

MEMO
N°06

FINANCING COMPANIES





- ▶ **What role do banks play in financing companies?**
- ▶ **What effects do international regulations have on corporate finance?**
- ▶ **Why do savings need to be channelled into companies?**



FRENCH BANKS, EUROPE'S CHAMPION LENDERS

Financing companies: top strategic priority of French banks

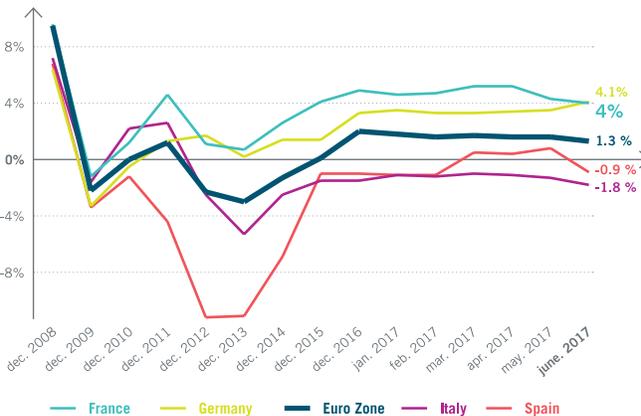
Banks are at the heart of the real economy: they finance companies' development and hence jobs and growth. External financing of companies, by loans or market finance, grew by 6.2% year-on-year to a total of **EUR 1,544 billion** at end-June 2017:

- ▶ market finance: **EUR 611 billion** outstanding (+9.8% year-on-year)
- ▶ loans: **EUR 933 billion** outstanding, +4% year-on-year growth in France, three times the euro zone average (1.3%) and well above the growth rate of the French economy (+1.6% forecast in 2017 by INSEE).

(Source : Bank of France stat info corporate debt in France, June 2017)

GROWTH IN CORPORATE LENDING IN EUROPE

Source : source : ECB statistical series at end-June 2017



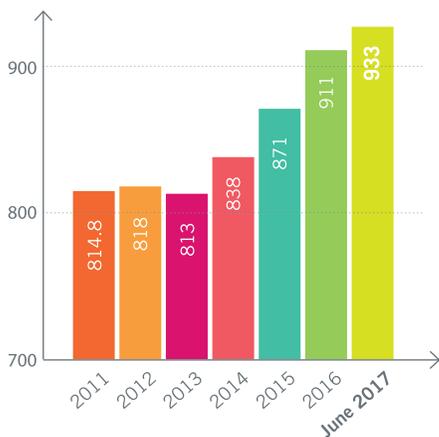
Credit allows all types of companies to fund both their current business and their expansion projects:

- ▶ **+0.5%** annual growth in cash-flow management lending to **EUR 218 billion** outstanding,
- ▶ **+5.2%** annual growth in investment capital to **EUR 657 billion** outstanding.

Source : Bank of France /ECB, at end-June2017

TOTAL CORPORATE LOANS OUTSTANDING

Billions of euros - Source : Bank of France



CASH-FLOW OR EXTERNAL FINANCE?

Companies seeking finance have several options. Solutions will depend mainly on their plans and the type of company: they will differ depending on whether the company is looking for short-term financing of their business (cash-flow, inventory, etc.) or investing in retooling, capital equipment or implementing an innovation. Companies can choose from among these solutions to provide all or part of their funding needs:

- ▶ **through cash-flow** by releasing the financial resources the company has (in its capital or equity, or recycling past profits). The company can also boost its capital by calling on its shareholders or new investment partners.
- ▶ **By external finance** or debt. Banks therefore play an essential role in accessing credit or market finance, particularly bond finance.

French banks back SMEs and micro-enterprises

SMEs and micro-enterprises are the leading beneficiaries of corporate lending in France.



HALF OF ALL LOANS TO COMPANIES GO TO SMES AND MICRO-ENTERPRISES

Source : Bank of France

At end-March 2017, they had taken out more than **EUR 385 billion** in loans to finance their businesses.

France is one of the **top-ranking countries in Europe** for the availability of SME loans:

- ▶ **Over 9 in 10 SMEs are granted the investment loans they apply for.**
- ▶ **8 in 10 get the cash-flow loans they apply for.**

(Bank of France – Q2 2017)

Loans to micro-enterprises are also widely available: more than 2 in 3 get the cash-flow loans and 8 out of 10 the investment loans they seek.

A micro-enterprise or SME planning a project can also rely on banks for the financing they need at **some of the best interest rates in Europe: an average of 1.86% in France compared to 2.23% in the wider euro zone** (source ECB - new loans of less than EUR 1 million at June 2017 with an initial fix period of up to 1 year).

Local presence and dialogue

Financing is only part of the services that banks offer their corporate customers.

Banks stand alongside companies, whatever their size, thanks to their local presence in all the towns of France, with branches and dedicated advisers for entrepreneurs, spaces for start-ups and SME business centres.

As part of their permanent efforts to improve, in 2016 the banks collectively adopted four “professional recommendations” to make the charges on short-term products and information easier to understand for SMEs and micro-entrepreneurs.



A SET OF GUIDES TO SHORT-TERM FINANCING AND A DEDICATED WEBSITE FOR COMPANIES: AVECLESME.FR

This initiative builds on **measures taken since 2014 to improve relationships with SMEs and professionals**: explanations where a loan is turned down, indications of possible resources such as loan mediation, 15 working day response time for credit applications, etc.



GLOSSARY TO EXPLAIN SHORT-TERM LOAN CHARGES

A universal banking model that serves all customers

The French banking system follows an original model: **universal banking means that a single institution offers the whole range of banking and financial services**. Banks provide all the services companies may need: cash-flow management, payments, insurance, investment/savings, business finance (documentary finance, factoring, etc.) funding of premises and equipment (bank loans, leasing, etc.) market finance solutions (thanks to their expertise in CIB), international support, specialist services (employee savings), etc.

Universal banking, thanks to its local presence, makes an effective contribution to financing the economy on favourable terms..

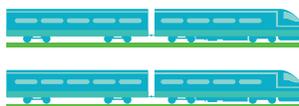
293

BILLIONS OF EUROS OF NEW CORPORATE LOANS OVER THE YEAR (JUNE 2016 TO JUNE 2017).

This equates to 7 wind turbines...



... or 2 train carriages an hour!





CHANGES IN CORPORATE FINANCING

Growing use of the market

Although lending remains central to corporate finance, there is a **growing trend toward market finance in France**.

Banks take part alongside their clients and support them with their specialist corporate and investment banking (CBI) services.

Large corporates, and to a lesser extent medium-sized companies and some SMEs raise **market finance to constitute or increase their capital or to finance projects or short-term working capital**.

BANQUES DE FINANCEMENT
ET D'INVESTISSEMENT
**A QUOI SERVENT LES
BFI ?**



CIBs play a useful and fundamental role in financing and hedging risks for companies, infrastructures and the public sector. The FBF has made an educational film in which clients explain specifically how CIBs have met their different needs: stock market flotations, exchange rate hedging, bond finance, private placement, green bond issues, etc.

Watch
video at
fbf.fr

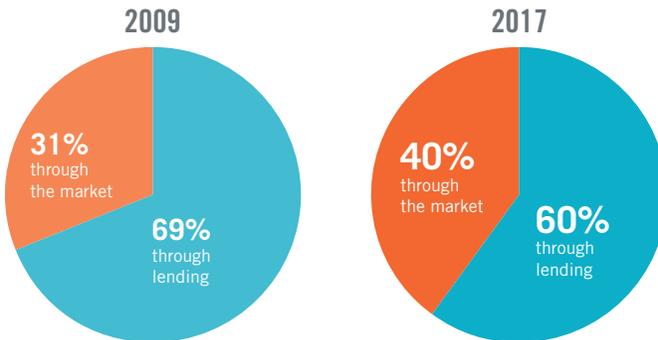


In the USA, most corporate finance is raised through markets (70%), with bank lending accounting for only 30%. In France, however, companies mainly rely

on bank lending, although 40% of capital is now raised on the market (versus 30% in 2009). **A trend that is likely to increase as a result of regulation.**

CHANGES IN COMPANIES' SOURCES OF FINANCE

Source : Bank of France



REGULATION THAT SUPPORTS FOR FINANCE

Appropriate prudential rules

Far from being opposed to regulation, French banks are concerned about the **possible introduction of new prudential rules that could constrain the financing of the economy**. Banks have demonstrated their robustness and **introduced all measures required to guarantee the security of the global banking system and provide effective control of banks**.

Current discussions at the Basel Committee on a change in the way risk is measured could have the consequence,

at the same level of business, of forcing up once again the capital requirements imposed on French and European banks **thereby limiting their**

capacity to finance the economy and particularly companies.



Unfavourable accounting rules

The new IFRS 9 global financial standards will also have an effect on the cost and terms of lending, obliging banks to take additional provisions (effective date: 01/01/2018).

Regulatory changes, by their impact on lending (volumes, cost and lending terms), **will therefore negatively impact growth prospects in France and Europe**, increasing calls on the market, boosting the cost of credit and limiting the capacity to take on risk and the duration of loans.

Harmful tax pressures

Bank-specific taxes, which have risen sharply in recent years, also take a toll on banking business and banks' ability to respond to the needs of their customers. Between 2010 and 2017, the cost of total additional charges (social securities, tax and contributions to resolution fund) is estimated at nearly EUR 13 billion in France. **Levies specific to banks, on top of the normal taxes they pay like any other company, represent a reduction in their capacity to finance their clients' projects including those of companies.**



OUR KEY ISSUES

Continuing to finance the economy

Measures currently under discussion in the Basel Committee must not have the consequence of slowing finance to the economy. It is vital that banks retain the ability to lend to companies, particularly SMEs, as they have always done, including after the 2008 crisis.

The banking industry in France is sound, stable and the best in Europe at financing the economy. Companies, particularly the smallest companies, must be able to rely on banks to finance their development. This is why the profession wants to defend and promote the advantages of the French corporate finance model, which is an issue of independence and competitiveness for both France and Europe.

Developing market finance in Europe: relaunch of CMU

Banking regulation is moving increasingly toward market finance and Europe needs to find ways to develop its capital markets.

In 2014 the European Commission launched its **Capital Markets Union (CMU)** project, which



aims to develop capital markets in Europe and so diversify the sources of finance available to companies and make it easier for them to tap markets. **The French banks** which are among the leading corporate and investment banks in Europe, **have a major role to play in delivering market finance to the European economy.** The project has initially struggled to gain traction.

A relaunch of CMU is essential to the financing of the European economy. The French banking federation recommends a more strategic approach and suggests creating a “Committee of wise men” bringing together respected figures who would lay down the main guidelines to relaunching CMU.

Encouraging long-term and productive saving

France has plentiful savings but these are still **insufficiently directed towards financing productive investment.**

A better system for taxing savings, with greater incentives toward long-term investment is essential, as is a recognition of cultural risk aversion, in order to create a new generation of investors ready to support the development of our companies.

It is vital that we create a system where the hierarchy of rates and risks is respected. Today, rates and taxation of regulated sight savings are still typical.

It is also indispensable to have **a stable regulatory and tax framework, which restores the confidence of investors** and allows companies to raise finance and invest on good terms.

15% 
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SAVING RATE**

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