

THE BANKING INDUSTRY IN 2017



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editorial



Marie-Anne Barbat-Layani

Chief Executive Officer of the FBF



Jean-Laurent Bonnafé

FBF Chairman

The elections in 2017 completely renewed France's political landscape. There are high expectations of the banking industry; we can and must meet them.

FINANCING

In 2017, French banks actively financed the economy, which is their number one strategic priority. They consolidated their results and were once again the champions in Europe in terms of lending to businesses, which rose by +6.2% year-on-year. The French lending model is unique and highly secure.

The solidity of our banking industry is a real asset for our economy. With their dense network coverage, banks are close to their customers - both retail and businesses - and they play a crucial role in directing savings to financing businesses.

INNOVATION

Banks are reinventing their local presence and their customer relationships with digital solutions, and they are extremely active in the digital space. Through their investments, their innovation and their capacity to stimulate the Fintech ecosystem, they are the natural leaders of the digital financial movement in France, with one guiding principle: the security of their clients' data and their money. Banks stand apart as strong, innovative players at the heart of digital Europe.

COMMITMENT

French banks are extremely committed to supporting financial education, the professional integration of young people, community life, banking and digital inclusion and financing the energy transition.

Their proposal of a Green Supporting Factor to accelerate the financing of the energy transition is being considered by the European Parliament and the European Commission.

Banks also play a fundamental role in preventing money laundering and terrorism financing, and we are proud of this responsibility.

PARIS IS BACK!

Finance is one of France's leading strategic industries. Four of the eurozone's nine biggest banks are French, and their major decision-making centres are located in Paris. With Brexit, enhancing France's attractiveness is essential and the leading French banks have confirmed that they will naturally transfer their staff to Paris.

Another positive sign was the decision to relocate the European Banking Authority to the French capital. Paris has the potential to become the eurozone's main financial centre and lead the way for European finance, which must reaffirm its ambition and its values.

NEW CHALLENGES

The Basel Committee's agreement of 7 December 2017 threatens to undermine the financing of the European economy, which is largely based on lending, and its good practices in terms of financing infrastructure, small businesses and real estate.

In 2018, the implementation of this agreement must take into account the specific features of European financing models and ensure real recognition of the eurozone in the application of banking regulation.

French banks will be involved in the government's work on financing businesses and they will be actively working on several other projects, including

preparations for the future of finance in Europe with the finalisation of the Banking Union and the relaunch of the Capital Markets Union, the implementation of the PSD2, the application of the General Data Protection Regulation and MiFID II, the review of the EMIR, etc. They will also address the major challenges arising from the digital revolution, the fight against cybercrime and financing the energy transition. The banking industry will pull out all the stops to meet these challenges and the more than 370,000 people who work in French banks will continue to perform their role as bankers, serving their clients every day.



*French banks are
the leaders in Europe
in terms of financing
the economy*

Draft completed on 20/04/2018

KEY FIGURES

FOR THE FRENCH BANKING INDUSTRY



EUROPEAN LEADERS

4 OF THE TOP 9 BANKS IN EUROPE ARE FRENCH

The Banker - July 2017

96%

OF SMEs HAD THEIR INVESTMENT LOAN APPLICATIONS APPROVED

Banque de France
4th quarter 2017



2,293 BILLION EUROS IN LOANS TO THE ECONOMY

Banque de France - December 2017

2.5%

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

INSEE - 2016 / FBF



47.8%

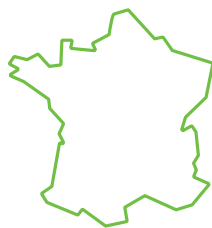
OF HOUSEHOLDS HAVE A LOAN

Observatory for Household Loans
2017

965

BILLION EUROS IN LOANS TO BUSINESSES

Banque de France - December 2017



347 BANK
37,261 BRANCHES
(i.e., 556 branches per
1 million inhabitants)

ACPR 2018 - ECB 2016



BANKING APPS ARE NOW AMONG THE APPS THAT THE FRENCH CHECK THE MOST OFTEN, AFTER THE WEATHER AND SOCIAL NETWORKS

Sondage Opinion Way - May 2016

8 OUT OF 10

FRENCH PEOPLE CHECK THEIR BANK ACCOUNTS ONLINE

BVA-FBF 2017 image survey of banks



€502,5 MILLIONS

COST OF EUROPEAN BANKING SUPERVISION FOR 2018 WITH 25% AT THE EXPENSE OF FRENCH BANKS

EBC - April 2018



40%

OF CARD PAYMENTS UNDER 20 EUROS ARE NOW CONTACTLESS

GIE CB - December 2017

82

MILLION PAYMENT CARDS IN FRANCE

ECB - 2016



01

THE FRENCH BANKING INDUSTRY



The French universal banking model
has demonstrated its resilience. It is the leader in Europe.



**A STRATEGIC
INDUSTRY**



**AN INDUSTRY
FACING CHALLENGES**

A STRATEGIC INDUSTRY

The French banking industry is the leader in Europe.
In 2017, French banks continued
to consolidate their financial structure.

A universal banking model serving all clients

The **universal bank**, which is unique to France, is an original banking business model that encompasses **all banking businesses within a single institution**: retail banking, corporate and investment banking, asset management and insurance. French banks therefore 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 financing services, etc. This business model diversifies revenue sources by client type and region.

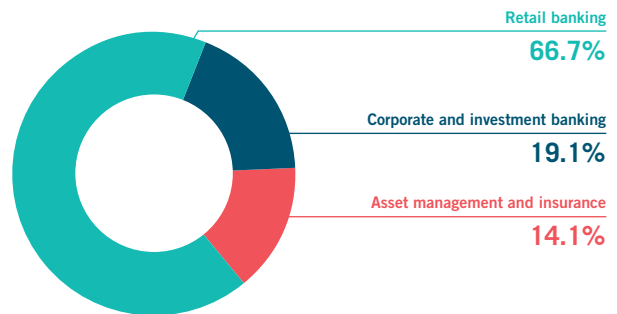
The French banking system [...] is a robust system. It's an asset for the French economy, providing dynamic financing for our economy.



FRANÇOIS VILLEROY DE GALHAU
GOVERNOR OF THE BANQUE DE FRANCE
INTERVIEW WITH TV CHANNEL BFM BUSINESS
ON 6 JULY 2017

BREAKDOWN OF NET BANKING INCOME BY BUSINESS LINE FOR THE BIGGEST FRENCH BANKING GROUPS IN 2016

Source: ACPR



A robust sector

In an increasingly competitive European and international environment, the competitiveness and attractiveness of the financial industry is a key component of a country's economic sovereignty. **With banks featuring highly in international rankings and major decision-making centres based in France, finance is a strategic industry in our country.**

The eurozone's G-SIBs - three out of seven of which are French - carry 46% of loans to individuals and 40% of loans to businesses in their balance sheets (EBA-EU Wide stress testing 2016).

Four French banks are ranked among the top nine European banks and the top twenty worldwide (The Banker, July 2017 - ranking by balance sheet size).

In 2017, French banks continued to improve their financial structure.

At the end of 2017, the six biggest French banking groups all had CET1 (Common Equity Tier 1) ratios higher than minimum requirements (11.50%). The average unphased CET1 ratio was 14.05%, compared with 13.62% a year earlier, an improvement of 0.43 point.

A high-performance sector

Despite the unfavourable environment of persistent low interest rates and unstable financial markets, the total net banking income of the 4 biggest French banks amounted to **€122.9 billion** in 2017, (-0.3%), compared with **€123.3 billion** in 2016. By keeping a tight rein on costs (which fell by **21.0%** in 2017), banks generated net income of **€20.1 billion** in 2017.

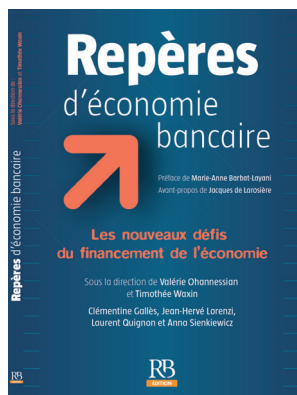
A dynamic player in recruitment and training

The French banking industry plays a major role in the jobs market and hired 41,100 people in 2016.

It is one of the leading private sector employers in France. **370,300 people** work in banks, accounting for 2.3% of private sector salaried staff in France.

Trends in bank employment reflect the structural changes underway in the sector:

- the proportion of employees working in managerial grade roles increased from 55% in 2015 to 61% in 2016;
- the percentage of new hires with a post-graduate qualification increased from 41% to 44%;
- the age profile of employees has evolved, with a fall in under 30s and a corresponding rise in those aged 30-44, particularly among managers, a sign of the rising average age on recruitment;
- customer service activities still account for nearly 2/3 of new hires, but the number of compliance and IT jobs is growing.



PUBLICATION OF “KEYS TO THE BANKING ECONOMY: THE NEW CHALLENGES OF FINANCING THE ECONOMY” - MARCH 2017

This book, written by economists and professionals from the banking industry, has six chapters with illustrations to describe how the economy is currently financed. The book is informative and was written for all readers, to explain the issues behind financing the economy and how financial regulation has become a political and competitive tool.

Investing in employee qualifications and professional development is a key issue for banks. In 2016, the banking industry dedicated 4.3% of its payroll to **staff training** (the average among French businesses is 2.7%).

French banks also place high importance on **work-study programmes** that provide many young people with on-the-job training while they pursue their studies. In 2016, they signed over 6,300 work-study contracts, half of which were under “professionalisation”

vocational training schemes. These new contracts added to the 8,300 people already working in banks under work-study programmes.

The rising level of qualifications of new hires and on-the-job training leading to qualifications have driven up the overall level of qualifications in the banking workforce.



www.observatoire-metiers-banque.fr

THE FIRST JOINT SECTOR-WIDE REPORT ON ARTIFICIAL INTELLIGENCE

In December 2017, the Observatory of Banking Activities published the first joint sector-wide report on Artificial Intelligence (AI). Today, there is a profusion of AI projects and experiments that in time will affect all bank departments and all levels of the hierarchy. The report's main conclusions are that it is important to remember that AI is currently only scratching the surface and that there is time to establish a position with respect to the far-reaching transformations it will produce.



AN INDUSTRY FACING CHALLENGES

The French banking industry is facing many challenges: cybersecurity, digital expansion, its capacity to finance the economy despite regulatory pressure, the impact of Brexit... All these topics are addressed in the following pages of this report. The profitability of retail banking, sector competitiveness and the attractiveness of the Paris Financial Marketplace are also among the issues French banks are addressing.

The profitability challenge

The low interest rate environment is continuing to negatively impact retail banks: the net interest margin is contracting and 2017 saw another wave of home loan renegotiations. The increase in commission income does not fully offset the decline in net interest margin. Return on equity (ROE) stood at 6.5% in 2016. This level of profitability is significantly lower than it was before the crisis (over 10%, source ACPR).

In December 2017, the Haut Conseil de Stabilité Financière (the French Financial Stability Board) called for particular vigilance on pricing policies, the profitability of new home loans and their impact on the structure of banks' balance sheets. It is also paying close attention to the financial sensitivity of businesses in case of a rise in interest rates.

Taxes are undermining the sector's competitiveness

High taxes are weighing heavily on the sector's competitiveness and on its ability to finance the economy and employment. Banks are coming under increasing tax pressure, paying around **€14.8 billion in taxes and contributions in 2016** (excluding social security charges).

In addition, bank employment was directly impacted by the **payroll tax**, which is also very high, amounting to an average of €2 billion per year.

Between 2010 and 2017, French banks incurred additional costs (payroll taxes, taxes and contributions to the resolution fund) estimated at **over €12 billion**.

The Constitutional Council's ruling that invalidated the 3% tax on dividends led to costly decisions for the banking industry in order to make up the shortfall in the public accounts. The first amended Finance Act for 2017 imposed an extraordinary additional corporate tax charge on companies generating revenues of over €1 billion. The banking industry will pay over €1.3 billion in respect of this additional tax.

The attractiveness of the Paris Financial Marketplace

Finance is a strategic industry for our country and our banks feature highly in international rankings and have major decision-making centres based in France.

The FBF welcomes the exceptional efforts made by the public authorities

to enhance the attractiveness of the French financial marketplace and to make Paris the European Union's leading financial centre after Brexit. This gave a powerful signal to the economic players in the Paris financial centre that are driving this shared ambition and working on a daily basis to enhance its competitiveness. The presence in France of four of the eurozone's largest banks and several foreign banks is a considerable advantage.

Brexit is both a challenge for banks

- which must prepare for the change in a short space of time (March 2019) - **and an opportunity**. The leading French banks have confirmed that they will transfer their staff to Paris. **Nearly one thousand jobs** could be affected.

But the size of the teams that move to Paris also depends on regulatory decisions regarding the exercise of financial activities within the European Union, regulation on market activities and the location of market infrastructure, which are major considerations. France must also provide reassurance by making its fiscal policies more predictable and more stable.

The measures announced by the government partially provide this. These include changes to labour costs, which are particularly high in the financial sector due to the specific tax on wages. The abolition of the marginal tranche of this tax, which applies to high salaries, in the 2018 Finance Act is a particularly vital measure.

The exclusion of deferred bonuses from the calculation of severance pay and the cap on social security charges from a certain level of pay would round out the government's sweeping reforms of the French Labour Code aimed at giving businesses more visibility and flexibility.

These decisions provide a response to the main barriers cited by the FBF's foreign bank members as the reasons dissuading them from developing their business in France. **They are therefore powerful signals for international financial establishments seeking to move to France** or develop their business here.

The industry welcomes the removal of measures that significantly reduce the country's attractiveness, such as the financial transaction tax on intraday trading.

BREXIT: PARIS WILL BE THE NEW HOME OF THE EUROPEAN BANKING AUTHORITY



The FBF welcomes the decision to move the European Banking Authority to Paris. This is a clear nod to the attractiveness of the Paris Financial Marketplace. It is also a tribute to a remarkable campaign led by the public authorities, who fully understood the financial sector's strategic importance. French banks made a conscious decision to develop the Paris financial centre, one of the only financial centres in continental Europe with a comprehensive ecosystem comprising major financial players, large clients, a highly-diversified range of financial activities and recognised centres of expertise, notably in asset management, corporate and investment banking, private equity, Fintech and market infrastructures. At its heart are France's leading banking groups; their corporate and investment banking activities already have a strong presence in Paris and the greater Paris area, with nearly 41,000 employees, as do their asset management subsidiaries, which employ more than 16,000 people.



FINANCING

The local coverage provided by the banking networks allow banks to support the development of businesses and finance individuals' projects.



BUSINESSES



HOUSEHOLDS



BUSINESSES

Financing businesses is French banks' top strategic priority. Business development has a big impact on growth, employment and the strength of the French economic fabric.

French banks, Europe's champion lenders

France had the strongest rate of growth in lending to businesses in Europe, with **+6.3%** at the end of 2017 (+1.9% in the eurozone) (ECB - December 2017).

Total loans to businesses amounted to **€965 billion** (+6.2% year-on-year), including €679 billion in investment loans (+6.8% year-on-year) and €227 billion in cash flow financing (+5.3% year-on-year) (Banque de France - December 2017).

Lending is very secure in France: French banks' non-performing loans (NPL) ratio is much lower than the average of eurozone banks, at 3.17% versus 5.15% in the third quarter of 2017 (ECB - 2017).

With their unique universal banking model, French banks are able to offer a full range of services to meet businesses' financing requirements.

Easier access to credit for SMEs and VSEs

SMEs and VSEs are the leading beneficiaries of loans to businesses in France. Outstanding loans to SMEs totalled **€394 billion**, an annual increase of 4% (Banque de France - December 2017).

96% OF SMEs HAD THEIR INVESTMENT LOAN APPLICATIONS APPROVED

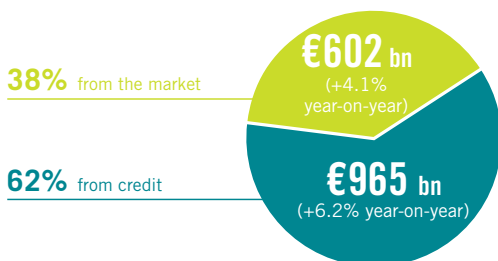
Source: Banque de France - 4th quarter 2017

Year-on-year, total outstanding loans to VSEs increased by 4.9% to **€257 billion** (Banque de France - December 2017).

Interest rates are still low, at an average of 1.75% in France, compared with 2.11% in the eurozone (ECB - December 2017).

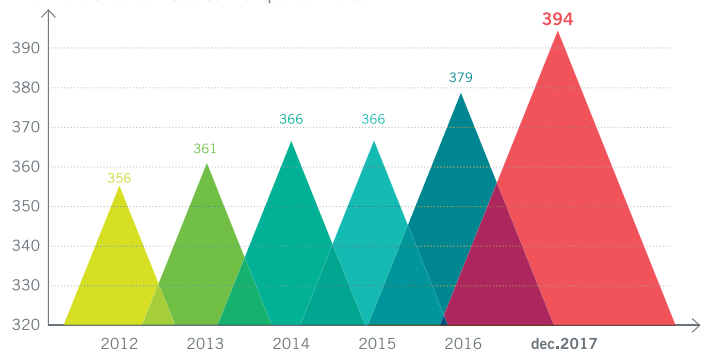
BREAKDOWN OF SOURCES OF FINANCING FOR BUSINESSES

Source: Banque de France - December 2017



LOANS GRANTED TO SMES IN FRANCE

In billions of euros - Source: Banque de France



Information to VSEs and SMEs

In October 2017, the FBF and the Banque de France entered into **a partnership to enhance information provided to SMEs and VSEs across the French regions.**

The FBF provides the Banque de France's staff who meet with VSE directors with educational material under the "Les Clés de la Banque" programme, to help them in their development.

They can easily find answers to all their practical questions about financing in the thirty mini-guides available on the lesclesdelabanque.com website ("Entrepreneurs" page) and on the aveclespme.fr website, which also provides illustrations and testimonies by business leaders.

The distribution of these information tools is made easier as the Banque de France's VSE correspondents are systematically put in touch with one of the FBF's 105 local committees. These committees located in the French departments and regions are vital points of contact for all local economic and institutional partners. They organise forums and information meetings for SMEs.

The FBF regularly hosts **meetings with SMEs**. In 2017, the FBF committees met with 3,600 entrepreneurs at meetings on financing,

FACILITATING INVESTMENTS BY SMES: FRENCH BANKS SUPPORT THE MEDEF'S MAI INITIATIVE

FBF supports the MEDEF's digital platform ("Medef Accélérateur d'Investissement" (MAI), which puts SMEs into contact with investment funds that could provide additional funding as a complement to bank lending, as well as providing training and support.

relations between SMEs and their banks and setting up or passing on a business.

The Action Plan for Corporate Growth and Transformation

The banking profession contributed to the broad consultation on the Action Plan for Corporate Growth and Transformation (PACTE) issued by the government in October 2017. Banks are the main providers of financing for businesses, and SMEs in particular. They are playing a major role in this initiative to improve how savings are assigned to financing businesses which is a real challenge with the implementation of MiFID II.

French banks drafted 17 proposals and submitted them to members of parliament and the Minister of Economy and Finance at the public submission in December 2017.



In particular, the banking profession recommends **creating a long-term bank savings product.**

The application of the flat-rate withholding tax to PEL home savings accounts spells the end of this product, which was the only long-term on-balance sheet savings account, and thereby compromises long-term financing of the economy, in particular for businesses.

It is therefore necessary to create a long-term savings product for individuals to ensure the continued existence of long-term financing resources that are invested in businesses. It will also provide the opportunity to renew dialogue with the savers to encourage them - within the perimeter of the respective regulations - to consider savings products that invest in businesses' capital.

The banking industry has also put forward measures to encourage entrepreneurs to open up and increase their company's capital (tax incentives, reinvestment of profits in capital).

A MAJOR MEETING FOR PRODUCTIVE INVESTMENT: BANKS AT THE HEART OF THE PACTE

The “Grand rendez-vous de l'investissement productif” (major meeting for productive investment) is an unprecedented mobilization of financial sector players set up on 22 January 2018 at the French National Assembly by Amélie de Montchalin, LREM member of parliament for Essonne and LREM group coordinator on the parliament finance committee. Banks are represented by Nicolas Théry, member of the FBF Executive Committee and Chairman of the Confédération Nationale du Crédit Mutuel.

The meeting was opened by Prime Minister Édouard Philippe and closed by Bruno Le Maire, Minister of Economy and Finance.

Since then, work on how best to allocate savings to productive investment has continued. The FBF is participating in a working group led by Amélie de Montchalin, which is due to announce its conclusions at a public event at the National Assembly to be held in July 2018.

Financing businesses' digital transformation

On 1 December 2017, the FBF hosted a conference on Funding the Intangible and the challenges of digital transformation. The FBF invited experts and stakeholders to discuss these complex topics, including Fabrice Pesin, the national lending ombudsman and chairman of the Corporate Financing Observatory, Patrick de Cambourg, chairman of the French national accounting standards authority (Autorité des normes comptables) and Amélie de Montchalin, member of parliament for Essonne and a member of the French parliament's finance committee. The aim of the event was to produce concrete, practical proposals for banks' and businesses' practices to underpin work being carried out for the Action Plan for Corporate Growth and Transformation (PACTE).

The **proposals put forward by banks to facilitate the digital transformation** include:

- creating a new system for over-liquidating digital transformation investments;
- facilitating access to and simplifying procedures for EIB and EIF loans and guarantees. Banks use these solutions very little because of their complexity;
- allowing banks to apply a more favourable prudential treatment of software in order to foster innovation and improve competitiveness. Banks are among the biggest order originators in technology, generating a significant knock-on effect.





HOUSEHOLDS

Housing, private consumption, energy-efficiency improvements, banks finance individuals' projects. The percentage of households with loans increased sharply in 2017.

Banks provide financing to help people achieve their plans

Loans to individuals totalled **€1,160 billion**, an increase of 6.5% in one year (Banque de France - as at end-December 2017).

Outstanding home loans continued to rise: **+6.3% year-on-year, to €957 billion** (Banque de France - as at end-December 2017). A quarter of home loans are granted to first-time home buyers.

Home loan activity was particularly strong, **+5.7%**, ranking France top in the eurozone, which saw slower growth (+3.5%) (ECB - December 2017).

Borrowers are benefiting from low interest rates to buy a home: **1.61%** on average for fixed-rate loans, the lowest rate in the eurozone (Banque de France - December 2017).

The average rate on new loans has more than halved since 2012. **This has given consumers' purchasing power a major boost.**

Real estate - the preferred investment

Over 30% of households have an outstanding home loan (Observatory for Household Loans - January 2018).

Individuals' home ownership plans are mainly financed by banks: **€954 billion** in outstanding loans as of end-December 2017, +6.3% over one year (Banque de France). France ranks number one in terms of growth in home loans, with a growth rate twice as high as the eurozone average (ECB - March 2017).

Banks' responsible approach to granting this type of loan is based on an analysis of the client's repayment capacity (and not on the value of the property as in some countries). French home loans are among the most secure in the world for both banks and borrowers. The cost of risk is one of the lowest (according to the ACPR, it stood at €515 million at the end of 2016, or 5.9 basis points of average outstanding amounts), and home loans account for a very small number of cases of over-indebtedness (14.4%) (Banque de France).

150 

THE NUMBER OF HOMES FINANCED BY BANKS IN FRANCE EACH HOUR

Dynamic lending activity

The strength of lending for home buyers has been a key factor in the recovery in the housing sector, where 850,000 transactions were completed in 2016 and 377,000 new homes built (+10% over one year).

An increase in the number of households with loans

In 2017, the percentage of households with loans rose sharply to 47.8% (compared with 46.4% in 2016), with nearly 8 million households having taken out a new loan during the year, according to the latest report by the Observatory for Household Loans (January 2018).

The percentage of **households with home loans** continued to rise, to 30.8% (versus 30.7% in 2016), under the combined effect of strong demand and extremely favourable lending conditions. The number of households buying their first home reached one of the highest levels seen since the early 2000s (23.1%).

Those with plans to take out a home loan remain high, at 5% for 2017.

The rise in the overall number of households with loans was also due to the percentage of households with **consumer loans**, which rose from 25.5% in 2016 to 27.2% in 2017.

This trend was underpinned by an increase in loans obtained from a bank or credit institution (19.2% in 2017, compared with 18.1% in 2016).

Better lending conditions and rising purchasing power made French people slightly more optimistic. According to the Observatory, 62.9% of households thought that **their financial position had improved or stabilised** (compared with 62.5% in 2016 and 58.7% in 2015). Similarly, the portion of households who considered the amount of their loan repayments to be “acceptable or very acceptable” remained high (86% in 2017 versus 85% in 2016).

However, when interest rates are low, the method used to calculate the maximum legal lending rate limits lenders’ ability to set an interest rate that is suited to the borrower’s situation. As a result, **the current system does not entirely fulfil its goal of protecting borrowers**, because - on the contrary - it creates situations in which solvent individuals are refused credit.



**6 OUT OF 10
HOUSEHOLDS**
OWN THEIR MAIN HOME

Source: INSEE – 2016

03

DAY-TO-DAY BANKING

Banks offer each of their clients solutions and services that are adapted to their needs.



**SOLUTIONS AND
SERVICES ADAPTED
TO EVERYONE'S NEEDS**



**SUPPORT FOR
FINANCIALLY
VULNERABLE
CUSTOMERS**



SOLUTIONS AND SERVICES ADAPTED TO EVERYONE'S NEEDS

Banks are innovating and developing new solutions that facilitate everyday banking. Banking services account for a small, stable portion of households' budgets. A close relationship with customers and a local presence are central to the French banking model.

French people have a positive impression of their bank

The image of French banks has stabilised at a high level, confirming its steady improvement since 2010, and **2 in 3 French people have a positive impression of banks**. Nearly **8 in 10 have a good impression of their own bank** according to the BVA-FBF 2017 image survey of banks.

This survey showed that use of **digital banking services** is continuing to rise, enhancing the close relationship between banks and their customers. **Nearly 8 in 10 French people check their bank account online**. These services are continually getting better at meeting customers' everyday banking needs. 78% check their bank account online, 63% transfer money, 51% contact their customer adviser by e-mail and 39% use online simulators before signing up for a product.

Dense network coverage

With 37,261 branches, or 556 branches per 1 million inhabitants, banks have a strong local presence across France.

Banks are adjusting their networks by merging branches, but their **local presence is the hallmark of the French banking model**. The number of bank branches has fallen less in France (-2.7% between 2009 and 2016) than in other leading eurozone economies (-14.9%) (ECB - 2016).

Modest rise in fees

According to the 2017 report by the Observatory for Bank Fees (OTB), bank charges account for between 0.6% and 0.7% of households' budgets (3 times less than mobile phone charges, for example). **This percentage has been stable for 30 years**.

67% of banks that already charged account management fees did not change their tariffs. New fees remain in a narrow range, at around 2 euros per month.



CORINNE DROMER
CHAIRWOMAN OF THE FINANCIAL
SECTOR CONSULTATIVE
COMMITTEE (CCSF)

From 2018, the main trends in the principal fees will be known in February each year, when the OTB will announce the main changes in standard fees for the current year. The information will be based on new fee brochures and communicated on a non-weighted basis.

The new process for switching banks is working

Since the new bank account switching service came into effect in February 2017, **over 1,200,000 transfers have been processed**, and over 99% of customer requests were completed (source SEPAmail).

This free service allows banks to automatically and securely exchange the bank details needed for recurrent direct debits and transfers. It enhances existing bank account transfer services.

To transfer all their recurrent transactions (direct debits and credit transfers) to their new account, customers simply have to sign an **account transfer mandate** with their new bank. The bank then completes all the formalities on their behalf. The account transfer is made within 22 business days: a maximum of 12 days for the banks + 10 days for issuers, who must inform their customers that the change has been taken into account.



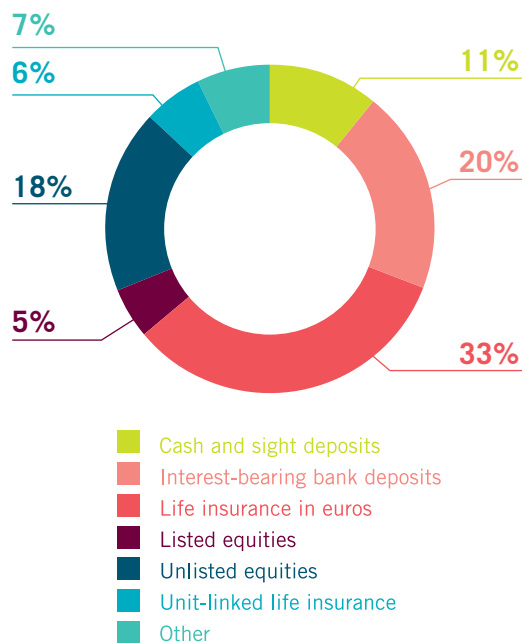
Annual cancellation of borrower's insurance

Since 1 January 2018, the possibility of cancelling home loan borrowers' insurance each year applies to all outstanding policies. This measure will encourage individualisation and reduce risk-sharing in the market by increasing customer segmentation and widening price differences based on customers' profiles, at the expense of solidarity between generations and personal situations.

The new model, a consequence of the new legal framework introduced in a few years, will doubtlessly penalise borrowers with higher risk profiles and the longest loan terms.

BREAKDOWN OF HOUSEHOLD FINANCIAL INVESTMENTS IN FRANCE

Source: Banque de France, Household savings and assets - 3rd quarter 2017



Savers still appreciate tax-free regulated savings products

In its annual report, the Observatory of Regulated Savings announced a 0.7% increase in regulated savings to €705 billion in 2016. The average rate of interest paid on bank deposits stood at 1.51% in France, much higher than in other leading European countries and above market rates. This difference has grown steadily over the past three years. It incurs considerable costs for banks, notably in terms of financing the economy.

Household savings are mostly deposited in guaranteed, risk-free accounts rather than in being invested in businesses' capital.

Banks need a long-term savings product in their balance sheets

The government's tax reforms (withholding tax) aim to simplify taxes on savings, responding to a recurrent request from the banking profession. However, the reform is not entirely appropriate, and it is generating collateral damage, in particular on the savings carried in banks' balance sheets: some products escape the new treatment (livret A passbook savings accounts, life insurance below €150,000), but there is one major victim: PEL home savings plans.

The application of the flat-rate withholding tax to PEL accounts is curbing the cash flows generated by this product, **indicating the end of the only long-term regulatory savings product carried in banks' balance sheets**, and thereby compromising long-term financing of the economy, in particular businesses.

It is therefore necessary to create a long-term regulated savings product for individuals to ensure the continued existence of long-term financing resources on banks' balance sheets.

These resources are needed to ensure long-term bank financing of both individuals' and businesses' investment projects. Banks' capacity to finance the economy must be reinforced, in particular in response to changes in the economic environment, the financial markets and interest rates.

THE NEW MIFID II

The new European Markets in Financial Instruments Directive (MiFID II) took effect on 3 January 2018. It has three main pillars, transparency, consumer protection and market efficiency.

It will bring about major changes for all companies active in the sector, including retail banks, market participants, intermediaries, asset management companies, etc. The scope of instruments covered by the directive has been extended considerably and it now covers nearly all financial products.

MiFID II enhances formal requirements and requires significant training of bank staff, in particular on the new rules governing the sale of financial instruments.

Banks have been preparing for these changes for many months, with the objective of proposing the right product to the right customer at the right time.



SUPPORT FOR FINANCIALLY VULNERABLE CUSTOMERS

French banks are committed to supporting financially vulnerable customers by offering them appropriate services and organising campaigns to raise awareness and prevent over-indebtedness.

Specific services for vulnerable customers

According to the annual report of the Banking Inclusion Observatory, progress can still be made to improve the banking situation of the 2.4 million people identified by banks as being financially vulnerable based on the criteria set out by law.

Banks are committed to supporting financially vulnerable customers and offer them a dedicated offer.

They have set up solutions to identify financially vulnerable customers at an early stage (AFECEI charter).



When a bank identifies a financially vulnerable customer, it will always propose a

meeting **to inform him about the specific offer of adapted banking services**. This offer gives the customer means of payment that limit the risk of incidents, in particular a bank card requiring authorisation for each payment. The maximum fee charged for this offer is €3 per month.

Customers who take up this offer benefit from a cap on processing fees in case of a payment incident (€4 per incident instead of €8, and €20 per month instead of €80).

Evidently, each customer is free to decide whether or not to sign up for this offer. In 2017, banks sent nearly 3 million letters to customers they had identified, 10% of whom signed up for the proposed offer. This result is very encouraging compared with the response rate among customers targeted by direct marketing campaigns, which is around 2-5%.

If the reasons for the customer's financial difficulties are structural rather than environmental, banks may recommend they seek support from ad hoc banking or non-banking structures from the public or private sector, such as associations or, in particularly complex situations, over-indebtedness committees, etc.

Partnerships with around 40 associations

The banking industry and associations in the social sector share the same goal of preventing financial hardship and supporting vulnerable populations. The “Les Clés de la Banque” programme complements the joint work carried out by the FBF Committees and social-sector associations.

Partnerships have been established with CCAS local social support committees (training for social workers), departmental councils, “Second Chance Schools” (schools offering secondary school diploma programmes for people aged 18-25), representatives of consumers’ associations in CTRC regional centres, etc. In 2017, **7 new partnerships** were signed with CTRCs.

Preventing over-indebtedness: a steady, record decline in the number of cases

In 2017, the number of over-indebtedness cases filed fell once again, with a decrease of 7% (181,123 referrals) after -11% in 2016 (194,194 referrals) and -6% in 2015.

The proportion of consumer loans in cases filed also declined.

The Banque de France has also observed a decrease in financial debt in relation to total debt since 2012. This trend continued in 2017 (75% versus 76.3% in 2016), while arrears on everyday expenses stabilised at 11.8%, after rising sharply (Banque de France Over-indebtedness Survey)

The right to basic banking services extended in Europe

The legal texts transposing the European Payment Account Directive were published at the end of 2016. They allow all persons legally residing in a European Union member country and not acting for professional reasons **the right to open an account in France.**



This provision took effect on 23 June 2017. It allows an individual residing in another European Union country and who does not have a bank account in France to ask the Banque de France to nominate a bank if they are refused an account. The nominated bank must open a deposit account for the customer with basic banking services free of charge (subject to the terms of the law).

04

RESPONSIBLE BANKING

French banks are committed to matters affecting society, such as financial education, inclusion, initiatives to facilitate the energy transition and the fight against money laundering and terrorism financing.



**FINANCIAL
EDUCATION**



INCLUSION



**ENERGY
TRANSITION**



**PREVENTING MONEY
LAUNDERING AND
TERRORISM
FINANCING**

FINANCIAL EDUCATION

The banking industry is central to financial education. The FBF and the 105 local committees organise many educational initiatives across France. Banking is real facilitator of inclusion.

“Invite a banker to class” initiative: a successful third edition

In 2017, 210 classes and over 5,000 pupils (+60%) around the country learned about how to manage a budget and use payment instruments. Since the programme was launched in 2015, over 10,000 pupils have participated in this event.



Marie-Anne Barbat-Layani, Chief Executive Officer of the FBF, visited Louise Michel school in St Denis, on 27 March 2017

Nearly 200 guest bankers, delegated by the FBF’s committees, represented the banking industry in 105 schools in 52 French departments.

This is the only financial education programme in France subject to an impact study. In 2017, Ansa (a French non-profit organisation) performed an assessment with indicators of the initiative’s results (impact on knowledge) and processes (impact of preparation) among a sample of 6 schools, 8 classes and 188 pupils.



The results of the study show the programme has a positive impact on pupils’ understanding of budget management, regardless of their level of mathematics skills. Just after the game, they have a better understanding of the notions of income, mandatory expenses and savings. They also made better thought-out budget choices, which were consolidated over time.

“Les Clés de la Banque”: 15 years of financial education

The website lesclesdelabanque.com enjoyed high levels of activity, with over 3.5 million visits in 2017, 43% of which were made from a mobile device. The website logged nearly 4.6 million pages visits and 130,000 downloads.

The most popular searches were for information on payments, cheques and cards as well as on loans and savings.

The series of mini-guides, which are regularly updated, grows each year as new subjects are covered. In 2017, 530,000 mini-guides were distributed.



02

INCLUSION

Inclusion is an important topic for the banking profession, which takes action in support of young people via partnerships

Action for entrepreneurship

The association “Les Déterminés”

provides training in how to become an entrepreneur, support for entrepreneurship and networking for future entrepreneurs from disadvantaged neighbourhoods. Since the start of its partnership in 2016, the FBF has helped around one hundred young entrepreneurs, 61% of whom were women.



Training day for the 4th class of “Les Déterminés” under the partnership with the French Banking Federation

Tomorrow's bankers

A partnership with APELS (French Agency for Education through Sports)

provides opportunities allowing talented young people from athletic clubs, who are marginalised in seeking employment, to find long-term work in the banking industry.

The training scheme jointly managed by APELS and the CFPB (a vocational training school for the banking industry) boosts participants' self-esteem and enables them to learn about the working environment and understand the basics of banking.

In 2017, 15 pupils from Paris graduated from **the first inter-bank class**.

Since 2015, **200 young people** have received a banking training course. 95% went into a professionalization contract. And the rate of hiring under permanent contract is about 80%, testifying of the quality of this training.

Testimonial



ZINEDINE RAFA

*Graduated in the second APELS class
Sales representative with an open-ended contract at
the Lille-Hellemmes branch of LCL*

I've loved sport for as long as I can remember and have played football since I was 4. I first thought about studying sports science, but when I learned about APELS and the Déclics Sportifs project, I decided to take part in the programme offered by APELS and LCL.

It's surprising to see the sector breaking down recruitment barriers to give opportunities to people with different profiles.

One of the main things that made me choose this programme was the prospect of securing an open-ended contract, which is very rare in current times. APELS and LCL provide the best possible conditions to help me be successful professionally, and I'm ready to seize the opportunities they are giving me.





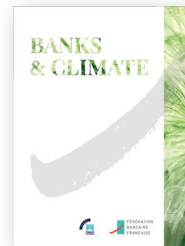
ENERGY TRANSITION

French banks are facilitating the energy transition by working alongside investors, individuals and businesses. They offer solutions that encourage a low-carbon economy.

French banks are champions of the energy transition

To illustrate how French banks are leading the way in financing the energy transition and their initiatives in favour of the climate, the FBF published a report entitled “**Banks and Climate**”, which describes their action in this area. French banks have been committed to combating climate change for a long time. As experts in providing financing solutions, they help businesses and individuals with their projects to foster a low-carbon economy.

They are the leaders in green bonds: 25% of global green bond issues are made by French banks - a percentage well above their global market share. As businesses, French banks have also adopted environmentally-friendly policies that are followed by their 370,000 employees.



8 GUIDES TO SUCCEED IN EVERYDAY PROJECTS FOR THE ENVIRONMENT

This collection of mini-guides to green practices furthers the goal of providing practical information about banking products and services in favour of the energy transition. They cover *Building a home according to climate standards, Green savings and investments, Choosing a green vehicle, Eco-renovating your home, the Eco-PTZ (interest-free eco-loan), the Eco-PTZ for commonhold associations, Saving energy, and Greener business travel.* A factsheet at the end of each guide summarises the key points and gives readers tips on easy-to-adopt environmentally-friendly practices in everyday banking.



The Green Supporting Factor

The French banking industry wants to accelerate the energy transition. This is why the FBF is calling for the roll-out of the **Green Supporting Factor (GSF)**, an incentive mechanism for incorporating climate risk into their lending and investment decisions. This mechanism would speed up the channelling of climate investments and reduce climate risk in banks' balance sheets, consistent with the objectives of the Financial Stability Board.

The GSF will apply to “green” bank loans for all stakeholders, private individuals, SMEs, large corporations and governments. Eligible green assets would be determined according to uniform criteria at the European level, which could be built on existing initiatives or labels, such as the Climate Bond Initiative or the French TEEC certification.

This measure is supported by the European Commission and is part of its action plan for sustainable finance. It is also promoted by the European Parliament and a large part of the European banking industry.

Speeches



VALDIS DOMBROVSKIS

*Vice-President of the European Commission
“Greening finance for sustainable business”
(Paris, 12 December 2017)*

European banks play a major role in financing the economy. To incentivise lending, we are looking positively at the European Parliament's proposal to amend capital charges for banks to boost green investments and loans by introducing a green supporting factor. This could be done at first stage by lowering capital requirements for certain climate-friendly investments, such as energy-efficient mortgages or electric cars. We could model it on existing capital requirement adjustments for investments in SMEs or high-quality infrastructure projects.



CLIMATE FINANCE DAY

To showcase the solutions provided by the financial sector and accelerate commitments to combat climate change, the French Ministry for the Economy and Finance and Paris EUROPLACE, via its Finance for Tomorrow initiative, organised a new Climate Finance Day on 11 December 2017. This event was held the day before the “One Planet Summit” international climate summit hosted by the French President, and it attracted high-level international representatives from the financial industry, the supervisory and regulatory authorities and public-sector banks. The most innovative projects to accelerate financing of the energy transition and adaptations to climate change were presented. Transparency and risk management, financing solutions for the real economy and public-private cooperation were also discussed.





PREVENTING MONEY LAUNDERING AND TERRORISM FINANCING

The banking industry is firmly committed to the fight against money laundering and terrorist financing. This is a priority for the french banking industry.

Stricter rules

New measures to combat money laundering and the financing of terrorism were adopted in 2017. Banks are actively working to implement them.

The decree of 1 December 2016 enacting the 4th Anti-Money Laundering Directive established a register of beneficial owners.

This meets a long-standing request from the banking profession, as the transparency of legal structures is a fundamental part of the fight against money laundering and terrorist financing. However, the register is not yet functioning in full: it needs to be compiled using data that is accurate and accessible in a timely manner using simple, automated procedures. The industry has also reiterated its call for the central register of the beneficial owners of trusts to be reactivated.

“L’appel à vigilance” (Action alert) is a new tool that enables the French financial intelligence unit, Tracfin, to notify banks of transactions or persons showing a high risk of money laundering or terrorism financing so the banks can increase their diligence for a specified period of time. Banks played an active role in the definition of this new form of cooperation.

The automatic exchange of information,

which has been in place since 2017 and involves 100 countries, allows the tax authorities, with the assistance of banks, to identify accounts held abroad by their tax residents.

The national system for freezing assets

was reformed by decree on 24 November 2016 to improve its consistency and effectiveness. It has been harmonised with the European system. Banks are constantly reinforcing their systems to implement asset freezes.

Looking ahead to the 5th AML

Directive

The new Anti-Money Laundering Directive further tightens rules covering transparency and cooperation to combat money laundering. It should facilitate the identification of politically exposed persons at the national and European levels by the creation of national lists and a consolidated European list.

75% OF SUSPICIOUS TRANSACTION REPORTS TO TRACFIN

WERE MADE BY BANKS IN 2016 (72.3% IN 2015).

Source : Tracfin 2016 Annual Report



INNOVATION & SECURITY

Banks are digital companies and innovation is part of their DNA. They encourage their customers to use digital solutions but are extremely vigilant about security.



A DIGITAL ECOSYSTEM



NO COMPROMISES
ON SECURITY



A DIGITAL ECOSYSTEM

Digital solutions are reinforcing the traditional fundamental components of the French banking model: a local proximity, services, innovation and security. Banks offer their clients mobile apps, online banking services and innovative payment methods.

The banking industry - a leader in digital innovation

Banks are the natural leaders of the French digital finance sector. They have created a dedicated ecosystem for startups by opening innovation-focused business centres, offering specific lending solutions for innovative companies and providing ever-better training for customer relationship managers dealing with these new issues. Most banks have well-funded support networks and specialist divisions to promote relations with SMEs, mid-sized firms and startups. They have invested massively in incubators, where startups can find support and share their experience.

French banks: champions of distance banking

Because retail and professional clients are constantly changing their behaviour, banks have naturally made innovation central to their development so they can meet their clients' needs and anticipate their expectations. **They are continually developing new products and services** that allow them to build a closer, simpler and more secure day-to-day relationship. **72% of French people believe that banks are looking to the future, an increase of 10 percentage points over one year** (BVA-FBF 2017 image survey of banks).



2017 RB INNOVATION AWARD

The RB Innovation Award created by Revue Banque in partnership with the FBF singles out a particularly innovative Fintech from the banking, insurance and financial sector each year. Marie-Anne Barbat-Layani, Chief Executive Officer of the FBF, announced the 2017 award-winner in September. The award is gaining in success: the number of voters doubled in 2017 in relation to previous years.

This year's award-winner was Ditto Bank, a French online bank for people who "live with several currencies on a daily basis," which combines all foreign exchange services on a single platform.

Online and mobile banking services make it easy for customers to access their accounts. They can check their balance, make a transfer, buy a new product, etc. in just a few clicks. Nearly 8 in 10 French people check their bank account online (BVA-FBF 2017 image survey of banks).

As proof of their success and how they have become part of daily life, **banking applications are now among the apps that the French check the most often**, after the weather and social networks (Opinion Way survey, May 2016).

The payments revolution

Contactless payments are growing fast. 40% of payments by card for amounts under €20 are now contactless, representing **one billion contactless payments.**

This figure rose sharply against 2016, when only 23% of payments below €20 were contactless.

39 

**CONTACTLESS PAYMENTS
PER SECOND,
FOR AN AVERAGE OF €10.**

Source: GIE CB - 2017

In 2017, the total amount of contactless purchases exceeded the symbolic figure of **€10 billion.**

As of the end of September 2017, nearly 45 million bank cards allowed contactless payments, representing 68% of cards in circulation (compared with 63.3% in 2016). Retailers facilitated this growth, as nearly 599,000 points of sale are now equipped to receive contactless payments in France (versus around 500,000 at the end of 2016).

This trend should be confirmed as the limit on contactless payments is gradually increased from €20 to €30. In 2018, over 2 billion contactless payments are expected to be made.

The European Payments Council (EPC) has set up **the pan-European instant payment service** under the impetus of the European Retail Payment Board (ERPB). This scheme, known as the SEPA Instant Credit Transfer (SCT Inst), is different to the SEPA Credit Transfer, which already harmonises transfers within the Single Euro Payments Area (SEPA).

The principle of the scheme is to allow credit transfers in real time (with the funds being immediately available) to any account in the SEPA.

The maximum processing time is 10 seconds and the service is available 24/7 (currently transfers cannot be made at weekends or on public holidays).

The maximum limit for these transfers is €15,000 per transaction and there is no minimum amount.

With this new scheme, **the European Central Bank (ECB) is pursuing its goal of establishing an integrated single payments market** (reducing the risk of fragmentation in the payments market caused by the co-existence of proprietary, non-interoperable national solutions).

It also wants to apply strict security standards and to foster the conditions for a competitive payment services market while improving services for customers (mobility, rapidity, funds immediately available, etc.).



FINANCE INNOVATION CLUSTER WHITE PAPER ON “THE FINANCE FUNCTION: 140 INNOVATIONS SERVING GROWTH”

The FBF finances and participates in a number of initiatives organised by the Finance Innovation Competitiveness Cluster. Marie-Anne Barbat-Layani contributed to the white paper on “The Finance function: 140 innovations serving growth.” Her contribution focused on financing for innovation. Banks are facing a dual challenge, because they are both the object and the subject of the digital transformation. They are digital players themselves and must also finance their customers’ digitalisation. Not only must they rethink their own models - like other companies wrestling with technological revolution and an influx of new competition to already hyper-competitive globalised markets - but they must also find the right technical responses that meet their customers’ new financing needs.

NO COMPROMISES ON SECURITY

Trust is banks' number one asset and the basis of the customer relationship. Banks are constantly investing to ensure a high level of security for the funds entrusted to them by their customers and to protect their personal data.

The challenge of cybersecurity

Banks are paying ever more attention to the protection of customers' funds and personal data, faced with the risks of misuse and fraud. To address this legitimate concern, **they are pursuing a number of initiatives and investing heavily in data protection to maintain their clients' trust and further strengthen security.**

In view of the reality of cyber threats, banks are working tirelessly to ensure that security is at the core of developments in payment services and the digital transformation.

The FBF has joined forces with the police cybercrime branch under 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.

35%



INCREASE IN THE NUMBER OF CYBER-ATTACKS IN FRANCE IN ONE YEAR

Source: Global Security Mag - October 2017 - GDPR survey

Security and the PSD2

The second Payment Services Directive (PSD2), which took effect on 13 January 2018, requires banks to make their customers' payment account data available free of charge to two new types of service provider, namely Account Information Service Providers (aggregators) and Payment Initiation Service Providers. This directive is a challenge for banks that are responsible for the security of their clients' accounts.

The FBF advocated for a high level of security of these new activities and noted the adoption of the Regulatory Technical Standards (RTS) on 27 November 2017. By favoring standardized, open and secure interfaces (APIs) as a solution to access payment accounts, the European Commission has put security first.

The FBF has always supported APIs as the only solutions that can deliver real security in the current climate of increasingly frequent cyberattacks. French banks will have rolled out these solutions by the end of 2018. At a national level, the FBF welcomes the possibility of imposing the use of APIs even before the implementation of the RTS scheduled for September 2019. The French initiative is one of the most advanced in Europe, and is allowing banks to facilitate convergence towards a European standard by making the solutions reached in France available to all European banks.



The General Data

Protection Regulation

The General Data Protection Regulation (GDPR) of 27 April 2016, covering the protection and free circulation of personal data, applies from 25 May 2018. This new European regulation aims to establish a set of standard rules for the EU adapted to the digital era, to enhance legal security and improve trust among citizens and businesses in the digital single market. Banks are particularly affected by the new obligations.

The digital single market in Europe

In May 2017, the European Commission published a mid-term review of progress made with the digital single market strategy that it announced in 2015. 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 growth in the European digital economy.

The FBF, working in cooperation with the EBF, responds to consultations and is involved in preparing the current changes to regulations, in two areas:

- developing a European data-driven economy while protecting privacy and personal data, via the GDPR, the review of the e-Privacy regulation and the proposed regulation on the free flow of non-personal data in the European Union;

- promoting innovation and digital transformation with a review of standardisation and security of cloud-based IT services (cloud computing) and the identification of individuals (e-ID – electronic identity), of new players in financial technology (Fintechs), and of sandboxing and the use of more disruptive technology (blockchain, machine learning, artificial intelligence, etc.).

OBSERVATORY FOR MEANS OF PAYMENT SECURITY



The Observatory for Means of Payment Security (OSMP) has taken over from the Observatory for Payment Card Security with an enlarged remit that includes all non-cash payments.

This body fosters the exchange of information and discussions between all parties with an interest in payments and efforts to combat fraud (consumers, retailers and businesses, public authorities and administrations, banks and payment services providers).

For the first time since the early 2000s, the amount of bank card fraud at a national level has fallen by around 4%, even though use of bank cards continues to rise steadily by 6%, driven in particular by the growth of contactless payments. This decline in fraud is the result of efforts made by all stakeholders to develop strong authentication solutions for online payments and the implementation of transaction scoring solutions by card issuers and payment systems.

Source: Banque de France

06

REGULATION & SUPERVISION

A consistent European and national approach to regulation is needed in order to fully finance the economy and ensure European financial sovereignty.



**FINALISING
POST-CRISIS REFORMS**



**DEVELOPING
THE FINANCIAL MARKETS
IN EUROPE**

FINALISING POST-CRISIS REFORMS

The work being carried out by the regulatory authorities aims to consolidate the banking system and create an environment that spurs economic growth. The significant progress made in 2017 made it a landmark year that would structure the entire European banking industry.

A new Basel agreement

The rules put forward by the Basel Committee for Banking Supervision are intended to make financial institutions more solid and more resilient when confronted with crises and to put an end to the problem of banks being considered too big to fail. The impact of the reforms is overall positive, both in terms of banks' capacity to withstand a liquidity crisis and in terms of their solvency. **French banks have more than doubled their own funds since the crisis.**

International negotiations on the Basel regulations produced **an agreement in December 2017**. This agreement harmonises risk calculation methods. It finalises the international post-crisis prudential reforms with the exception of the review of market risks, which should be completed by the end of 2018.

The French banking profession objected strongly to this agreement, which compromises the European financing model. It is now involved in preparatory work for the transposition of these rules in the European Union.

The quantitative impact study (QIS) announced by the European Commission will assess the need to adapt these international principles to the reality and specific features

of European financing methods, such as real estate financing, specialised financing and financing for high quality companies non-rated by a rating agency.



The Basel accords and their consequences for the economy: the FBF drafted an informative memo to request appropriate rules that take into account different banking business models.

Finalisation of the Banking Union

The Banking Union is a major step towards a real Economic and Monetary Union. It provides for the consistent application of the European Union's banking rules in participating countries. The single supervisory mechanism and the single resolution mechanism help establish a more transparent, unified and secure banking market. The banking profession is continuing its efforts to ensure that **the eurozone and the Banking Union are fully acknowledged when applying regulations.**

Two major types of regulations are still under debate by the European Council and the European Parliament.

The French banking profession's position on **the review of the CRR2/CRD5 reform package**, which aims to reduce risk, addresses five areas:

- not pre-empting international agreements on market risk;
- avoiding the over-transposition of international agreements that go against the interests of the European banking industry;
- establishing a level playing field by maintaining the Single Rulebook and single supervision based on the principle of “same risk, same rule”;
- not penalising the proposed Capital Markets Union (CMU) with inappropriate constraints on trading activities;
- **ensuring the Banking Union is recognised in prudential rules.**

The Second Bank Recovery and Resolution Directive (BRRD2)

incorporates several positive changes, in particular a new insolvency creditor hierarchy based on the French model and a new calculation method for the MREL (Minimum Requirement for own funds and Eligible Liabilities). Improvements are pending on other provisions, in particular the calibration and type of requirements and the consequences of non-compliance.

The planned European Deposit Insurance Scheme (EDIS), which is the third pillar of the Banking Union, is currently under review by the European Commission. For banks, in order to prevent moral hazard, it is essential that the status of this European fund is limited to reinsurance. In addition, it must be preceded by an asset quality review (AQR), and only institutions subject to banking regulations should be allowed to benefit from the system. It is also important to ensure that the cost of the Banking Union observes the political commitments made.

Banks' governance under discussion

In January 2017, the FBF replied to several European consultations on the governance of credit institutions. The topics covered include:

- the fit and proper assessment of board members (ECB guide),
- internal governance (EBA guidelines),
- the assessment of the suitability of members of the management body and key function holders (EBA/ESMA guidance).

The final documents took into account some of the industry's positions. However, some measures go beyond the scope of CRD4 and are inconsistent with French law.

The application of accounting standard IFRS 9

International Financial Reporting Standard (IFRS) 9 was adopted for use by the European Union in November 2016 and took effect on 1 January 2018. It has three components: the classification and measurement of financial instruments, credit risk impairment and hedge accounting. IFRS 9 provides a response to the 2008 financial crisis and is part of the finalisation of post-crisis reforms. The banking profession finalised its interpretations and implementation work in 2017. This work focused on the prudential treatment of IFRS 9, how it interacts with IFRS 4 Insurance Contracts and the recognition of the specific features of European financing models.

The new IFRS 9 sets out new rules on credit risk impairment and threatens lending to SMEs by requiring that they be covered by provisions for statistical risk of losses from the moment they are approved.

DEVELOPING THE FINANCIAL MARKETS IN EUROPE

The reforms undertaken for the Capital Markets Union must enable the financial markets to function effectively and must ensure appropriate supervision.

The need to relaunch the Capital Markets Union

The Capital Markets Union (CMU) must be relaunched with a more strategic and less regulatory approach, incentives for long-term financing and investment policies and less fragmentation in capital markets. This is the message that banks submitted to the European Commission in 2017.

As new prudential requirements are weighing on bank lending, the capital markets are set to play an increasing role in financing Europe's economy.

The CMU is essential because it will facilitate access to market financing by all types of company in the European Union (large corporations, mid-sized companies, SMEs, startups, Fintechs, etc.) and provide an effective complement to bank lending.

It must ensure that European savings - which are considerable - are used to finance the

economy via appropriate, high-performance players and channels. It must secure the long-term future of bank lending, which is essential for SMEs and individuals, by allowing the development of securitisation.

Brexit makes the need for the CMU even greater. London is currently Europe's biggest financial market and it is essential that certain activities (trading, clearing) be relocated to Continental Europe in order to maintain sovereignty and ensure financial stability.

Continental Europe must set out real ambitions in this area and promote financial markets that reflect its values. The analysis will begin in 2018 and will be applied by the new European Commission in 2019. The FBF has suggested that the European Commission organise the review process by bringing together prominent individuals in a "Committee of the Wise" that would determine broad guidelines to promote an ambitious revival of the CMU.

CHANGES IN COMPANIES' SOURCES OF FINANCE IN FRANCE

Source: Banque de France



Review of the European supervisory authorities

Integration of the financial markets also requires a review of the three European Supervisory Authorities (ESAs), namely the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA). The European Commission's legislative proposal of September 2017 changes how the ESAs function and their governance so as to improve their governance and strengthen and further integrate European supervision of the banking, financial and insurance sectors.

The FBF supports the strengthening of ESMA's direct supervision of certain entities (administrators of critical benchmarks, data providers and clearing houses, in particular) and improvements in the governance of the ESAs to ensure better representation of the national markets. However, it considers that the proposal that the supervised entities should directly fund the ESAs is not acceptable in its current form because just a few European banks - in particular French banks - could bear almost all the cost. The proposal is being discussed by the European Parliament and the Council.

Prospectuses and Securitisation: the other components of CMU

The Prospectus Regulation of 14 June 2017 aims to facilitate access to the financial markets by European small, medium and intermediate sized enterprises and to clarify the disclosures required when issuing shares or debt instruments. While the regulation brings some progress, especially for small, medium and intermediate sized enterprises, the new provisions are not likely to significantly revitalise the issuance market. The formalism of public offerings and the disclosures required from issuers are too restrictive to make the financial markets truly attractive. ESMA will provide technical details before the regulation takes effect in July 2019.

The new Securitisation Regulation of 12 December 2017 reduces regulatory capital charges for securitisations that meet the "STS" criteria, i.e. those that are **Simple** (the securitised portfolio must contain homogenous asset types, for example, only home loans), **Transparent** (investors must be given historical loss data) and **Standardised** (the bank must retain part of the risk). Reviving high-quality securitisations is one of the CMU's objectives. However, the FBF emphasises that the complexity of the rules will not encourage the development of this market.

WITHDRAWAL OF THE EUROPEAN BANKING STRUCTURAL REFORM

The banking industry welcomes the planned withdrawal of the proposed banking structural reform (BSR) from the European Commission's work programme announced in October 2017. The European Commission gave two reasons for the withdrawal, which should be confirmed by April 2018. First, it seems difficult to reach a compromise and second, the main objective of financial stability that was behind the proposal has been addressed in other regulatory measures (the supervisory and single resolution mechanisms).

The BSR aimed to separate banks' deposit activities from certain trading activities that were deemed potentially risky. In practice, the planned reform was aimed only at the leading French banks, and it was contrary to the spirit of the CMU.

The EMIR review

The European Market Infrastructure Regulation (EMIR) of 2012 made progress towards a sounder and more transparent market for derivatives, in particular with the clearing obligation for standard OTC derivatives transactions, margin requirements for uncleared derivatives transactions and the reporting of transactions to a central trade repository. The European Commission published two reviews of the regulation in 2017 to further enhance transparency and stability on this market.

With the proposed general review published on 4 May 2017, the Commission intends to simplify the EMIR and make requirements more consistent. For the FBF, at the current stage in negotiations, the proposal includes notable improvements: the non-classification of securitisation vehicles as financial counterparties, the continuation of margin exemptions for forward foreign exchange transactions, etc. The European Council agreed on a general approach in December 2017, but the text has yet to be approved by the European Parliament.

In the draft review regarding the supervision of central clearing counterparties (CCPs) released on 13 June 2017, the European Commission proposed tightening requirements regarding the equivalence of third-country CCPs. It allows the European Commission the possibility of requiring “systemically significant” third-country CCPs to establish themselves in the European Union before they can provide their clearing services to EU members.

Many discussions are currently under way at the European level on this review. **For the banking profession, there must be a level playing field for EU and non-EU banks.**

THE IMPACT OF MIFID II ON FUNDING FOR RESEARCH



The Second Markets in Financial Instruments Directive (MiFID II), which took effect on 3 January 2018, overhauled the way in which financial analysis is funded. By banning all inducements, MiFID II requires that all portfolio managers and investment advisors that receive research must pay for the research either directly using their own resources or via the end client. However the practice of bundling research and brokerage fees when executing transactions produced dynamic research into varied sectors and issuers with different profiles. The impact of this reform on the variety and diversity of research and the number of issuers followed - especially SMEs - will become evident in 2018.

07

FBF

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



PRESENTATION



THE "FBF 2020"
PROJECT



ORGANISATION



PRESENTATION

The FBF's mission is to promote the banking and financial industry in France, in Europe and around the world. It determines the profession's positions and makes proposals to public authorities and economic/financial authorities.

347 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 112 employees

112 permanent employees work at FBF and AFB, in conjunction with more than 400 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 thus central to the work carried out by the FBF.

(1) including 121 subsidiaries or branches of foreign banks at 1 January 2018.

(2) The French Bankers Association (AFB), representing 199 banks, sits on the FBF's executive committee. It is the professional body representing commercial banks for employee-related matters (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 over 2,500 bankers who regularly meet with local business and government representatives and convey the industry's positions.

The FBF represents the French banking industry in a number of national, European and international organisations (see the list at the end of this report).



THE “FBF 2020” PROJECT

The FBF is looking to the future
and has set out its role through to 2020

The roadmap is reaffirmed

In 2016, the FBF Executive Committee started an in-depth analysis of the Federation, its organisation and its missions to project it into the future through to 2020. The study revealed that the FBF’s scope of action and its missions are directly related to changes in regulations and society:

- **new developments in society, technology or the economy** have specific impacts on the banking industry (climate, digital, etc.);
- **banks’ regulatory environment** has become **increasingly complex** since the 2008 crisis;
- **the effects of Brexit are unknown** to date in terms of its impact on the banking industry, the organisation of negotiations and the extent of the work to be done.

The study **confirmed the FBF’s strategic choices and its size.**

Priorities to be further developed

The four priorities of the strategic plan were reaffirmed:

- responsible financing of the economy, the top strategic priority of French banks,
- banks as the drivers of confidence and security,
- banks as the leaders of the digital transformation of society,
- the place of banks in their national, European and international environments.

Certain topics will be the focus of attention, including:

- **continuing to promote best practices** from the French banking industry among key institutions at the European and international levels;
- **focusing more on the challenges of digital** in all its dimensions.

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FBF RESPONSES TO OFFICIAL CONSULTATIONS BY THE AUTHORITIES, 89% OF WHICH WERE MADE BY EUROPEAN AND INTERNATIONAL BODIES.

Source: FBF



ORGANISATION⁽¹⁾



Jean-Laurent Bonnafé
Chair of the FBF
Director & Chief
Executive Officer
of BNP Paribas



Francois Pérol
Vice-Chair of the FBF
Chair of the
Management Board
of BPCE Group



Nicolas Théry
Treasurer of the FBF
Chair of
Confédération
Nationale du Crédit
Mutuel



Philippe Brassac
Chief Executive
Officer of Crédit
Agricole S.A.



Frédéric Oudéa
Chief Executive
Officer of
Société Générale



Rémy Weber
Vice-Chair of the AFB
Chair of the Executive
Board of La Banque
Postale

EXECUTIVE COMMITTEE



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Chief Executive Officer of the FBF



Christian Lothion
Security
Adviser

GENERAL MANAGEMENT BOARD



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Corporate Secretary
Chief of Staff

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Ermelina Debacq

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supervision
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public affairs and export finance
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Director of social affairs

Social relations
Michèle Rossi

Observatory and surveys
Béatrice Layan

Communications
Anne-Catherine Sename

Retail and remote banking
Pierre Bocquet

Digital solutions and payment
systems and methods
Jérôme Raguénès

French institutional relations
Nicolas Bodilis Reguer

(1) As of 1 May 2018

Significant

JANUARY

02 Opening of the website ciclade.fr to search for unclaimed funds (Eckert act).

03 Issue of the first sovereign green bond in France.

26 The FBF organised a training day for the “Les Déterminés” association’s 4th class.

FEBRUARY

06 Application of the new system for switching banks. The FBF published two factsheets and a video for businesses and individuals.

08 FBF testimony to the Senate on the competitiveness of the French marketplace.

14 Publication of the decree enacting the “Right to forget,” making it easier for people having recovered from a serious illness to obtain credit.

MARCH

15 Creation of the French anti-corruption agency introduced by the Sapin II act.

21 French banks welcomed the renewed decline in referrals for business credit mediation: the number of cases has fallen by 85% since 2009.

23 Publication of “Keys to the banking economy: the new challenges of financing the economy,” coordinated by the FBF.

27-31 Success for the third edition of the “Invite a banker to class” initiative as part of European Money Week.

APRIL

04 Release of the new €50 banknote.

MAY

05 The EBF called on national and European decision makers to adopt an appropriate calibration for the regulatory measures under discussion by the EU (MREL, NSFR, FRTB, Basel IV, bank resolution, etc.).

10 The European Commission published a mid-term review of the digital single market strategy.

16 The EBF asked the European Commission to support a ban on “screen scraping” in PSD2.

23 The FBF signed a Memorandum of Understanding with the China Banking Association.

JUNE

01 The Sapin II law imposing general obligations to prevent and detect cases of corruption or influence-peddling in France or abroad took effect.

06 The main European banking associations published their “High-level principles regarding the communication between SMEs and banks around loan applications.”

09 Capital Markets Union: the FBF called for a more strategic approach and suggested the creation of a Committee of the Wise.

23 The decree on payment accounts took effect, introducing new obligations regarding access to bank accounts.

26 The 4th Anti-Money Laundering Directive and the European regulation on information accompanying transfers of funds took effect.

JULY

01 The High Authority for Transparency in Public Life opened the Register of Lobbyists and published guidelines.

03 The Ombudsman published its annual report to the FBF, entitled “2016: a transition year.”

06 French banks welcomed the encouraging results of the first “Survey of very-small enterprises’ trust in their banks” carried out by the business credit mediation service in collaboration with Deloitte and In Extenso.

events in 2017

07 The FBF praised the exceptional efforts made by the public authorities to make Paris the EU's leading financial centre after Brexit.

13 Publication of the PSD2 API by STET, which was mandated to produce the standard by the banking profession.

AUGUST

20 The European Payment Services Directive PSD2 was enacted in French law.

SEPTEMBER

20 Marie-Anne Barbat-Layani, Chief Executive Officer of the FBF, awarded the 2017 RB Innovation prize to Ditto Bank.

OCTOBER

01 The limit on contactless payments was raised from €20 to €30.

03 The FBF supported the MEDEF's digital platform, Medef Accélérateur d'Investissement, which puts SMEs into contact with investment funds.

05 The Observatory for Corporate Financing (OFE) released a report on financing businesses and the new challenges arising from the digital transformation.

17 The French National Cybersecurity Agency (ANSSI) launched the national platform cybermalveillance.gouv.fr.

17 The FBF published a Memo on employment in banks. The banking industry is one of the leading private sector employers in France.

23 The government launched the Action Plan for Corporate Growth and Transformation (PACTE) with a broad consultation of all stakeholders.

NOVEMBER

16 The number of contactless payments in France topped one billion, and they account for 40% of payments under €20.

20 The EU adopted new securitisation rules under the Capital Markets Union.

21 Brexit: the FBF welcomes the European Council's decision to relocate the European Banking Authority (EBA) to Paris.

21 Launch of the SEPA instant credit transfer in eight European countries (Austria, Estonia, Germany, Italy, Latvia, Lithuania, Netherlands and Spain).

27 PSD2: the FBF noted the adoption by the European Commission of the Regulatory Technical Standards (RTS) and welcomed its security choice.

DECEMBER

01 The FBF and Revue Banque held a conference on "Funding the intangible," one of the main topics in the transformation of the economy.

05 The EU published a list of non-cooperative tax jurisdictions.

06 The European Commission presented its roadmap for furthering European Economic and Monetary Union by 2025.

07 The Observatory of Banking Activities published the first sector-wide report on Artificial Intelligence (AI).

07 Agreement finalising the Basel III framework, concluding post-crisis prudential reforms.

11 Ahead of the One Planet Summit in Paris, the FBF published "Banks and Climate" and called for the implementation of the Green Supporting Factor.

20 The FBF contributed to the PACTE with a document of 17 proposals, which is submitted to the Minister of Economy and Finance and to the parliamentary representatives.

Glossary

EBA European Banking Authority

ESA European Supervisory Authorities

ESMA European Securities and Markets Authority

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

API Application Programming Interface, a standardised, open, secure interface

EIB European Investment Bank

BRRD2 Second Bank Recovery and Resolution Directive

BSR Banking Structural Reform

CRD5 Capital Requirements Directive 5

CRR2 Capital Requirements Regulation 2

PSD2 Second Payment Services Directive

EDIS European Deposit Insurance Scheme

EIOPA European Insurance and Occupational Pensions Authority

EMIR European Market Infrastructure Regulation

EPC European Payments Council

ERPB European Retail Payments Board

EBF European Banking Federation

EIF European Investment Fund

FRTB Fundamental Review of the Trading Book

G-SIBs Global Systemically Important Banks

IFRS 9 International Financial Reporting Standard on financial instruments

NSFR Net Stable Funding Ratio

MREL Minimum Requirement for own funds and Eligible Liabilities

PACTE Action Plan for Corporate Growth and Transformation

GDPR General Data Protection Regulation

RTS Regulatory Technical Standards

CMU Capital Markets Union

FBF's Presence

The FBF represents the banking industry in a number of national, European and international organisations.



It is the partner of several French and foreign authorities, associations and other bodies.



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