

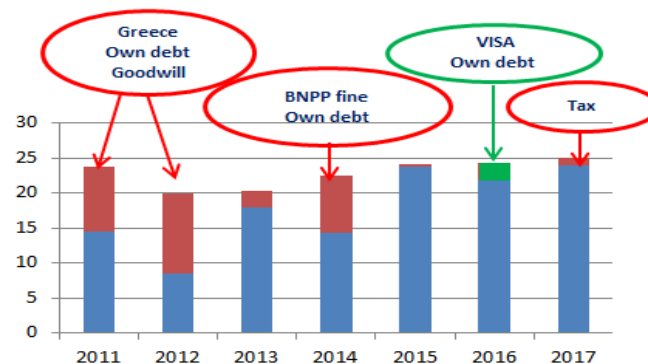
The French banking system

Solid results for the 6 main banking groups (BNPP, BPCE, CA, CM, LBP, SG)

1. Published results

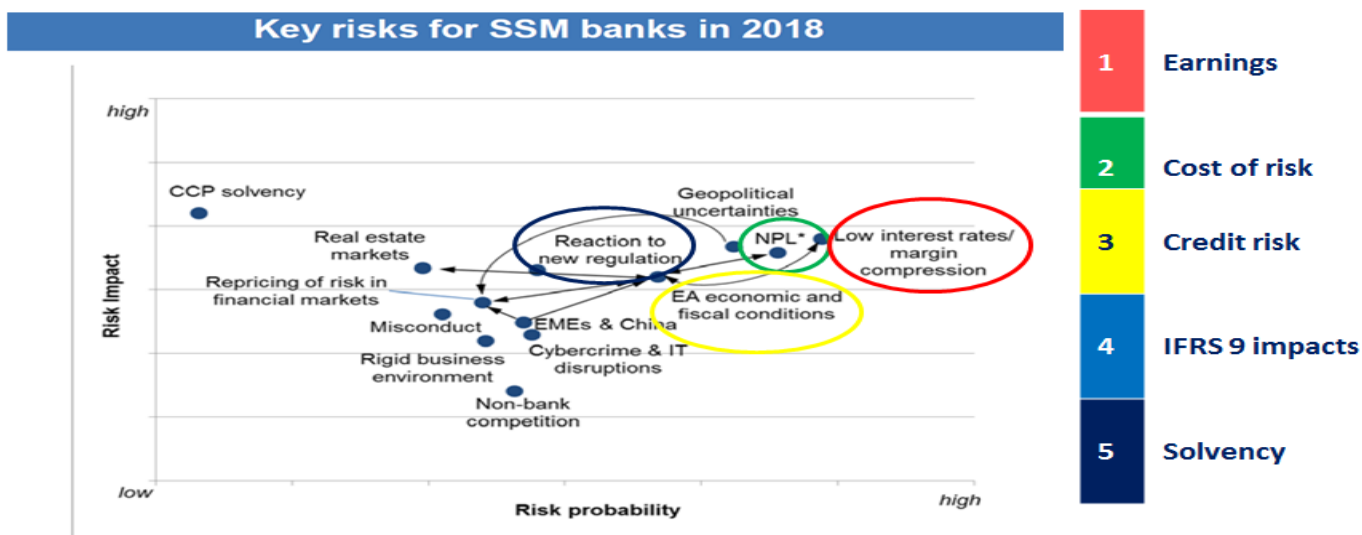
Billions euros	2014	2015	2016	2017	Var.
Net banking income	136,4	146,3	145,7	146,4	+0,5 %
Cost to income ratio	67,3 %	66,4 %	67,5 %	69,0 %	+1,5 pt
Cost of risk	12,6	12,9	10,3	8,4	-18%
Income result	32,0	36,3	37,1	36,9	
Net income	14,3	23,7	24,3	23,9	-1,9%

need to take into account exceptional items



Source: ACPR

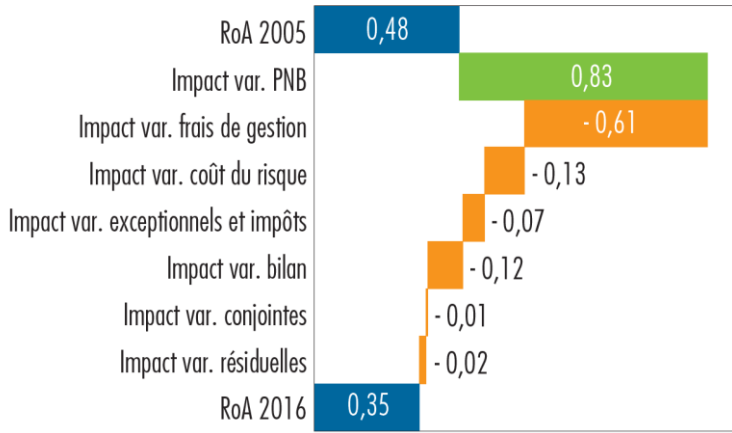
2 – enable facing risks identified by the SSM



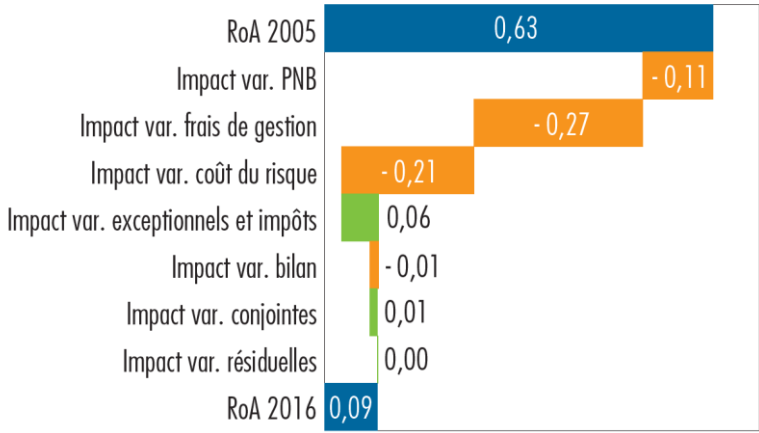
1. - A better return on assets due to a diversified business model (1/2)

1. ROA less reduced compared to EU banks

Banques françaises



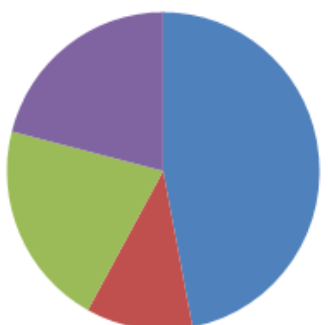
Banques européennes



Source: Banque de France bulletin n° 216 (March-April 2018)

2. French banks continue benefiting a diversified business model

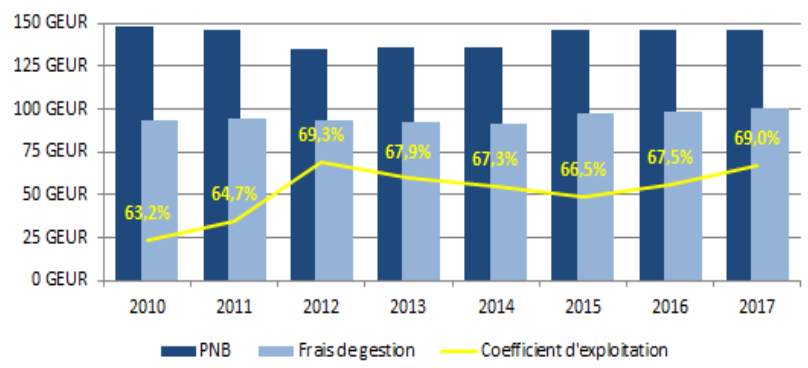
Operating income (%)



Source: ACPR

- Retail
- Financial services
- CIB
- Insurance and asset management

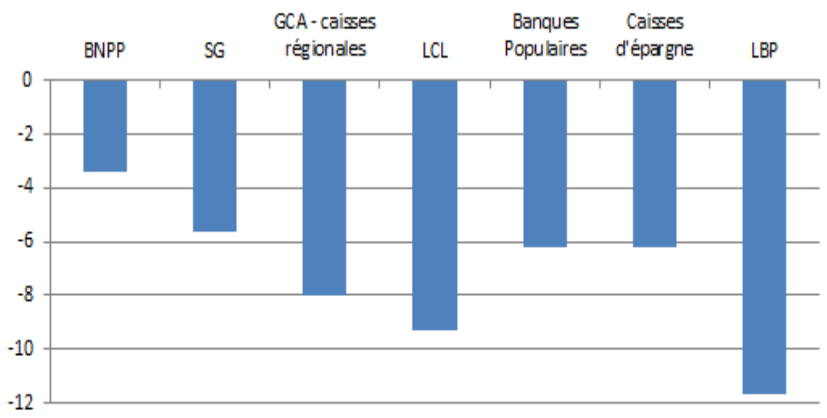
Gross operating income



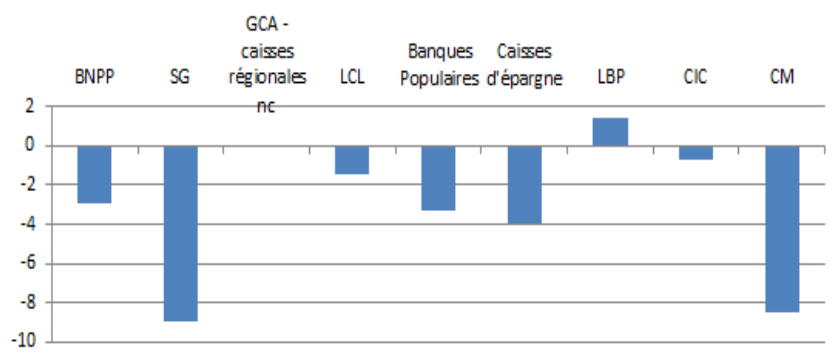
BNPP, BPCE, CA, CM, LBP, SG

3. Retail banking activities still affected by reduction of the margin income

Net interest margin in 2016 compared to 2015 (%) for retail banking activities

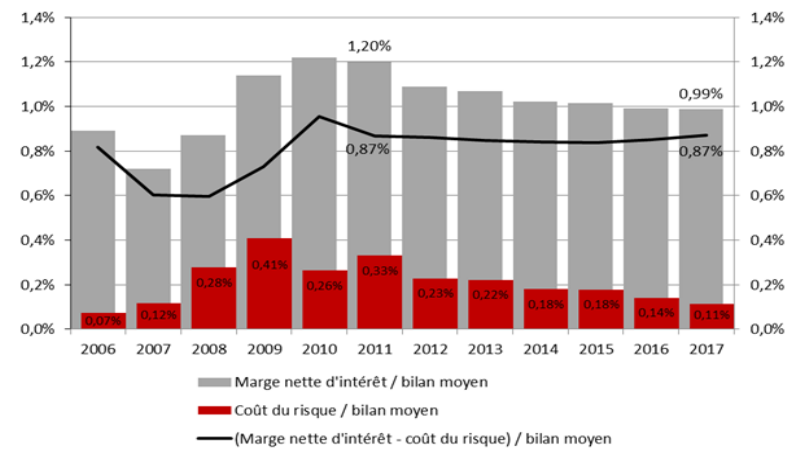


Net interest margin in 2017 compared to 2016 (%) for retail banking activities



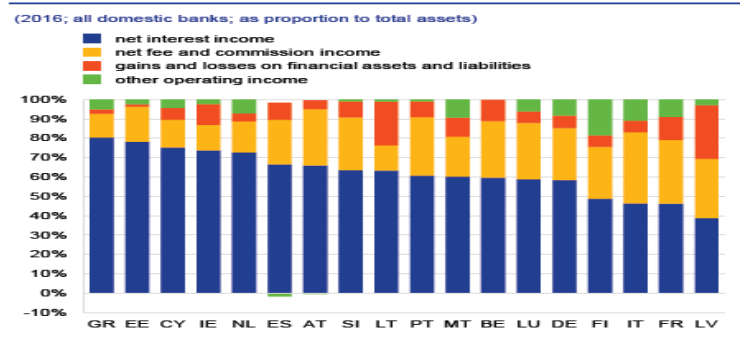
Source: financial communication and ACPR

4. but with interest margin after cost of risk which is stable



5. and operating income with higher fees compared to EU banks

Operating income structure of euro area banking sectors

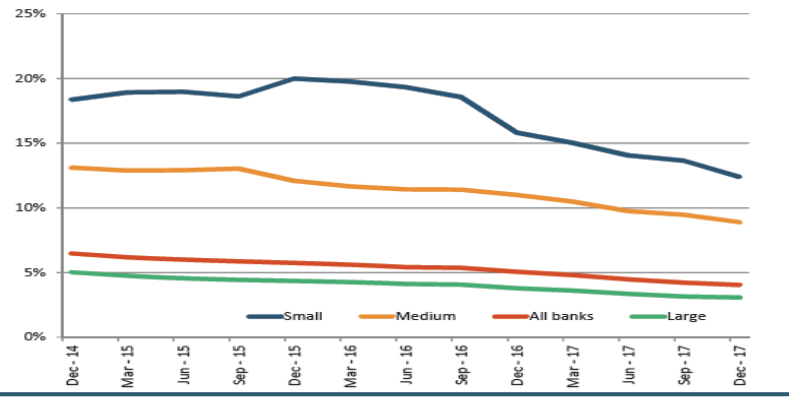
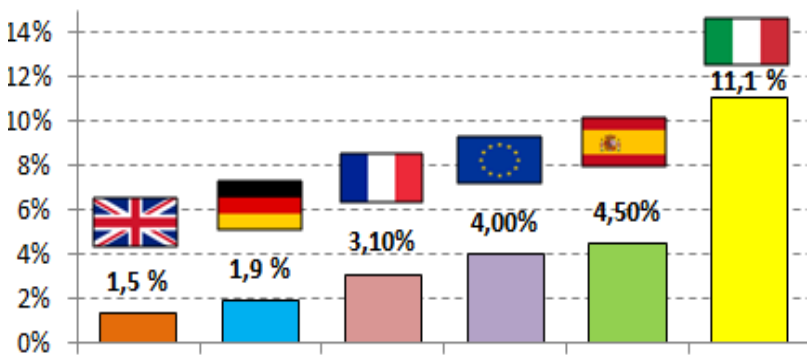


Sources: ECB (CBD) and ECB calculations. Note: Data are not available for Slovakia.

2. - The quality of French banks loans portfolios can be seen in the cost of risk and its evolution

1. Non performing loans still a major issue for several countries even if there is a decrease

Non performing loans - December 2017 - EBA

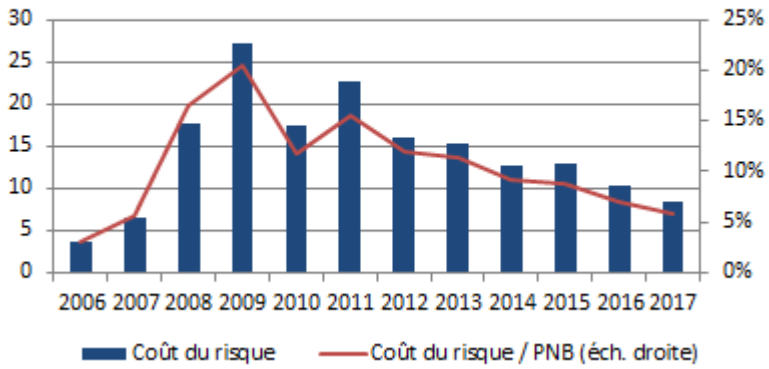


Weighted average. Banks are classified in the size class according to their average total assets between Dec. 2014 and Dec. 2017.

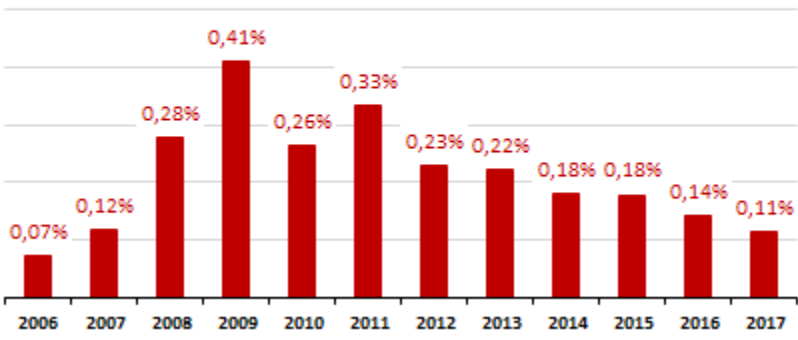
Source : EBA

2. French banks keep a very low cost of risk

Cost of risk (billion euros and % of net banking income)



Cost of risk / total balance sheet

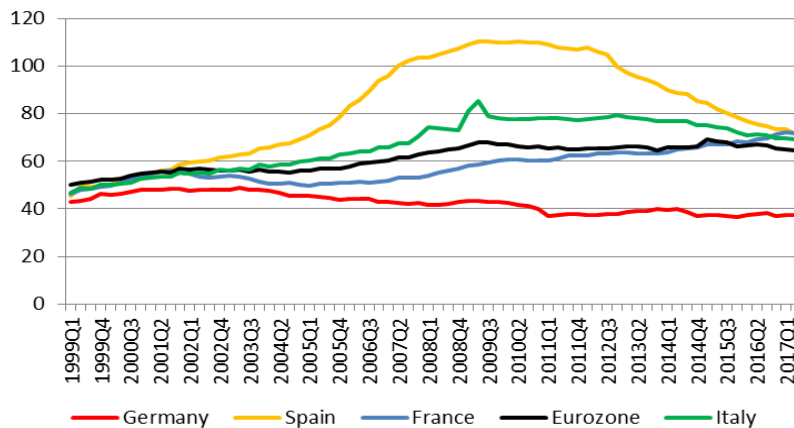


Source: Financial communication and ACPR

3. - Systemic risk increases due to rising NFC debt, but this is concentrated on large corporates

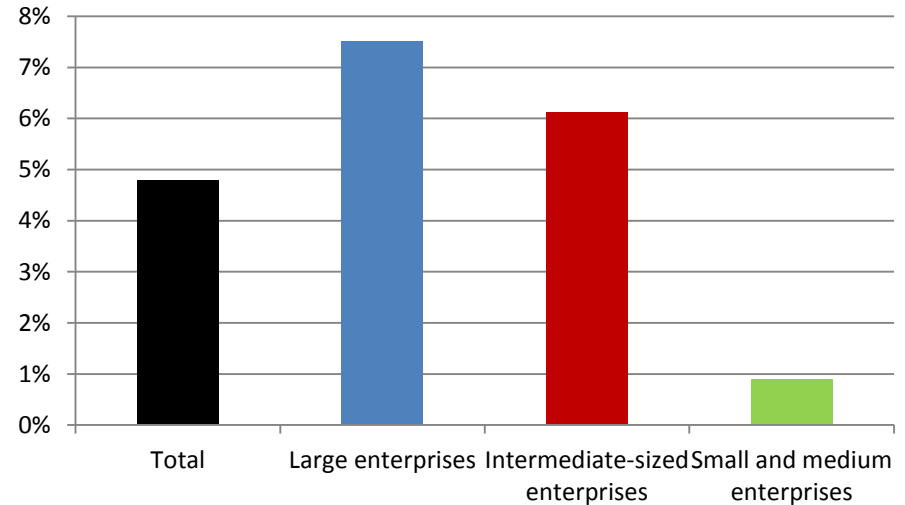
- NFC Debt-to-GDP ratio has increased on average by 4.7% yoy since 2010 – this goes against a general deleveraging trend in the euro area

Chart 1. NFC debt (% of GDP)



- ...Large corporates are first contributors to these dynamics

Chart 2. Average yearly growth in NFC indebtedness (2011-2016) %

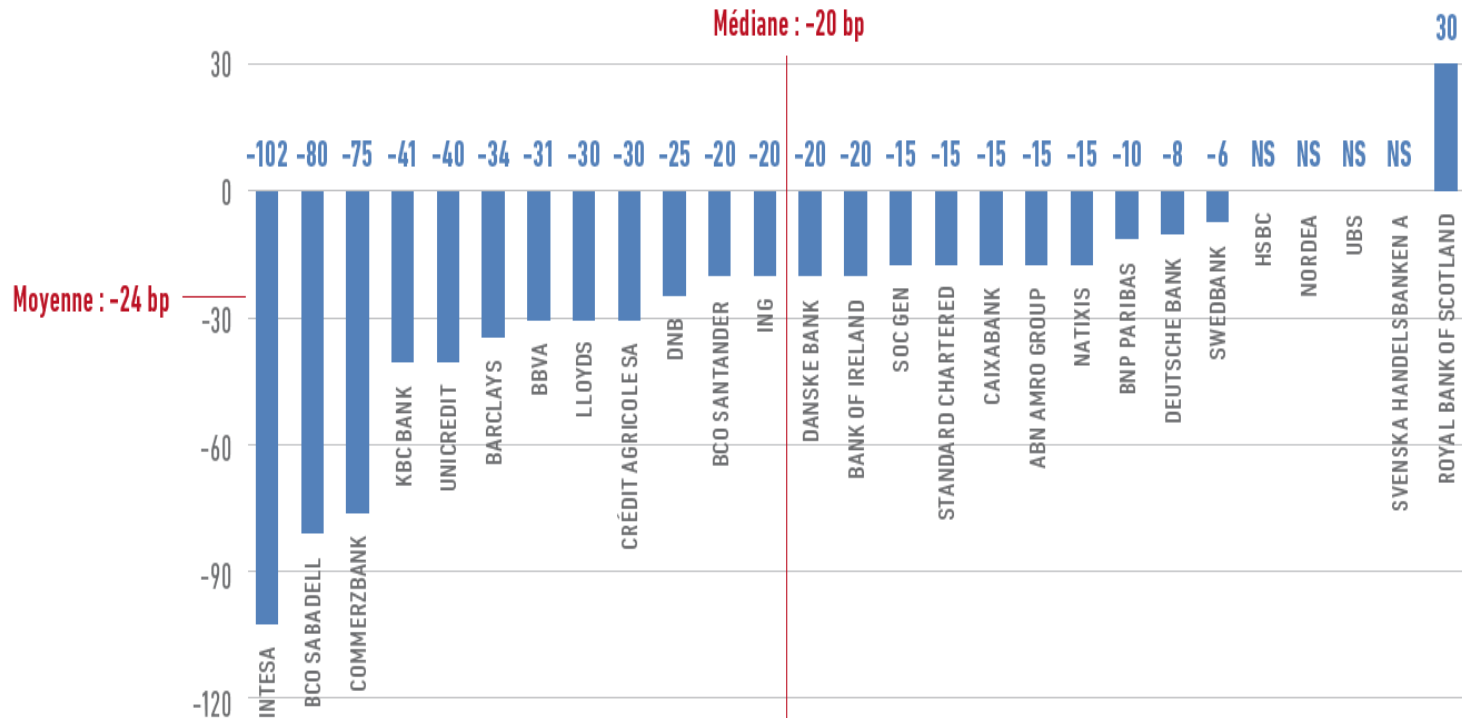


HCSF macro prudential measure (art 458 CRR – Large exposures)

- Requiring from systemically important French credit institutions a tightening of the large exposure limit on highly indebted large NFCs, down to 5% of banks' own funds
- Large exposures as defined in CRR, larger than or equal to EUR 300 million
- Exposures to resident non-financial corporations, or groups thereof, whose ultimate parent company is fulfilling both following criteria: the net leverage ratio is higher than 100%. And the Interest Coverage Ratio is lower than 3

IFRS 9 impact rather limited

1. Limited impact of IFRS 9



Source: Mazars – March 2018

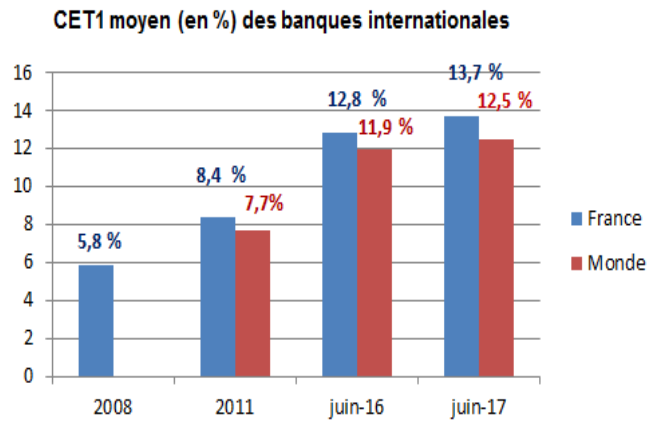
2. Limited use of the transition phase

Large EU banks: **39 %**

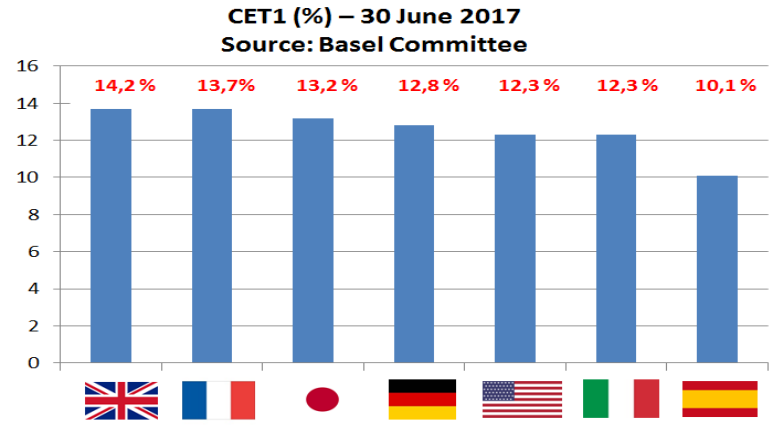
With higher figures for some countries: UK et GR (100 %), IT (82 %), CY et ES (75 %), PL (73 %), IE (60 %), PT (50 %)

Better solvency but with differences with French banks

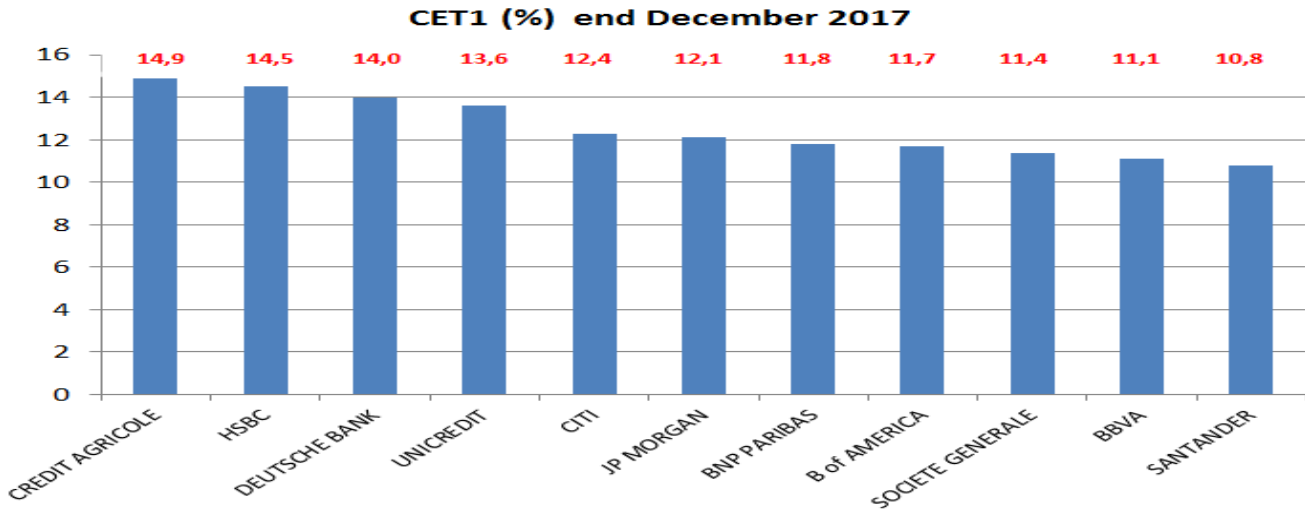
1. CET 1 multiplied by 2,3 since 2008



2. French banks well placed compared to peers



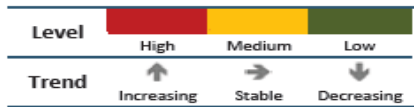
3. But with differences within French banks



EBA risk dashboard focused on profitability and NPL in connection with business models

Bank risk	Risk drivers	Level of risk				
		Last quarter (memo)		Current quarter		
		Level	Expected Trend	Level	Forward Trend	
Pillar 1	Credit risk	NPL outstanding remain high, impediments for NPL reduction, risk from elevated levels of indebtedness	High	→	High	→
	Market risk	Risk of increasing volatility, market liquidity, potential repricing	Medium	↑	High	→
	Operational risk	Cyber attacks, cost pressure as hindrance to build up sound ICT systems, outsourcing	High	→	High	→
Pillar 2	Concentration risk, IRRBB and other	Low interest rate environment, build-up of concentration in certain asset classes	Medium	↑	Medium	↑
	Reputational and legal	Unabated risks from misconduct	High	→	Medium	→
	Profitability risk	Sustainable profitability trend to be confirmed, income driven by unsustainable components	High	↓	High	↓

Bank risk	Risk drivers	Level of risk				
		Last quarter (memo)		Current quarter		
		Level	Expected Trend	Level	Forward Trend	
Liquidity & Funding	Access to funding and maturity distribution	Vulnerability from volatility	Medium	→	Medium	→
	Funding structure	Potential challenges to attain MREL	Medium	→	Medium	→
Environment	Regulatory and legal environment	MREL implementation, Brexit	Medium	↓	Medium	↓
	Fragmentation	Asset quality, profitability, regulatory level playing field	Medium	→	Medium	→
	Sovereign risk	Political risk, debt overhang	High	→	High	→



Source EBA Dashboard décembre 2017

French banks adaptation to digital transformation and increased cyber risk



March 2018

IT Risk

Discussion Paper