOLUTION



THE NEED
FOR SECURITY



THE DIGITAL REVOLUTION

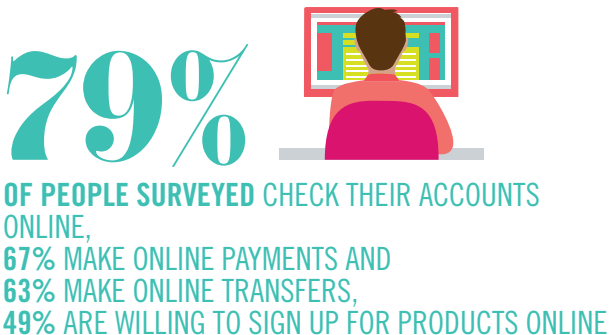
Banks participate in the digital sector. They offer their clients mobile apps, online banking services and innovative payment methods. They are natural leaders in the French digital finance sector.

Innovation is part of the banks' DNA

Bank digitisation is nothing new (the first websites are more than 15 years old and mobile applications date back nearly 10 years), but its pace is increasing rapidly.

All of the banks' strategic plans place digital technologies and the digital transformation front and centre.

Digital technology accelerated changes in how the banks' clients use their services. The results of the 2016 BVA image survey of banks demonstrated this:



Source: BVA image survey of banks - 2016

There is a real correlation between developing digital solutions and the local branch relationship model. In fact, according to this study: 70% of French people were satisfied with their advisor, for **56% the "ideal banking model" was based on a dedicated advisor that monitored them personally**,

and 54% said that the development of digital banking services allowed them to visit their branch less frequently.

As such, digital technology strengthens the traditional cornerstones of the French banking model: **local roots, service and security**.



2016 RB INNOVATION AWARD

For this edition, Marie-Anne Barbat-Layani, Chief Executive Officer of the Fédération Bancaire Française (FBF), presented the 2016 RB Innovation Award to Paycar (a simple, secure alternative to bank cheques) and Cashway (a solution that allows Internet users without payment cards to make online payments).

This award, created by Revue Banque in partnership with the FBF, is meant to honour unusually innovative initiatives in fields such as socially responsible finance, innovation for businesses or day-to-day life, or even alternative payments.

All of the innovative initiatives introduced by Fintechs are eligible for the RB Innovation Award. It is awarded by the public: Internet users who have chosen their favourite innovation from a shortlist of ten candidates.



Banks and Fintech companies

The number of players in the Fintech sector grew significantly in the last 18 months. The French ecosystem is robust. The collaboration between banks and Fintech companies is critical, because banks play a major role in developing the ecosystem of digital finance in France. They support the development of Fintech companies by financing them, using the services they develop and even acquiring them if necessary.

The major banking groups have, for the most part, established permanent entities for collaborating with startups: incubators, innovation hubs, etc. **These partnerships improve the entire financial industry and open up new opportunities that will benefit clients.**



FBF is an active participant in industry initiatives that support the Fintech sector, such as the Finance Innovation competitiveness cluster. As such, FBF and the Finance Innovation cluster jointly presented the white paper **“BANKS AND FINTECH: INNOVATION ISSUES IN RETAIL BANKING”**

It explores a number of innovative areas and shares its vision of the bank of the future. Fintech proposals are focused on six strategic priorities:

- **Advisory services and digital products:** expanding the role of the bank advisor in the face of new players and digital products and services;
- **Client empowerment:** the client is better informed. How do we redesign the customer experience?
- **Trust, security and data:** increasing bank security and trust in the digital era;
- **The sharing economy;**
- **Risks and regulation;**
- **Employees and HR.**

This unprecedented strategy brought together nearly 300 leaders at banks and Fintech companies, along with researchers, who helped write the white paper.

Simple, secure innovation

The national committee on non-cash payments (CNPS) was established in April 2016 to coordinate the adoption of **the national payment method strategy**.

FBF serves as its vice-Chairman and actively contributes to discussions and proposals regarding point of sale (POS) payments, remote payments, promoting innovation, etc.

Banks are committed to developing **innovative, secure and efficient payment methods** that meet users' needs. As such, four years after its launch, contactless payment is an increasingly widespread practice among French residents.

Progress in 2016 has been very good. **605 million contactless payments were made (+158% compared to 2015) for a total of €6.2 billion (+150% compared to 2015).**



“INSTANT PAYMENT”

The European Commission, via the Euro Retail Payments Board (ERPB), announced that it wished to create a new European payment method. This would implement instantaneous transfers, an electronic retail payment solution that would allow funds to be credited to an account almost immediately (in less than 10 seconds). An analysis of conditions that must be fulfilled to enable development of this new payment instrument was also conducted by CNPS. The Committee will launch technical projects with the goal of standardising the methods of rules and securing these instant payments.

In terms of equipment, more than 63% of bank cards in circulation are contactless-enabled, and more than 500,000 retailers accept this form of payment.

1 in 4 payments 
UNDER €20 IS MADE USING CONTACTLESS TECHNOLOGY.

Source: GIE CB - 2016 Review

The digital single market in Europe

In 2016, the digital single market strategy completed its first year. This is the EU's plan to create a digital single market that is free and secure. It allows individuals to make online purchases beyond their national borders, and businesses to sell throughout the entire EU, no matter where they are located in the region. This strategy has three objectives: improving access to digital goods and services in Europe for all consumers and businesses, creating the right conditions to expand and develop digital networks and services, and stimulating the growth of the European digital economy.

FBF contributed significantly to the preparation of the **“Digital Vision Paper”** steered by the European Banking Federation (EBF). This document presents the banking industry's proposals regarding the implementation of the digital single market to the European Commission. They cover the most fundamental aspects of the digital world, such as electronic ID (e-ID), data, the cloud, cybersecurity, payments, etc.

Within France, the banking industry has started to look at electronic ID.



THE NEED FOR SECURITY

The digital transformation must retain the trust of our client by guaranteeing the security of personal data and funds. It is the banks' number one asset, and the basis of the client relationship.

Security and trust

For years, banks have made major investments to maintain a high degree of security and comply with the new European regulation on payment services, which require that strong authentication for internet payments be reinforced.

The development of online retailing and new entrants in the payment services market should not jeopardise this security. As such, when digitising their services, banks have developed increasingly sophisticated remote authentication systems such as 3D Secure (delivery of an authentication code by SMS) or innovative new security solutions such as dynamic visual crypto codes on payment cards.

The same rules for the same activity

Protecting client data and funds are matters in which banks will never compromise.

The regulations governing banking activities should also apply to new entrants both large (GAFA) and small (like some Fintech companies). Not only is the very security of the financial sector and the end customer at stake, but also compliance with the rules of fair competition.

Technological progress must also mean advances in protecting personal data and transaction security. **We must not forget that “a system is only as secure as its weakest link”.**

OBSERVATORY FOR PAYMENT CARD SECURITY



In 2015, for the second year in a row, the Observatory has noted a reduction in card payment fraud in France, which dropped to 0.040% from 0.043% in 2014. The report also emphasised that it is the first time that fraud has declined in three major transaction categories: POS payments, withdrawals and remote payments. At 0.009%, the fraud rate for POS payments is at a historic low. This includes contactless payment fraud, which is at 0.019%. The Observatory pointed out that this low fraud rate proves that this payment method is secure, specifying that such fraud can only occur if the card is lost or stolen.

Banks are constantly working to improve security on remote card payments.

Source: Banque de France

Protecting client data

With **the Payment Services Directive (PSD2)**, the European Commission has allowed new non-banking businesses (payment initiators and aggregators) to enter the payments market. Aside from threats to payment service security that may hold back these new entrants, their economic model raises the question of how clients' personal data will be used.

Given that DSP2 came into force in January 2018, the FBF has heavily invested in the European Banking Authority's regulatory security standards, which govern account access for services initiating payments and aggregating data. The FBF is promoting the concept of strong client authentication using a risk-based approach and secure communications. The industry is analysing the possible creation of an API (Application Programming Interface: IT solution that provides applications with standardised and secure methods for communicating with each other and exchanging services within this framework). The FBF participates in European discussions on developing communications standards (ERP projects).

Fighting cybercrime

Cybersecurity is an increasingly important concern for banks, which are taking measures to detect and react as early as possible in the event of payment fraud or attacks on information systems. In light of this, **FBF and the police Cybercrime Branch have joined forces, signing a partnership agreement**. This cooperation is part of a European strategy devised by Europol and the

EBF, which aims to step up anti-cybercrime efforts. The FBF is also conducting prevention initiatives throughout France and participates in **local meetings between banks and their SME clients to raise awareness about wire transfer fraud** (more than 500 SMEs educated), or speaks to police representatives on "security in the banking sector".



THE RESILIENT PARIS FINANCIAL CENTRE

The Paris financial centre took part in the "EU-SEQUANA 2016" crisis management drill, organised by the Paris Police Department. More than 90 stakeholders representing a large number of sectors (government services, healthcare, private companies, telecoms, transportation, etc.) took part in this exercise, intended to simulate major Seine flooding in the Ile-de-France region. The involvement of the banking and financial sectors focused on operational problems such as: supplying ATM, the circulation of cash-in-transit vehicles, liquidity management for the banking system, industry communications in response to rumours, etc. Participants were highly motivated and ensured the exercise was truly a success.

05

RESPONSIBLE BANKING

French banks have long been involved in societal issues such as anti-money laundering and counter terrorism financing, funding the energy transition and financial education.



ANTI-MONEY
LAUNDERING AND
COUNTER TERRORISM
FINANCING



FIGHT AGAINST GLOBAL
WARMING



FINANCIAL EDUCATION



ANTI-MONEY LAUNDERING AND COUNTER TERRORISM FINANCING

2016 was an important year from the perspective of regulations on the detection of moneylaundering transactions and especially, given the circumstances, terrorist financing.

French banks are fully committed to combating the financing of terrorism.

A European action plan

As such, the banking profession welcomed the action plan announced by the European Commission on 2 February 2016. It includes several positions upheld by French banks:

- the application of the same anti-money laundering and counter-terrorism financing rules to all stakeholders, including virtual currency transfer platforms within the scope of the Anti-Money Laundering Directive,
- the creation of national bank account registers (such as FICOBA⁽¹⁾),
- better resources and cooperation between financial education units.

The FBF expressed its desire for a total prohibition on anonymity for prepaid cards, and not, as provided for by the European Commission, stronger regulations that require that the identity of the holder be verified only once a certain amount is exceeded.

This measure is still being studied at the European level.

Regulations are changing in order to adapt to new terrorist practices.

The financial sector as a whole is heavily involved. Banks and credit institutions remain the leading contributors. [...] although they generally involve low-to-middling amounts, reports made by banks and credit institutions represented 72% of 45,226 reports in 2015.



BRUNO DALLES

HEAD OF TRACFIN
“ANTI-MONEYLAUNDERING AND COUNTER-
TERRORIST FINANCING RISK IN 2015: TRENDS
AND ANALYSIS” REPORT, DECEMBER 2016

(1) This register lists all bank accounts opened in France, as well as similar accounts (savings accounts, securities accounts, etc.). It includes the following information: the bank where the account is held, the identity of the holder(s), and the main characteristics of the account (account number, type, etc.).

The French public authorities have signalled an urgent need to limit cash transactions by reducing payment ceilings. They also regulate the use of prepaid cards by requiring issuers of such cards to obtain information on activating and loading the card and to retain such information for five years. The FICOBA bank account register has also been expanded to include payment accounts.

New TRACFIN reporting procedure: **“call for vigilance ”**

The law passed in 2016 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. This reversal of information flows enhances the central role played by the banking system in this fight.

The 4th European Directive

This directive was enacted into French law by the order of 1 December 2016 and includes several new provisions, including the monitoring of “politically exposed persons”. This had already been established for foreign citizens and will be expanded to French nationals.

Certain public figures and their entourage will also be subject to much closer monitoring. The industry is waiting for a clear definition of the kind of people affected by this regulation so that it can implement these provisions.

“ANTI-MONEYLAUNDERING AND COUNTER-TERRORIST FINANCING RISK IN 2015: TRENDS AND ANALYSIS” REPORT, DECEMBER 2016

This report, published by TRACFIN, highlights the “development of new risks resulting from the digital revolution in financial services”:

- payment services providers,
- crowdfunding platforms,
- mobile payment systems,
- the use of virtual currencies.

These all pose a challenge for professionals, and especially banks, which have already applied a series of measures such as reducing anonymity for prepaid card users and automatically reporting to Tracfin any cash deposits/withdrawals that total more than €10,000 per month.





FIGHT AGAINST GLOBAL WARMING

French banks play a key role in financing the energy transition.

The universal banking model allows French banks to support the energy transition by working alongside investors, individuals and businesses, and offering solutions that promote a lower-carbon economy.

For FBF, the 2015 United Nations Climate Change Conference (COP21) was a major opportunity to educate the public about the critical role played by banks in financing the **energy transition**. This effort continued at the 2016 edition of the conference at Marrakech (COP22).

The investment requirements to meet the 2°C goal, estimated at more than USD 53 billion, are important for implementing the Paris Agreement.

1st

IN EUROPE IN TERMS OF GREEN ISSUANCES, FRANCE IS NO. 2 WORLDWIDE.

source: Paris Europlace, 2016

To increase climate-friendly investments and reduce their cost, the FBF put together a proposal: **“the green supporting factor”**, a factor that supports the financing of the energy transition based on three items:

- At the regulatory level, prudential treatment that is adapted to financing and investment for the energy transition. This should result in lower requirements with respect to raising capital for financing and investment in such assets.
- The eligibility of assets will be based on Climate Bond Initiative terminology, the French label for the Energy and Ecological Transition (TEEC) or any other recognised certification with the same characteristics.
- All economic stakeholders will be eligible: individuals who purchase an eco-friendly vehicle, SMEs the financing of an eco-friendly buildings by SMEs, the financing of businesses that build infrastructure for solar or wind power production, etc.



The FBF's proposal was presented at the European level by the EBF, and was promoted to European and International authorities (European Commission, European Parliament, UN, G20/B20, expert groups, NGOs, etc.). It is also an integral component of the French banks' contribution to the "Paris Green and Sustainable Finance Initiative" coordinated by Paris Europlace.

NEARLY

11%



**OF GLOBAL GREEN BOND ASSETS
COME FROM THE FRENCH MARKET,
OUT OF A TOTAL OF NEARLY USD 100
BILLION.**

source: Paris Europlace 2016

**Most green investments
are financed by banks...
by granting loans and
raising capital for green
investments, they are the
leading sources of financing
for renewable energy.**



G20 GREEN FINANCE GROUP
PARIS EUROPLACE "GREEN SUSTAINABLE
FINANCE INITIATIVE" REPORT, NOVEMBER
2016

INITIATING A TREND: FROM COP21 TO COP22



Preparation for COP21 in Paris inspired unprecedented effort on the part of the French financial sector. Various announcements were made by French banks, insurance companies, asset management firms and institutional investors, especially with respect to reducing their investment in industries involving coal, increasing investment in renewable energy, launching funds investing in green infrastructure and in projects related to the energy transition, etc.

COP 22 in Marrakech provided an opportunity to reaffirm the banking sector's active participation in financing the energy transition. To align actions taken by French and Moroccan banks, FBF and its Moroccan equivalent GPBM established a COP21/ COP22 Liaison Committee. The Green Supporting Factor, an FBF initiative, was presented within the COP22 framework. French banks also attended Climate Finance Day in Casablanca.





FINANCIAL EDUCATION

The banking industry is central to financial education
 FBF and 105 local committees conduct educational initiatives in the field.

Financial education

For more than 15 years, the **Les Clés de la Banque** financial literacy programme has offered educational and preventive tools for individuals, young people, entrepreneurs and social workers that provide essential support to vulnerable communities.

A collection of 80 brief educational guides on key topics is provided and distributed for free. The collection is updated on a regular basis and enhanced with new topics, which are also available on the “les clés de la banque” website, which received more than 4.5 million visits in 2016.

As part of European Money Week, the FBF repeated its **“Invite a Banker to Class”** campaign. In 2016, more than **150 financial literacy workshops** made it possible for instructors, with assistance from local bankers, to educate 3,300 children between the ages of 8 and 11 about concepts related to money through the use of a board game. The initiative was praised by the Ministry of National Education, Higher Learning and Research.



“Banks and communities”

French banks, aside from their role in the country's economy, also play an important role in society. As local stakeholders, they are committed to social inclusion, diversity and corporate citizenship policies. In order to better publicise these initiatives, the FBF published the **“Banks and Communities”** document, which provides details on banks' diverse, concrete initiatives to promote entrepreneurship, professional inclusion, financial and budget literacy and social cohesion.

The banking industry has already sponsored more than **6,000 young people** from these communities to help them find jobs.

The banks' commitment is shown in their support for these young people throughout their accredited training programmes, particularly through apprenticeships and “professionalisation contracts”. The allocation of educational funds to schools focused on professional and social integration such as **“Second Chance Schools”** (i.e., schools offering secondary school diploma programmes for young people between the ages of 18 and 25) provided assistance for 1,600 young people.

FBF also participates in developing entrepreneurship within communities. Since January 2016, it has been a **sponsor of Les Déterminés**, helping train young entrepreneurs from the communities on how banks work and on financing solutions. FBF is rallying volunteer bank employees throughout France to provide entrepreneurs with tutoring in line with their needs.

06

REGULATION & SUPERVISION

The challenge lies in taking a consistent European and national approach to regulation in order to fully finance the economy and ensure European financial sovereignty.



A REGULATORY
CHALLENGE



A BANKING UNION THAT
IS BEGINNING TO PUT
DOWN ROOTS



A REGULATORY CHALLENGE

All of the work carried out by regulatory bodies still has the same objective: guaranteeing the stability of the global financial system and preventing serious crises by establishing international rules.

Stability of the sector: mission accomplished

Since 2008, the banks have made significant progress in terms of increasing their stability, and important advances have been made in terms of banking regulation: the development of the banking union, the establishment of the single supervisory mechanism and of a resolution mechanism, etc.

The G20 recognised that capital levels are now satisfactory, stating at the launch of new Basel Committee projects that they should not lead to a significant increase in regulatory requirements.

increase capital requirements in light of the proportion of loans on bank balance sheets.

Tightening prudential rules would have a significant negative impact on the use of bank lending to finance the economy, especially in Europe and in France.

Preserving the financing model against US competition

The Basel Committee's efforts are focused more on standardising risk measurement and the model they tend to use is that favoured by English-speaking countries.

The new rules may call into question the internal risk measurement models that allow French and European banks to calculate their capital requirements. This would reduce the risk sensitivity of the models used by the banks.

Through its joint actions with other European industrial banking and non-banking associations, FBF regularly warns the Committee of the potential impact on financing for the European economy, most of which is handled by banks.

It asks for the risk sensitivity of banks' internal models to be maintained so that they can better assess risks and maintain financial stability. The final decision of the Basel Committee has been postponed to 2017.

We do not want rules that, under the pretext of equal treatment for all banks around the world, create a disparity that would negatively impact European banks.



MICHEL SAPIN
MINISTER OF THE ECONOMY AND FINANCE
at ECOFIN on 10 November 2016

Completion of the post-crisis regulatory agenda through the finalisation of the **"Basel III"** reform is currently underway. However, the Basel Committee's work on comparability of risk measurements could



UNDERSTANDING THE DIFFERENCES BETWEEN THE FRENCH SYSTEM AND THAT OF ENGLISH-SPEAKING COUNTRIES. EXAMPLE: REAL ESTATE LENDING



- Fixed-rate real estate loans
- Guarantee system
- Assessing the borrower's solvency (*loan-to-income*)
- *Loans recorded on bank balance sheets*



- Variable-rate real estate loans
- Use of a mortgage
- Assessing the value of the financed asset (*loan-to-value*)
- *Securitised loans (move off bank balance sheets)*

Planned regulatory developments could call the French lending model into question. The market could shift from fixed rate loans to variable rate loans. The volume of loans granted could also be impacted because the regulator is planning on capping leverage (ratio of capital to balance sheet size), which determines banks' ability to make loans. Guarantees could also be called into question. All of this would have stronger consequences on financing for first-time home buyers and rental investments.

Efforts made by the French Senate, National Assembly, government and the governor of the Banque de France ultimately persuaded the international regulator not to penalise the French system at this stage.

A more strategic vision of the Capital

Markets Union (CMU)

At the end of January 2017, the European Union launched a public consultation on the CMU mid-term review. Its objective is two-fold: to prepare a progress report on European legislative initiatives launched since 2015 and to ask market players about the positive and negative aspects, as well as what improvements should be made to the Commission's action plan.

FBF has always been extremely supportive of the themes covered by the Commission with respect to the CMU, which were initiated in 2015. In fact, French Corporate and Investment Banks (CIBs) are leaders among European CIBs and in position to play a keyrole in the evolution towards more market financing, made necessary by regulations.

The major themes of the FBF's position are related to the following items:

- Review the CMU action plan subsequent to BREXIT;
- Think about a new, more economic approach that is not so dependent on regulations to capitalise on the strengths of the European market and its economic players;

- Maintain the banks' active role in financing the economy;
- Stop introducing new regulations for a period of time and review some of the negative effects of regulations adopted since 2008;
- Try not to take an overly inflexible approach to standardisation at the European level;
- Promote a long-term financing and investment policy; and
- Review the governance and responsibilities of European supervisory authorities (especially ESMA).



See the
video
on fbf.fr

CIBs play a useful and fundamental role in financing and hedging corporate and infrastructure risk as well as public sector risk. The FBF produced an educational film based on client testimonials that give concrete explanations of how CIBs helped meet their needs: IPOs, hedging foreign exchange risk, bond financing, private placements, issuance of green bonds, etc.

Another crowded agenda of major reforms in 2017

In terms of regulations, aside from the Basel Committee discussions currently underway, there are still some new rules to implement and important debates that must be settled in 2017. This involves striking a balance between tightening prudential requirements and effectively financing the economy.

- The application in 2018 of the **new IFRS 9 accounting standard**. This standard defines new rules on credit risk impairment and threatens loans to SMEs by requiring that they be covered by provisions for statistical risk of losses from the moment they are approved.

- **European Union financial transaction tax (EFTT)**. Explored by 10 countries under a stronger cooperative framework, the main impact of this plan, if it comes to fruition, will be to penalise corporate financing in the countries in question. The tax runs counter to the Capital Markets Union, and will cause harmful fiscal fragmentation in the financial markets, particularly the Paris Bourse.

- **The implementation of the PRIIPs regulation** has ultimately been postponed by one year. The FBF, in conjunction with other professional associations, asked to further postpone the implementation of the text so that standards ensuring clear and transparent disclosures for investors could be defined.

- Meanwhile, details regarding **the European deposit insurance scheme (EDIS)** have yet to be hammered out. In this regard, the profession is recommending a reinsurance system in which national deposit insurance funds can be maintained and in which the soundness of beneficiary banks must be verified in advance.

- **The revision of the CRR/CRD 5 legislative package** proposed by the European Commission on 23 November 2016 includes some improvements with respect to financing the economy, such as the extension of the scope of the “SME supporting factor” for loans greater than €1.5 million and the new tweaks to the prudential framework for banks with respect to infrastructure finance. There are still some areas that could be improved, such as the implementation of the Basel Standard on interest rate risk (IRRBB), which would make it possible to maintain the French system of financing home loans at fixed interest rates.

- **The BRRD2 proposal** changes the provisions on the prevention and resolution of banking difficulties. It introduces TLAC⁽¹⁾ into European law, specifies the calculation of MREL⁽²⁾ and the hierarchy of bank creditor. The purpose of these systems if any problems arise is to provide a cushion that the bank can use, protecting depositors and tax payers. Some aspects must be clarified in order to prevent a double penalty for major banks, which must apply both ratios (MREL and TLAC).

51,600

**CHANGES IN BANK REGULATIONS
WORLDWIDE IN 2015.**

source: Boston Consulting Group, March 2017



(1) Total Loss Absorbing Capacity requirement

(2) Minimum Requirement for Own Funds and Eligible Liabilities provided for in the BRRD Directive

A BANKING UNION THAT IS BEGINNING TO PUT DOWN ROOTS

The Banking Union is a key tool for the European Economic and Monetary Union to consolidate the European banking system, thereby creating an environment that helps promote economic growth.

The first pillar of the Banking Union is the **Single Supervisory Mechanism (SSM)**, which was established on 4 October 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 10 French banks, have been placed under the direct supervision of the ECB.

The growing importance of the SSM

The banking sector supported the initiatives aimed at strengthening single supervision. Since it was established, the SSM has made considerable strides although expectations are still very high. This new supervisory system presented some major steps forward in a very short term at the European level. These initial successes contributed significantly to the legitimacy of the Banking Union. In our current context, which is marked by strong international competition, we must take into account any challenges to the stability and competitiveness of the European financial sector when preparing international regulations.

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

SINGLE DEPOSIT INSURANCE SCHEME

Not set up at this time.

THE THREE PILLARS OF THE BANKING UNION

19 countries of the eurozone

It would therefore seem necessary that the European Union and the eurozone, through its single banking supervisor the ECB, exert as much influence as possible in the debates over fundamental choices and defend their strategic interests within these bodies.

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 was an important step forward that defined the principles governing bail-ins, and makes it possible to force shareholders and bondholders to contribute rather than governments or taxpayers. This directive requires banks to hold enough resources to deal with any difficulties (known as the MREL: Minimum Requirement on Eligible Liabilities). In France, the application of the BRRD Directive was accompanied by a reform of the ranking of bank creditors published in the *Journal Officiel* in December 2016. It changes creditor rankings and allows credit institutions to issue securities in a new category that would absorb losses in the event of liquidation.

The SRM, which became fully operational on 1 January 2016, implements the BRRD within the Banking Union.

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)**. This is meant to finance any bank resolutions after the bail-in process has been exhausted. This fund, which has effectively been in place since 1 January 2016, is being built up by annual contributions from banks, under the direct supervision of the ECB, with the objective of gradually reaching the target of at least 1% of the amount of guaranteed deposits of all authorised credit institutions in all participating member states, i.e., a total amount of approximately €55 billion (in 2024). French banks will contribute more than their share: €15.5 billion, representing 30% of the fund's target amount.

€11.8

BILLION
WERE PAID TO THE SRF IN 2016.

Source: ACPR - June 2016

The single deposit insurance scheme, the third pillar of the Banking Union is the subject of work in Brussels. The FBF advocates a reinsurance system and requests that all recipient banks complete a "entry test" as was the case for those under direct supervision of the ECB.

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.

364 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, which then becomes their professional body. The central bodies of cooperative or mutual banking groups and the AFB⁽²⁾ are also fully-fledged members.

A staff of 120 employees

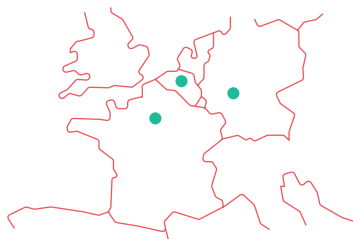
120 permanent employees work at FBF and AFB, in conjunction with more than 350 bankers who take part in commissions and committees. These bodies meet regularly to formulate positions and to launch initiatives. Decision-making relies on preparatory work by experts from the FBF and technical committees or 80 ad hoc working groups. 1,300 working meetings are held every year. Discussions with members are also central to the work carried out by the FBF.

(1) including 130 subsidiaries or branches of foreign banks at 1 January 2017.

(2) The French Bankers Association (AFB), representing 205 banks, sits on the FBF's executive committee. It is the professional body of commercial banks in the social sphere (bank collective labour agreement).

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 **105 regional and departmental committees**. This network calls upon the services of 2,500 bankers who regularly meet with local business and government representatives and convey the positions of the industry.

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

Several campaigns were conducted with the media, institutions and in the field, through bank committees, to explain the value of banking institutions in serving the economy and society as a whole.

The major themes included:

- **responsible financing of the economy**, the top strategic priority of French banks,
- **the digital transformation** of the banking industry, in keeping with a long tradition of innovation,
- banks as a key symbol of **trust and security**,
- **financial literacy**,
- **financing of the energy transition**.

The structure of the FBF has adapted to its environment

The FBF has adapted to meet the needs of the banking industry.

Digital coordination was fully established with the creation of a “Digital Group” that unites the industry's leading banks.

Banks in their national, European and international environments

The FBF continues to promote the best practices of the French banking sector at the European and international levels, and is conducting joint initiatives with the banking associations of other countries (Germany, Netherlands, Japan), especially with respect to the work of the Basel Committee.

The FBF's influence is growing within international banking associations, especially the International Banking Federation (IBFed).

A Federation of members

FBF reaffirmed its role as the voice of the banking profession. Its importance has grown with respect to major challenges within Europe, internationally or in relation to the attractiveness of the Paris financial centre as a result of Brexit.

90%

OF THE OFFICIAL CONSULTATIONS TO WHICH FBF RESPONDS ARE THE WORK OF EUROPEAN AND INTERNATIONAL AUTHORITIES.

Source: FBF

ORGANISATIONAL STRUCTURE



Philippe Brassac

Chair of the FBF
Chief Executive
Officer of Crédit
Agriculture S.A.



Jean-Laurent Bonnafé

Vice-Chair of the FBF
Director & Chief
Executive Officer of
BNP Paribas



Nicolas Théry

Treasurer of the FBF
Chair of
Confédération
Nationale du Crédit
Mutuel



Frédéric Oudéa

Chief Executive
Officer of Société
Générale



François Pérol

Chair of the
Management Board
of BPCE Group



Rémy Weber

Vice Chair of the AFB
Chair of the Executive
Board of La Banque
Postale

EXECUTIVE COMMITTEE



Marie-Anne Barbat-Layani

Chief Executive Officer of the FBF



Christian Lothion

Security
Adviser

GENERAL MANAGEMENT BOARD



Benoît de La Chapelle Bizot

Director General Delegate

Investment banking and markets
Jean Tricou

Banking and accounting
supervision
Bertrand Lussigny

Tax expertise
Blandine Leporcq

Legal and compliance expertise
Alain Gourio

European and international
public affairs and export finance
Benjamin Quatre



Valérie Ohannessian

Deputy Chief Executive Officer

Communications, Members,
Regional Activities and Surveys
Anne-Catherine Sename

Retail and remote banking
Pierre Bocquet

Payment systems, risks and
methods
Willy Dubost

French institutional relations
Nicolas Bodilis Reguer

Digital coordination
Jérôme Raguénès



Ermelina Debacq

Corporate Secretary
Chief of staff

Human Resources
Ermelina Debacq

Financial
Sophie Denhaene

IT and organisation
Frédéric Guinet

General services
Emilie Dessaux



Philippe Gendillou

Director of Social Affairs

Social relations
Michèle Rossi

Observatory and surveys
Béatrice Layan

Significant

JANUARY

- 01 The law on inactive bank accounts and unclaimed life insurance policies came into effect.
- 01 The Single Resolution Mechanism (SRM) and the bail-in reforms came into effect.
- 28 The FBF signed a partnership with Les Déterminés, an organisation that encourages young people in communities to become entrepreneurs.

FEBRUARY

- 01 Launch of a free public website to compare bank fees.
- 04 AERAS agreement: adoption of a reference table establishing the time periods for the “right to be forgotten” to come into effect for specific illnesses.

MARCH

- 7-18 The Paris financial centre took part in the “EU-SEQUANA” crisis management drill for once-in-a-century flooding.
- 14-18 The FBF holds the second edition of the “Invite a banker to class” initiative as part of the “European Money Week” campaign.

APRIL

- 21 The Basel Committee released the final version of the standard on Interest Rate Risk in the Banking Book (IRRBB).
- 28 A new class of simplified bonds was created: “mini-bonds” that will allow retailers to issue instruments similar to bonds.

MAY

- 04 The FBF participated in the 2016 Fintech Summit, and reminded banks and Fintech companies that they should cooperate.
- 18 The Senate adopted a proposed resolution aimed at protecting the French real estate lending system under Basel negotiations (IRRBB).

JUNE

- 04 Publication of the law stepping up the fight organised crime, terrorism and their financing, which regulates the use of prepaid cards and gives Tracfin the right to communicate with payment system managers.
- 08 Speech given by Frédéric Oudea, Chair of the FBF, for the “Paris Financial Centre: Welcome to Europe!” forum, jointly organized by Paris Europlace and Paris-Ile de France Capitale Economique.
- 23 FBF press conference: French banks acknowledged Brexit.
- 29 2016 Business & Climate Summit in London - The FBF signed a joint declaration by stakeholders in the Paris Financial Centre in favour of the fight against climate change.

JULY

- 01 The European regulation on electronic identification and trust services for electronic transactions in the internal market came into effect.
- 01 Launch of the campaign promoting bank card payments for small amounts with retailers.

02

Rencontres Économiques d'Aix en Provence: Marie-Anne Barbat-Layani, Chief Executive Officer of the FBF, gave a talk on “Finance as a weapon of mass construction.”

04

The FBF adopted four professional recommendations aimed at improving the transparency and comprehensibility of pricing for short-term financial products for professionals and VSEs.

5-6

2016 Paris Europlace Financial Forum - the FBF welcomed measures announced by the French public authorities to promote the Paris Financial Centre: new tax regime for expatriates living in France, lower corporate tax, and the one-stop shop for welcoming companies.

12

Basel IV: the conclusions of ECOFIN Council were a reminder of the necessity to stabilise the regulatory banking framework, and specified that there should not be a significant increase in capital requirements.

12

The FBF and the French police signed a partnership agreement on the fight against cybercrime.

13

The French Bankers Association (AFB) and the French Agency for Education through Sports (APELS) signed a partnership agreement as part of a professional integration programme giving talented young players from athletic clubs the chance to find long-term employment with a bank.

29

EBA stress test results were released, confirming the strength of French banks and the suitability of their universal banking model.

events in 2016

SEPTEMBER

- 05 Publication of the 2016 Image Survey of Banks: with positive opinions at 68%, the image of French banks was at its highest in 10 years.
- 26 Publication of an order introducing three thresholds for interest rates on fixed-rate real estate loans, depending on their initial term.
- 28 The FBF prepared a proposal for successfully financing the energy transition: the “Green Supporting Factor”, offering preferential regulatory treatment for bank assets that promote the energy transition.

OCTOBER

- 04 The FBF, FFA and AFG asked the European Commission to postpone the effective date of the PRIIPs regulation. This postponement was granted. The regulation will now come into effect on 1 January 2018.
- 12 The Basel Committee published a definitive version of the TLAC standard, which modified the Basel III standard on the definition of capital within the framework of the implementation of the BRRD directive.

NOVEMBER

- 10 Publication of an order that revised the formula calculating the interest rate on Livret A passbook savings accounts in order to ensure consistency between market interest rates and interest income for French people.
- 15 The French National Committee on Non-Cash Payments (CNPS): Michel Sapin and François Villeroy de Galhau emphasised the positive outcome of commitments made by the banking profession to support the national strategy on payment instruments.
- 17 The FBF and the Finance Innovation division presented a white paper on “Banks and Fintechs: innovation drivers in retail banking” before 200 professionals from the banking and Fintech sectors.
- 23 The European Commission presented a set of measures aimed at reforming the EU’s banking sector: proposed modifications of the CRR/CRD, BRRD and MRU documents (known as “CRR2 package”).
- 28 The FBF and German banking associations once again warned the French and German Ministers of Finance of the unfavourable effects Basel IV would have on the European economy if the project were to be adopted in its current form.

DECEMBER

- 01 An order enacted the fourth anti-money laundering directive into French law and strengthened the French anti-money laundering and counter-terrorist financing system.
- 9 Publication of the law on transparency, anti-corruption and the modernisation of the economy (Sapin II), which included a set of provisions on banks. It modified banks’ creditor rankings and created a new category of TLAC-eligible senior debt securities issued by banks.
- 20 The FBF welcomed the creation of the National Committee on Financial Education, which will be operationally implemented by the Banque de France.
- 23 Publication of the order on access to payment accounts with basic features, which enacted the PAD directive of 23 July 2016, especially the new requirements imposed on banks in terms of the accessibility of banking services.
- 29 The 2017 French budget introduced certain provisions on reforming the system for withholding income tax at source, improved the tax regime for expatriates living in France and expanded the scope of the tax on financial transactions to include intraday transactions while raising the tax rate.

Glossary

EBA European Banking Authority

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

AFCEI 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)

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

CET1 Common Equity Tier One (core tier one ratio)

CPME French SME employers association

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)

ERPB Euro Retail Payments Board. Created by the European Central Bank, the Euro Retail Payments Board replaced the SEPA (*Single Euro Payments Area*) Council.

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

SRM Single Resolution Mechanism

SSM Single Supervisory Mechanism

PRIIPs Packaged Retail and Insurance-Based Investment Products

TLAC Total Loss Absorbing Capacity

U2P Local Businesses Union

EFTT Tax on European Financial Transactions



Get all the latest news about the banking sector,
our interventions and publications.

OUR WEBSITE *fbf.fr*

To receive the information in real time,
you can register to:

- Our alerts
- Our press releases

PRIME TIME



Our monthly newsletter

TWITTER *@FBFFrance*



Consult our current events, interventions in the media,
our participation in various events...

LINKEDIN



Consult our publications, our interventions
in the media, our positions...

YOUTUBE *FBFFrance*



Consult our videos

DEDICATED WEBSITES

lesclesdelabanque.fr
aveclespme.fr



Document devised and produced
by the French Banking Federation's
Strategy, Communication, Members department

18, rue La Fayette
75440 Paris cedex 09
T. 00 33 (0)1 48 00 52 52

fbf.fr

Draft completed on March 2017
Translated from the French version on April 2017
Printing completed on April 2017

Head of publication:
Marie-Anne Barbat-Layani

Deputy head of publication:
Valérie Ohannessian

Editor:
Céline Castex

Legal filing Q2 2017
ISSN in the process of being attributed

Graphic design and production:
Allégories Créations

