



ANALYSES ET SYNTHÈSES

 French banks' performance in 2013



CONTENTS

1. FINANCIAL PERFORMANCE OF FRENCH BANKING GROUPS IN 2013	5
1.1. Earnings up strongly relative to 2012.....	5
1.2. Profits rise on better control of operating costs and a lower cost of risk	7
1.2.1. Net income up slightly	7
1.2.2. Reduced expenses buoy the cost-to-income ratio	9
1.2.4. Net profit rebounds strongly after a tough 2012.....	12
1.3. Performance driven by retail banking	15
1.3.1. Retail banking and specialised finance.....	18
1.3.2. Corporate and investment banking	18
1.3.3. Insurance and asset management.....	19
2. BALANCE SHEETS AND SOLVENCY	20
2.1. Aggregate assets for the five groups contracted 7.5% between 2012 and 2013; balance sheet structures have altered since 2009	20
2.2. Efforts to strengthen capital improved solvency further in 2013	25
2.2.1. Another increase in capital	27
2.2.2. Stabilisation of capital requirements	27
2.3. The five banks post leverage ratios above 3%	28
3. RISKS	30
3.1. Capital requirements for credit risk up slightly	30
3.2. Capital requirements for market risk decline further	38
3.3. A marginal reduction in capital requirements for operational risk.....	42
3.4. Stronger liquidity position	45
ANNEX 1 – KEY RISK INDICATORS	49
ANNEX 2 – ANALYSIS OF CHANGES IN CAPITAL REQUIREMENTS FOR CREDIT RISK	54
REFERENCES	56
TABLES AND CHARTS	57

Overview

Broadly, the operating environment for French banks was calmer in 2013 than the year before, particularly as regards sovereign debt issuance by eurozone borrowers under pressure. At the same time, continuing efforts to consolidate public finances in several European Union countries meant that macroeconomic conditions were relatively depressed in these banks' main markets, particularly Italy and Spain.

Against this backdrop the top six French banking groups¹ reported sharply higher profits compared with 2012, which was particularly tough:

- aggregate net banking income was up 1.1% to EUR 136.5 billion on the back of retail banking in France;
- the banks' restructuring programmes helped reduce operating costs by 0.8% overall and lowered the average cost-to-income ratio by 1.3 points to 67.9%;
- the cost of risk declined 2.7%, despite provisions for litigation at SG and BNPP and changes to provisioning policies at several groups. However, the drop mainly reflects lower cost of risk in corporate and investment banking, whereas the cost of risk actually rose further in retail banking;
- in sum, the six largest French banking groups generated net profit (group share) of EUR 18 billion in 2013, more than twice the 2012 figure of EUR 8.4 billion.

At the same time, the groups continued to refocus their balance sheets and strengthen their financial structure:

- all posted improved solvency, with full CRD4 Tier 1 common equity ratios of 10% or more. Moreover, all reported leverage ratios greater than 3%;
- the liquidity position also continued improving. Quick liquidity reserves, which grew further in 2013, are largely sufficient to cover short-term funding requirements; medium- to long-term refinancing during the year was above-target, enabling the banks to get ahead of their 2014 refinancing schedules; and loan-to-deposit ratios declined again.

This overall improvement should not conceal the major risks that continued to weigh on the largest French banking groups, particularly in terms of profitability. The main contingencies were stubbornly mediocre macroeconomic conditions and an unfavourable yield curve:

- a downturn in the economic and social climate could cause a more serious contraction in credit demand and a rebound in the cost of risk (especially in retail banking) due to a further decline in asset quality;

¹ BNP Paribas (BNPP), Société Générale (SG), Crédit Agricole Group (GCA), BPCE Group (GBPCE), Crédit Mutuel Group (GCM) and Banque Postale (LBP).

- a sharp increase in market short- and medium-term interest rates triggered by higher risk premiums could raise the cost of bank funding; where these costs are not passed through swiftly to lending rates, they could put additional pressure on margins (the net interest margin for the six main French banking groups dipped to 4.3% in 2013).

From this point of view, it is especially important for banks to meet the cost-cutting targets they have announced.

Two other factors could quickly affect the cost of risk at French banks:

- in the near term, the ECB's comprehensive assessment could result in additional provisioning requirements that are hard to quantify at the moment, given the unprecedented nature of the methodology being used. For example, some of the data used to examine banks' assets have never been gathered before and are liable to raise problems of quality or availability in some portfolios. Other drawbacks include the use of models based on these same data, the application of conservative hypotheses when data are lacking, the extrapolation of results obtained from sampling, and a collective provisioning methodology that differs from that generally used by French banks. Nonetheless, French banks seem to be in a better position than their European counterparts to cover their doubtful loans;

- in the near and medium term, and in common with the rest of the banking sector worldwide, French banks could face heightened operational risk due to the legal and compliance component. French groups have set aside substantial provisions for current legal proceedings and fines already handed down for various reasons, such as the manipulation of interbank indices and the failure to respect US embargo rules set by the Office of Foreign Assets Control.

With the introduction of the Single Supervisory Mechanism, the Autorité de contrôle prudentiel et de résolution (ACPR) will continue to scrutinise developments in the French banking system as a whole, liaising closely with ECB supervisors starting in November 2014. Attention will be paid first and foremost to the largest groups and the specific role they play in the European banking system.

Authors: Catherine Adenot, Joël Guilmo and Emmanuel Point

Key words: net banking income, operating costs, cost-to-income ratio, cost of risk, net profit, solvency ratio, key risk indicators.

JEL code: G21

1. Financial performance of French banking groups in 2013

1.1. Earnings up strongly relative to 2012

Foreword

This analysis focuses on the consolidated accounts of the top six French banking groups: BNP Paribas (BNPP), Société Générale (SG), Crédit Agricole Group (GCA), BPCE Group (GBPCE), Crédit Mutuel Group (GCM) and La Banque Postale (LBP).

All transactions, regardless of business line (banking, insurance, asset management, etc.) and geography (including foreign subsidiaries), are taken into account as long as they are within the scope of consolidation of the banking group concerned.

For some risk indicators, French banks are compared with their European peers using the key risk indicators (KRIs) calculated every quarter by the European Banking Authority (EBA) for a sample of 57 European banks.

After a difficult 2012, the major French banking groups reported sharply higher profits in 2013. Aggregate net banking income (NBI) was up 1.1% on the year before, to EUR 136.5 billion, while gross operating profit climbed 5.5% on a modest 0.8% decline in operating expenses. Factoring in the cost of risk and other income and expenses, net profit almost doubled over the period.

Table 1
Intermediate operating totals
(EUR billions)

	2012	2013	Change 2013/2012
Net banking income	135.0	136.5	+1.1%
Operating expenses	93.5	92.7	-0.8%
Cost-to-income ratio	69.3%	67.9%	- 1.3 pt
Gross operating profit (GOP)	41.5	43.8	+5.5%
Cost of risk (CR)	16.1	15.7	-2.7%
Net operating profit (GOP-CR)	25.4	28.1	+10.6%
Other gains (+) and losses (-)	-2.9	0.8	n/a
Pre-tax income	22.5	28.9	+28.8%
Tax	8.5	9.2	+8.0%
Discontinued or held-for-sale operations	-4.0	0	n/a
Net profit	9.9	19.8	+98.9%
Minority interests	1.5	1.7	+11.0%
Net profit (group share)	8.4	18.0	+115.0%

Source: financial disclosures from the six groups (BNPP, SG, GCA, GBPCE, GCM, LBP)

Apart from the accounting impact due to the adjustment of the six groups' own debt, exceptional items heavily impacted their results in 2012. These included the European sovereign debt crisis (mainly the cost of the Greek crisis), post-crisis restructuring costs, the costs of divesting from or shutting down business lines, and goodwill amortisation.

These items were far less significant or disappeared altogether in 2013. Only own-debt adjustment (EUR 2.8 billion, after EUR 4.8 billion in 2012) had a significant negative impact on NBI under IFRS, reflecting a further venting of pressure on interest rates (see inset). Stripping out this IFRS impact, NBI declined slightly (-0.4 %, compared with a 1.1% gain with the accounting impact) and the cost-to-income ratio fell just 0.3 point.

Inset 1

Own debt adjustment

Like other large international banks, some French banking groups assess part of their debt at fair value under International Financial Reporting Standards (IFRS) and their own accounting practices.

In this case, the fair value takes into account any change in value attributable to issuer risk. An entity reports a gain (loss) when its credit standing declines (improves). This gain or loss is counterintuitive, as the entity and its shareholders are not better off and reporting a gain from a decline in credit quality is potentially misleading. In the balance sheet, fair value liabilities are adjusted accordingly. This reduction (increase) in value represents an unrealised gain (loss) that would only be realised if the financial instruments issued by the bank were bought back on the market. Otherwise, income relating to this unrealised gain is written back over the remaining term of the liabilities at a pace determined by movements in the bank's issuer risk.

These arrangements generate artificial P&L volatility without any real economic justification. For regulatory capital calculation purposes, prudential filters are used to neutralise these effects, and capital ratios are therefore unaffected by them.

IFRS 13 – CVA/DVA

Adopted by Commission Regulation (EU) 1255/2012, IFRS 13 relates to the measurement of fair value and is mandatory for financial years from 1 January 2013 onwards. Aimed at a single framework for measuring fair value, IFRS 13 states that fair value for a financial instrument must take account of counterparty risk for assets and non-performance risk for liabilities, including but not limited to the entity's own credit risk. In the context of derivatives, the Credit Valuation Adjustment (CVA) and Debt Valuation Adjustment (DVA) are the metrics generally used to estimate counterparty risk and own credit risk, respectively.

For a derivative instrument, fair value represents a claim on the counterparty, and negative fair value represents a debt. In the case of an interest-rate swap, for example, fair value can alternate over time between positive (a derivative asset) and negative (a derivative liability), depending on the discounted value of future cashflows.

In practice, calculating CVAs and DVAs consists in identifying expected loss in the event of default, taking account of any collateral, security deposit, margin or, where applicable, master netting agreements.

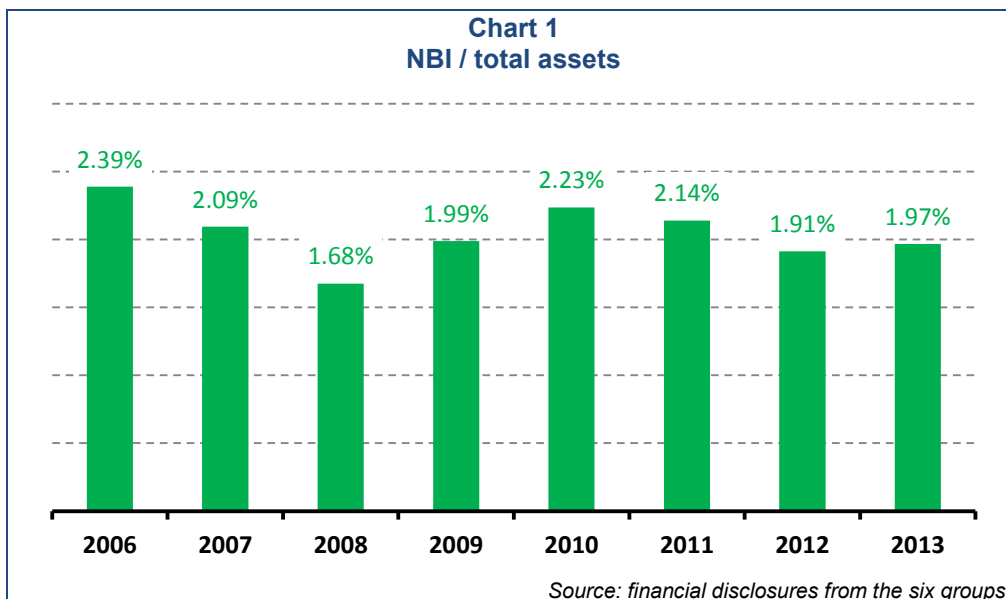
A financial statement analysis of banks that have disclosed details on the two impacts shows that CVA/DVA effects were far smaller than the effects related to changes in own debt in 2013. For SG, the CVA/DVA impact was a negative EUR 103 million, compared with a negative EUR 1,594 million for changes in own debt; for GCA, the two impacts amounted to a negative EUR 267 million and EUR 591 million, respectively (BNPP and GBPCE disclose a combined impact for the two effects).

1.2. Profits rise on better control of operating costs and a lower cost of risk

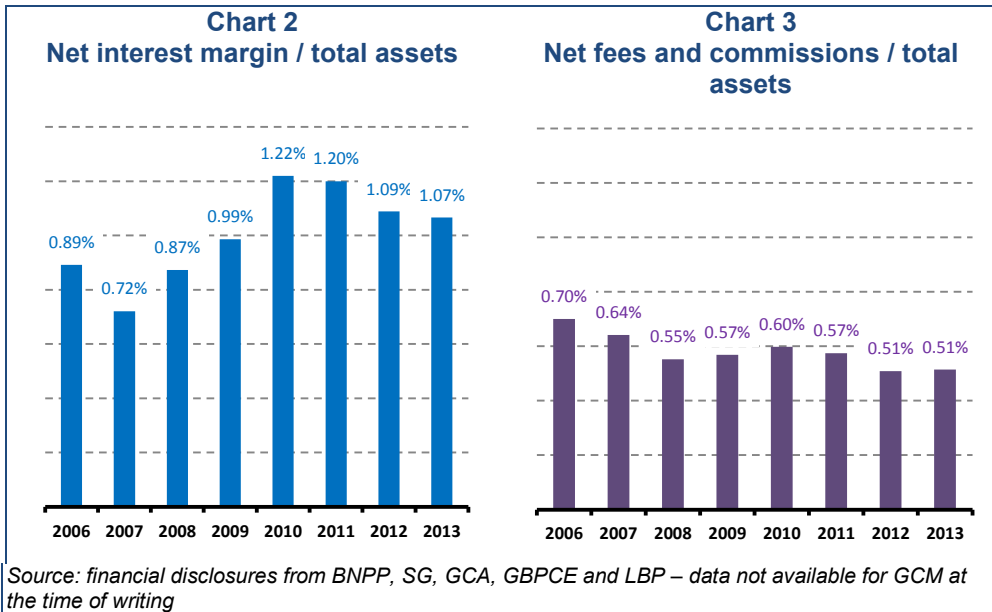
1.2.1. Net income up slightly

NBI increased a slight 1.1% in 2013 due to an accounting effect related to own debt adjustment (see 1.1).

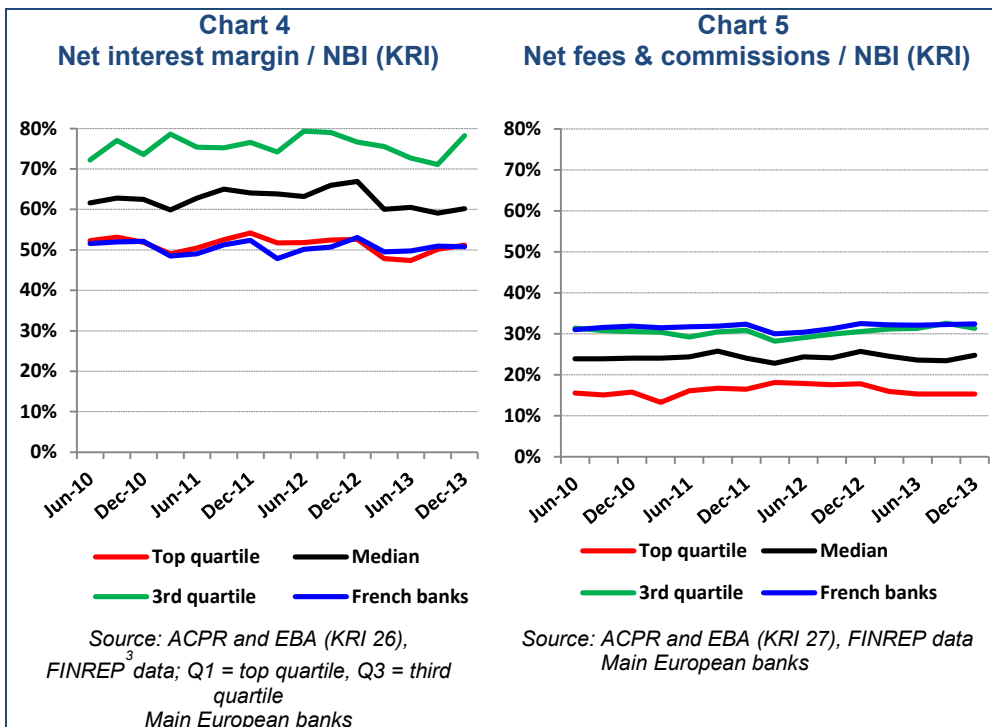
In proportion to total average assets for the year, NBI ended a decline dating from 2011 and 2012 but remained relatively depressed (Chart 1). It amounted to 1.97% of total average assets at end-2013, compared with 2.23% two years earlier, and part of the improvement in 2013 stemmed from a decline in total assets at the six main French banking groups. But it was still above its low of 2008, which marked the worst of the financial crisis.



Examining the main components of NBI shows a 4.3% drop in the net interest margin, due largely by an unhelpful yield curve but also to a 1.1% fall in net fees and commissions. In proportion to total average assets for the year, the net interest margin declined slightly once again, from 1.09% at end-2012 to 1.07% at end-2013 (Chart 2), but was still sharply higher than before the financial crisis (0.89% in 2006 and 0.72% in 2007). As a share of average assets, net fees and commissions were an unchanged 0.51%, but this was due to a contraction in the ratio's denominator (see above); in absolute terms, they were at their lowest level since 2006 (Chart 3).



The KRIs published by the EBA² show that the major French banks earn less of their income from interest intermediation than other large European banks (**Erreur ! Source du renvoi introuvable.4**), and more from fees and commissions (Chart 5). These two charts also show that the contributions of these two components are extremely stable over time and regularly account for just over 80% of French banks' net income.



² cf. European Banking Authority, *Risk Assessment of the European Banking System*, December 2013, European Banking Authority, *Risk Dashboard Q1 2014* and Annex 1.

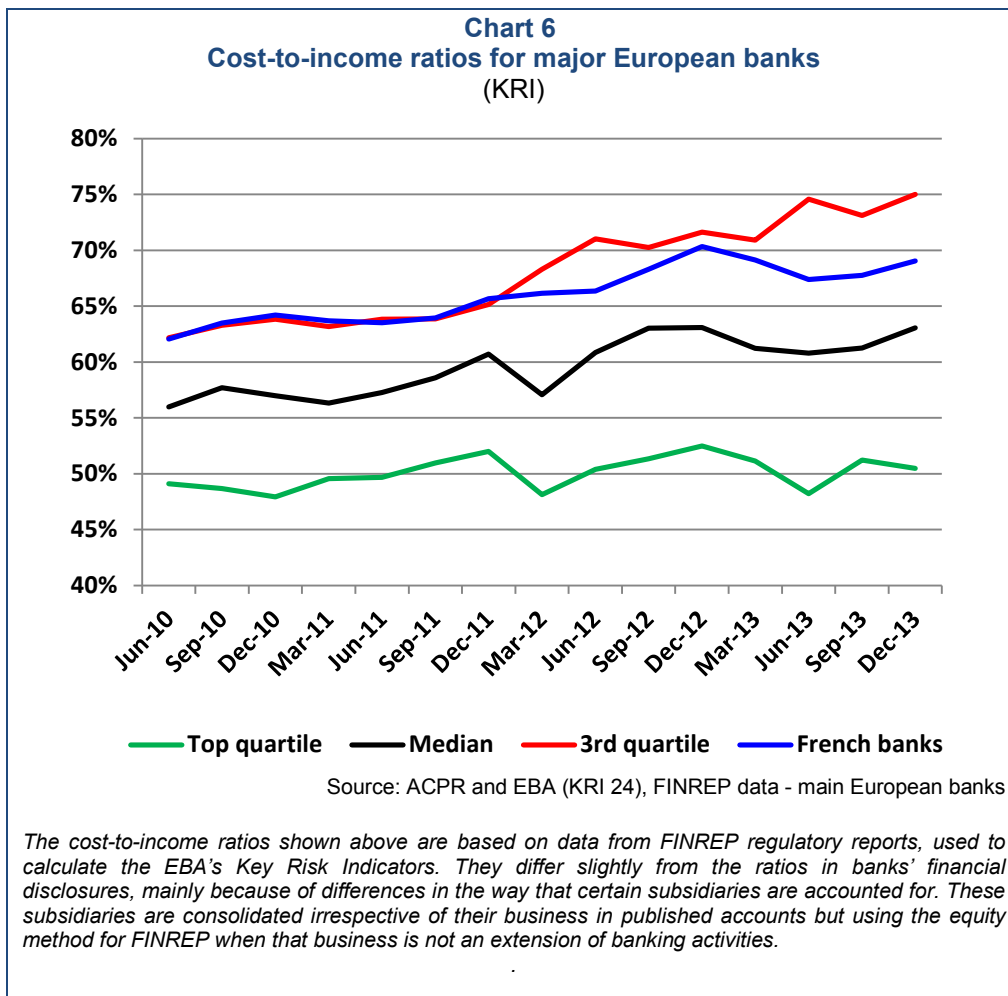
³ FINREP defines the content of the consolidated balance sheet that banking groups have to report to the ACPR. While similar to the balance sheet under IFRS (it covers all geographical areas, for example), the scope of prudential consolidation is not the same as that of accounting consolidation. Under prudential consolidation, for example, insurance subsidiaries are equity-accounted, irrespective of the size of the shareholding, and asset or risk sales are measured based on the type of risk transfer.

1.2.2. Reduced expenses buoy the cost-to-income ratio

The average cost-to-income ratio (i.e. operating expenses over NBI) was 67.9% in 2013, down 1.3 point from the year before. Stripping out adjustments to own debt (see above), it was 66.6% in 2013, down 0.3 point.

Operating expenses contracted 0.8% between 2012 and 2013, following a similar decline between 2011 and 2012. But the 2013 figure includes a EUR 446 million payment from SG to the European Commission in connection with a Euribor-fixing investigation. Without this, the drop in operating expenses would have been 1.3%.

French banks still have a fairly high overall cost-to-income ratio compared with other large European banks. Their relative position is improving gradually, however, as shown by the widening gap against the third quartile of European banks (Chart 6). A number of structural factors explain why French banks have high cost-to-income ratios⁴.



Recent announcements from major banks on their cost-cutting programmes have either confirmed or broadened the objectives they have set themselves. The recurring savings expected between now and 2016-17 from all the cost-cutting plans launched since 2012 amount to almost EUR 8 billion. The impact of these plans on the cost-to-income ratio will be gradual, however, and mitigated in the immediate future by the transitional expenses associated with them:

⁴ cf. ACPR (2013 a): a close-knit retail branch network, more frequent use of cheques in France than in other European countries, etc.

- in 2013 BNP Paribas raised the objectives of its Simple & Efficient plan, with a target cost reduction of EUR 2.6 billion per year out to 2016 rather than the initial EUR 2 billion per year out to 2015. The new objective amounts to 10% of 2013 operating expenses. Based on the bank's own assumptions of income growth, and incorporating adjustment costs estimated at EUR 2 billion (initially EUR 1.5 billion) over three years, including EUR 661 million incurred in 2013, the new plan will enable BNPP to trim 3 points off its cost-to-income ratio by 2016.
- Crédit Agricole Group has launched its MUST programme, which aims to take out EUR 650 million in expenses from IT, purchasing and property by 2016. In tandem with other cost control programmes, the group intends to save EUR 950 million by that date, amounting to around 5% of current operating expenses. Based on its own income growth assumptions for the period, the plan will reduce the group's cost-to-income ratio by 2 points overall;
- the BPCE Group's Ensemble 2010-2013 programme generated EUR 1,035 million in savings in 2013, on a target of EUR 1 billion. The group has announced a new plan aimed at simplification and local synergies to save a further EUR 900 million in costs by 2017, or 5% of current operating expenses. Based on the group's revenue growth assumptions, the plan will lower its cost-to-income ratio by 4 points between now and 2017.
- Société Générale is committed to cutting EUR 1.5 billion from operating expenses over 2012-15, or just under 10% of the total. EUR 550 million was saved in 2012 and EUR 350 million in 2013. The plan involves around EUR 600 million in adjustment costs spread over three years (EUR 221 million reported for the 2013 financial year).

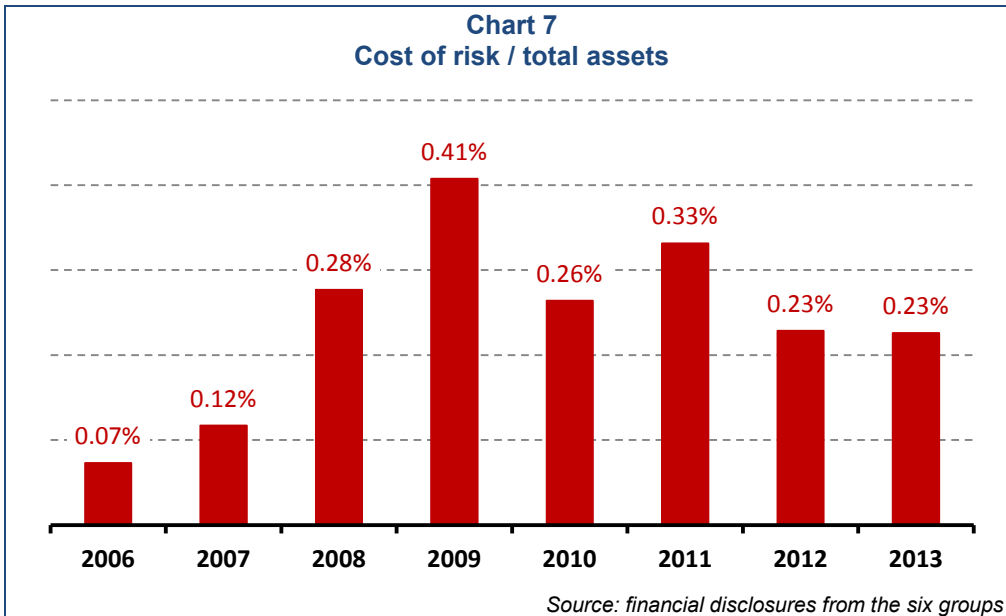
1.2.3. A drop in the cost of risk, despite litigation

The overall cost of risk⁵ totalled EUR 15.7 billion in 2013. This was 2.7% less than the EUR 16.1 billion reported for 2012, despite provisions for litigation at BNPP Paribas and SG (EUR 800 million and EUR 400 million, respectively) and changes to provisioning policies at several groups. The modifications include a new calculation method for collective impairment provisions at GCM, an increase in the doubtful loan coverage rate in SG's retail banking arm and a more onerous provisioning policy at GCA's investment bank).

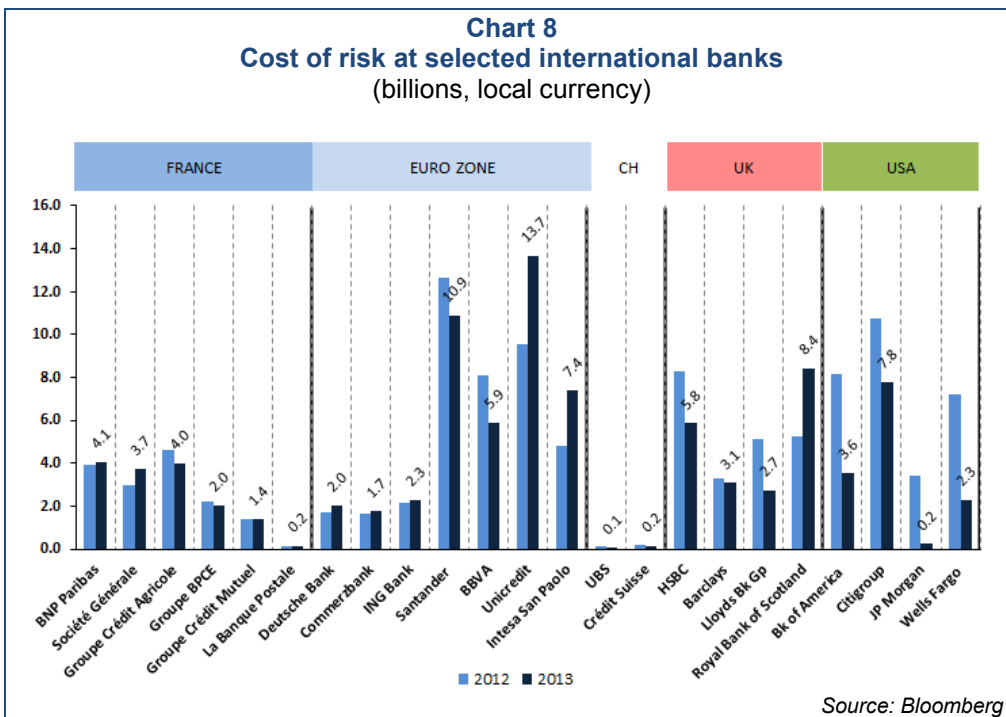
Although the cost of risk is still much higher than before the crisis, in proportion to average assets for the year concerned ([Chart 7](#)), it is little more than half of what it was at its peak in 2009, a year of deep recession in many countries. It is also below its level of 2011, following the European sovereign debt crisis.

Aside from provisions for litigation in 2013, the cost of risk fell 10%, to 0.21% of total assets, between 2012 and 2013.

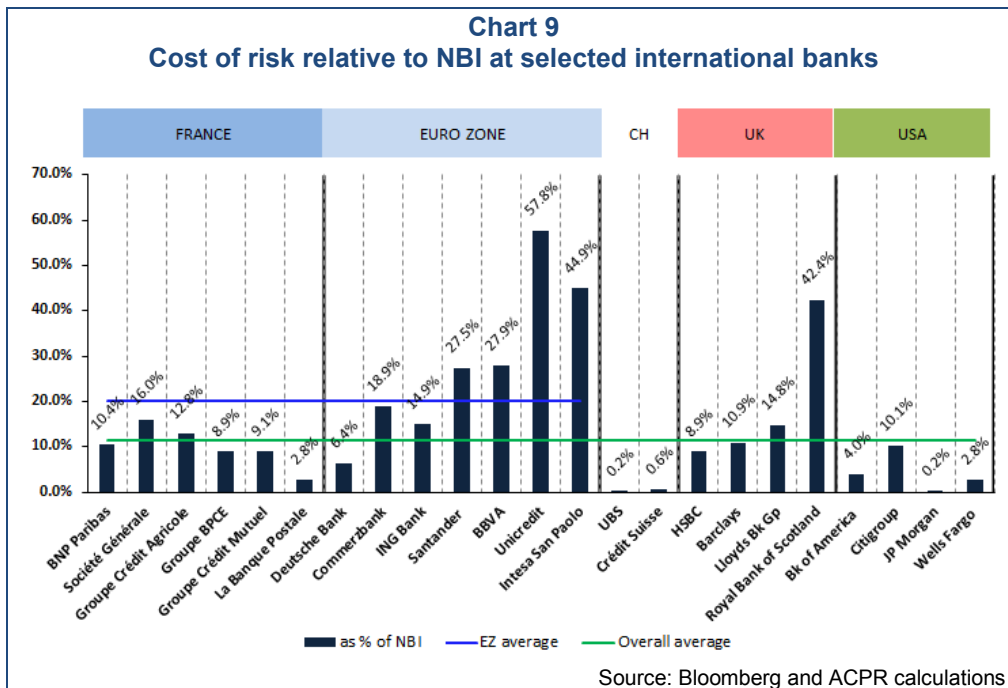
⁵The cost of risk includes allocations net of reversals to provisions and impairment for credit risk on loans and receivables, financing and guarantee commitments and fixed income securities. It also incorporates losses on unrecoverable loans and recoveries of loans written off.



The modest 2.7% drop in the cost of risk at French banks between 2012 and 2013 contrasts with an 8% increase for other eurozone banks. This rise largely reflects substantial write-downs by Italian banks that outweighed a fall in the cost of risk at Spanish banks (Chart 8). Outside the euro zone, banks' cost of risk declined significantly, e.g. by 5.3% in the UK, 28.6% in Switzerland and 53% in the USA.



As a proportion of NBI, the cost of risk at French banks (11.2%) is in line with the average for selected international banks (11.3%). However, the average for euro zone banks (20.2%) is almost twice as high as the world average, due to Italy and, to a lesser extent, Spain. The world average also incorporates very low costs of risk for US and Swiss banks (Chart 9).



1.2.4. Net profit rebounds strongly after a tough 2012

Owing to positive trends in NBI, operating expenses and the cost of risk, French banks' operating profit (NBI – operating expenses – cost of risk) climbed 10.6% from EUR 25.4 billion in 2012 to EUR 28.1 billion in 2013.

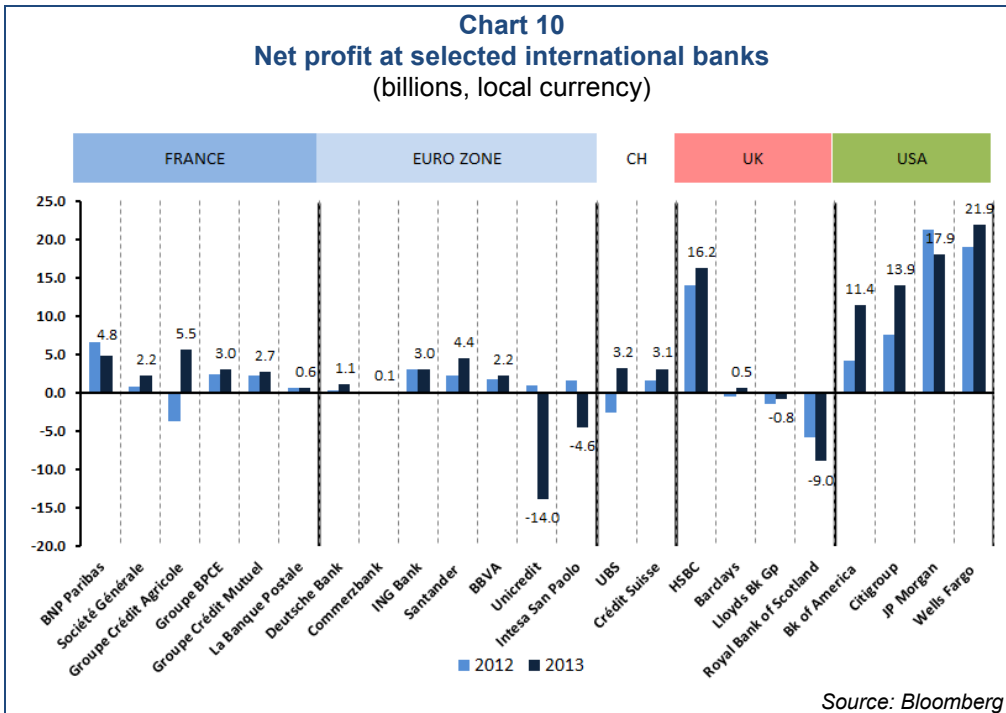
This better performance was even more striking in terms of pre-tax profit, which jumped almost 29% from its 2012 level to EUR 28.9 billion in 2013. The figures for 2012 had been affected by significant goodwill impairment⁶.

The tax burden increased moderately, from EUR 8.5 billion in 2012 to EUR 9.2 billion in 2013. A EUR 4 billion loss on discontinued or held-for-sale operations had been booked in the previous financial year.

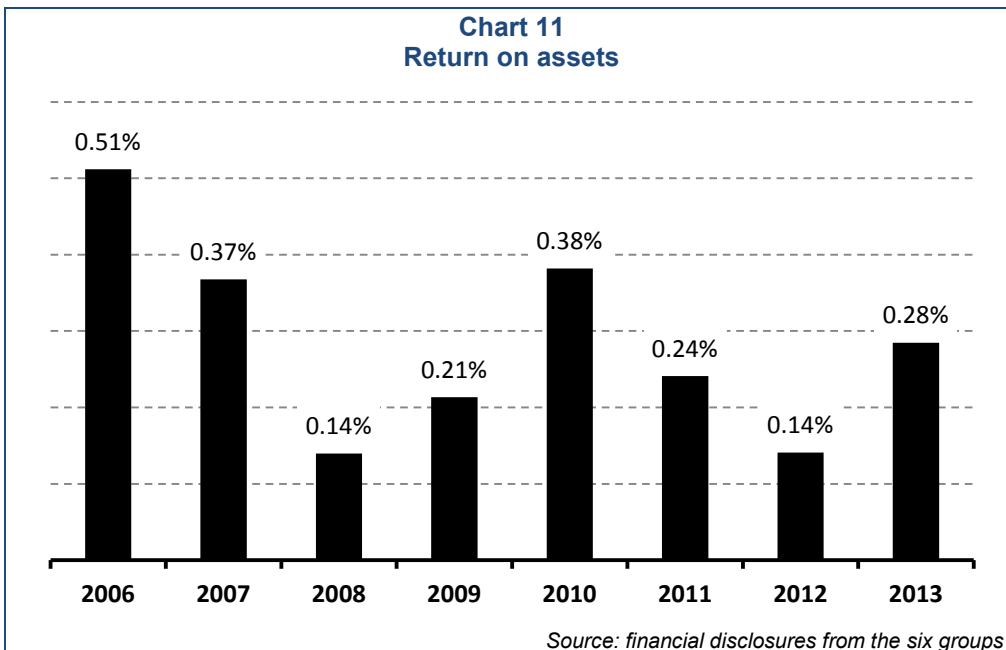
Net profit for the six main French banks rebounded dramatically, up 98.9% from EUR 9.9 billion in 2012 to EUR 19.8 billion in 2013. They plan to pay out a total EUR 4 billion in dividends, rather more than in 2011 (EUR 1.8 billion) and 2012 (EUR 2.5 billion). The payout rate will therefore be around 40% of net profit for the 2013 financial year.

Net profits at other large international banks vary from country to country. They have risen sharply in Switzerland, the UK and the USA, but in the euro zone have been curbed by further heavy losses at Italian banks (Chart 10).

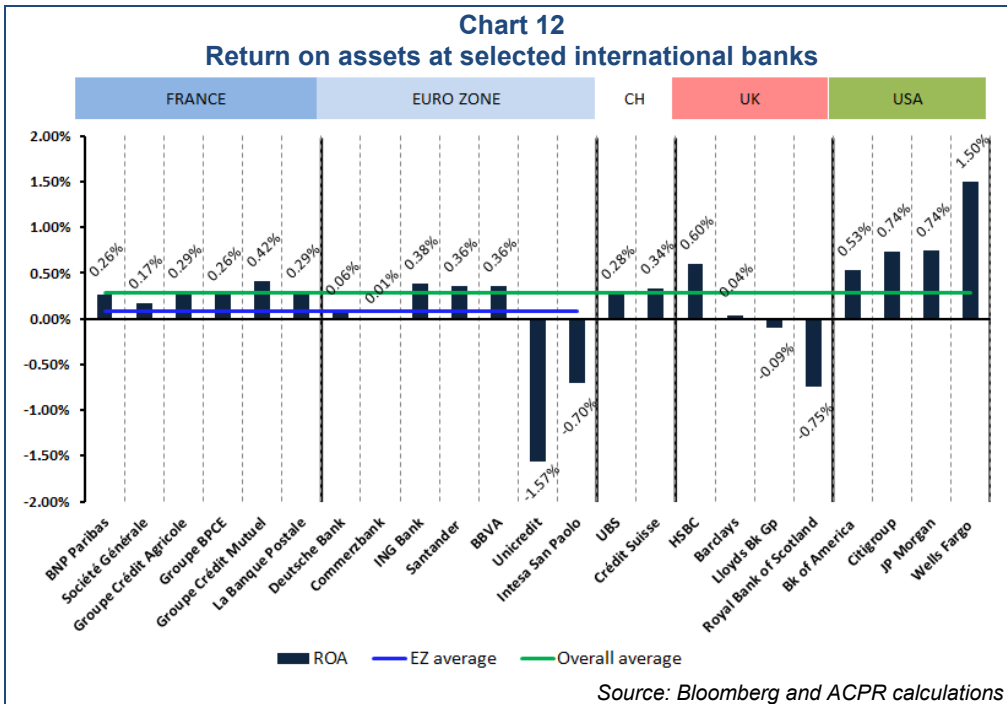
⁶ Goodwill is prudently considered to have no real value for the purpose of supervisory ratios and is deducted from Tier 1 capital. Hence, changes in goodwill such as the impairments recorded in 2012 have had no impact on regulatory solvency ratios.



In line with the absolute figures, French banks' net profits relative to their average assets for the year (i.e. return on assets) doubled between 2012 and 2013 to 0.28%. But this was still well below the levels seen before the financial crisis (Chart 11).

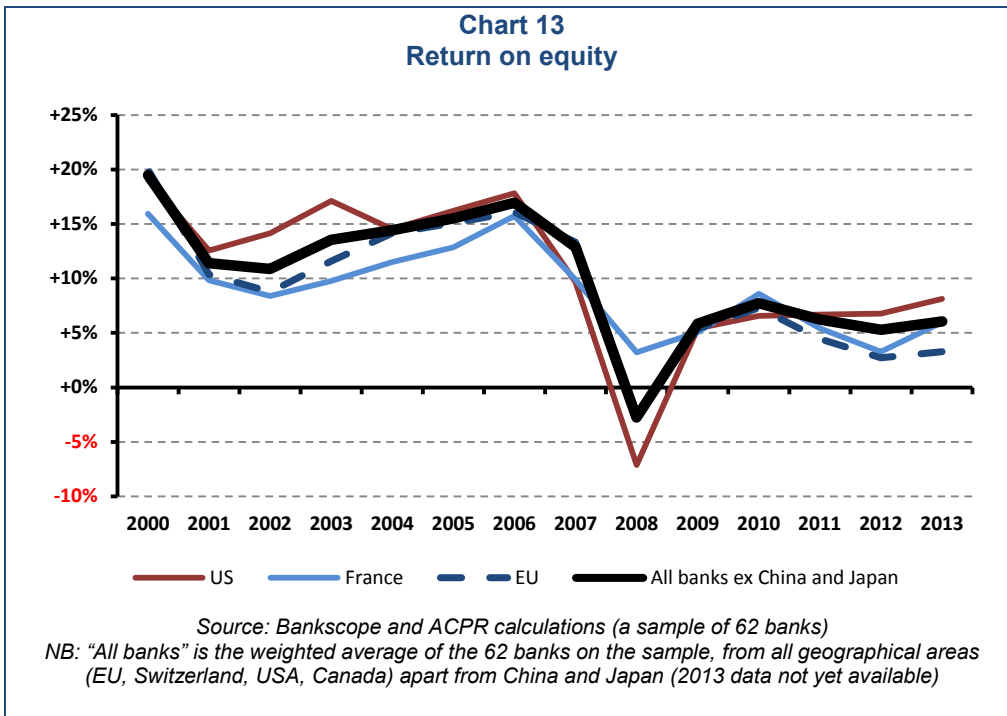


French banks' return on assets is on a par with or higher than the average for eurozone banks. With the exception of SG, they are also average for our selection of international banks (Chart 12). Apart from losses at Italian banks, the euro zone is struggling partly because of poor results from German banks. Outside the euro zone, UK banks apart from HSBC stand out with low or even sharply negative return on assets; US banks are reporting relatively strong performance in terms of ROA.



Lastly, French banks' return on equity has also picked up smartly (Chart 13), rising 2.7 points to 6% in 2013. This level compares with a European Union average of 3.3% and is close to the world average of 6.1%.

The profitability of French banks was dented by the sovereign debt crisis in 2011 and its effects on the macroeconomic situation in 2012, but it appears to have recovered faster than at other European banks. They are still less profitable than American banks, where return on equity has been rising since 2009 and reached 8.1% in 2013.



Generally, a combination of improved solvency (see below) and more modest profits is putting strong downward pressure on return on equity relative to pre-crisis levels.

1.3. Performance driven by retail banking

Inset 2

Analysis by business line

Large banking groups disclose information on their major operating segments (e.g. retail banking, corporate and investment banking and asset management) in their consolidated financial statements.

Since this information is based on each group's internal structure, it varies significantly,⁷ and adjustments have to be made for the purposes of comparison. Accordingly, the figures in the following tables and charts may differ slightly from those disclosed by the banks themselves for the business lines concerned. For example, insurance has been included in asset management for all these groups and some do not do this themselves (instead of asset management, some banks include insurance in specialised finance).

Since the onset of the financial crisis, French banks have reviewed their business models and refocused their activities to some extent (

Table 2). Greater emphasis has been placed on retail banking, which accounted for 71.2% of NBI in 2013. Asset management also accounted for a larger share of these banks' business, rising to 14.2% of NBI. In contrast, the contribution of corporate and investment banking contracted from 20.2% to 16.9% of NBI between 2010 and 2013. The 'Others' line in the table refers to activities that have not been assigned to a specific business line, such as income related to changes in own credit risk, the centralisation of intra-group funding and equity interests.

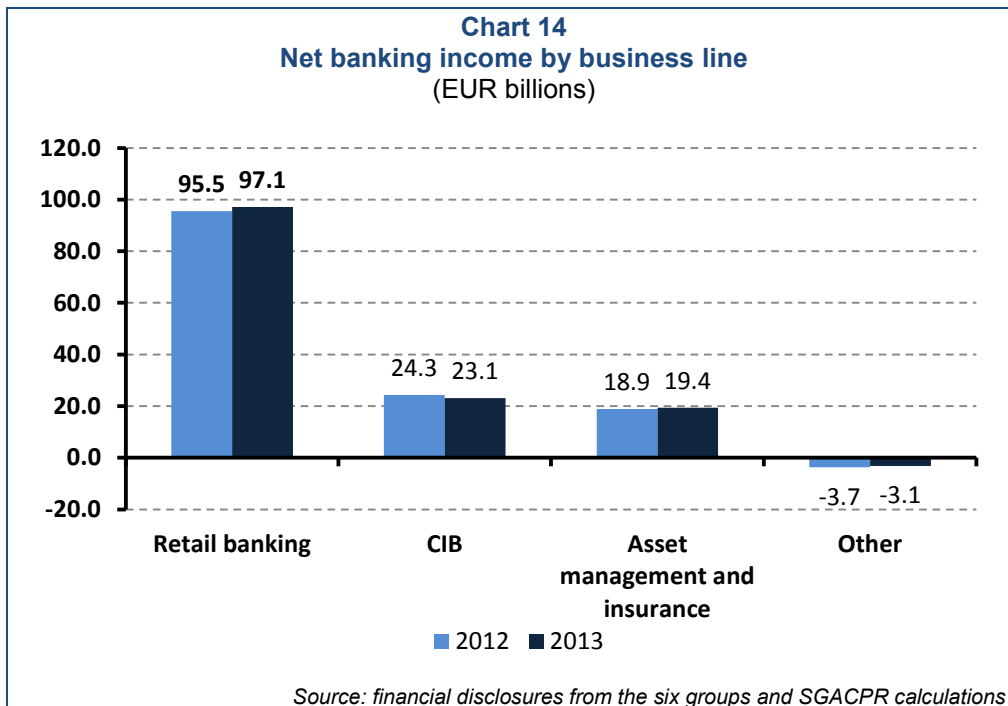
Table 2
Contributions to NBI from major business lines since 2010

	2010	2011	2012	2013
Corporate and investment banking	20.2%	17.3%	17.4%	16.9%
French retail banking	41.6%	42.5%	45.0%	46.5%
International retail banking	12.7%	13.4%	15.5%	14.7%
Specialised finance	10.5%	10.6%	10.3%	10.0%
Asset Management	12.2%	12.6%	14.1%	14.2%
Other	2.3%	3.6%	-2.2%	-2.3%

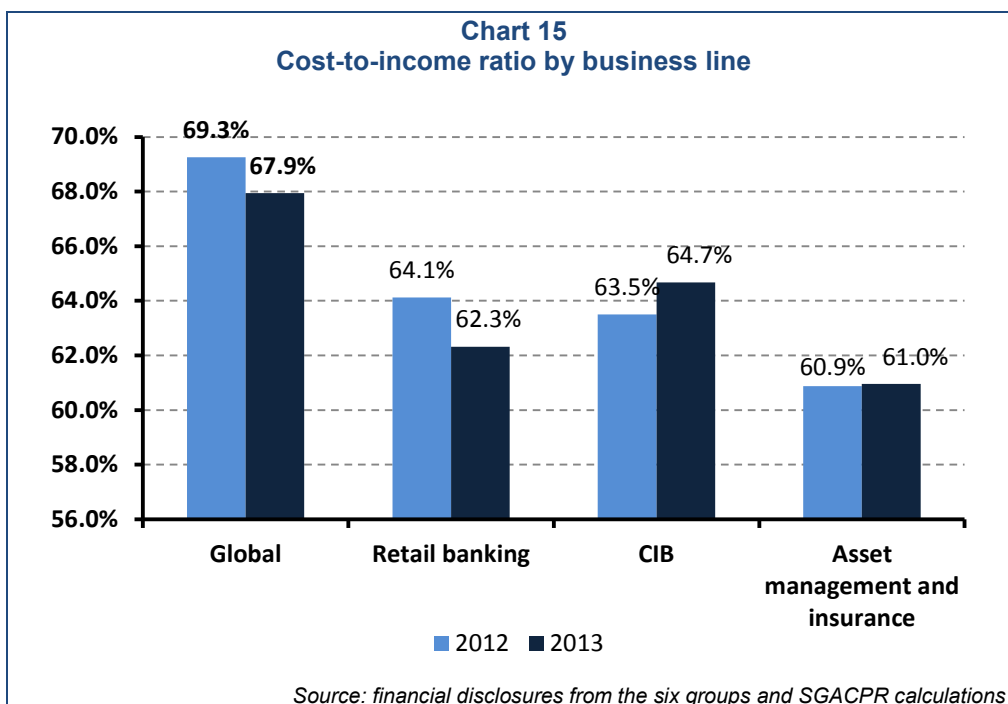
Source: financial disclosures from the six groups

These trends were confirmed between 2012 and 2013 with increases in net income from retail banking (up 1.8%) and asset management and insurance (up 2.5%) but a 5% drop in net income from CIB (**Chart 14**).

⁷ cf. Autorité de contrôle prudentiel (2011a), *The French banking and insurance market in figures, 2011*.

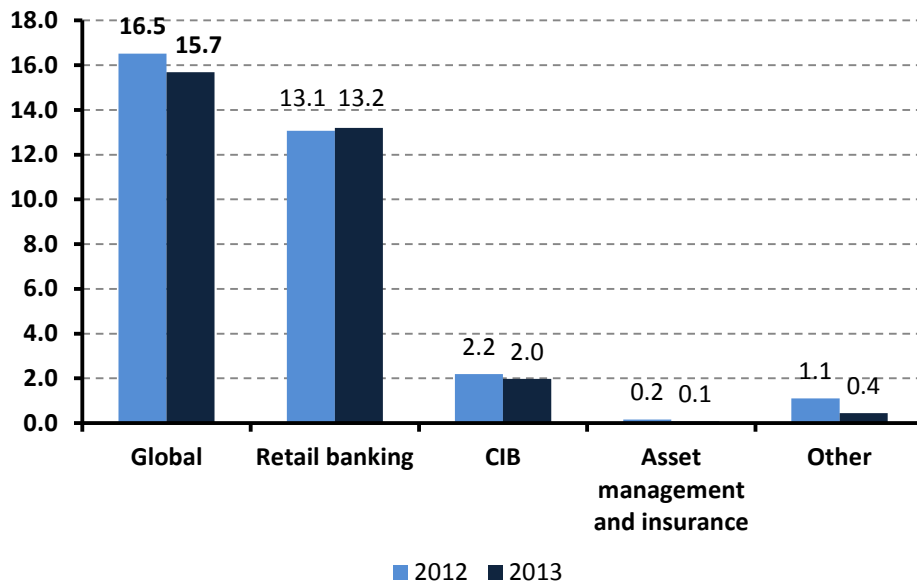


Having worsened in preceding years, cost-to-income ratios in retail banking and CIB improved sharply in 2013, rising from 64.2% to 62.3% and from 66.1% to 64.7%, respectively (Chart 15).



The cost of risk has changed little in CIB since 2010; in retail banking, it has stabilised below its 2009 peak (EUR 17.3 billion) as well as its 2010 level (EUR 15.1 billion). In relation to NBI, the cost of risk by business line in 2013 was very much as it was in 2012, accounting for 13.6% of NBI in retail banking and 8.6% in CIB (Chart 16).

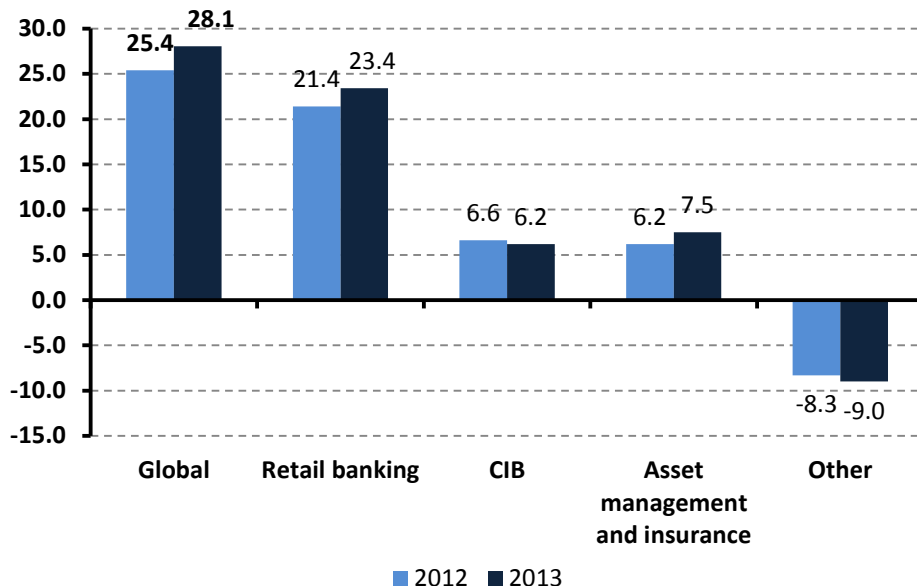
Chart 16
Cost of risk by business line
 (EUR billions)



Source: financial disclosures from the six groups

Operating profit increased in 2013, mainly in retail banking. This business line contributed the largest share (63%) of the operating surpluses generated by the various segments (EUR 37 billion). Asset management and insurance generated 20% and CIB 17%. 'Other' activities – i.e. those not assigned to the identified business lines – continued to return a substantial deficit, but were unchanged relative to 2012 (Chart 17).

Chart 17
Operating profit by business line
 (EUR billions)



Source: financial disclosures from the six groups

1.3.1. Retail banking and specialised finance

NBI from retail banking in France, international retail banking and specialised finance rose 1.8% in 2013. Operating expenses declined 1.1% over the same period, pushing down the cost-to-income ratio by 1.8 points. Pre-tax profit surged 28.4% despite a slight 1% rise in the cost of risk. Another positive factor was the non-recurrence of the goodwill write-downs that seriously impacted the results from international retail banking and specialised finance in 2012 (Table 3).

These three components of the retail banking business line all performed better in 2013, particularly international retail banking and specialised finance, which suffered badly in 2012:

- **In retail banking in France**, income remained buoyant, rising 4.6% due to the lower cost of funds (notably regulated savings), which boosts the interest margin, and to an increase in mortgage redemptions (which generate prepayment fees) but also to higher business volumes at some banks. At the same time, a firm grip on operating expenses (which rose just 0.4%) allowed the cost-to-income ratio to ease 2.7 points. Despite a 13.8% jump in the cost of risk, pre-tax profit increased by a significant 13.6%;
- **In international retail banking**, trends differed sharply. NBI contracted 4%, but a larger drop in operating expenses brought down the cost-to-income ratio by 0.6 points. And pre-tax profit jumped 61.9% as the net of other income and expenses swung from a EUR 1.2 billion loss in 2012 to a EUR 0.3 billion gain in 2013, due to the absence of goodwill impairment charges in 2013.
- Similarly, although less markedly, **specialised finance** posted a 1.8% drop in income, but a 2.7% cut in operating expenses resulted in a 0.5-point fall in the cost-to-income ratio. Pre-tax profit was up sharply, reflecting a more moderate cost of risk in 2013 and the non-recurrence of the goodwill write-downs that affected this sector in 2012.

Table 3
Main aggregates for retail banking and specialised finance

Euro billions	French retail banking		International retail banking		Specialised finance		TOTAL	
		chg on 2012		chg on 2012		chg on 2012		chg on 2012
Net banking income	63.5	+4.6%	20.0	-4.0%	13.6	-1.8%	97.1	+1.8%
Operating expenses	40.9	+0.4%	12.5	-4.9%	7.1	-2.7%	60.5	-1.1%
Cost-to-Income ratio	64.4%	-2.7 pts	62.6%	-0.6 pts	52.4%	-0.5 pts	62.3%	-1.8 pts
Gross operating profit	22.6	+13.1%	7.5	-2.3%	6.5	-0.8%	36.6	+7.0%
Cost of risk	5.4	+13.8%	4.2	-1.0%	3.6	-12.1%	13.2	+1.0%
Other gains and losses	0.1	ns	0.3	ns	0.1	ns	0.5	ns
Pre-tax profit	17.3	+13.6%	3.6	+61.9%	3.0	+156.2%	23.9	+28.4%

Source: financial disclosures – SGACPR calculations

1.3.2. Corporate and investment banking

Aggregate NBI from CIB fell 5%, with corporate banking income dropping 1.6% amid disposals of operations and portfolios (which reduced business volumes) and investment banking income tumbling 7.4% on weaker revenues from fixed-income business (which in 2012 benefited from exceptional ECB measures, notably LTROs and OMTs). The impact of these disposals outweighed higher earnings from equities divisions. The contributions of corporate and investment banking to aggregate CIB income were largely unchanged in 2013 relative to end-2012, at less than 40% and more than 60%, respectively.

Operating expenses fell 3.7 %, or by less than NBI, but in conjunction with a substantial 10.4% drop in the cost of risk and other write-downs, this helped pre-tax profit to jump 22.8%.

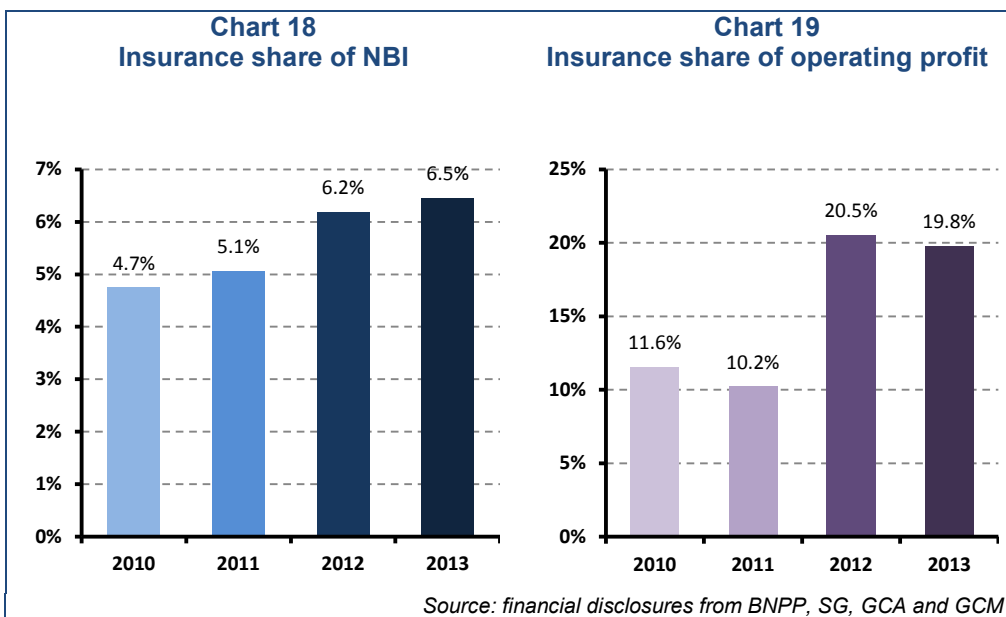
Although ring-fenced businesses continued to generate losses in 2013 (EUR 0.3 billion, after EUR 1.4 billion in 2012 and EUR 1.7 billion in 2011), they are now very modest. The groups concerned are finalising the disposal of these portfolios.

1.3.3. Insurance and asset management

These business lines diverged in 2013. Asset managers in France reported net outflows, notably from money market funds; at the same time, business in both life and non-life insurance as well as private banking was brisker, especially internationally.

Income for this aggregate rose 1.7%, and despite an overall 2.6% increase in operating expenses, pre-tax profit progressed 6.9%. The cost of risk, already very low, declined sharply.

The major French banks' insurance activities (included in asset management for the purposes of this report) account for a growing share of NBI, having risen from 4.4% in 2009 to 6.5% in 2013 for BNPP, SG, GCA and GCM (Chart 18). The share of insurance in operating profit climbed strongly in 2012 but dipped slightly in 2013 because of a swifter increase in total operating profit (up 4.4% vs. 8.4%, see Chart 19).



2. Balance sheets and solvency⁸

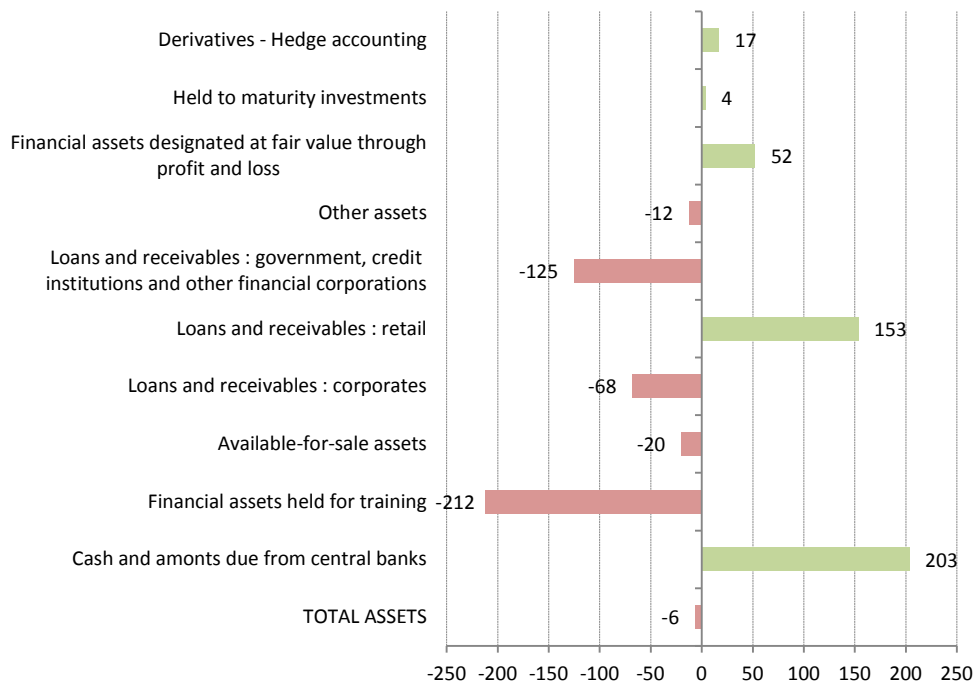
2.1. Aggregate assets for the five groups contracted 7.5% between 2012 and 2013; balance sheet structures have altered since 2009

The financial crisis in 2007, the eurozone sovereign debt crisis in 2010 and the phased introduction of new regulatory requirements have forced French banks to adjust the structure of their balance sheets, refocusing in particular on retail banking. Although the aggregate balance sheet total was more or less the same in 2013 as in 2009, some of the components changed significantly.

- On the asset side, the most striking change is a EUR 212 billion drop in financial assets held for trading. This reflects a contraction in market operations, which suffered in 2011 from a reduction in short-term dollar funds and a marked increase in their capital cost (see below), together with a change in the accounting treatment of some derivative instruments at GCA (see inset). In contrast, cash and amounts due from central banks surged EUR 203 billion, highlighting the efforts by French banks to adapt to the future Liquidity Coverage Ratio (LCR) by building cash reserves ([Chart 20](#)). At the same time, lending to retail customers (a category that includes SMEs) continued to rise (up EUR 153 billion), while credit to large firms – which have direct access to the capital market and benefit from strong investor demand amid persistently low long-term interest rates – dropped by EUR 68 billion. Other loans and receivables relating to credit institutions, other financial institutions and central governments also fell by a sharp EUR 125 billion.
- On the liabilities side, financial instruments held for trading slumped EUR 182 billion, mirroring the trend on the asset side ([Chart 21](#)). The biggest contraction was in deposits from credit institutions (down EUR 202 billion); customer deposits increased by EUR 229 billion, with the banks seeking to increase their stable resources. Group equity increased by EUR 46 billion, while issuance of subordinated debt and debt securities contracted by EUR 33 billion and EUR 30 billion, respectively, illustrating a move to higher-quality capital and a reduction in debt with a view to complying with future rules on leverage (see below).

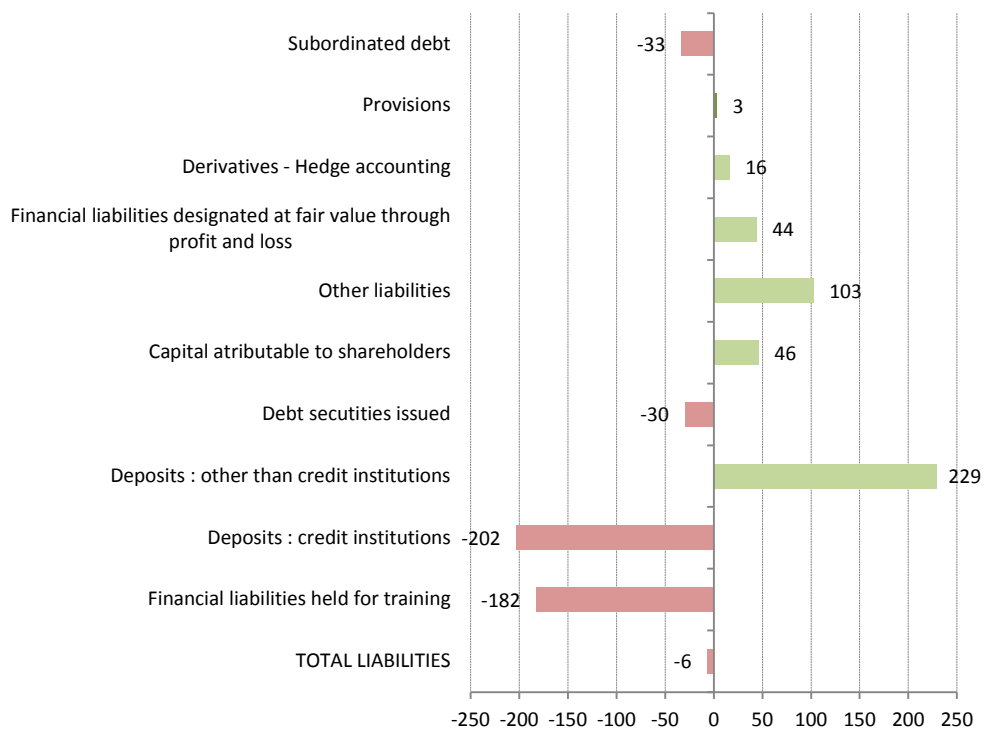
⁸ Unless stated otherwise, this chapter refers to BNPP, SG, GCA, GBPCA and GCM.

Chart 20
Changes in asset structure between 2009 and 2013
 (EUR billions)



Source: FINREP – FIN1 table

Chart 21
Changes in liabilities structure between 2009 and 2013
 (EUR billion)



Source: FINREP – FIN1 table

Following a 2.2% increase between 2011 and 2012, the aggregate balance sheet for the five banking groups declined 7.5% between 2012 and 2013 (Table 4).

Although significant, the fall was largely the result of an accounting change at Crédit Agricole Group concerning derivatives cleared through central counterparties⁹. The items showing the largest changes were financial assets and liabilities held for trading (down EUR 353.7 billion and down EUR 413.6 billion, respectively), and particularly derivatives (assets down EUR 426.9 billion, liabilities down EUR 422.9 billion).

Inset 3

Netting of financial assets and liabilities in Crédit Agricole Group consolidated accounts at 31 December 2013

In line with IAS 32, the Crédit Agricole S.A. Group nets financial assets and liabilities and reports a net balance where there is a legally enforceable right to do so and where there is an intention to settle the net amount or realise the asset and liability simultaneously.

Since 31 December 2013 derivative instruments traded by Crédit Agricole CIB with clearing house settlement meeting the two criteria required by IAS 32 have been netted on the balance sheet. This adjustment to the way the accounts are presented coincides with changes in accounting standards (IFRS 7) and regulations (EMIR) that have prompted detailed analysis of the operational rules at the clearing houses to which Crédit Agricole CIB belongs. Under an amendment to IFRS 7, which seeks to reconcile the IFRS netting rules in IAS 32 with those under US GAAP, the impact of netting agreements for assets and liabilities has to be disclosed.

The netting effect on the GCA balance sheet amounted to EUR 158.7 billion at 31 December 2013 and EUR 225.7 billion at 31 December 2012.

⁹ cf. [Crédit Agricole Group results for 2013](#)

Table 4
Aggregate balance sheet for the five main French banking groups
(EUR billions)

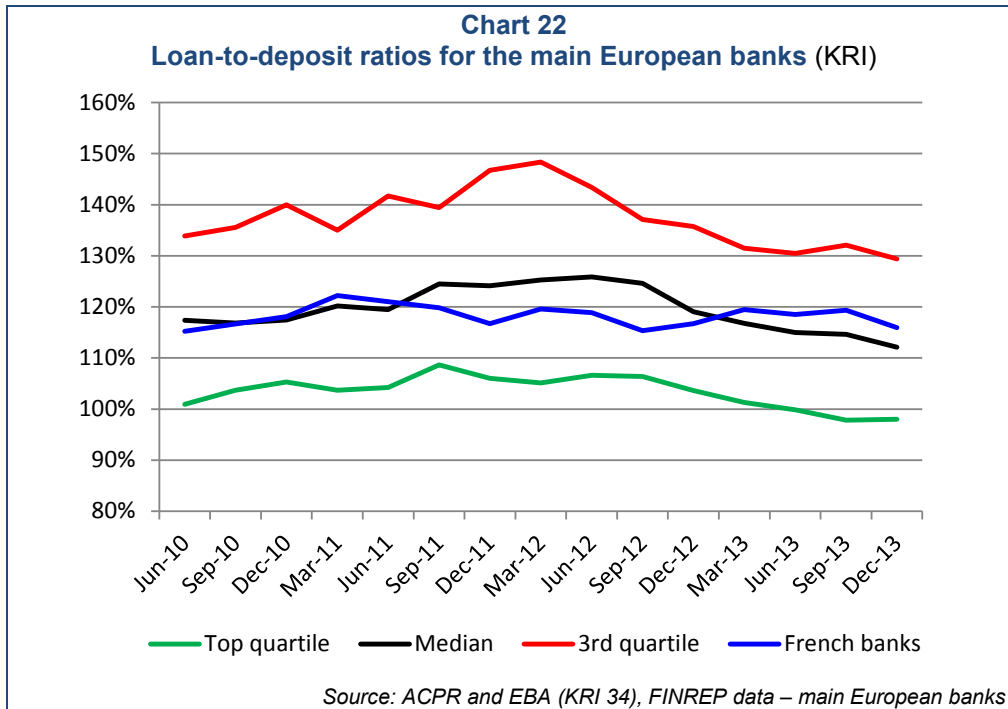
	2012	2013	Change 2013/2012
ASSETS	6313.6	5842.7	-7.5%
Cash and amounts due from central banks	316.3	341.6	8.0%
Financial assets held for trading	1829.8	1476.1	-19.3%
Financial assets designated at fair value through profit and loss	124.2	120.5	-3.0%
Available-for-sale assets	370.1	368.5	-0.5%
Loans and receivables : corporates	996.4	975.0	-2.1%
Loans and receivables : retail	1467.1	1483.7	1.1%
Loans and receivables : government, credit institutions and other financial corporations	576.7	518.2	-10.1%
Held to maturity investments	20.3	23.6	16.2%
Derivatives - Hedge accounting	88.0	60.4	-31.3%
Other assets	524.7	475.1	-9.5%
LIABILITIES	6313.6	5842.7	-7.5%
Financial liabilities held for trading	1680.0	1266.4	-24.6%
Financial liabilities designated at fair value through profit and loss	176.7	206.0	16.6%
Derivatives - Hedge accounting	93.4	67.7	-27.5%
Deposits : central banks	5.6	7.7	38.9%
Deposits : credit institutions	468.4	368.3	-21.4%
Deposits : other than credit institutions	2214.1	2291.0	3.5%
Debt securities issued	859.4	840.6	-2.2%
Provisions	26.6	28.9	8.7%
Subordinated debt	71.4	64.8	-9.3%
Capital attributable to shareholders	294.5	306.5	4.1%
Other liabilities	423.5	394.8	-6.8%

Source: FINREP – FIN1 table

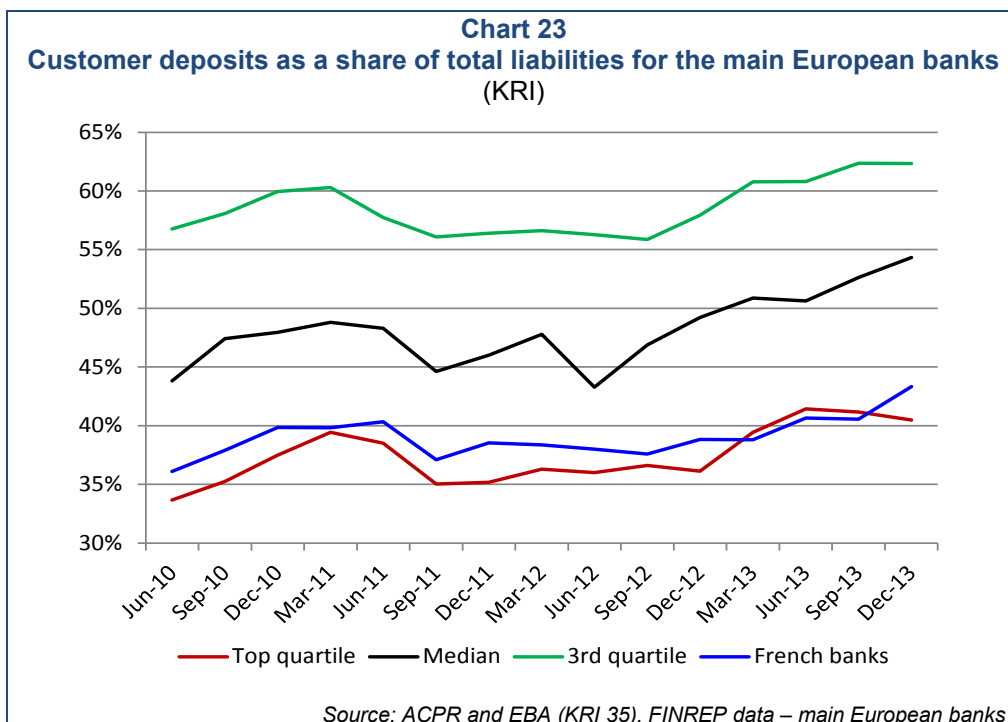
On the asset side, loans to large companies fell for the second consecutive year in 2013 (-2.1%, after -5.1% in 2012), as did those to central governments, credit institutions and other financial institutions (-10.1% after -8.6%). The drop in lending to large companies reflects their growing recourse to the capital markets, where strong investor demand offers them cheap finance. We also note a marked downturn in specialised finance, where outstandings contracted once again (-13.3% in 2013, -14.5% in 2012). Lending to retail customers, including the smallest firms that depend on bank credit, continued to increase (up 1.1%). Lastly, cash and amounts due from central banks rose further, albeit less dramatically than in 2012 (up 8% after a 72.3% gain), indicating that the banks are maintaining their efforts to comply with the LCR.

On the liabilities side, deposits other than those from credit institutions expanded again, and by far more than in 2012 (by 3.5%, after 0.2%); in contrast, deposits from credit institutions contracted by twice as much as they did in 2012 (-21.4%, after -11%). At the same time, French banks further strengthened their capital, if by less than in 2012 (by 4.1%, after 8.5%), and their capital ratios are now relatively high. They have also continued to reduce their debt, with debt securities issued and subordinated debt contracting by 2.2% and 9.3%, respectively. Given the eligibility of existing or future subordinated debt in terms of core (additional Tier 1) capital, it may not decline any further. Provisions jumped 8.7% in 2013, reflecting heightened legal risk (see below).

Larger increases in deposits than in loans have resulted in a 2.6-point drop in the overall loan-to-deposit (LTD) ratio for the major French banking groups, from 118.5% in 2012 to 115.9% in 2013. Unlike European banks, whose LTD ratio has been falling for several quarters, French banks' ratios have been fairly stable for a long period and above-median since March 2013 (Chart 22).



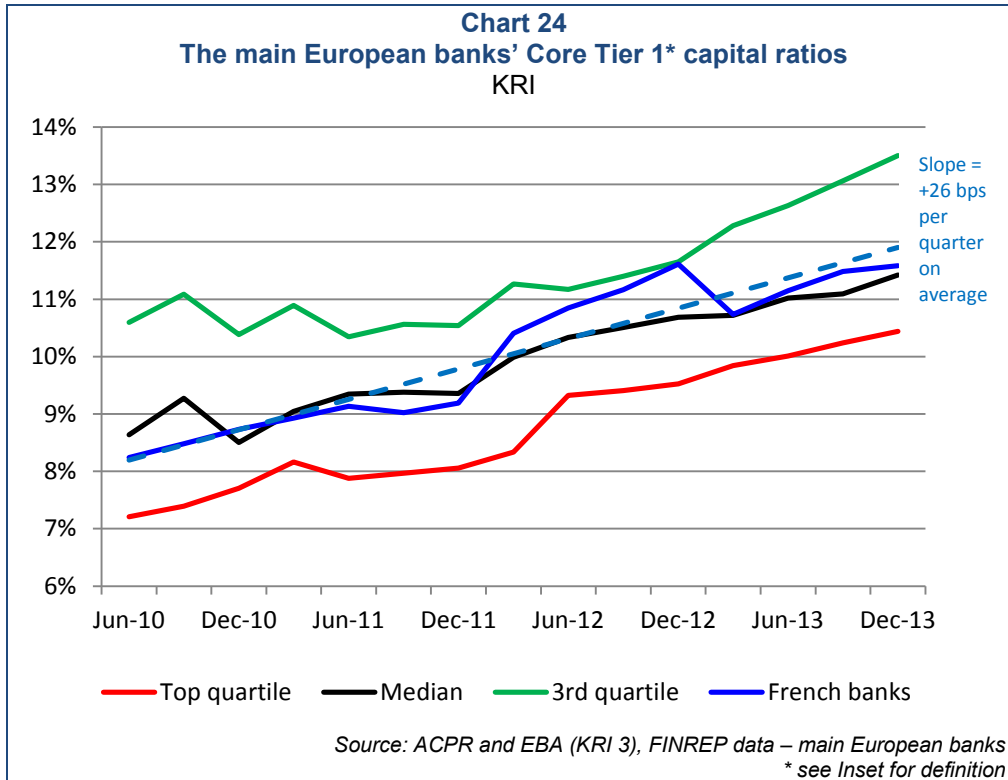
The relatively high LTD ratio in France partly reflects low levels of deposits at large French banks compared with their European competitors (Chart 23). This situation reflects a high proportion of savings outside bank deposits, such as in life insurance products and investment funds (especially money market funds, long used as an alternative investment vehicle because bank deposits could not legally earn interest). Although French banks' efforts to bolster their deposits have had a tangible effect on their balance sheets since September 2012, their relative position has weakened since March 2013, with the share of customer deposits in liabilities falling out of the top quartile.



The ability of French banks to boost LTD ratios has also been hampered by the obligation to transfer part of their deposits to Caisse des Dépôts et Consignations under regulated savings arrangements.

2.2. Efforts to strengthen capital improved solvency further in 2013

French banks have steadily improved their Core Tier 1 capital ratios. Calculated in Basel 2.5 format since the end of 2011, they have reported progress ever since the financial crisis (on average, their aggregate Core Tier 1 ratio has risen 26 basis points per quarter since the end of 2009) and are now at or above 10% (Chart 24).



While the overall situation for French banks is positive from this point of view, with an average Core Tier 1 ratio above the median for European banks, their relative position has weakened since 1 January 2013. This is due to a change to the prudential treatment of shareholdings in insurance subsidiaries of the financial conglomerates to which the five largest French banking groups belong (see below).

Inset 4

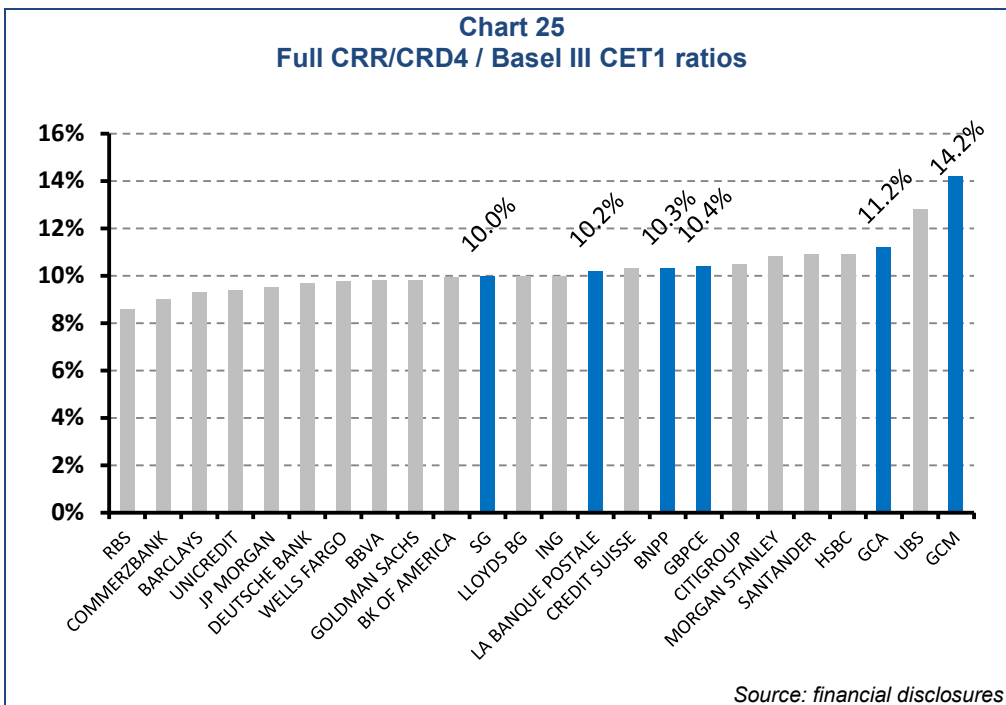
The concepts of Core Tier 1 and Common Equity Tier 1 capital are not identical.

The EBA applied a standard Core Tier 1 (CT1) concept across Europe for its recommended 9% capital ratio.¹⁰ The ratio is defined as a bank's Tier 1 capital net of hybrid instruments that can be counted as capital. CT1 itself does not have a regulatory definition, however.

In contrast, Common Equity Tier 1 (CET1) is defined in Basel III and in its transposed form in Europe's CRR/CRD4. It designates higher-quality Tier 1 capital: shareholders' equity, associated share premiums, reserves, retained profit and the fund for general banking risks, minus (among other things) a number of equity instruments relating to other financial sector entities.

Over the past few reporting dates, the major European banking groups have disclosed 'full CRR/CRD4' CET1 ratios; other large banks are disclosing 'full Basel III' ratios, i.e. ratios that take account of all the regulations that will come into force on 1 January 2019, including – for the largest banks – specific obligations on systemically important institutions.

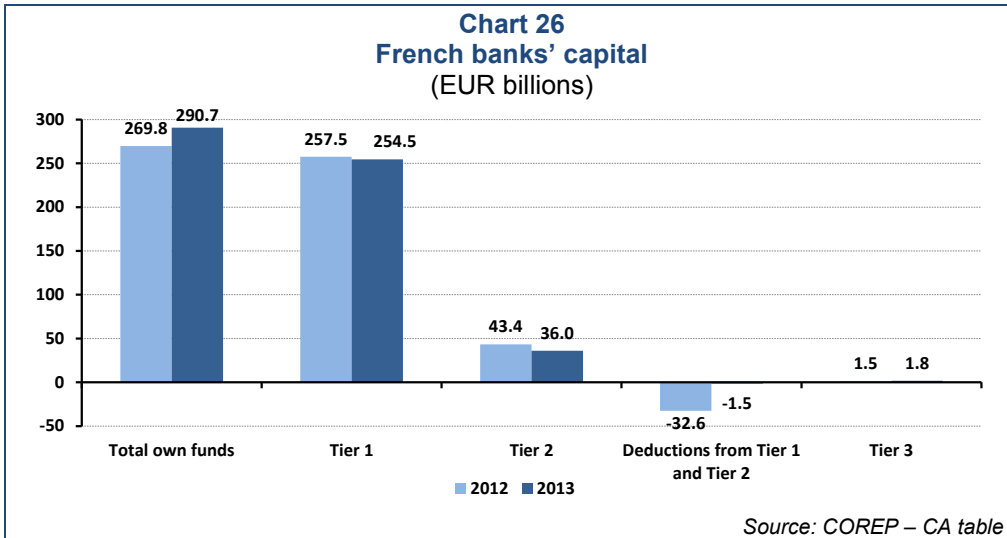
As French banks are all reporting full CRD4 CET1 ratios at or above 10%, they now appear to be in a stronger position in this respect. Most are in the top half of the international league table (Chart 25).



¹⁰ European Banking Authority (2011), [EBA Recommendation on the creation and supervisory oversight of temporary capital buffers to restore market confidence](#)

2.2.1. Another increase in capital

French banks have improved their solvency by continuously strengthening their capital base, in particular by regularly transferring a large proportion of profits to reserves (Chart 25).



The drop in Tier 1 capital between 2012 and 2013 was mainly the result of a change on 1 January 2013 in the prudential treatment of shareholdings in the insurance subsidiaries of groups that the ACPR identifies as financial conglomerates, a category that includes the five major French banking groups. Financial conglomerates now have to deduct from their Tier 1 capital the positive contribution to consolidated earnings and reserves generated by entities in the insurance sector, including positive equity method adjustments; negative equity method adjustments are not included. The non-deducted portion of these equity investments (i.e. the equity method value less the equity-method adjustment) has to be weighted as an equity exposure.

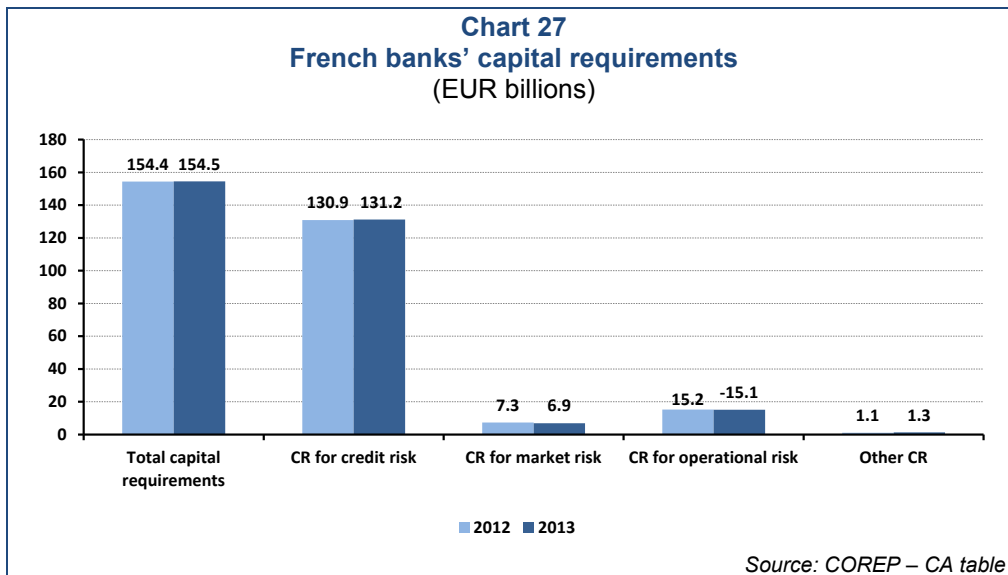
Before 2013 these shareholdings could be deducted from total Tier 1 and additional capital. Because of the change in their prudential treatment, "deductions from Tier 1 and additional capital" have naturally declined considerably.

2.2.2. Stabilisation of capital requirements

Another reason why French banks improved their solvency in 2013 is that their capital requirements stabilised, both from an overall viewpoint (up EUR 0.09 billion) and for each of their risks (Chart 27):

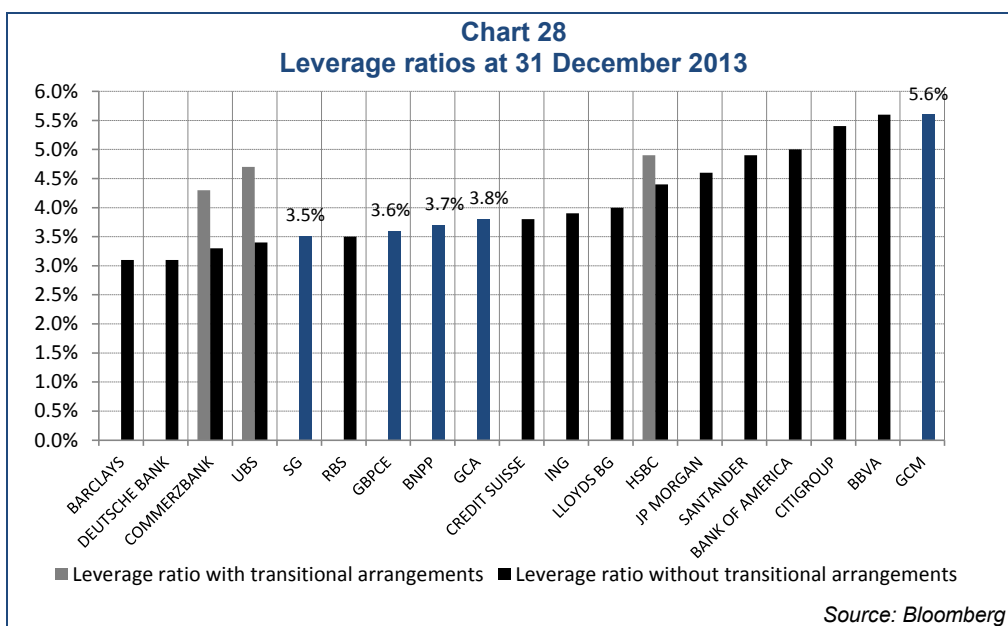
- capital requirements for credit risk, which account for the largest part of banks' overall capital adequacy requirements, increased marginally in 2013 by EUR 0.3 billion (0.23%);
- in contrast, capital requirements for market risks declined by a further EUR 0.36 billion (4.92%), reflecting reduced trading activities as well as broadly favourable market conditions in 2013;
- capital requirements for operational risk inched lower by EUR 0.07 billion (0.48%);
- capital requirements for other purposes, notably Pillar 2 obligations imposed by the ACPR on certain institutions, increased by EUR 0.22 billion (20.9%).

Detailed analysis of these changes is provided in Section 3.



2.3. The five banks post leverage ratios above 3%

When reporting their results, the five main French banking groups announced leverage ratios of more than 3% at 31 December 2013 (Chart 28).



Although European banks seem less well capitalised than their US counterparts, it should be borne in mind that – all other things being equal – American banks have smaller balance sheets than their competitors due to accounting rules that allow far more netting between assets and liabilities. Implementation of new calculation methods decided by the Basel Committee in January 2014 and those to be defined in the delegated act being drafted by the European Commission should make it easier to compare leverage ratios from this point of view. Aspects of a more structural nature should also be taken into consideration. Not only does bank intermediation play a lesser role in funding US economic activity; US banks benefit from the fact that public agencies such as Fannie Mae, Freddy Mac and Ginnie Mae allow them to securitise a large proportion of their lending, particularly to the property sector. As a result, they are able to streamline their balance sheets on a regular basis, while their European counterparts continue to carry a large share of outstanding loans.

Inset 5

The leverage ratio

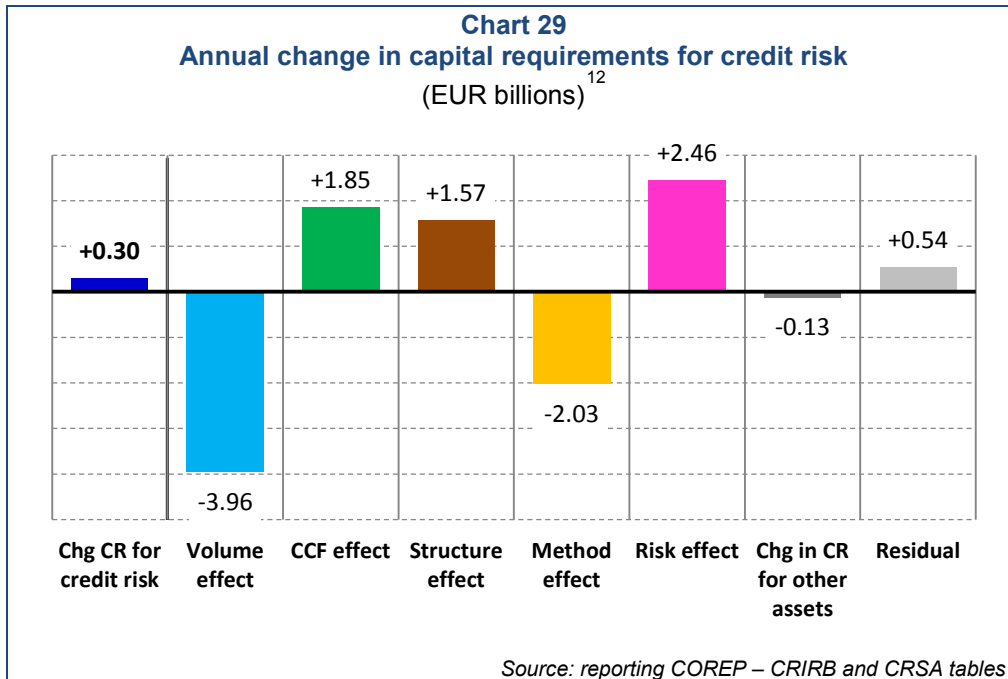
Designed to complement capital ratios, the leverage ratio is defined in Basel III as Tier 1 capital divided by the bank's adjusted on-balance sheet and off-balance sheet assets. The adjustments are intended to reduce discrepancies caused by different accounting rules (see above). Set at a minimum 3%, it aims to prevent excessive leverage in the banking sector; in times of crisis, this can result in forced deleveraging that only makes the crisis worse.

The ratio's parameters will be formally set in 2017, following an observation phase that started on 1 January 2014. Banks will be required to publish their leverage ratios from 1 January 2015 onwards, and the final ratio will become mandatory from 1 January 2018 onwards.

3. Risks¹¹

3.1. Capital requirements for credit risk up slightly

After a sharp EUR 12.25 billion decline in 2012, capital requirements for credit risk increased slightly in 2013 despite another contraction in volumes and the introduction of internal models (Chart 29).



Inset 6

Calculating capital requirements for credit risk

Capital requirements for credit risk can be calculated in different ways:

- Using the standardised approach. Here the bank allocates its exposures according to their nature (property loans with or without a mortgage, retail customer exposures, etc.) or their risk level (depending on the counterparty's external credit rating) to different categories whose weights are defined in the regulations (0%, 10%, 20%, etc.);
- Using the internal ratings-based (IRB) approach. Here the bank develops its own risk parameter estimates for exposures (default parameters, credit conversion factors, probabilities of default, loss given default, maturity) that are then used as inputs to risk-weight functions specified in the regulations (weighting functions specific to each type of exposure – companies, retail customers, etc.). A distinction is made between a foundation IRB approach (IRBF), where banks calculate their own probability of default parameter and the other risk parameters are provided by the regulator, and an advanced IRB approach (IRBA), where banks calculate all their risk parameters.

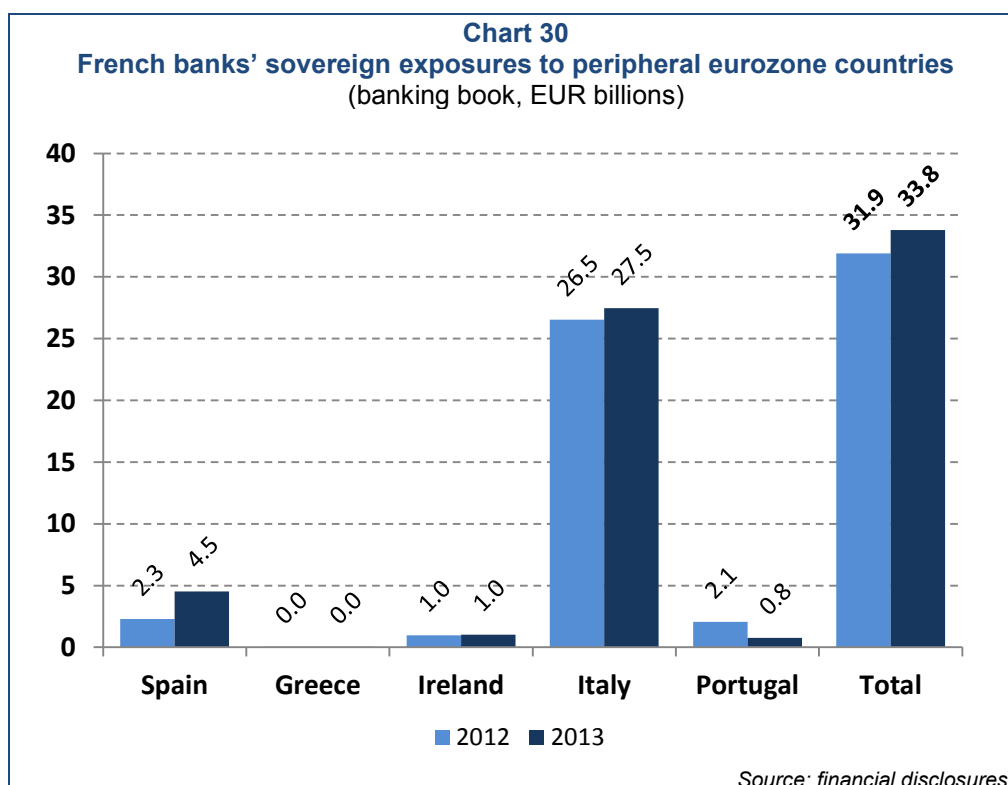
The **volume effect** essentially captures an overall decline in gross initial credit exposure – the amount of on-balance sheet and off-balance sheet exposures

¹¹ Unless stated otherwise, this chapter refers to BNPP, SG, GCA, BPCE (GBPCE) and GCM.

¹² cf. methodology in Annex 2

reported by the main French banks – of 3.2% in 2013, after a 2.2% decline the year before. The decline in exposure was particularly marked in the ‘corporate’ portfolio (-5.4%), although not quite as marked as it was in 2012 (-6.6%). The ‘securitisation’ and ‘institutions’ portfolios (-27.5% after -20.5% in 2012, and -7.7% after -11.3%, respectively) also contributed, albeit to a lesser extent, to the drop in overall exposure. In contrast, exposure to the ‘equities’ portfolio increased sharply (up 43.7%), and more moderately to the ‘central governments and central banks’ portfolio (up 0.7%, after a 17.1% increase in 2012 that reflected efforts by the banks to adapt to the short-term liquidity ratio). The ‘retail customer’ portfolio exposure increased by 0.1%, much as it did in 2012.

Unlike last year, French banks have increased their overall exposure to sovereign debt in Spain (up 97.9%), Italy (up 3.4%) and Ireland (up 4.8%). They reduced their exposures further to Greece (down 24%) and Portugal (down 63.3%), as shown in (Chart 30).



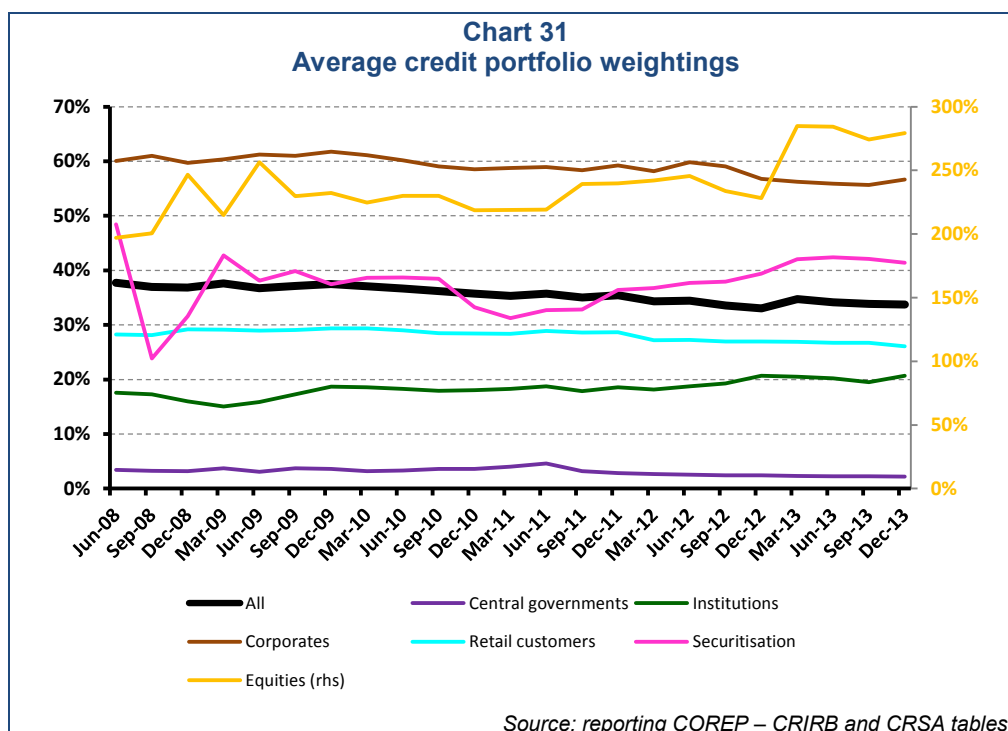
The sovereign debt issued by the eurozone countries hardest hit during the worst of the 2011 crisis benefited again in 2013 from relatively positive sentiment. By the end of the year, yields on Spanish, Irish and Italian debt were back to 2009 levels, and only Portugal and Greece are still borrowing more expensively than in 2009. Investor interest in both countries appears to have returned, however.

The **method effect** was far smaller in 2013 than it was in 2012 (-EUR 2.03 billion after -EUR 6.3 billion). The ‘real’ effect has to take account of the rise in ‘other’ capital requirements (see above, up EUR 0.22 billion) under Pillar 2 in the context of validating a bank’s IRB model (the bank is subject to a floor calculated using the standardised approach while awaiting the consideration of all SGACPR comments).

The rise in capital requirements for credit risk resulted from a risk effect, a credit conversion factor (CCF) effect and a structure effect.

The **CCF effect** (up EUR 1.85 billion) captures a much higher average credit conversion factor for the corporate portfolio, although the other portfolios also posted higher average CCFs between end-2012 and end-2013. Prudential reports do not reveal whether this development stemmed from higher drawdowns of confirmed credit facilities or from a more frequent recourse to guarantee commitments.

The **structure effect** (up EUR 1.59 billion) reflects higher outstandings in the equities portfolio, which is weighted more heavily than other portfolios following the change in the prudential treatment of interests in financial conglomerates' insurance subsidiaries since 1 January 2013.¹³ This methodological change coincided with a hike in the weighting of equity portfolios from 228.3% at end-2012 to 279.4% at end-2013 (Chart 31).



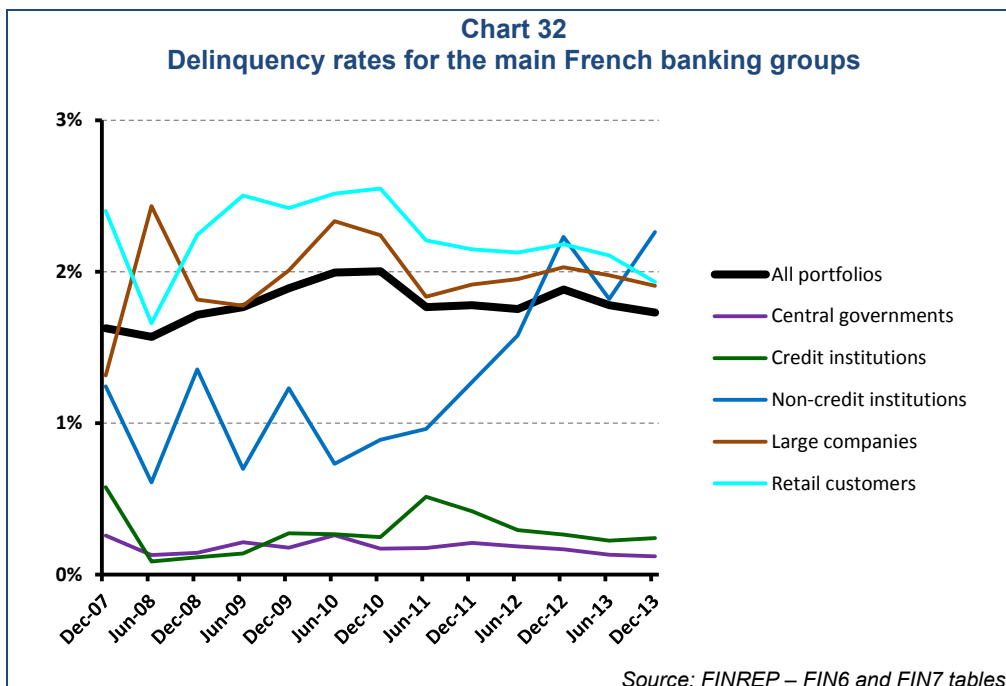
The **risk effect** (up EUR 2.46 billion) mainly reflects higher average weightings for equities and corporate portfolio exposures amid a deterioration in the average quality of credit portfolios.

- The **delinquency rate**¹⁴ for the main French banks eased from 1.88% at end-2012 to 1.73% at end-2013 (Chart 32). The trend concerns almost all portfolios, starting with the two largest, accounting for 83% of loans – retail customers¹⁵ (delinquency is down from 2.18% to 1.93% in a year) and large companies (down from 2.03% to 1.91%). However, the figures for individual banks differ. The overall delinquency rate declined by 51bp, 33bp and 1bp, respectively, for three of the five banks under review but rose 7bp and 3bp, respectively, for the other two.

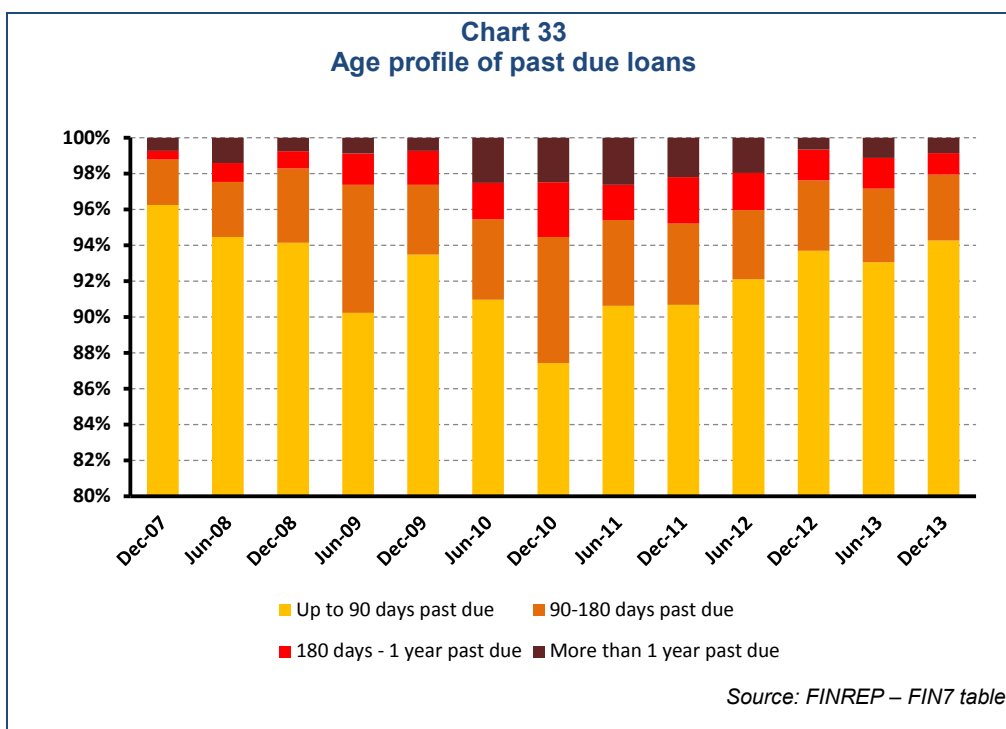
¹³ As of 1 January 2013 (see Article 7, Regulation 90-02), groups identified by the ACPR as financial conglomerates have to deduct from their Tier 1 capital the positive contribution to consolidated earnings and reserves generated by entities in the insurance sector, including positive equity method adjustments; negative equity method adjustments are not included. The non-deducted portion of these equity investments (i.e. the equity method value less the equity-method adjustment) has to be weighted as an equity exposure. They can no longer deduct the value of the equity interest from their total capital, i.e. from their Tier 2 capital in practice.

¹⁴ In the FINREP 'loans and receivables' category, the delinquency rate is defined as the ratio of loans and advances in arrears over the total gross amount of non-impaired loans and advances.

¹⁵ Large companies are defined as all companies apart from credit institutions with turnover in excess of EUR 50 million.



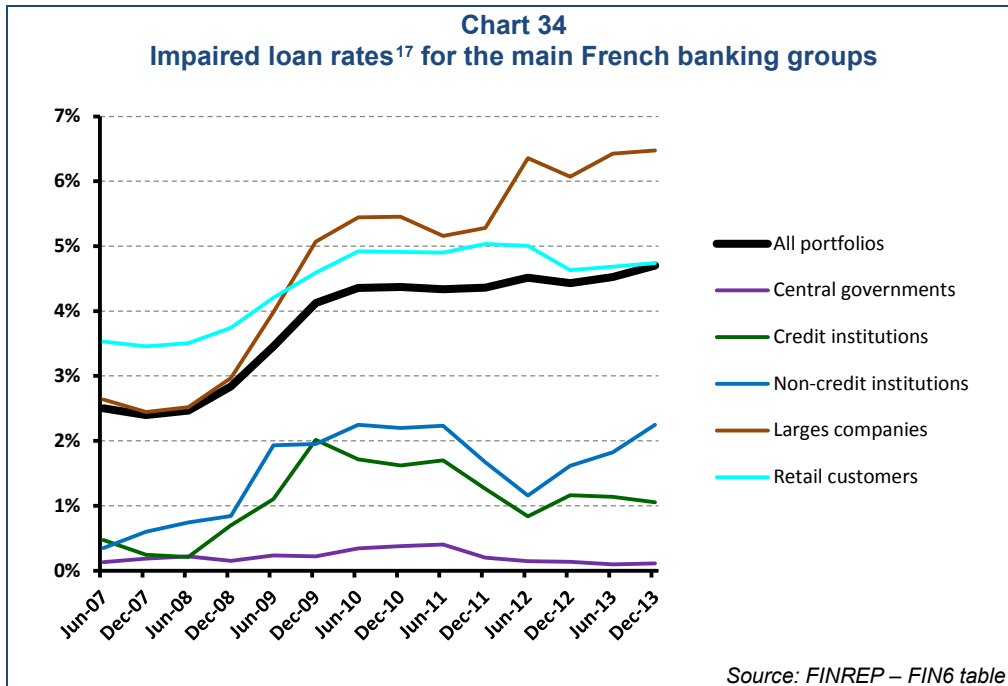
An examination of delinquency by age shows no marked deterioration. The proportion of past due loans dated less than 90 days increased from 93.7% in 2012 to 94.3% in 2013 (Chart 33).



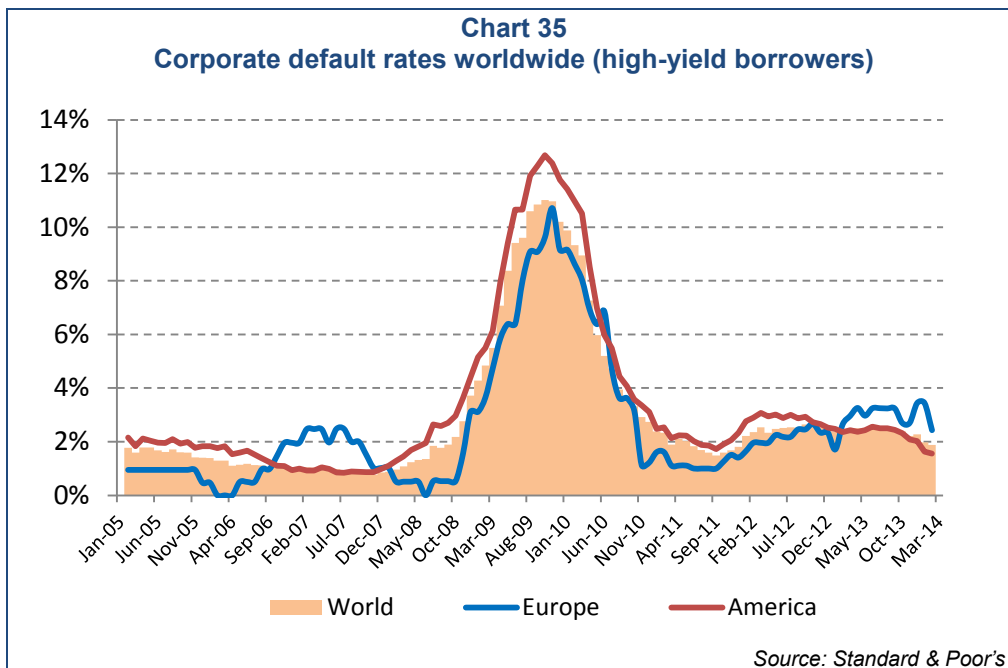
- Following a degree of stabilisation after the 2007-08 financial crisis, the **doubtful loan ratio**¹⁶ climbed from 4.43% in 2012 to 4.70% in 2013 (Chart 34) on a combination of a 1.3% drop in unimpaired loan outstandings and a 5% increase in impaired outstandings. In contrast with delinquency, this trend concerns all the banks under review, whose default rate gained 14bp to 47bp. Although the increase was limited in respect of retail customers (up 11bp to 4.74%), it was far more noticeable for large companies (up 40bp to 6.48%).

¹⁶ The ratio of doubtful loans is defined as the ratio of gross impaired loans and advances over the total gross amount of loans and advances reported in the 'loans and receivables' category of FINREP.

Default rates declined only in the credit institutions and central government portfolios (down 11bp to 1.05% and down 2bp to 0.11%, respectively).

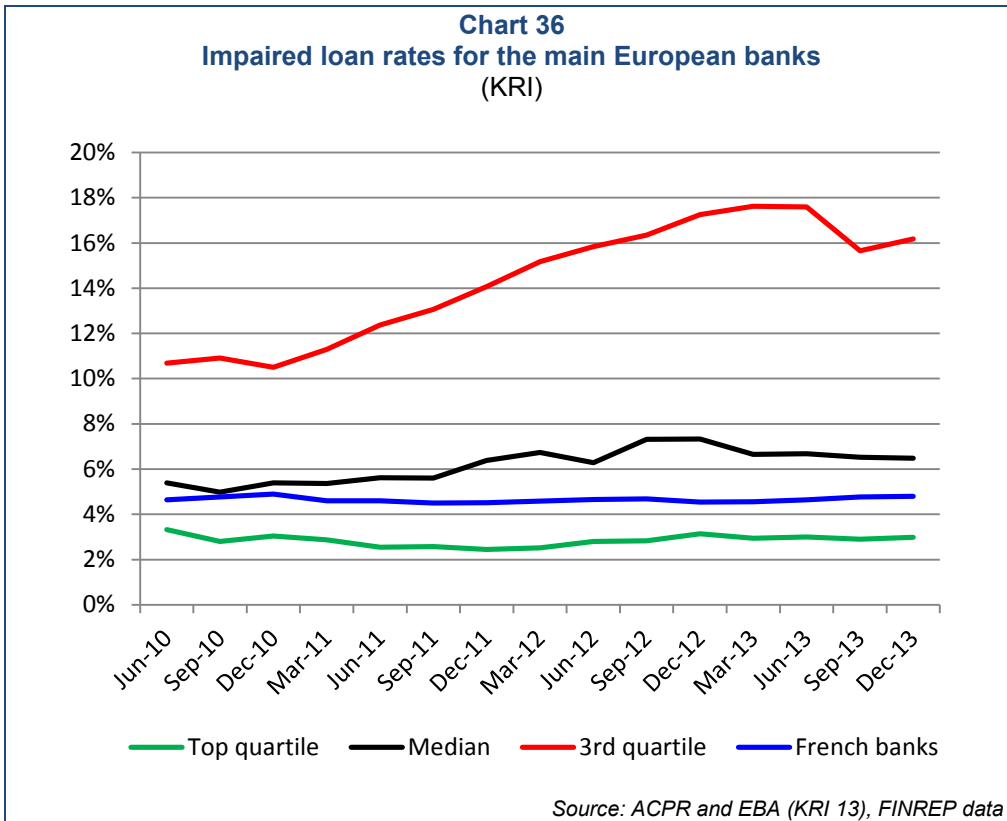


The rise in the default rate among large companies largely reflects the fact that corporate defaults have remained higher in Europe than the levels noted in 2007. The USA has seen a gradual improvement in this respect since the beginning of 2012, and the trend seems to have accelerated since the fourth quarter of 2013 (Chart 35).



Overall, French banks have a lower impairment rate than their European competitors, as shown in (Chart 36). The average impairment rate for the main French banking groups is between the top quartile and the median.

¹⁷ The notion of doubtful loans as defined in French accounting rules used by credit institutions for their financial statements does not exist in IFRS, which is the format used by the major French banking groups for their consolidated accounts.

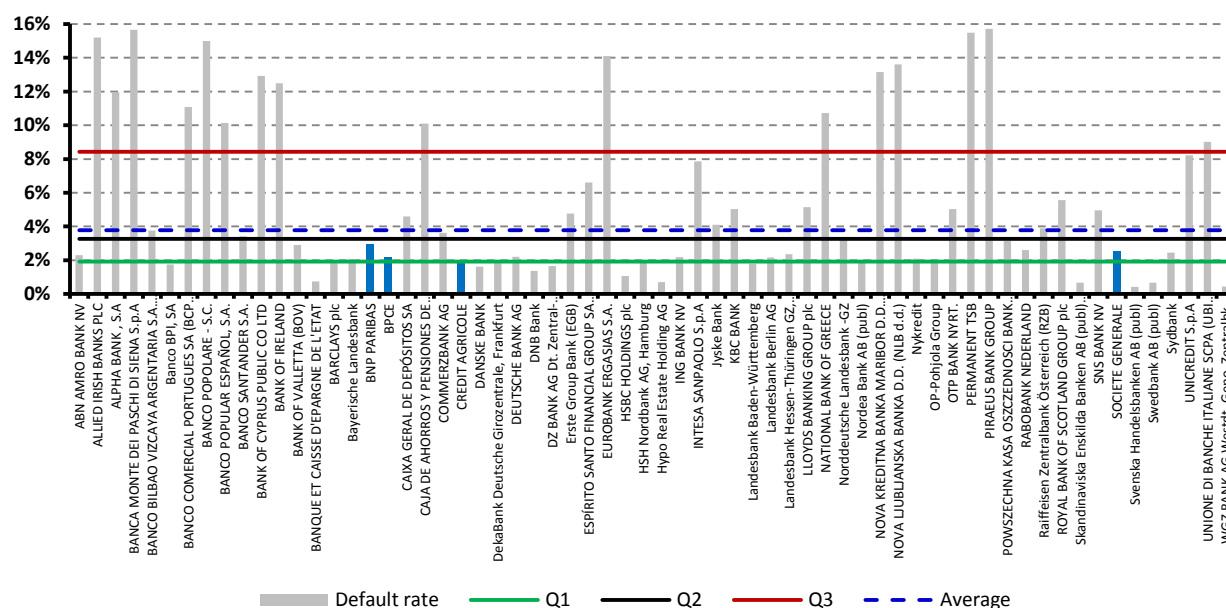


This observation is confirmed by analysing the data obtained from the EBA's transparency exercise in June 2013, which offer a detailed insight into the participating French banks.¹⁸ All have default rates¹⁹ below the median, with GCA only just below the top quartile (Chart 37).

¹⁸ BNPP, SG, GCA and GBPCE.

¹⁹ The default rates calculated from the transparency exercise data can differ from those based on FINREP, as i) the EBA collected exposures at default (EAD), while FINREP data are gross exposures (i.e. before the application of the credit conversion factor, which converts them to EAD); and 2) transparency exercise data also cover off-balance sheet exposures (particularly in the context of healthy exposures), which is not the case with FINREP. This means that all other things being equal, the ratio's denominator is higher in the transparency exercise than according to FINREP, resulting in lower default rates.

Chart 37
Default rates for the main European banks
(KRI)

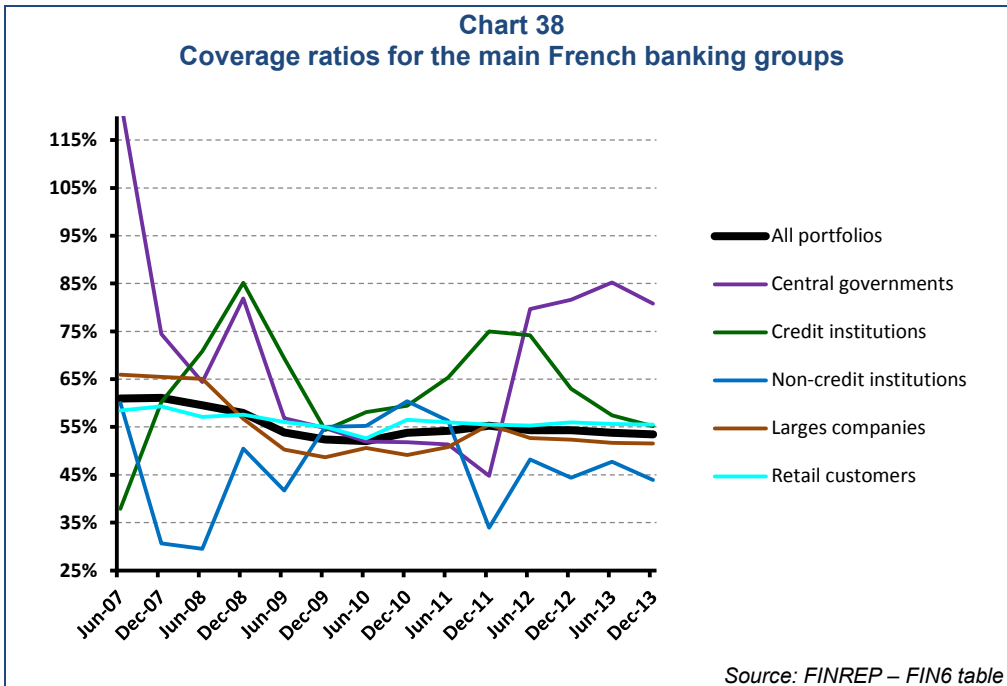


Source: EBA transparency exercise and ACPR calculations

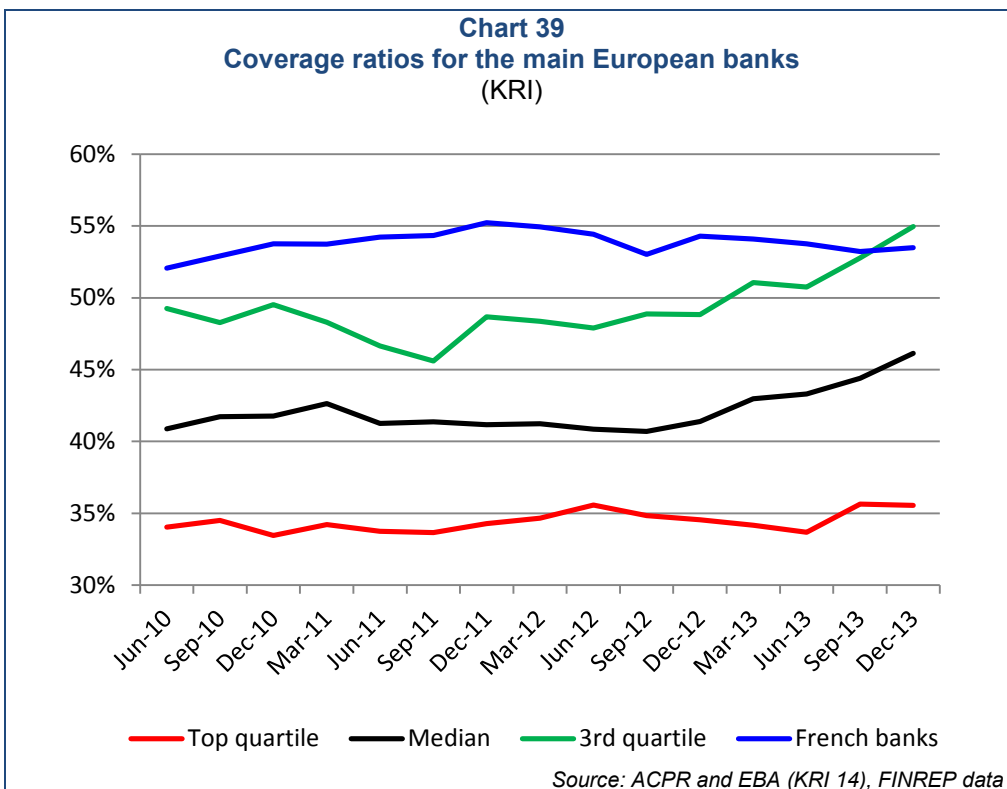
French banks have lower than average default rates in Italy; the same is true of Spain, although these exposures are smaller. In France, and with the exception of GCA, their default rates are higher than average. These comments should be taken with caution, however, as there were obvious reporting errors by some banks in the EBA survey.

- The **overall coverage ratio for French banks** – i.e. specific provisions for loans in relation to gross impaired loans²⁰ – gradually improved from a low at 52.06% in June 2009 to 54.36% in June 2012 but has since weakened to 53.49% (Chart 38). While the change over the past year differs among banks (between up 158bp and down 215bp), the coverage ratio has declined for all portfolios to some extent. For example, the coverage ratio for the retail customer portfolio dropped 47bp to 55.5%, and that for the large companies portfolio by 79bp to 51.54%. The drop in the coverage ratio was particularly steep for the credit institutions portfolio, down 785bp to 55.15%, close to the average. Notwithstanding a modest decline that curtailed a series of strong gains after end-2011, when the Greek sovereign debt crisis was at its height, the coverage ratio for central governments remained well above average (down 79bp to 80.81%).

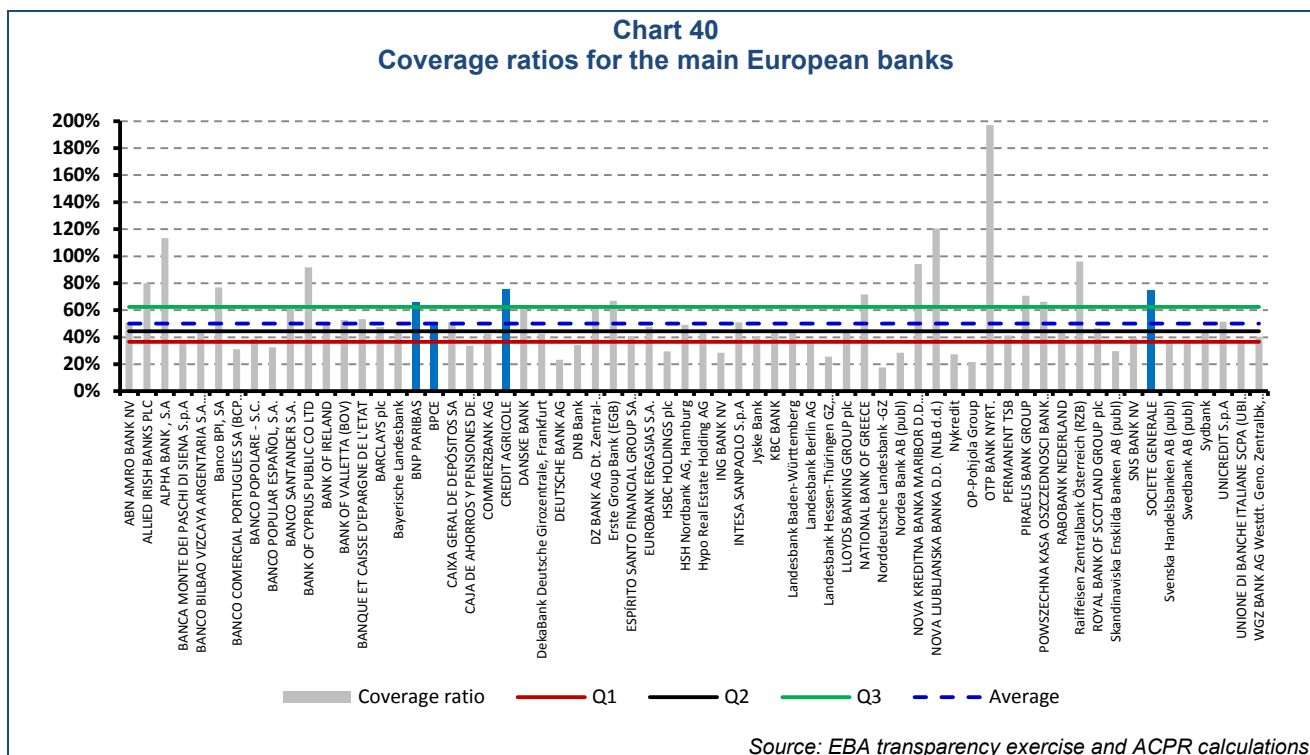
²⁰ Within the FINREP 'loans and receivables' category, the coverage ratio with respect to impaired outstandings is defined as the ratio between 'individual impairment' of 'loans and advances' and 'gross impaired loans and advances'.



As with impairment rates, an examination of the EBA’s KRIs reveals that French banks’ coverage ratios are better than those of their European counterparts (Chart 39). That said, their relative advantage is not as great as it was, with the European median and third quartile coverage ratios rising over the past few quarters and the coverage ratio for French groups declining slightly on trend.



Data from the EBA's transparency exercise in June 2013 corroborate this observation. Coverage ratios²¹ for BNPP, GCA and SG are above the third quartile and the ratio for GBPCE is above the average (Chart 40).



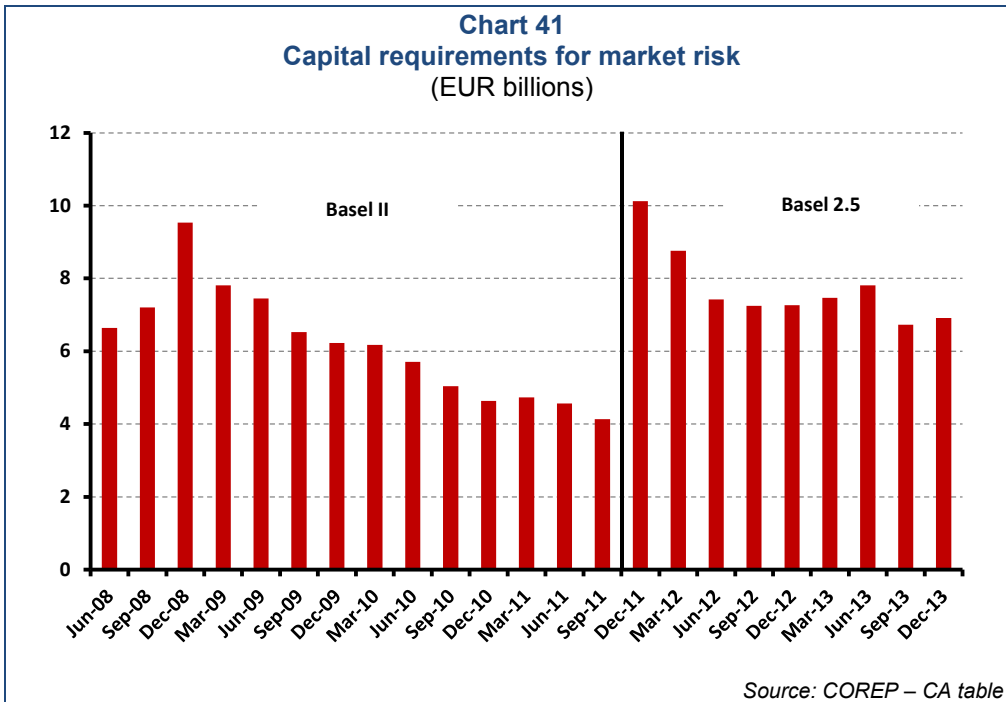
With the exception of GBPCE, which has relatively small exposures, French banks have disclosed coverage ratios that are much higher than the average in Italy. In France, coverage ratios for BNPP, GBPCE and SG are very slightly below average, while GCA's ratio is much higher.

3.2. Capital requirements for market risk decline further

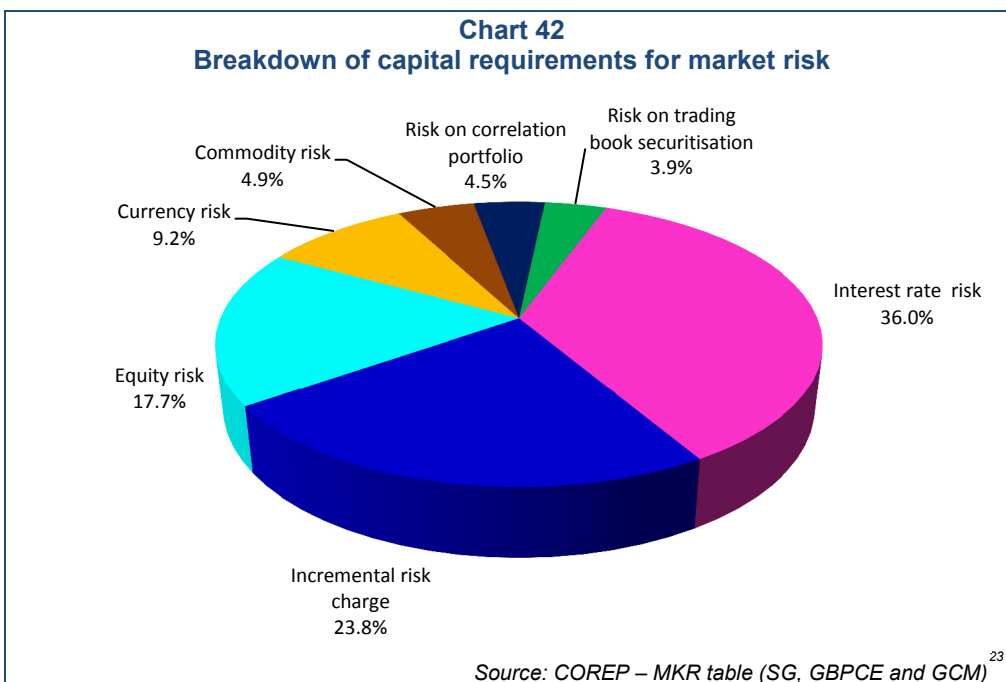
Despite a sharp 7.4% rise in the first half of 2013, mainly because of a higher incremental risk charge (IRC),²² capital requirements for market risk at the five main French banks dropped 4.9% relative to 2012 (Chart 41).

²¹ The coverage ratio is the ratio between individual provisions and the gross amount of impaired outstandings. As mentioned previously, coverage ratios calculated from transparency exercise data are not necessarily comparable with those calculated from FINREP data: in the first case, provisions are divided by exposure at default (EAD); in the second, provisions are divided by gross exposure, defined as EAD multiplied by a credit conversion factor generally lower than 1. All other things being equal, the coverage ratios emerging from the transparency exercise will tend to be higher than those calculated using FINREP data.

²² The incremental risk charge is intended to complement the measurement of counterparty risk associated with trading operations by taking account of default risk and the risk of the migration of the counterparty's rating during periods of stress.

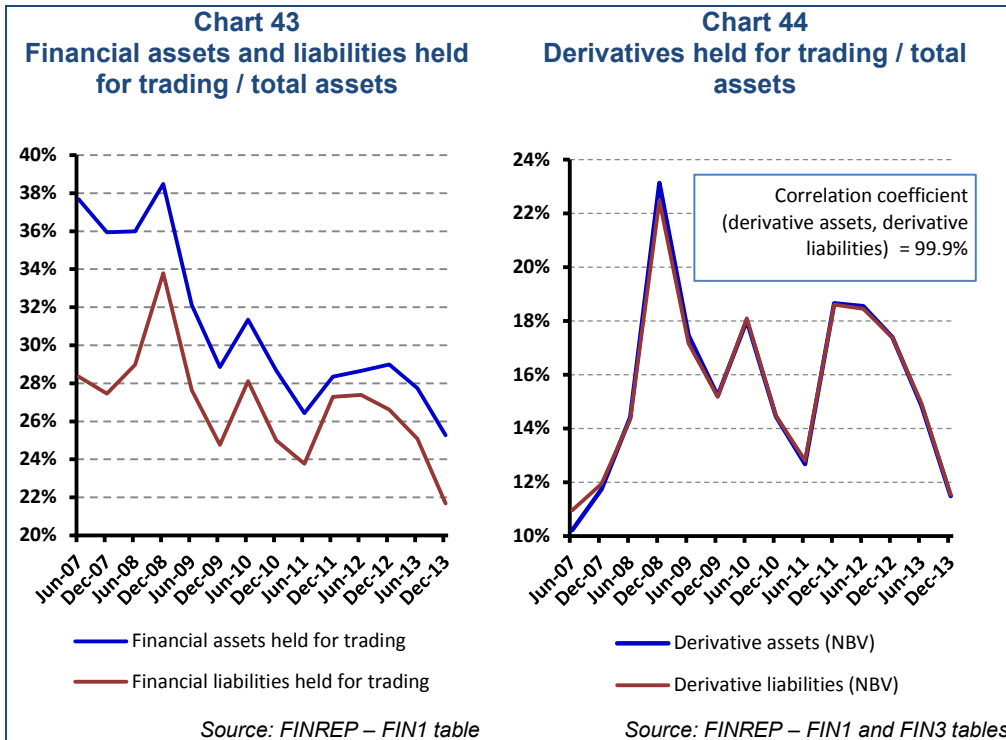


The largest reductions were in relation to trading book securitisation positions (-70.7%), which now account for no more than 3.9% of capital requirements for market risk, and interest rate risk (-40.4%), which continues to represent the bulk of capital requirements for market risk (see Chart 42). Other risks increased relative to 2012: currency risk (up 24.5%), equity risk (up 3.7%) and the IRC (up 2.8%). Equity risk and the IRC are the second and third largest components of market risk.

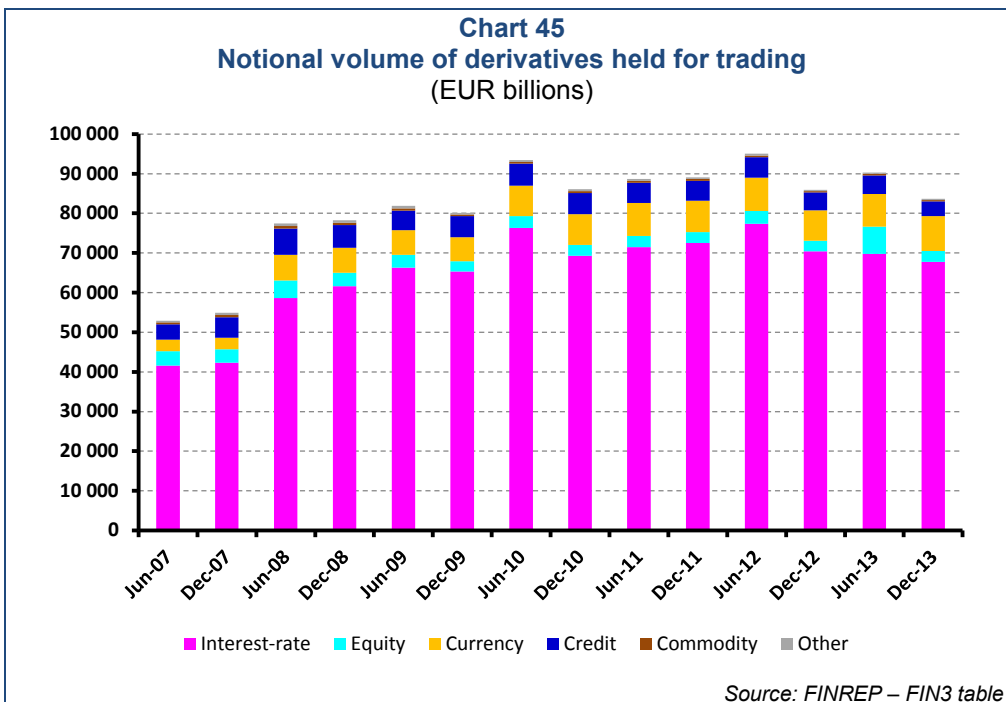


²³ As BNPP and GCA report their capital requirements for market risk calculated using internal models before netting, the sum of requirements included in the MKR IM table is higher than the amount in the CA table for both these banks. This makes it impossible to break down the total capital requirements for market risk between the component risks for these groups.

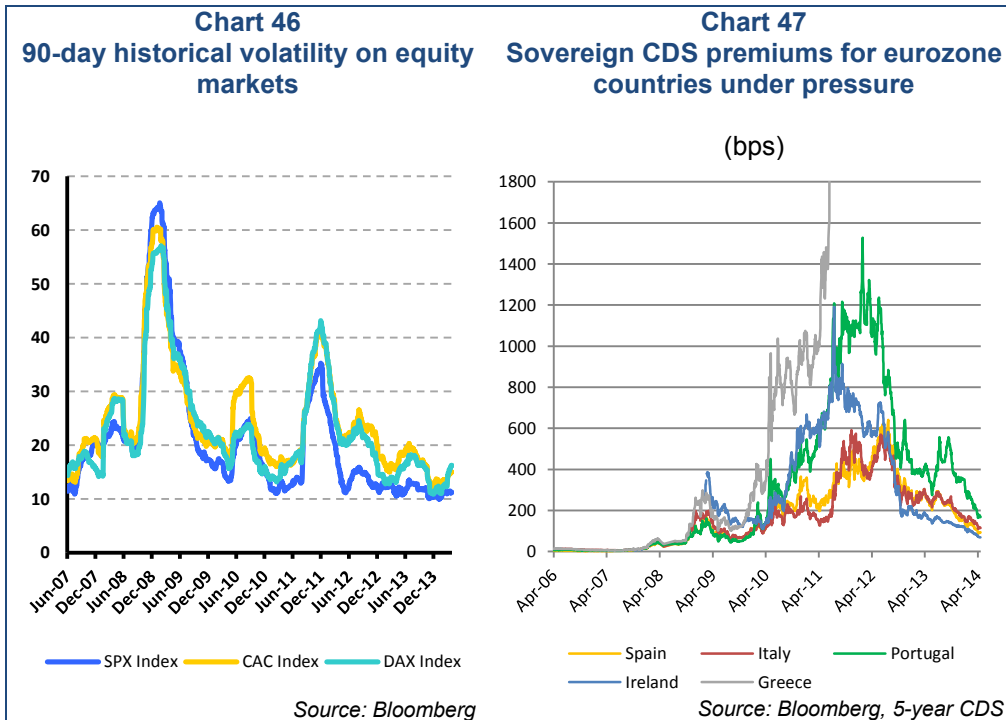
The ongoing reduction in capital requirements for market risk matches a contraction in French banks' trading operations. Assets and liabilities held for trading fell sharply as a proportion of their balance sheets in 2013 (Chart 43), particularly because of a reduction in derivatives positions in fair value terms (Chart 44).



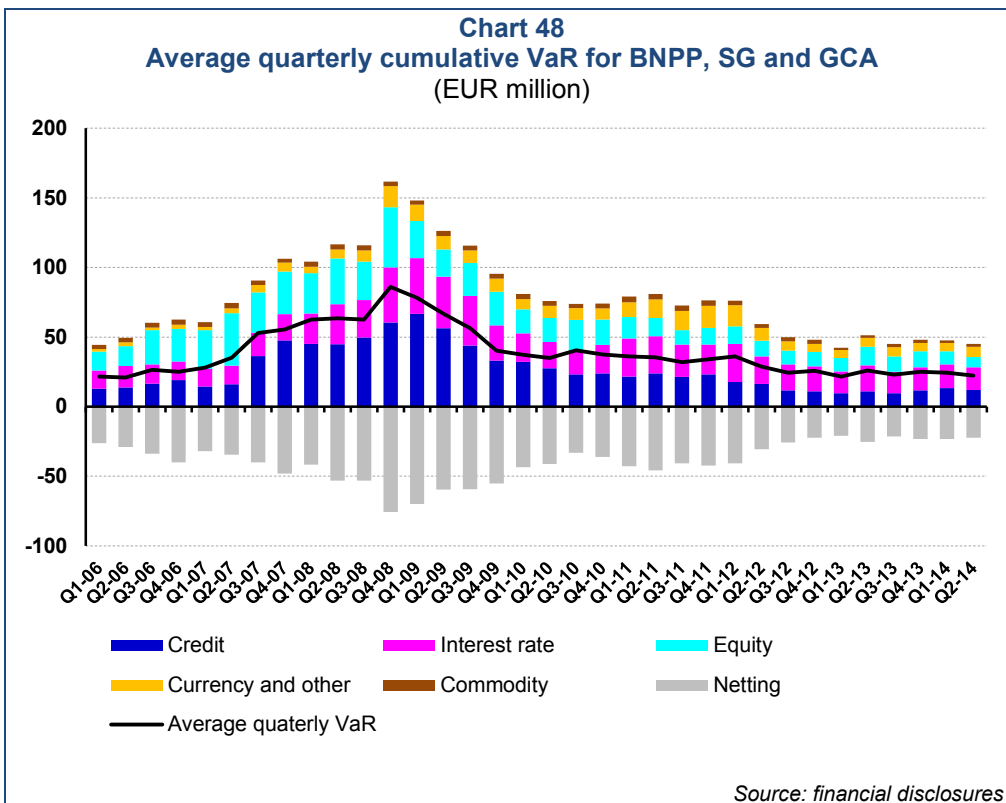
As mentioned above, the contraction in derivatives held for trading should be put in the context of a significant change on 31 December 2013 in the accounting treatment of a sizeable portion of GCA's portfolio. In notional terms, the reduction is far less striking: the total volume of derivatives held for trading purposes, irrespective of their direction (long/short), dropped just 2.6% in 2013 (Chart 45).



The decline in capital requirements for market risk was also due to the fact that market conditions remained relatively favourable. This is illustrated by limited implied volatility on equity markets (Chart 46), despite a slight upturn in Europe early this year, and a further reduction in risk premiums on sovereign debt issued by eurozone countries under pressure (Chart 47).



Against this backdrop, the average cumulative trading Value at Risk (VaR) – calculated for a 1-day holding period and with a 99% confidence interval – for BNPP, SG and GCA remained low (Chart 48). The VaR for SG and GCA (CASA) increased in the fourth quarter of 2012.



Helpful market conditions enabled French bank groups to step up their disposals of toxic assets inherited from the subprime crisis. The net exposure to these assets dropped 79% in 2013

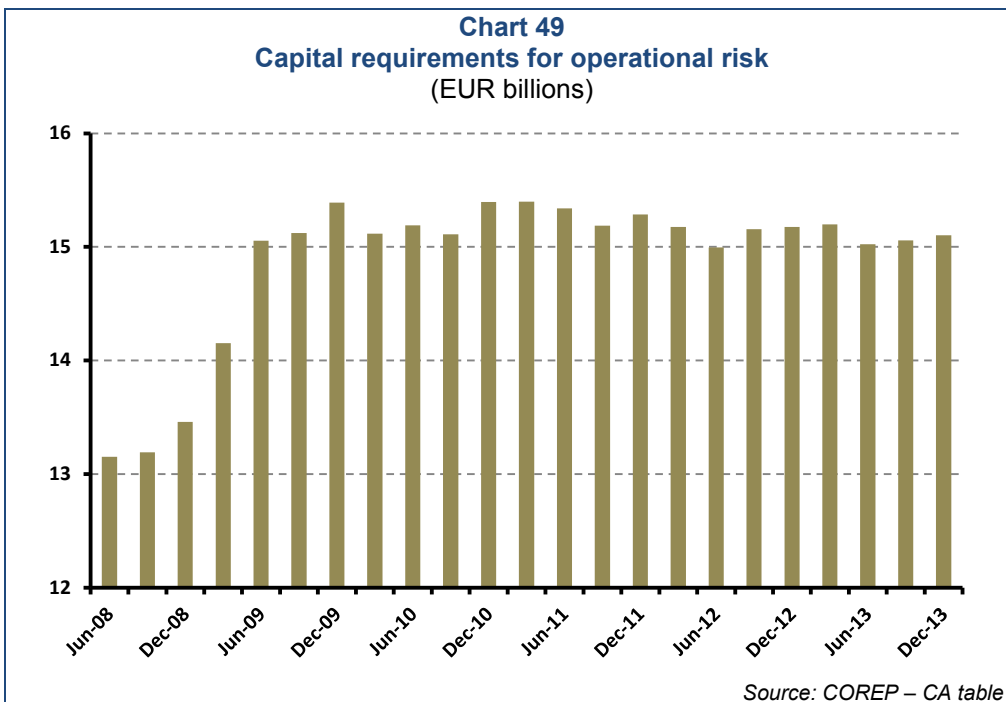
Table 5); other sensitive exposures were also reduced significantly (down 70%).

	2009	2010	2011	2012	2013
TOXIC ASSETS					
Monolines	3.0	1.8	2.5	1.3	0.4
CDPCs	1.2	1.2	1.8	0.3	0.0
Subprime CDOs	6.3	8.0	5.4	2.3	0.3
US ABS					
RMBS – net exposure	7.4	5.3	4.0	1.8	0.1
CMBS – net exposure	6.8	6.7	1.8	1.2	0.6
Total net exposure to toxic assets	24.7	23.0	15.4	6.9	1.4
SENSITIVE EXPOSURES					
Other ABS/CDOs					
UK RMBS – net exposure	3.7	3.1	2.5	1.8	1.3
Spanish RMBS - net exposure	2.7	2.4	2.5	1.6	1.0
Non-US CMBS - net exposure	4.8	4.4	3.0	2.1	1.0
Other CDOs and ABS - net exposure	37.7	32.8	25.7	20.8	4.7
Total sensitive exposure (excluding LBOs)	48.9	42.7	33.7	26.4	8.0

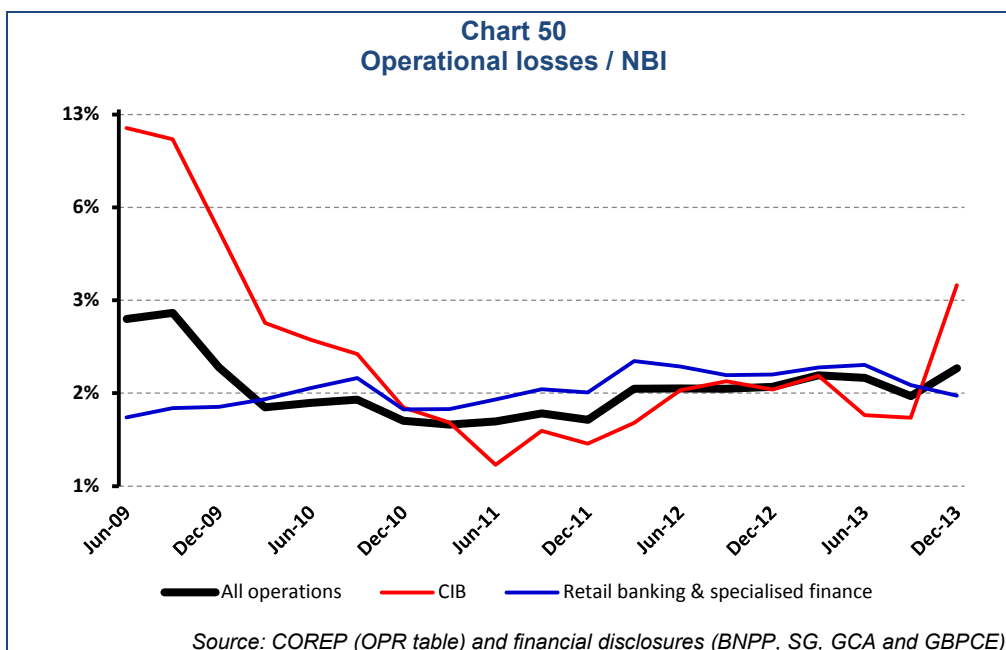
Source: financial disclosures (BNPP, SG, GCA, GBCPE)

3.3. A marginal reduction in capital requirements for operational risk

Following a 0.72% decline in 2012, capital requirements for operational risk contracted another 0.48% in 2013 (Chart 49).



The ratio between operational losses and NBI increased significantly, however, from 1.64% in 2012 to 1.88% in 2013 (Chart 50), in line with a sharp upswing in operational losses (Chart 51).



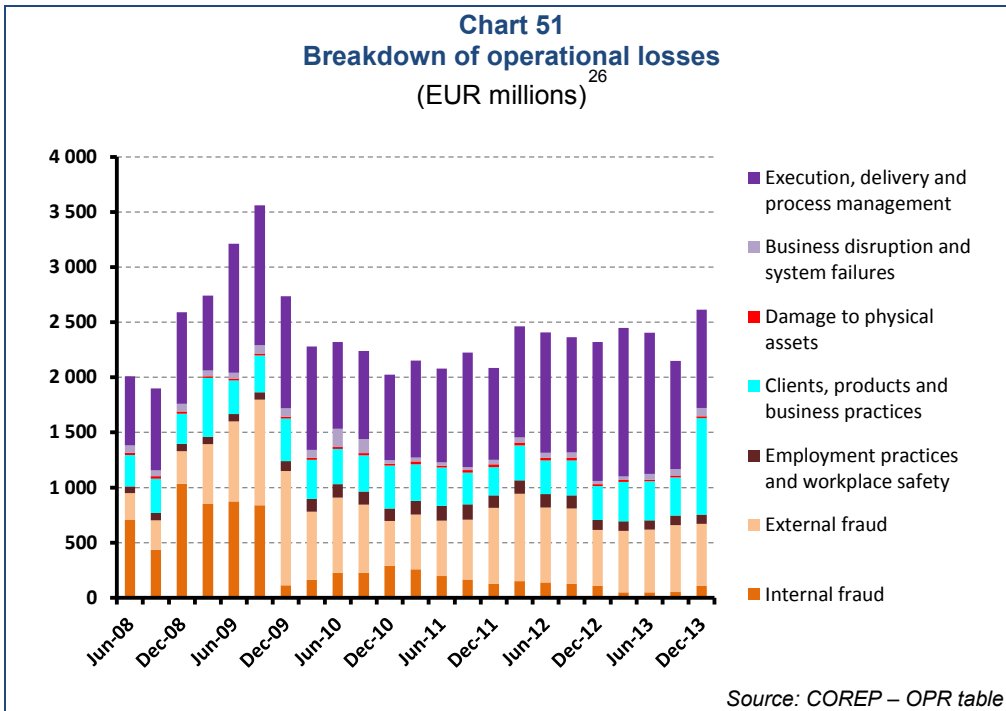
Trends differed for the two basic business lines:

- having increased fairly steadily since June 2009 and stabilised from March 2012 onwards, the level of operational risk in retail banking and specialised finance²⁴ eased 27bp in 2013, from 1.80% to 1.53%. This trend was mainly the result of a 10.9% reduction in operational losses for this business line;
- the level of operational risk in CIB²⁵ had started to decline in mid-2013 after a steep rise from a June 2011 low. But it increased sharply once again in fourth quarter 2013, resulting in a 189bp gain over 12 months to 3.5% of NBI. This stemmed from a 107% jump in operational losses arising from the booking by SG of a EUR 446 million fine in connection with the European Commission's investigation into Euribor-fixing (see above). The bank booked this amount under 'clients, products and commercial practices' within its 'institutional sales and trading' business line.

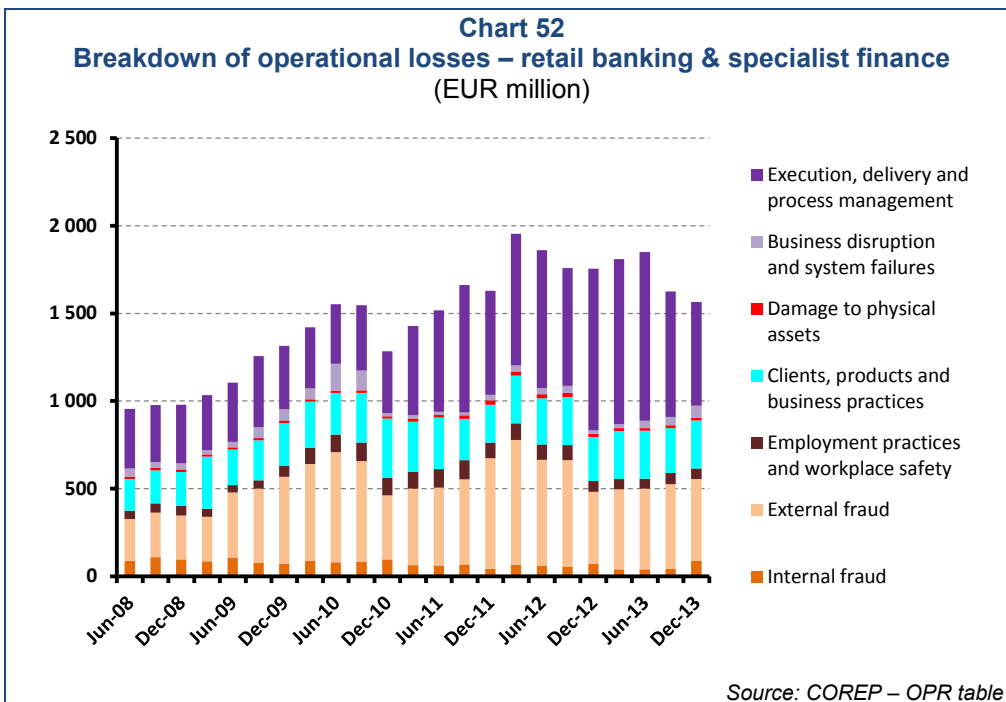
Apart from this fine, the risk profile for the five main French banks changed significantly in some respects (Chart 51). Although 'execution, delivery and process management' incidents were down sharply (-29.3%), external fraud was up 11.5%.

²⁴ This category includes the Basel Committee's 'retail brokerage', 'commercial banking' and 'retail banking' business lines.

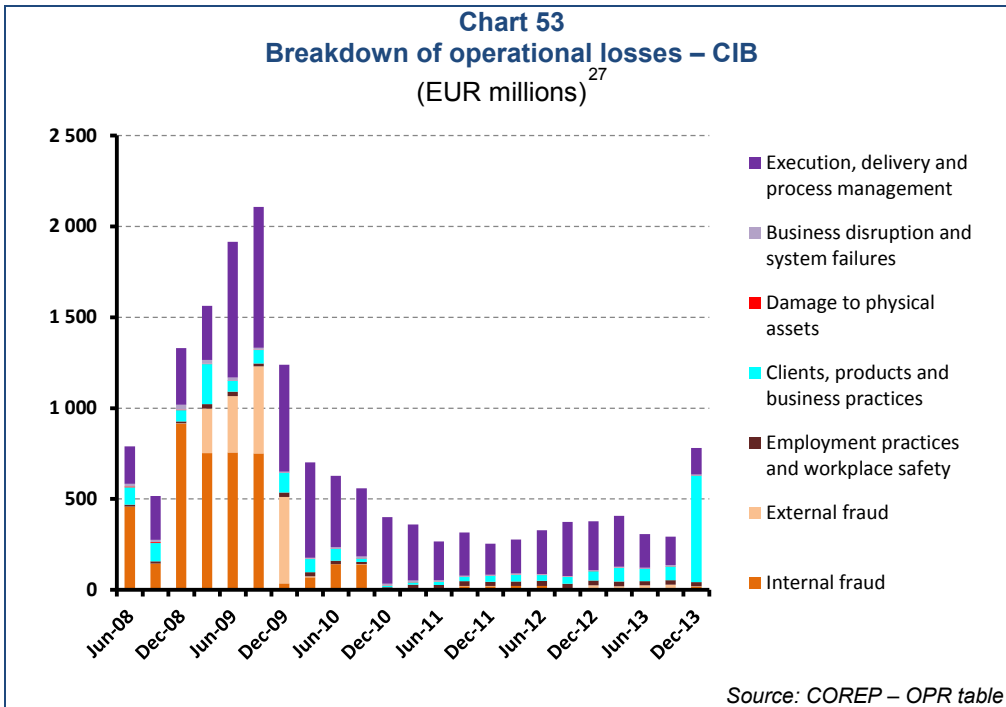
²⁵ This category includes the Basel Committee's 'corporate finance' and 'trading & sales' business lines.



Both developments were fairly similar within the retail banking and specialised finance business line, which accounts for most of the operational loss total (Chart 52). Similarly, ‘execution, delivery and process management’ incidents dropped significantly in CIB in 2013 (-46%, Chart 53).

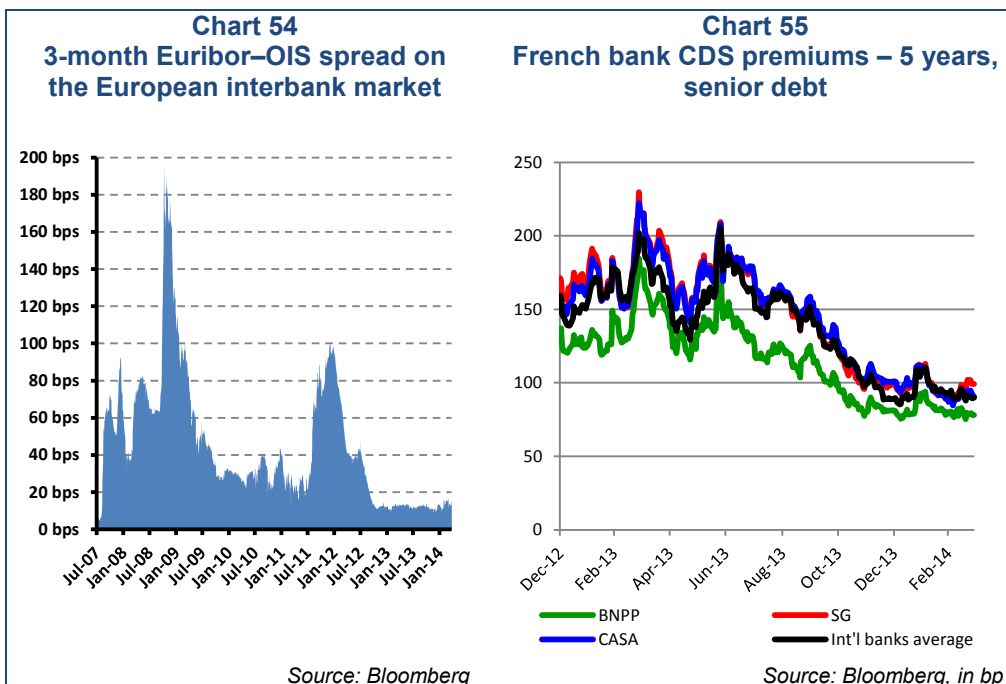


²⁶ Excluding SG's trading loss in 2008.



3.4. Stronger liquidity position

Funding conditions for French banks remained good in 2013, with the 3-month Euribor–OIS spread staying tight on the European interbank market throughout the year (Chart 54). Moreover, amid calmer trading conditions in sovereign debt issued by stressed eurozone countries (see Chart 47), CDS premiums for French banks – which can be taken as an indication of their credit spreads – have extended the downtrend that started in mid-2012, with a sharp acceleration since the summer of 2013 (Chart 55).



²⁷ Excluding SG's trading loss in 2008.

Inset 7

The 3-month Euribor²⁸ OIS²⁹ spread is one of the most frequently used indicators of the interbank market's assessment of short-term liquidity risk, which is also an indicator of very near-term credit risk. This spread captures banks' views on the risk of default on loans to other banks; it is the risk premium that a prime bank borrower has to pay to obtain 3-month money rather than roll its debt day to day.

In this positive environment, the main French bank groups more than covered their medium- and long-term funding objectives for 2013 (target issuance of EUR 83 billion, over EUR 110 billion raised). This has carried over to a lead on their 2014 funding programmes (Table 6).

Table 6
2013 medium- and long-term funding programmes

	Target	Raised	Raised / target	Average maturity
BNPP	EUR 30 billion	EUR 37 billion	123%	5.3 years
SG	EUR 20 billion	EUR 28.8 billion	144%	5.5 years
GCA (CASA)	EUR 12 billion	EUR 15.5 billion	129%	6 years
GBPCE	EUR 21 billion	EUR 32.2 billion	153%	5.3 years

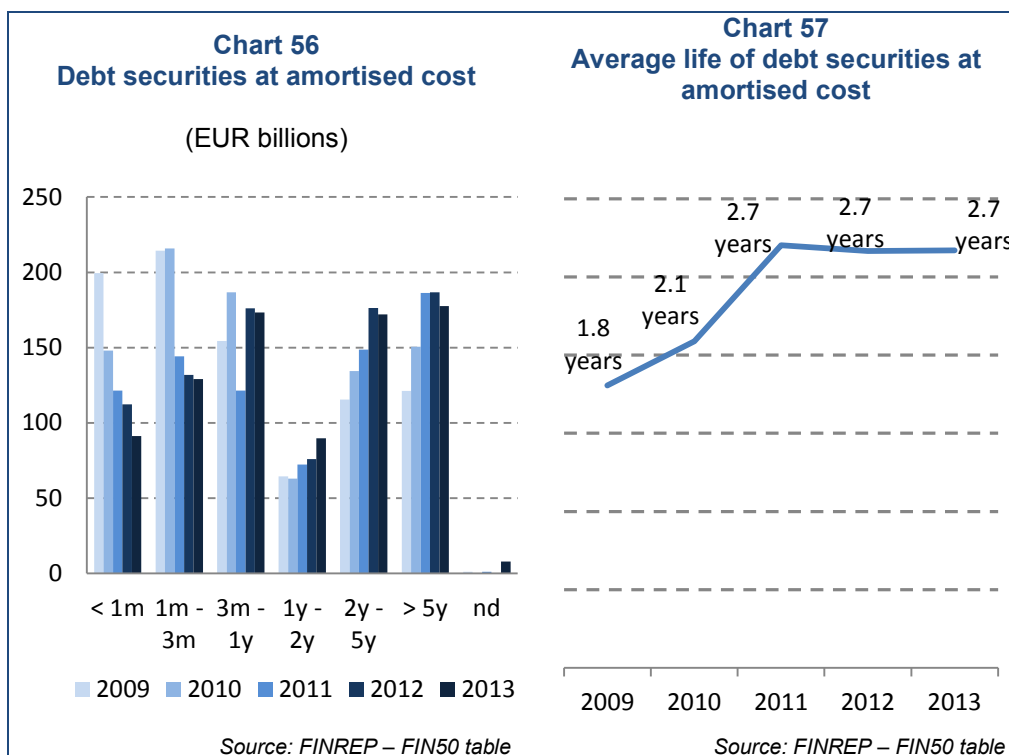
Source: financial disclosures, no data for GCM and LBP

Against this backdrop, the banks have further reduced the proportion of the very shortest debt on their balance sheets. Their outstandings dated less than a month contracted by EUR 21 billion in 2013, debt at less than a year dropped EUR 66 billion and debt between 1 and 2 years rose again, by EUR 14 billion. Outstandings longer than 2 years dipped EUR 14 billion (Chart 56). The average life of debt securities³⁰ increased sharply between 2009 and 2011 but has been virtually unchanged since then, at 2 years and 8 months (Chart 57).

²⁸ 3-month Euribor is a daily mean (after the elimination of the top and bottom 15% of quotes) of lending rates quoted by the 57 most active banking institutions in the euro zone. It is the rate at which these banks would lend to other prime banks for 3 months.

²⁹ The Overnight Indexed Swap is an interest-rate swap in which one counterparty pays a fixed rate and the other pays a floating rate – the overnight rate for unsecured bank loans. The fixed rate is based on the expected average overnight rate for the coming 3 months, while the floating rate is based on the actual overnight rate over the same period. There is no exchange of principal; the only amount exchanged is the difference in interest amounts at maturity. The OIS rate refers to the fixed rate on the swap, and is often used as an approximation of the risk-free rate because of the very low risk of default in the absence of any principal exchange.

³⁰ Calculated with an average life of 0.5 months for the first maturity band, 2 months for the second, 9 months for the third, 1.5 years for the fourth, 3.5 years for the fifth and 7.5 years for the sixth. Perpetual debt securities (negligible in quantity) are not taken into account.



The banks' medium- and long-term funding objectives for 2014 are similar to those for 2013 (EUR 78-83 billion). Almost EUR 24 billion had already been issued by end-January or early February, according to the banks' own disclosures by that time (Table 7).

Table 7 2014 medium- and long-term funding programmes				
	Target	Raised	Raised / target	Average maturity
BNPP	EUR 23 billion	EUR 10 billion at end-January*	43%	4.4 years
SG	EUR 20-25 billion	EUR 2.6 billion at 07/02	10-13%	Not disclosed
GCA (CASA)	EUR 10 billion	EUR 4 billion at 12/02	40%	Not disclosed
GBPCE (excl. CFF)	EUR 25 billion	EUR 7.1 billion at 05/02	28%	5.7 years

Source: financial disclosures, no data for GCM and LBP
*including EUR 8.3 billion issued at end-2013 above and beyond the EUR 37 billion issued under the 2013 programme

The major French banks continued to boost their quick liquidity reserves (up EUR 78 billion),³¹ which largely cover their short-term funding requirements (Table 8).

Table 8 2014 short-term funding programmes					
	BNPP	SG	GCA	GBPCE	Total
Quick liquidity reserves (EUR billions)	247	174	239	160	820
2012	231	135	229	147	742
As % of short-term debt	154%	140%	168%	164%	156%

Source: financial disclosures

³¹ Deposits at central banks and disposable assets eligible for central bank operations.

Annex 1 – Key Risk Indicators

Key Risk Indicators published by the European Banking Authority (EBA) and indicative aggregate data for the major French banks (BNPP, SG, GCA, GBPCE, GCM)

<i>KRI</i>		June-10	Sep-10	Dec-10	Mar-11	June-11	Sep-11	Dec-11	Mar-12	June-12	Sep-12	Dec-12	Mar-13	June-13	Sep-13	Dec-13	
Solvency	1 - Tier 1 capital ratio	Weighted average	10.4%	10.6%	11.0%	11.3%	11.4%	11.4%	11.1%	11.6%	12.0%	12.3%	12.5%	12.4%	12.6%	12.9%	13.1%
		Top quartile	8.8%	8.9%	9.3%	9.7%	9.4%	9.6%	9.4%	9.8%	10.4%	10.3%	10.5%	10.8%	11.0%	11.1%	11.4%
		Median	10.1%	10.3%	10.6%	11.1%	11.1%	11.0%	10.9%	11.4%	11.7%	11.7%	11.7%	11.6%	12.0%	12.3%	12.8%
		3rd quartile	11.4%	11.6%	12.4%	12.7%	12.5%	12.8%	12.8%	13.0%	13.3%	13.4%	13.5%	13.4%	13.8%	13.9%	14.8%
		French banks	10.3%	10.5%	10.7%	10.9%	11.0%	10.9%	10.9%	12.1%	12.5%	12.9%	13.3%	12.4%	12.7%	13.0%	13.2%
	2 - Total capital ratio	Weighted average	12.9%	13.1%	13.5%	13.7%	13.6%	13.5%	13.1%	13.6%	13.9%	14.1%	14.4%	14.8%	15.1%	15.4%	15.7%
		Top quartile	11.4%	11.5%	11.7%	11.8%	11.6%	11.4%	11.3%	11.5%	12.0%	12.0%	12.1%	12.6%	13.1%	13.0%	13.4%
		Median	12.2%	12.4%	12.8%	13.3%	13.0%	12.8%	12.8%	13.9%	14.1%	14.0%	13.9%	14.4%	14.4%	14.6%	14.8%
		3rd quartile	14.0%	14.6%	14.9%	15.0%	15.1%	15.1%	15.0%	15.4%	15.8%	15.8%	16.2%	16.3%	16.8%	17.1%	17.4%
		French banks	12.3%	12.4%	12.5%	12.5%	12.6%	12.4%	12.2%	13.2%	13.5%	13.7%	14.0%	14.4%	14.7%	15.0%	15.1%
	3 - Tier 1 ratio (excluding hybrid instruments)	Weighted average	9.2%	9.3%	9.0%	9.3%	9.3%	9.4%	9.2%	9.8%	10.2%	10.5%	10.8%	10.8%	11.1%	11.4%	11.6%
		Top quartile	7.2%	7.4%	7.7%	8.2%	7.9%	8.0%	8.1%	8.3%	9.3%	9.4%	9.5%	9.8%	10.0%	10.2%	10.4%
		Median	8.6%	9.3%	8.5%	9.0%	9.3%	9.4%	9.4%	10.0%	10.3%	10.5%	10.7%	10.7%	11.0%	11.1%	11.4%
		3rd quartile	10.6%	11.1%	10.4%	10.9%	10.3%	10.6%	10.5%	11.3%	11.2%	11.4%	11.6%	12.3%	12.6%	13.1%	13.5%
		French banks	8.2%	8.5%	8.7%	8.9%	9.1%	9.0%	9.2%	10.4%	10.8%	11.2%	11.6%	10.7%	11.1%	11.5%	11.6%

<i>KRI</i>		June-10	Sep-10	Dec-10	Mar-11	June-11	Sep-11	Dec-11	Mar-12	June-12	Sep-12	Dec-12	Mar-13	June-13	Sep-13	Dec-13	
Credit Risk and Asset Quality	13 - Impaired loans and Past due (>90 days) loans to total loans	Weighted average	5.1%	5.3%	5.3%	5.2%	5.4%	5.4%	5.8%	5.9%	6.0%	6.3%	6.5%	6.5%	6.7%	6.6%	6.8%
		Top quartile	3.3%	2.8%	3.0%	2.9%	2.5%	2.6%	2.5%	2.5%	2.8%	2.8%	3.1%	3.0%	3.0%	2.9%	3.0%
		Median	5.4%	5.0%	5.4%	5.4%	5.6%	5.6%	6.4%	6.7%	6.3%	7.3%	7.3%	6.7%	6.7%	6.5%	6.5%
		3rd quartile	10.7%	10.9%	10.5%	11.3%	12.4%	13.1%	14.1%	15.2%	15.8%	16.3%	17.3%	17.6%	17.6%	15.7%	16.2%
		French banks	4.6%	4.8%	4.9%	4.6%	4.6%	4.5%	4.5%	4.6%	4.7%	4.7%	4.5%	4.6%	4.6%	4.8%	4.8%
	14 - Coverage ratio (specific allowances for loans to total gross impaired loans)	Weighted average	42.0%	42.8%	41.7%	42.7%	41.5%	40.9%	41.2%	41.2%	41.5%	41.4%	42.0%	42.7%	42.7%	44.4%	45.9%
		Top quartile	34.0%	34.5%	33.5%	34.2%	33.7%	33.7%	34.3%	34.7%	35.6%	34.8%	34.5%	34.2%	33.7%	35.6%	35.6%
		Median	40.9%	41.7%	41.8%	42.6%	41.2%	41.4%	41.2%	41.2%	40.9%	40.7%	41.4%	43.0%	43.3%	44.4%	46.1%
		3rd quartile	49.3%	48.3%	49.5%	48.3%	46.6%	45.6%	48.7%	48.4%	47.9%	48.9%	48.8%	51.1%	50.7%	52.8%	55.0%
		French banks	52.1%	52.9%	53.8%	53.7%	54.2%	54.3%	55.2%	54.9%	54.4%	53.0%	54.3%	54.1%	53.8%	53.2%	53.5%
	18 - Impaired financial assets to total assets	Weighted average	1.6%	1.6%	1.7%	1.7%	1.8%	1.7%	1.9%	1.9%	1.9%	1.9%	2.0%	2.0%	2.1%	2.0%	2.0%
		Top quartile	1.1%	1.2%	1.2%	1.2%	1.1%	1.0%	1.0%	1.2%	1.2%	1.1%	1.2%	1.2%	1.2%	1.3%	1.3%
		Median	1.8%	1.9%	2.0%	1.9%	2.0%	2.1%	2.2%	2.1%	2.1%	2.2%	2.4%	2.4%	2.7%	2.5%	2.4%
		3rd quartile	3.6%	3.9%	3.9%	4.1%	5.3%	5.3%	5.6%	6.6%	6.9%	7.8%	7.8%	8.7%	8.9%	7.9%	7.1%
		French banks	1.1%	1.2%	1.2%	1.2%	1.3%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	1.2%	1.2%	1.2%
	20 - Accumulated impairments on financial assets to total (gross) assets	Weighted average	1.3%	1.4%	1.4%	1.4%	1.4%	1.3%	1.6%	1.5%	1.5%	1.5%	1.6%	1.6%	1.7%	1.8%	1.9%
		Top quartile	0.9%	0.8%	0.9%	0.8%	0.8%	0.7%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%
		Median	1.5%	1.6%	1.7%	1.6%	1.5%	1.5%	1.6%	1.6%	1.7%	1.7%	1.8%	1.7%	1.8%	1.8%	1.8%
		3rd quartile	2.3%	2.8%	2.7%	2.9%	2.9%	3.1%	3.7%	3.7%	3.7%	3.8%	3.9%	4.0%	4.1%	4.2%	4.3%
		French banks	1.5%	1.5%	1.6%	1.5%	1.6%	1.5%	1.7%	1.5%	1.5%	1.4%	1.4%	1.4%	1.4%	1.5%	1.5%
21 - Impairments on financial assets to total operating income	Weighted average	20.1%	18.2%	19.4%	13.8%	17.9%	20.3%	26.7%	17.9%	24.6%	24.9%	27.0%	17.4%	18.6%	18.6%	22.8%	
	Top quartile	17.5%	14.5%	15.5%	7.4%	10.0%	14.7%	14.8%	8.4%	9.9%	10.4%	10.8%	9.0%	9.8%	10.4%	11.0%	
	Median	23.3%	21.1%	23.9%	15.7%	20.2%	21.6%	26.2%	19.7%	18.7%	20.9%	22.4%	19.4%	19.2%	20.0%	21.4%	
	3rd quartile	33.5%	31.6%	31.3%	25.9%	32.0%	36.9%	56.8%	32.1%	39.8%	44.4%	56.0%	34.2%	30.8%	31.9%	43.3%	
	French banks	12.8%	12.5%	12.4%	9.7%	11.3%	14.3%	14.4%	11.9%	12.4%	10.7%	11.0%	12.0%	11.9%	11.2%	12.2%	
22 - Return on equity	Weighted average	7.3%	6.7%	5.9%	8.3%	7.1%	4.9%	0.0%	5.6%	3.4%	2.6%	0.5%	8.9%	7.6%	6.4%	2.7%	
	Top quartile	3.1%	3.0%	1.7%	5.0%	2.8%	-0.7%	-15.7%	1.8%	-0.9%	-1.5%	-6.5%	1.4%	2.2%	1.5%	-2.9%	
	Median	6.4%	5.7%	5.4%	8.0%	7.1%	5.2%	2.7%	6.5%	5.3%	3.8%	2.6%	6.6%	6.4%	5.7%	4.8%	
	3rd quartile	10.8%	10.0%	9.5%	11.7%	11.7%	9.4%	7.8%	11.5%	8.9%	8.4%	7.2%	12.0%	10.4%	10.4%	9.1%	
	French banks	10.1%	9.1%	8.3%	8.9%	9.0%	7.2%	5.4%	7.9%	7.0%	5.1%	3.1%	6.2%	6.8%	6.6%	5.9%	

		<i>KRI</i>	June-10	Sep-10	Dec-10	Mar-11	June-11	Sep-11	Dec-11	Mar-12	June-12	Sep-12	Dec-12	Mar-13	June-13	Sep-13	Dec-13
Profitability	24 - Cost-to-income ratio	Weighted average	54.6%	55.6%	56.1%	59.5%	58.2%	59.6%	60.1%	60.6%	59.7%	60.8%	63.2%	57.4%	57.9%	59.6%	63.3%
		Top quartile	49.1%	48.7%	47.9%	49.6%	49.7%	51.0%	52.0%	48.1%	50.4%	51.4%	52.5%	51.2%	48.2%	51.2%	50.5%
		Median	56.0%	57.7%	57.0%	56.3%	57.3%	58.6%	60.7%	57.1%	60.9%	63.0%	63.1%	61.2%	60.8%	61.3%	63.1%
		3rd quartile	62.2%	63.3%	63.8%	63.2%	63.8%	63.9%	65.2%	68.3%	71.0%	70.3%	71.6%	70.9%	74.6%	73.1%	75.0%
		French banks	62.1%	63.5%	64.2%	63.7%	63.5%	64.0%	65.7%	66.2%	66.3%	68.3%	70.3%	69.1%	67.4%	67.8%	69.0%
	26 - Net interest income to total operating income	Weighted average	58.6%	58.3%	58.0%	57.2%	57.4%	60.3%	61.1%	61.2%	60.9%	61.7%	61.6%	54.8%	55.1%	57.3%	58.9%
		Top quartile	52.3%	53.2%	51.9%	49.0%	50.4%	52.5%	54.2%	51.7%	51.8%	52.5%	52.6%	47.8%	47.4%	50.1%	51.1%
		Median	61.6%	62.8%	62.5%	59.9%	62.8%	65.0%	64.0%	63.9%	63.2%	65.9%	66.9%	60.0%	60.5%	59.1%	60.2%
		3rd quartile	72.2%	77.1%	73.6%	78.6%	75.4%	75.2%	76.6%	74.2%	79.3%	79.0%	76.7%	75.6%	72.7%	71.1%	78.2%
		French banks	51.6%	51.9%	52.1%	48.5%	49.0%	51.3%	52.3%	47.9%	50.2%	50.7%	53.1%	49.5%	49.7%	50.9%	50.8%
	27 - Net fee and commission income to total operating income	Weighted average	26.7%	26.7%	26.8%	26.9%	27.0%	27.6%	27.6%	27.3%	27.1%	27.7%	27.9%	26.2%	26.7%	27.7%	28.5%
		Top quartile	15.6%	15.1%	15.8%	13.3%	16.1%	16.7%	16.5%	18.1%	17.9%	17.6%	17.9%	16.0%	15.3%	15.3%	15.4%
		Median	24.0%	24.0%	24.1%	24.1%	24.4%	25.8%	24.1%	22.8%	24.4%	24.2%	25.7%	24.6%	23.6%	23.5%	24.8%
		3rd quartile	31.5%	30.8%	30.6%	30.4%	29.2%	30.5%	30.9%	28.2%	29.1%	29.9%	30.6%	31.2%	31.4%	32.6%	31.3%
		French banks	31.0%	31.6%	31.9%	31.5%	31.7%	31.9%	32.3%	30.1%	30.4%	31.3%	32.6%	32.2%	32.1%	32.3%	32.5%
	33 - Net income to total operating income	Weighted average	16.6%	15.2%	13.4%	18.9%	16.7%	11.9%	0.0%	13.6%	8.6%	6.9%	1.2%	22.5%	19.2%	16.8%	7.4%
		Top quartile	7.0%	7.5%	5.6%	14.0%	8.7%	-3.6%	-36.3%	4.6%	-2.5%	-6.3%	-17.7%	4.9%	7.1%	6.1%	-16.0%
		Median	16.6%	15.4%	14.6%	19.3%	17.8%	13.2%	7.7%	16.3%	12.0%	10.7%	9.0%	15.9%	16.6%	16.5%	13.6%
		3rd quartile	24.0%	23.4%	22.3%	29.7%	26.4%	22.6%	18.8%	28.6%	20.5%	21.1%	18.5%	33.4%	30.9%	29.5%	30.9%
		French banks	18.5%	17.9%	17.6%	18.5%	18.9%	15.7%	11.8%	17.4%	15.9%	12.3%	7.6%	15.5%	16.7%	16.8%	15.2%

		<i>KRI</i>	June-10	Sep-10	Dec-10	Mar-11	June-11	Sep-11	Dec-11	Mar-12	June-12	Sep-12	Dec-12	Mar-13	June-13	Sep-13	Dec-13
Balance Sheet Structure	34 - Loan-to-deposit ratio	Weighted average	116.6%	117.6%	117.8%	118.3%	119.8%	119.6%	117.7%	118.0%	117.7%	116.2%	115.7%	117.4%	114.1%	114.7%	112.8%
		Top quartile	100.9%	103.7%	105.3%	103.7%	104.2%	108.7%	106.0%	105.1%	106.6%	106.4%	103.6%	101.3%	99.9%	97.8%	98.0%
		Median	117.4%	116.8%	117.5%	120.2%	119.5%	124.5%	124.1%	125.3%	125.9%	124.6%	119.1%	116.8%	115.0%	114.6%	112.1%
		3rd quartile	133.9%	135.6%	140.0%	135.0%	141.7%	139.4%	146.7%	148.3%	143.4%	137.1%	135.7%	131.5%	130.5%	132.1%	129.4%
		French banks	115.3%	116.6%	118.1%	122.2%	121.0%	119.8%	116.7%	119.6%	118.9%	115.4%	116.7%	119.5%	118.5%	119.3%	115.9%
	35 - Customer deposits to total liabilities	Weighted average	39.8%	40.6%	42.6%	43.2%	43.2%	40.1%	41.6%	41.8%	41.5%	41.6%	42.7%	43.6%	45.5%	46.0%	47.7%
		Top quartile	33.7%	35.3%	37.5%	39.4%	38.5%	35.0%	35.2%	36.3%	36.0%	36.6%	36.1%	39.4%	41.4%	41.2%	40.5%
		Median	43.8%	47.4%	47.9%	48.8%	48.3%	44.6%	46.0%	47.8%	43.3%	46.9%	49.2%	50.9%	50.6%	52.6%	54.3%
		3rd quartile	56.8%	58.1%	59.9%	60.3%	57.7%	56.1%	56.4%	56.6%	56.3%	55.9%	57.9%	60.8%	60.8%	62.4%	62.3%
		French banks	36.1%	37.9%	39.8%	39.8%	40.3%	37.1%	38.5%	38.4%	38.0%	37.6%	38.8%	38.8%	40.7%	40.6%	43.3%
	36 - Tier 1 capital to [total assets - intangible assets]	Weighted average	4.3%	4.2%	4.5%	4.6%	4.6%	4.4%	4.4%	4.5%	4.5%	4.5%	4.7%	4.7%	4.9%	5.0%	5.1%
		Top quartile	4.0%	3.9%	4.1%	4.1%	4.1%	3.9%	3.8%	3.9%	4.1%	4.1%	4.2%	4.3%	4.5%	4.5%	4.6%
		Median	5.1%	5.0%	5.3%	5.2%	5.2%	5.0%	4.6%	4.8%	5.1%	4.9%	5.1%	5.4%	5.4%	5.5%	5.5%
		3rd quartile	5.9%	5.9%	6.2%	6.3%	6.1%	6.2%	5.9%	6.0%	6.2%	6.3%	6.3%	6.7%	6.8%	6.6%	6.7%
		French banks	3.6%	3.7%	4.0%	4.0%	4.1%	3.8%	4.0%	4.1%	4.1%	4.0%	4.2%	4.1%	4.2%	4.3%	4.6%
	45 - Debt-to-equity ratio	Weighted average	1936.6%	1920.5%	1818.8%	1777.2%	1794.6%	1940.7%	1963.7%	1911.9%	1935.5%	1907.8%	1812.4%	1794.9%	1745.4%	1698.9%	1654.6%
		Top quartile	1305.2%	1284.3%	1229.1%	1202.9%	1265.8%	1309.8%	1360.1%	1322.3%	1363.3%	1350.6%	1333.9%	1267.7%	1253.8%	1259.4%	1208.6%
		Median	1604.6%	1611.9%	1656.1%	1603.9%	1722.9%	1716.9%	1835.6%	1806.8%	1806.9%	1769.6%	1621.4%	1672.1%	1602.5%	1563.6%	1588.1%
		3rd quartile	2440.6%	2280.0%	2292.6%	2247.5%	2174.6%	2514.9%	2750.8%	2500.0%	2412.9%	2411.9%	2265.2%	2212.9%	2231.1%	2143.4%	1956.2%
		French banks	2103.6%	1990.4%	1879.8%	1838.8%	1844.1%	2015.6%	1984.8%	1922.6%	1949.2%	1965.1%	1890.6%	1886.5%	1837.6%	1793.7%	1691.9%
46 - Off-balance sheet items to total assets	Weighted average	17.6%	17.3%	17.7%	17.4%	17.3%	16.3%	18.6%	17.8%	17.7%	16.8%	17.4%	17.6%	18.1%	18.6%	19.0%	
	Top quartile	8.2%	8.2%	8.3%	7.8%	8.0%	7.7%	8.8%	8.3%	8.3%	7.7%	7.4%	8.0%	7.6%	7.8%	7.7%	
	Median	14.2%	14.2%	14.0%	14.1%	13.8%	13.4%	15.1%	14.6%	14.7%	14.6%	14.7%	14.5%	14.7%	14.9%	15.2%	
	3rd quartile	19.8%	20.3%	19.1%	19.0%	18.5%	17.4%	19.1%	19.9%	19.7%	19.1%	18.5%	19.5%	20.4%	21.7%	22.2%	
	French banks	24.6%	23.4%	22.2%	22.8%	21.7%	20.2%	20.5%	19.7%	19.9%	18.4%	19.2%	19.8%	20.7%	20.5%	18.8%	

	Banks in EBA sample	Home country
1	Erste Group Bank AG	AT
2	Oesterreich Volksbanken	AT
3	Raiffeisen Zentralbank	AT
4	KBC Group	BE
5	Dexia	BE
6	Bank of Cyprus	CY
7	Marfin Popular Bank Public Company Limited	CY
8	DZ BANK AG	DE
9	WestLB AG	DE
10	Landesbank Baden-Wuerttemberg	DE
11	Deutsche Bank AG	DE
12	Commerzbank AG	DE
13	Norddeutsche Landesbank GZ	DE
14	Bayerische Landesbank	DE
15	Hypo Real Estate	DE
16	Danske Bank A/S	DK
17	National Bank of Greece	EL
18	Alpha Bank AE	EL
19	Piraeus Bank	EL
20	Eurobank Ergasias	EL
21	Banco Santander SA	ES
22	Banco Bilbao Vizcaya Argentaria SA	ES
23	La Caixa	ES
24	Banco Financiero y de Ahorro	ES
25	OP-Pohjola Group	FI
26	BNP Paribas	FR
27	Groupe Cr�dit Agricole	FR
28	Soci�t� G�n�rale	FR
29	Groupe Credit Mutuel	FR
30	Groupe BPCE	FR
31	OTP Bank NYRT	HU
32	Bank of Ireland	IE
33	Allied Irish Banks plc	IE
34	Gruppo UniCredit	IT
35	Gruppo Monte dei Paschi di Siena	IT
36	Gruppo Bancario Intesa Sanpaolo	IT
37	Gruppo Banco Popolare	IT
38	Bank of Valletta (BOV)	MT
39	ABN Amro	NL
40	ING Groep NV	NL
41	Rabobank Group-Rabobank Nederland	NL
42	DnB NOR	NO
43	PKO Bank Polski	PL
44	Banco Comercial Portugues	PT
45	Caixa Geral de Depositos	PT
46	Espirito Santo Financial Group (ESFG)	PT
47	Skandinaviska Enskilda Banken AB	SE
48	Nordea Bank AB (publ)	SE
49	SWEDBANK AB	SE
50	Svenska Handelsbanken AB	SE
51	Nova Ljubljanska Bank (NLB)	SI
52	Barclays Plc	UK
53	Lloyds Banking Group Plc	UK
54	Standard Chartered Plc	UK
55	HSBC Holdings Plc	UK
56	Royal Bank of Scotland Group Plc (The)	UK
57	Nationwide Building Society	UK

Annex 2 – Analysis of changes in capital requirements for credit risk

Capital requirements for credit risk (CRCR) are the sum of

- capital requirements for ‘other assets not corresponding to credit commitments’, and
- capital requirements for the following portfolios: ‘central governments and central banks’, ‘institutions’, ‘corporates’, ‘retail customers’, ‘equities’ and ‘securitisation’.

While COREP templates do not provide any details on how capital requirements for ‘other assets’ should be calculated, they permit detailed analysis of changes in capital requirements for the credit portfolio.

In this case, the capital requirement for credit risk is 8% of exposure at default (EAD) multiplied by the risk weight (RW): $EFP = 0.08 \times EAD \times RW$.

Moreover,

- EAD equals original gross credit exposure (OGCE) multiplied by a credit conversion factor (CCF), which takes account of the propensity of off-balance sheet exposures to turn into credit outstandings;
- the average risk weight for the credit portfolio is derived as follows:

$$RW = \sum_p q_p \times \sum_m q_{p,m} \times RW_{p,m}$$

where q_p is the ratio between the EAD of the portfolio p and the cumulative EAD of all portfolios, and $q_{p,m}$ and $RW_{p,m}$ represent the share of portfolio p outstandings subject to method m (standardised, IRBF or IRBA) and the average risk weight of portfolio p outstandings subject to method m , respectively.

We deduce:

$$CRCR = 0.08 \times MBI \times CCF \times \sum_p q_p \times \sum_m q_{p,m} \times RW_{p,m}$$

and therefore

$$\Delta CRCR = 0.08 \times \Delta MBI \times CCF \times \sum_p q_p \times \sum_m q_{p,m} \times RW_{p,m} \quad (1)$$

$$+ 0.08 \times MBI \times \Delta CCF \times \sum_p q_p \times \sum_m q_{p,m} \times RW_{p,m} \quad (2)$$

$$+ 0.08 \times MBI \times CCF \times \sum_p \Delta q_p \times \sum_m q_{p,m} \times RW_{p,m} \quad (3)$$

$$+ 0.08 \times MBI \times CCF \times \sum_p q_p \times \sum_m \Delta q_{p,m} \times RW_{p,m} \quad (4)$$

$$+ 0.08 \times MBI \times CCF \times \sum_p q_p \times \sum_m q_{p,m} \times \Delta RW_{p,m} \quad (5)$$

$$+ R \quad (6)$$

The change in CRCR between two dates can therefore be broken down as follows:

- (1) a *volume effect*, or the change in CRCR stemming from changes in gross credit exposure;
- (2) a *CCF effect*, or the change in CRCR stemming from changes in the portfolio's average CCF;

(3) a *structure effect*, which captures the impact of changes in the breakdown of outstandings between the various portfolios (central governments, institutions, corporates, retail customers, equities and securitisation);

(4) a *method effect*, which captures the impact of changes in the breakdown of outstandings between different risk weight calculation methods (standardised, IRBF, IRBA);

(5) a *risk effect*, which captures the impact of a change in the risk weight for outstandings in the various portfolios;

(6) a *residual term* that represents a first-order change in the CRCR that cannot be explained by any of the above (the term corresponds to the sum of the joint variations of the different parameters, 2 x 2, 3 x 3 etc.).

References

Autorité de contrôle prudentiel (2011), *The French banking and insurance market in figures, 2011*

www.ACPR.banque-france.fr/fileadmin/user_upload/ACPR/publications/rapports-annuels/2011-chiffres-marche-banque-assurance.pdf

Autorité de contrôle prudentiel (2013 a), *French banks' performance in 2012*, Analyses et Synthèses No 13, June 2013

http://acpr.banque-france.fr/fileadmin/user_upload/ACPR/publications/analyses-syntheses/201306-situation-grands-groupes-bancaires-francais-2012.pdf

Autorité de contrôle prudentiel et de résolution (2013 b), *The French banking and insurance market in figures, 2012*

http://acpr.banque-france.fr/fileadmin/user_upload/acpr/publications/rapports-annuels/Rapport-ACPR-chiffres-2012-banques.pdf

European Banking Authority (2011), *EBA Recommendation on the creation and supervisory oversight of temporary capital buffers to restore market confidence*, 8 December 2011

<http://eba.europa.eu/capitalexercise/EBA%20BS%202011%20173%20Recommendation%20FINAL.pdf>

European Banking Authority (2013), *EU-wide transparency exercise*,

<http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise>

European Banking Authority (2014), *Risk dashboard Q1 2014*,

<http://www.eba.europa.eu/documents/10180/679742/EBA+Dashboard+-+Q1+2014.pdf/00695018-df2e-4966-87d7-ae022c50cfa1>

Tables and charts

Tables

TABLE 1: Income statement subtotals	5
TABLE 2: Contributions to NBI from major business lines since 2010	15
TABLE 3: Main aggregates for retail banking and specialist finance	18
TABLE 4: Aggregate balance sheet for the five main French banking groups	23
TABLE 5: French banks' net exposures to toxic and sensitive assets	42
TABLE 6: 2013 medium- and long-term funding programmes	46
TABLE 7: 2014 medium- and long-term funding programmes	47
TABLE 8: 2014 short-term funding programmes	47

Charts

CHART 1: NBI / total assets	7
CHART 2: Net interest margin / total assets	8
CHART 3: Net fees and commissions / total assets	8
CHART 4: Net interest margin / NBI ERREUR ! SIGNET NON DÉFINI.	
CHART 5: Fees & commissions / NBI	8
CHART 6: Cost-to-income ratios for the major European banks	9
CHART 7: Cost of risk / total assets	11
CHART 8: Cost of risk at selected international banks	11
CHART 9: Cost of risk relative to NBI at selected international banks	12
CHART 10: Net profit at selected international banks	13
CHART 11: Return on assets	13
CHART 12: Return on assets at selected international banks	14
CHART 13: Return on equity	14
CHART 14: Net banking income by business line	16
CHART 15: Cost-to-income ratio by business line	16
CHART 16: Cost of risk by business line	17
CHART 17: Operating profit by business line	17
CHART 18: Insurance share of NBI	19
CHART 19: Insurance share of operating profit	19

CHART 20: Changes in asset structure between 2009 and 2013	21
CHART 21: Changes in liabilities structure between 2009 and 2013	21
CHART 22: Loan-to-deposit ratios for the main European banks	24
CHART 23: Customer deposits as a share of total liabilities for the main European banks	24
CHART 24: The main European banks' Core Tier 1 capital ratios	25
CHART 25: Full CRR/CRD4 / Basel III CET1 ratios	26
CHART 26: French banks' capital	27
CHART 27: French banks' capital requirements	28
CHART 28: Leverage ratios at 31 December 2013	28
CHART 29: Annual change in capital requirements for credit risk	30
CHART 30: French banks' sovereign exposures to peripheral eurozone countries	31
CHART 31: Average credit portfolio weightings	32
CHART 32: Delinquency rates for the main French banking groups	33
CHART 33: Age profile of past due loans	33
CHART 34: Impaired loan rates for the main French banking groups	34
CHART 35: Corporate default rates worldwide (high-yield borrowers)	34
CHART 36: Impaired loan rates for the main European banking groups	35
CHART 37: Default rates for the main European banks	36
CHART 38: Coverage ratios for the min French banking groups	37
CHART 39: Coverage ratios for the main European banks	37
CHART 40: Coverage ratios for the main European banks	38
CHART 41: Capital requirements for market risk	39
CHART 42: Breakdown of capital requirements for market risk	39
CHART 43: Financial assets and liabilities held for trading / total assets	40
CHART 44: Derivatives held for trading / total assets	40
CHART 45: Notional volume of derivatives held for trading	40
CHART 46: 90-day historical volatility on equity markets	41
CHART 47: Sovereign CDS premiums for stressed eurozone countries	41
CHART 48: Average quarterly cumulative VaR for BNPP, SG and GCA	41
CHART 49: Capital requirements for operational risk	42
CHART 50: Operational losses / NBI	43

CHART 51: Breakdown of operational losses	44
CHART 52: Breakdown of operational losses – retail banking & specialist finance	44
CHART 53: Breakdown of operational losses – CIB	45
CHART 54: 3-month Euribor – OIS spread on the European interbank market	45
CHART 55: French bank CDS premiums – 5 years, senior debt	45
CHART 56: Debt securities at amortised cost	47
CHART 57: Average life of debt securities at amortised cost	47



61, rue Taitbout
75009 Paris
Téléphone : 01 49 95 40 00
Télécopie : 01 49 95 40 48
Site internet : www.acpr.banque-france.fr

