

FRENCH BANKS:

Competitive and regulatory challenges

December 2015



FÉDÉRATION
BANCAIRE
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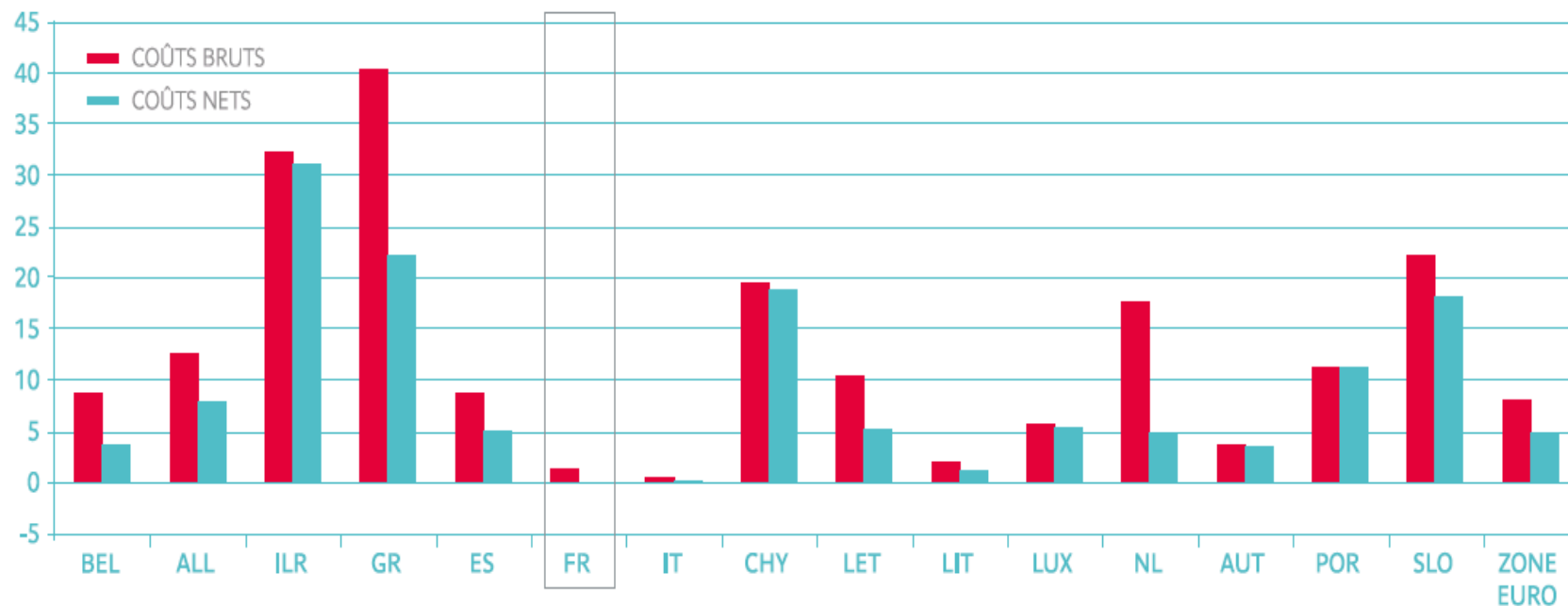
I FUNDING THE ECONOMY: THE CORNERSTONE OF THE FRENCH BANKING MODEL

A universal banking model serving all customer segments

- **Universal banks** provide a comprehensive range of services for businesses, individuals and institutional investors: deposits and loans, insurance, savings and asset management, CIB, specialised services, etc.
- **Revenue sources diversified by customer segment and geographic area:** retail banking accounts for 69% of net banking income, alongside corporate and investment banking (16.5%) and asset management/insurance (14.8%)
- **A powerful international network:** French banks have made international loan commitments totalling some €2,550 billion, i.e. more than one-third of their consolidated balance sheet total
- **Local banks:** 37,862 branches nationwide (at 31 December 2014)

Measures aimed at supporting French banks have not been a drag on public finances

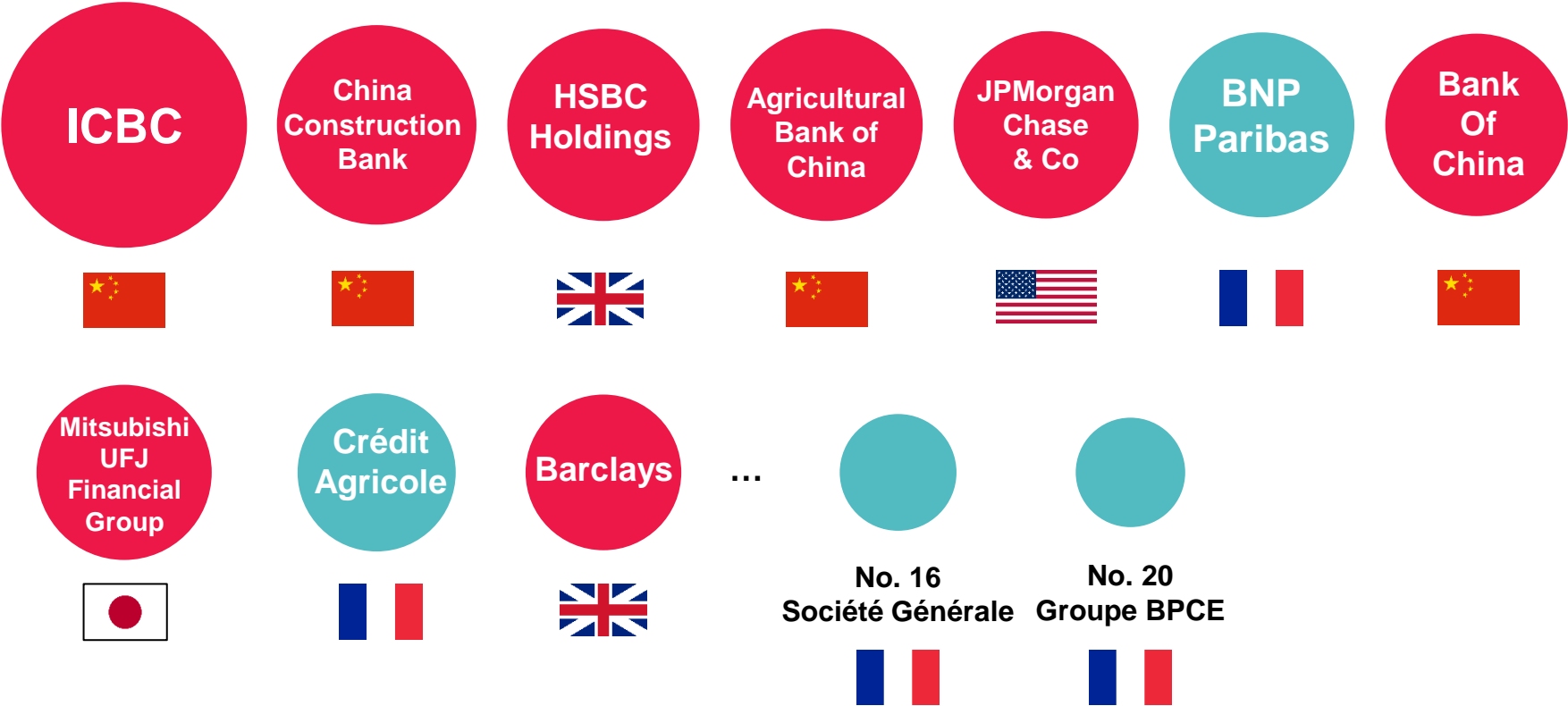
CUMULATIVE GROSS AND NET COSTS OF EURO ZONE BANK BAILOUT MEASURES
(as a % of 2014 GDP)



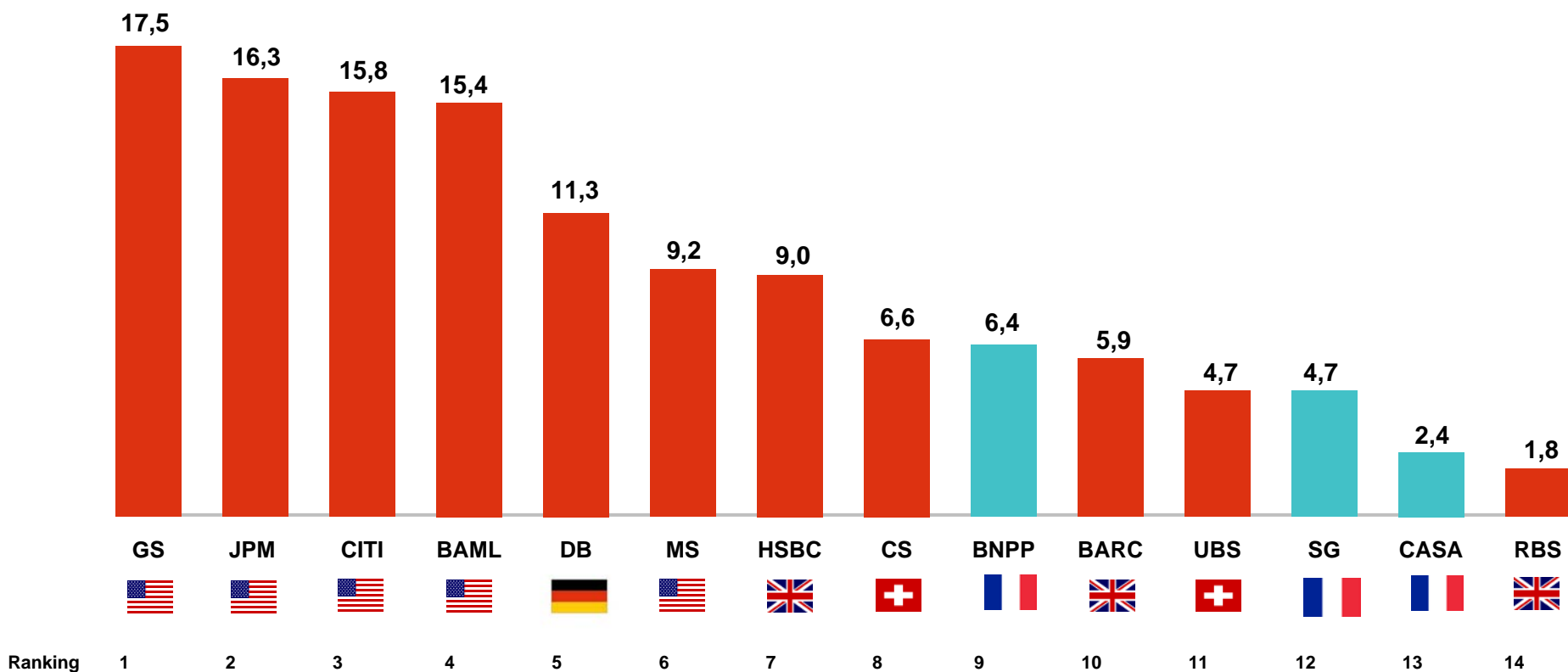
Source: ECB, 2015

French banks outside France

- **The Banker ranking:** Top 10 global banks by total balance sheet assets at end-2014



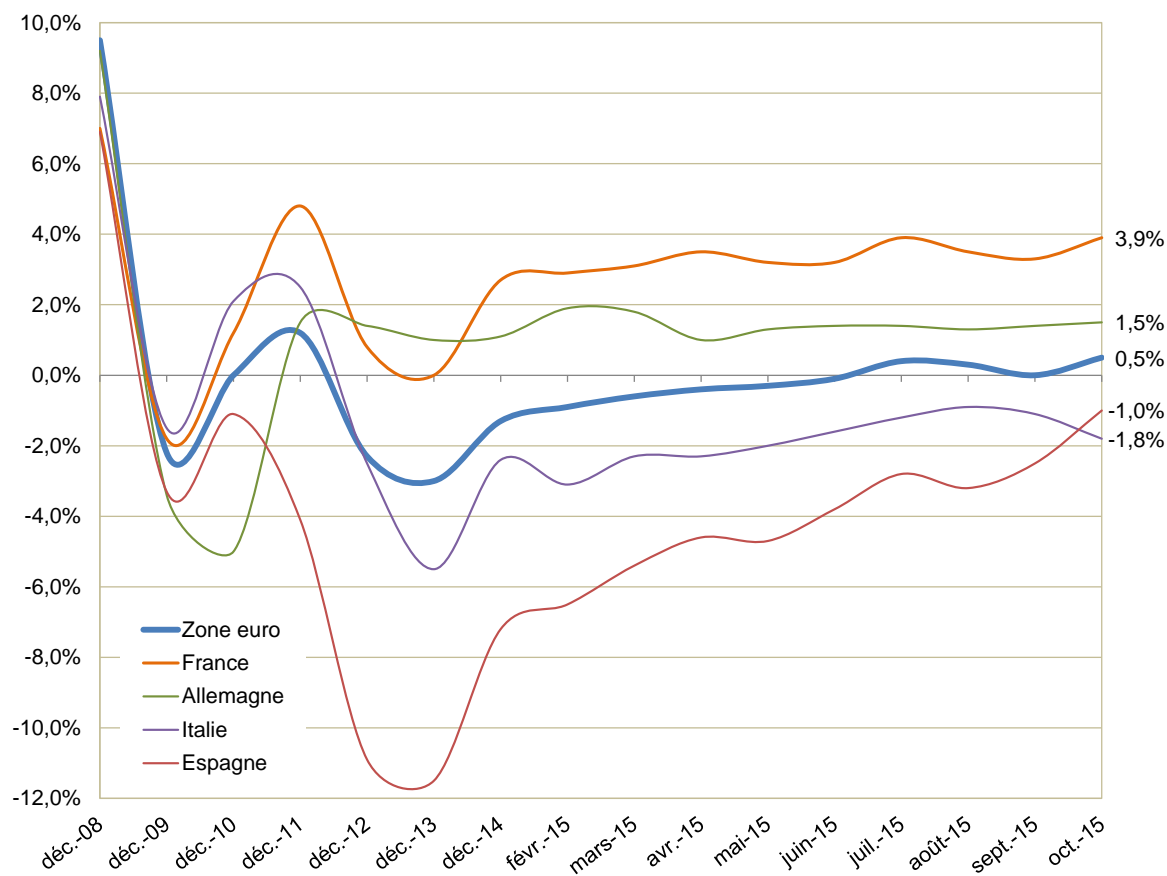
Revenues of corporate and investment banking institutions in H1 2015 (in EUR bn)



Business lending: a top strategic priority for French banks (1/2)

- **Outstanding loans to the economy totalled €2,077 billion** at end-October 2015
- In France, **outstanding loans to businesses amounted to €867 billion** at end-October 2015

COMPARATIVE GROWTH OF OUTSTANDING LOANS TO BUSINESSES

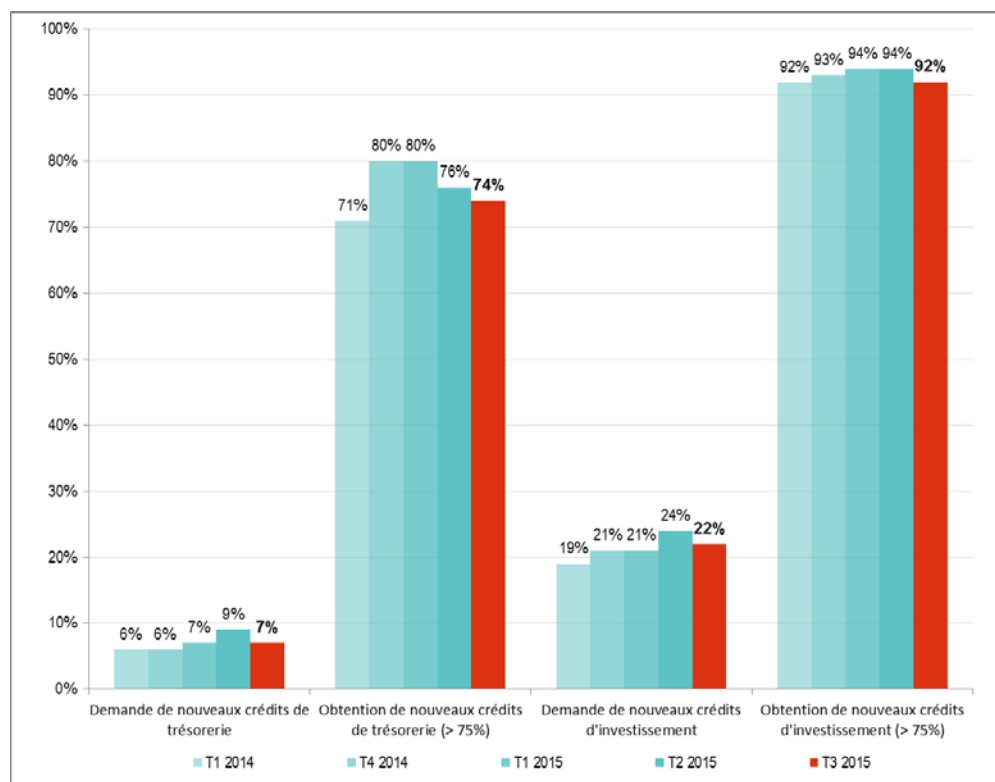


Source: European Central Bank

Business lending: a top strategic priority for French banks (2/2)

- **SME access to bank loans** remains high: of the 22% of SMEs that applied for a new investment loan in Q3 2015, **92% were approved**

SME ACCESS TO LOANS

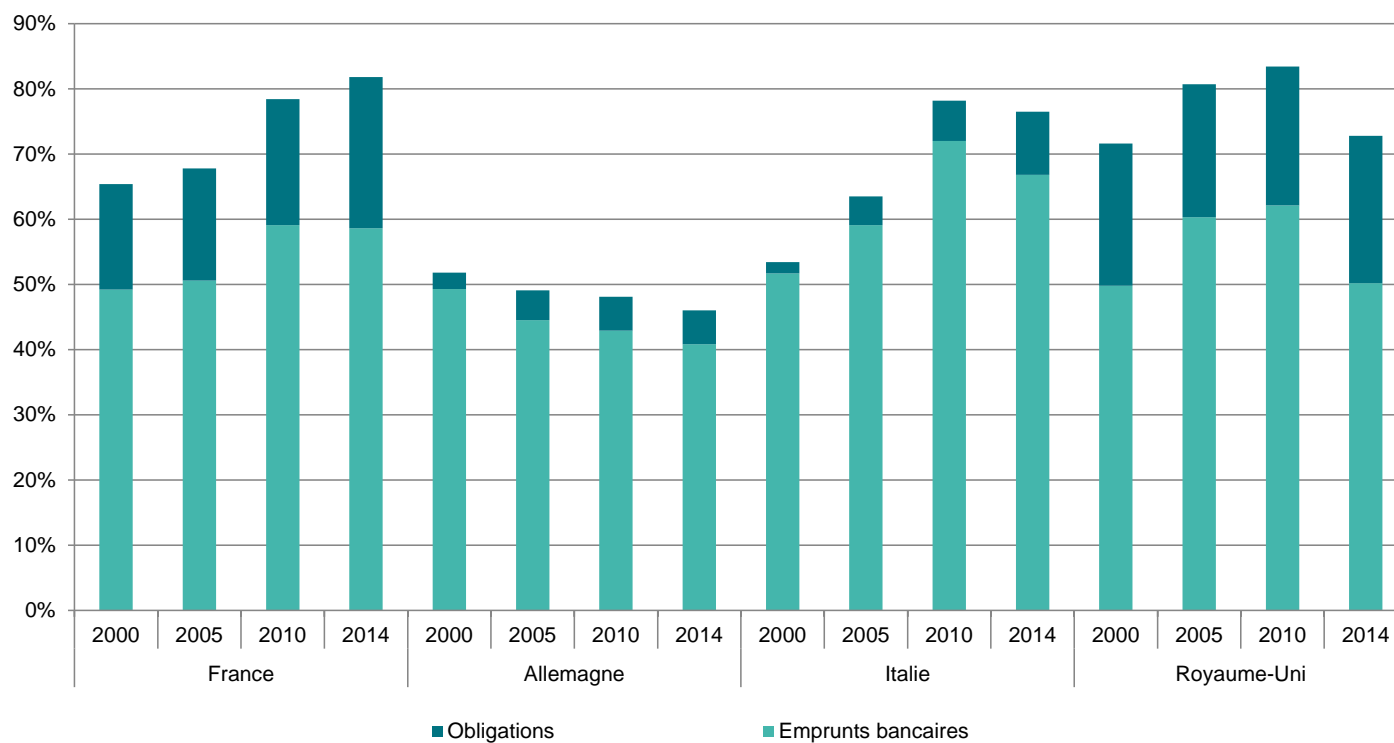


Source: Banque de France

A changing business lending model

- **The business lending model is changing:** the percentage of bank loans compared to market financing is 61% vs. 39% in 2015 (70% vs. 30% at end-2009)

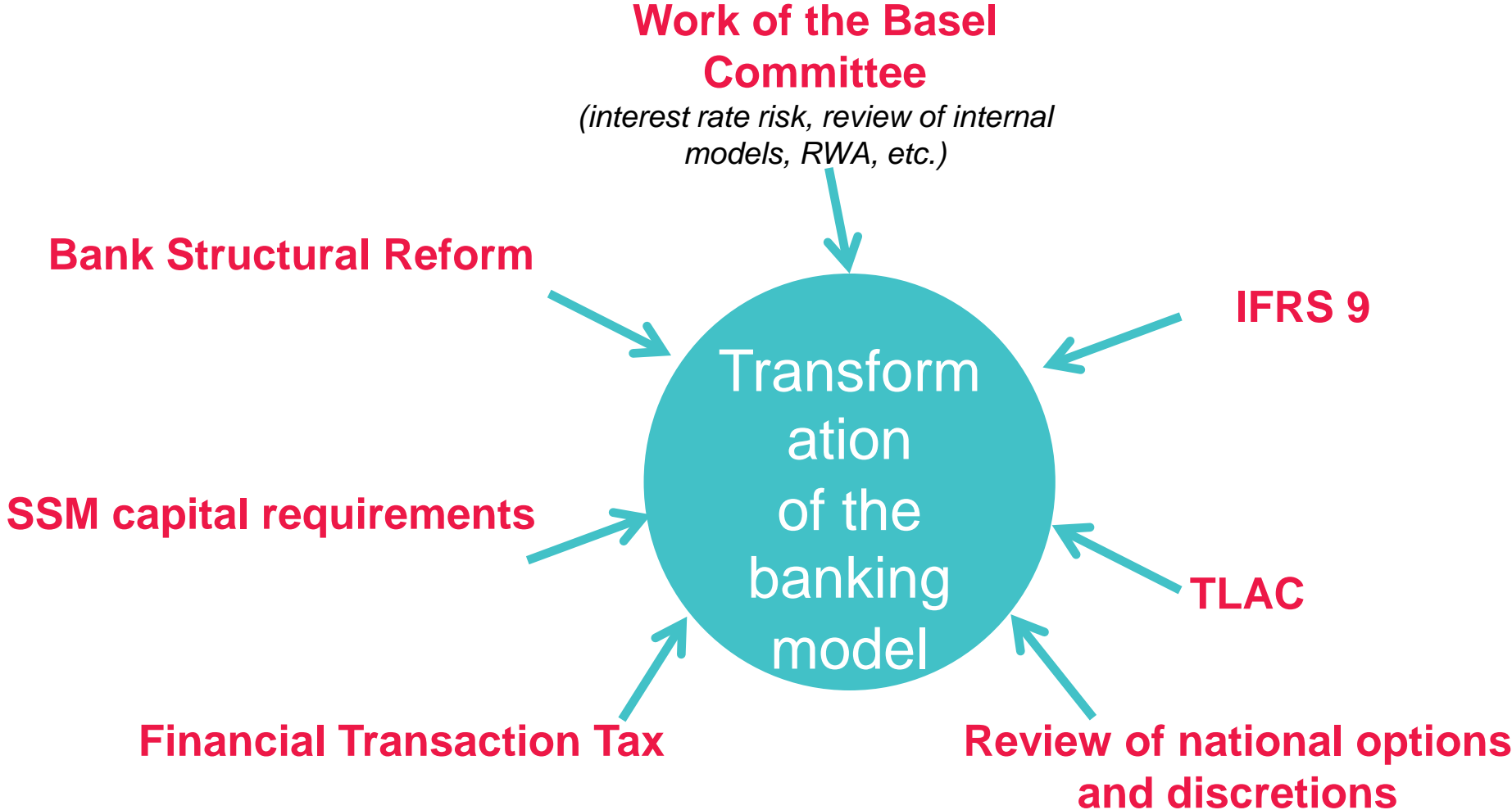
CORPORATE DEBT (BANK VS. MARKET) (as a % of GDP)



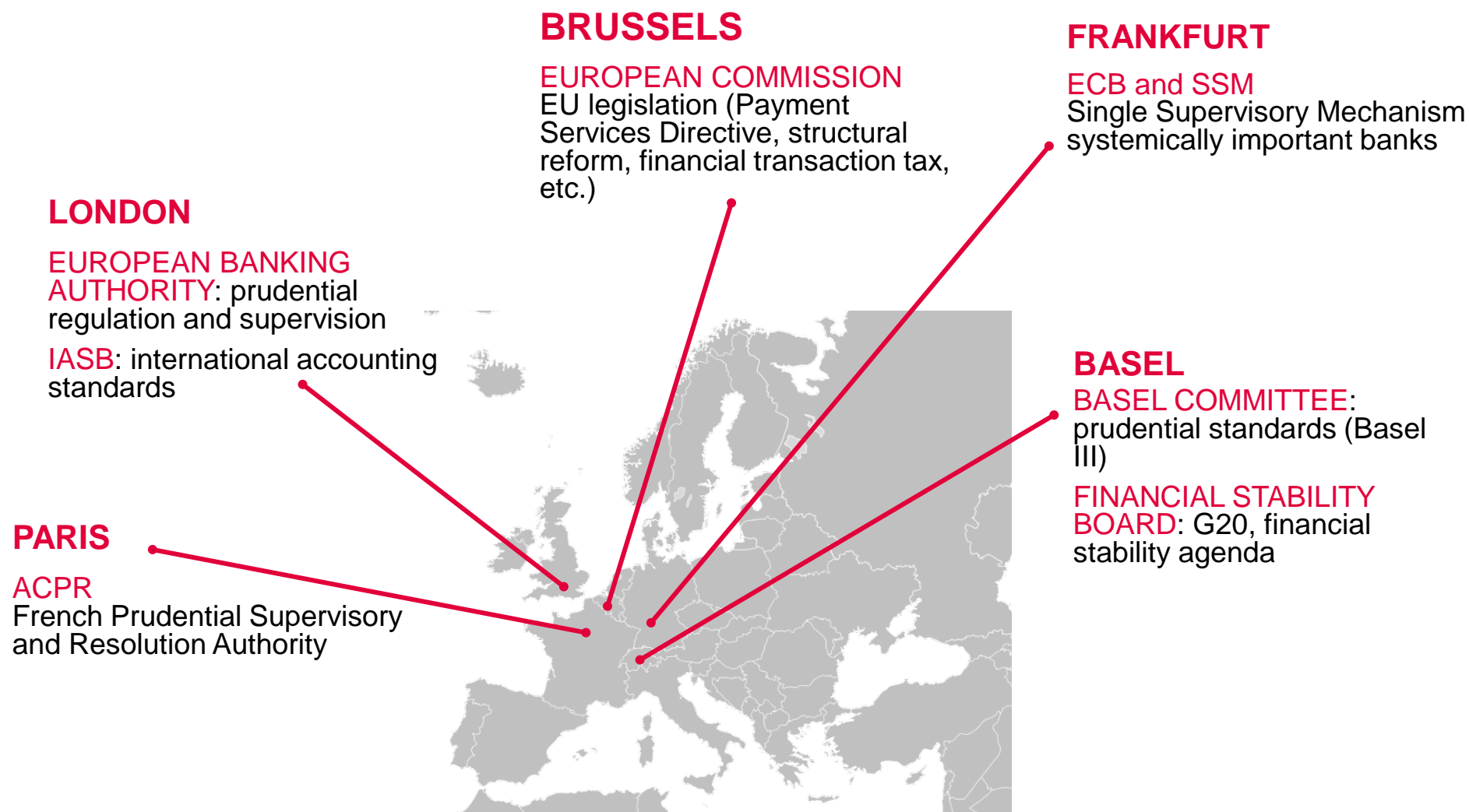
Source: Eurostat

II MAJOR INDUSTRY AND REGULATORY CHALLENGES AHEAD

Many reforms still on the agenda



A new regulatory and supervisory landscape



BSR (Bank Structural Reform)

- The aim of the BSR is to **separate deposit activities** and certain potentially risky market trading activities.
- Its implementation **does not take into account** the various prudential reforms (CRD IV, CRR, TLAC), market reforms (MiFID II, EMIR) and resolution reforms already carried out.
- It would **undermine the Capital Markets Union** and jeopardise the much-needed liquidity of these markets.
- The BSR would **give a competitive advantage** to the London financial market (UK exemption, also beneficial to US banks).

FTT (Financial Transaction Tax)

- Planned in **just 10 of the 28 member countries**, the FTT skews the competitive environment and creates a fragmented fiscal landscape in the EU.
- Even at a low rate, **the effects of the tax will be considerable** in today's globalised and highly competitive climate.
- It will have an **adverse impact on the Paris financial market** (loss of competitiveness and jobs, risk of relocations).
- It represents a **major obstacle** to the implementation and development of a Capital Markets Union.

TLAC (Total Loss Absorbing Capacity)

- TLAC is an **additional capital buffer** in the event of a bank's resolution.
- Its purpose is to allow a systemically important bank to maintain its essential operations even after incurring a loss using up all its regulatory capital.
- Designed by the Financial Stability Board, **it is yet another layer of protection on top of the MREL established by the BRRD**, one that applies to all EU banks.

CMU (Capital Markets Union)

- The aim of the CMU is to **promote the diversification of funding sources** (new balance between market and bank funding) and to decrease the fragmentation of the capital markets in Europe.
- To promote market financing, the CMU must establish the conditions to develop **secure, transparent and standardised securitisation** (labelling and public guarantee).
- To avoid negatively impacting bank lending, the **new European prudential rules** weighing on bank balance sheets (leverage ratio, TLAC, etc.) need to be **properly calibrated**.

Digital media: security and data protection challenges

- The objective of the DSP2 Directive is to **make it easier for new parties to enter the market** (e.g. aggregators and third-party payment service providers) and to **enhance transaction security** in Europe.
- The **security objective has not been achieved**:
 - The **security requirements** applicable to third-party payment service providers in their relations with customers and their banks are vague, particularly in terms of data storage.
 - **Protection of customer bank IDs** with third parties needs to be strengthened.
 - No plans have been made to ensure the **traceability of transactions** in order to identify **each party's responsibilities**.

III CONCLUSION

- Europe needs to ensure that **banking regulations** are **consistent** with the top priority of **financing growth**.
- **European universal banks** are an asset now that the funding model has given **the capital markets a greater role to play**.
- In international competition, **European corporate and investment banking institutions** must not be placed at a disadvantage: regulatory authorities must ensure a **level playing field**.
- **Digital media**: banks are making **security and protection of customer data** a priority.