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French banks performance in 2012

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CONTENTS

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Overview

In a challenging economic environment for 2012, characterised by a 0.6% drop in Eurozone GDP, the French largest banking groups benefited from the stabilisation of markets following decisive actions by the European Central Bank (ECB) introducing Very Long Term Refinancing Operation (VLTRO) and Outright Monetary Transactions (OMT).

In 2012 the top 6 French banking groups generated an aggregated profit after tax of EUR 8.4 billion, sharply down, as compared with EUR 14.5 billion in 2011, owing to several exceptional items such as significant divestments from Greece. Setting exceptional items aside, Net Banking Income (NBI) was 2.4 % down and profit after tax dropped by 6.3 % in line with what was observed at foreign banking peers.

2012 was characterised for French banks by a steady **decrease in interest margins** in a protracted period of low interest rates, **a slight reduction in fees and commissions** due to a slowing economy, a **deterioration of cost-to-income ratios** and –putting aside the 2011 write-off of the Greek debt– an uptick in the **cost of risk**. The subdued economic environment is urging banks to improve cost efficiency; in 2013 they are launching new plans to cut costs. As far as risks are concerned, after a temporary reduction in 2011, past due loans slightly increased in the second half of 2012 reaching 1.9% of total loans. **Doubtful loans** have remained stable at 4.3% of gross loans since mid-2010 and the **coverage ratio of specific provisions** over doubtful loans has slightly increased, reaching 54.3 % at end 2012, so that French banks compare relatively well with European peers. Yet, in order to address lasting uncertainties on asset quality of European banks, it is essential that banks, under the control of their statutory auditors, keep a watchful eye on the early identification and the classification of non-performing loans, the prudent valuation of assets and the rigorous recognition of provision impairments.

Concerning **balance sheet adjustments**, although French banks total assets increased in 2012, loans -including foreign claims- slightly decreased. Moreover the volume of liquid assets and deposits with the European Central Bank has been rising, as banks are building liquidity buffers in a still volatile market environment also in anticipation of the implementation of the liquidity coverage ratio (LCR). This situation is nevertheless weighing on interest margins.

Deleveraging plans, which accelerated during the summer 2011 crisis, gradually reduced funding needs especially in US dollars, whereas **funding** has been refocused on the most stable resources in order to reduce short term wholesale funding. Loan-to-deposit ratios have been decreasing in a more balanced direction thanks to growing customer deposits.

The solvency of French banks has significantly improved. The top 6 banks strengthened their Core Tier 1 by EUR 15 billion in 2012. Risk weighted assets declined as exposures shifted towards less risky counterparties. The largest French banks have confirmed their target to reach CRD4 fully loaded Common Equity Tier 1 (CET 1) ratios above 9% by the end of 2013.

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

JEL Codes : G21

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Preface

The scope of the analysis focuses on the consolidated accounts of the top 6 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). In comparison with the 2011 analysis, the sample has been widened from 5 to 6 banking groups by including LBP in order to build the most representative sample – except in the cases where this could have led to the identification of individual data.

All operations, regardless of business lines (bank, insurance, asset management or any other) or location (including foreign subsidiaries) are considered as long as they are included in the scope of consolidation of the banking groups.

For some risk indicators, the situation of French banks is put in comparison with European peers by using the key risk indicators (KRI) computed every quarter by the European banking authority (EBA) on a sample of 57 major European banks.

1. Financial performance of the major French banks in 2012

1.1 Declining performance owing to exceptional items

2012 was a difficult year as far as the profitability of French bank is concerned. For the top 6 banks, net banking income (NBI) totalled EUR 135 billion in 2012, a -7.3% fall compared with 2011. Gross operating income declined more sharply, by 19.4%, because the control of costs was not sufficient to outweigh downward revenues. Taking into account the cost of risk and non operating items, net income plunged by 40% in 2012 compared with 2011.

Table 1 Income statements key indicators

in EUR billions	2010	2011	2012	2012 vs. 2011
Net banking income	**147.8**	**145.7**	**135.0**	**-7.3 %**
Operating expense	93.4	94.2	93.5	-0.8 %
Cost-to-income ratio	63.2 %	64.7 %	69.3 %	+4.6 pts.
Gross operating income (GOI)	**54.4**	**51.5**	**41.5**	**-19.4 %**
Cost of risk (CR)	17.4	22.6	16.1	-28.6 %
Operating income (GOI-CR)	**37.0**	**28.9**	**25.4**	**-12.1 %**
Gains and losses on other assets	-0.7	-2.6	-2.9	10.7 %
Pre-tax income	36.3	26.2	22.5	-14.4 %
Tax	11.1	9.8	8.5	-13.1 %
Discontinued or held-for-sale operations			-4.0	NS
Net income	**25.3**	**16.4**	**9.9**	**-39.6 %**
Minority interests	2.7	2.0	1.5	-22.0 %
Net income group share	**22.6**	**14.5**	**8.4**	**-42.0 %**

Source: financial disclosures of the top 6 French banking groups (BNPP, SG, GCA, GBPCE, GCM, LBP)

Such an uneven performance has to be assessed along underlying trends: global business lines witnessed falling volumes of activity in the current challenging environment and call for strategic adaptations ; others faced the need to focus on operational improvements (to manage costs and streamline processes) ; finally some former acquisitions or equity stakes turned out to be highly unsuccessful in 2012 but, looking forward, it can be considered that banks have cleaned their accounts (e.g. goodwill write-offs) and have taken their losses.

Profits in 2012 were indeed particularly affected by exceptional items (see Table 2) **that must be set aside to appropriately assess underlying operating performance** (see Table 3).

Table 2 Exceptional items

in EUR billions	2011	2012
Impact on NBI	**1.8**	**-5.4**
o/w own debt adjustment	3.3	-4.8
o/w adaptation plans	-0.6	-1.1
o/w other items	-0.9	0.5
Impact on operating expense	**0.6**	**0.0**
o/w adaptation plans	0.9	0.0
o/w other items	-0.3	0.0
Impact on cost of risk	**7.1**	**0.4**
o/w Greek debt impairment	7.1	0.4
Impact on other gains and losses	**-3.9**	**-8.6**
o/w goodwill impairments	-3.9	-5.9
o/w disposals	0.0	-2.7
Impact on tax(*)	**-2.1**	**-1.7**
Impact on profit after tax	**-7.6**	**-12.6**

Source: financial disclosures of the top 6 French banking groups (BNPP, SG, GCA, GBPCE, GCM, LBP), SGACP calculations
Note : (*) The tax adjustment is an indicative estimation based on a normative 36.1% tax rate for standard operations (corresponding to the 33.33% French corporate tax rate on top which 3.3% for contribution sociale de solidarité and 5% for additional exceptional contribution were applied) and on the tax regime for specific operations (e.g. disposals of equity stakes).

The distinction between exceptional and current operations is a recurring and essential question for financial analysis and, as such, it is usually made explicit by companies themselves in their financial disclosures. There is generally a broad consensus on the main exceptional items but some operations may leave room for interpretation. For the 2012 results, in this paper the line was drown by the Secretariat general of the ACP around 5 main categories of exceptional items: own credit adjustments (see Box 1), losses related to the Greek sovereign debt, post crisis adaptation plans, gains and losses on disposals of discontinued operations, and goodwill write-offs, when they appeared as exceptional in its judgment.

Table 3 Income statement reported vs. pro forma key indicators

in EUR billions	2011	2012	2012/2011 Reported	*2012/2011 Pro forma*
Net banking income	**143.9**	**140.3**	**-2.4 %**	***-7.3 %***
Operating expense	93.6	93.5	-0.1 %	*-0.8 %*
Cost-to-income ratio	65.1 %	66.6 %	+1.5 pts.	*+4.6 pts.*
Gross operating income (GOI)	**50.2**	**46.9**	**-6.7 %**	***-19.4 %***
Cost of risk (CR)	15.5	15.8	1.8 %	*-28.6 %*
Operating income (GOI-CR)	**34.8**	**31.1**	**-10.5 %**	***-12.1 %***
Gains and losses on other assets	1.2	5.7	359.2 %	*10.7 %*
Pre-tax income	36.0	32.8	-8.9 %	*-14.4 %*
Tax	11.9	10.3	-14.1 %	*-13.1 %*
Net income	**24.1**	**22.5**	**-6.3 %**	***-39.6 %***

Source: financial disclosures of the top 6 French banking groups (BNPP, SG, GCA, GBPCE, GCM, LBP), SGACP calculations
Note: Table 3 = Table 1 –Table 2

Net banking income (NBI) was negatively and significantly affected by own credit adjustments, which, paradoxically, reflected the improvement of market perception on French banks financial strength (see Chart 48). Setting that effect aside,

NBI experienced between 2011 and 2012 a fall limited to 2 % vs. 7.3 % before correction.

The trend in the cost of risk displays an inversion after correction: the -29 % drop standing directly from financial reports becomes a moderate +2% increase after correcting for impairment on Greek debt in 2011.

Finally, the severe fall of -40 % of net income is brought back to a mere -6% decrease if exceptional items are set aside.

Box 1. Own debt adjustment

Several French banks, as well as other large international banks, publish some of their financial liabilities at fair value in accordance with IFRS (International Financial reporting standards) and the banks' accounting principles.

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

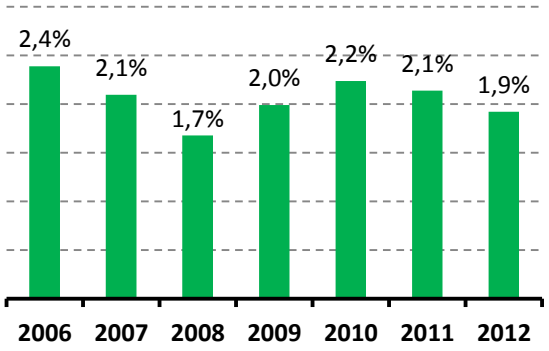
These provisions generate artificial volatility in P&L without real economic relevance. Therefore, for the computation of regulatory solvency ratios, banks are required to derecognise in their Equity Tier 1, all unrealised gains and losses that resulted from changes in the fair value of liabilities that were due to changes in their own credit risk.

1.2 Key financial indicators

1.2.1 Diminution of the Net Banking Income (NBI)

NBI decreased in volume in 2012, either with or without exceptional items (cf. *supra*). As a proportion of the year-on-year average of total assets, it has remained on a declining trend since 2010 (Chart 1): it reached 1.9 % at end 2012 after a 2.2 % peak two years earlier. However it stood well above the December 2008 trough, at the heart of the financial crisis.

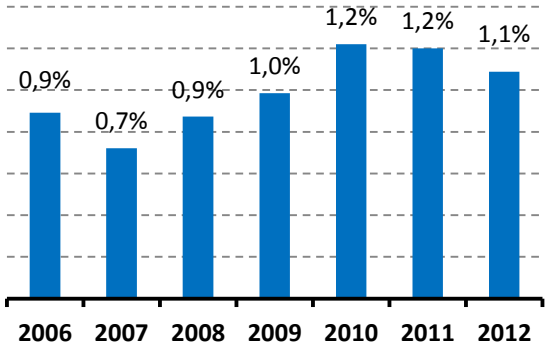
Chart 1 NBI / total assets



Source: financial disclosures of the top 6 groups

Looking at the main components of NBI, net interest income as well as net fees and commissions declined in volume in a prolonged low interest rate environment and a challenging economic situation. As a percentage of year-on-year average total assets, the (annualised) net interest margin has been slightly decreasing from 1.2 % at end 2011 to 1,1 % at end 2012 (Chart 2), but it stayed well above the lowest level it had reached at the height of the financial crisis (0.7 % in 2007).

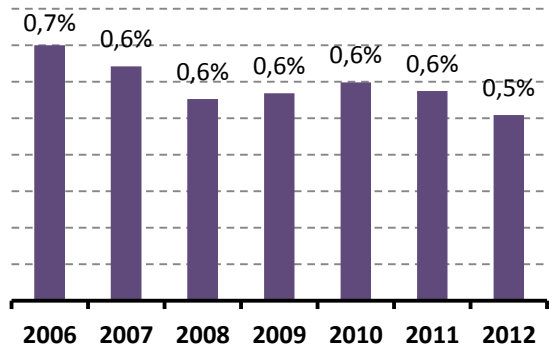
Chart 2 Net interest income / total assets



Source: financial disclosures of BNPP, SG, GCA, GBPCE and LBP (GCM 2012 data were not yet available)

Similarly, (annualised) net fees and commissions as a percentage of total assets fell by 6 basis points (bps) compared with 2011, reaching their lowest since 2006.

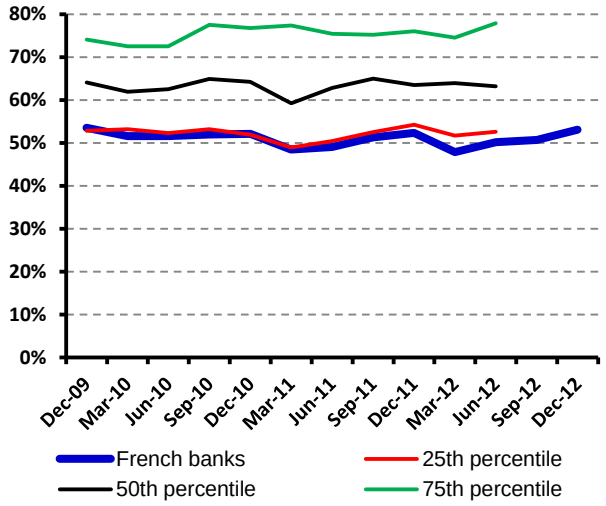
Chart 3 Net commissions and fees / total assets



Source: financial disclosures BNPP, SG, GCA, GBPCE and LBP (2012 public data were not yet available for GCM)

The Key Risk Indicators (KRI) disclosed by the European banking authority (EBA)[1] show that French banks generates less revenues from interest intermediation than other large European banks (Chart 4), whereas fees and commissions represent a larger share of their net banking income (Chart 5).

Chart 4 Net interest income / NBI (KRI)



Source: ACP (FINREP[2]) and EBA (KRI 26, main European banks)

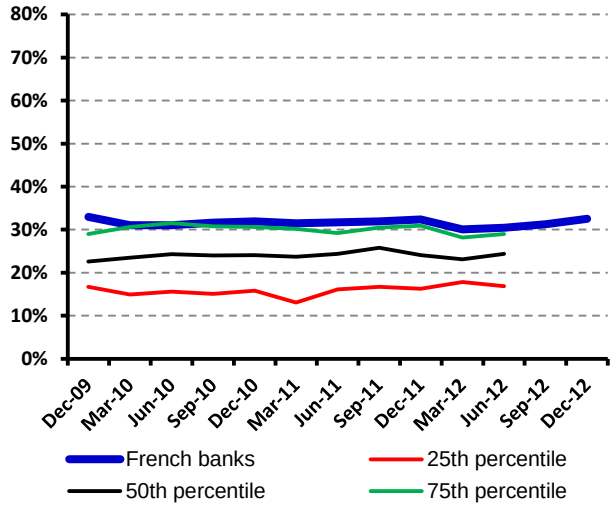
[1] See European Banking Authority (2013a), *Risk Assessment of the European Banking System* and Annex 1

[2] FINREP refers to the harmonised European consolidated reporting framework for supervisory purposes. FINREP is based on IFRS. While it is close to publicly reported financial statements (notably, all foreign operations shall be included), it differs as to the scope of consolidation, which, under FINREP, is the Capital Requirements Directive scope. Notably, under FINREP, insurance subsidiaries are consolidated using the equity method instead of full consolidation. Moreover, asset disposals and risk transfers are assessed with regard to the nature of the risk transfer.

In an environment of prolonged low interest rates and depressed demand for credit, the decrease of net interest income is likely to last on the medium term all the more so as banks have been adapting to the liquidity coverage ratio (LCR), through an increase in customer deposits on the liability side the build-up of liquid, but low yielding, assets (sovereign bonds purchase and deposits with central banks) on the asset side.

Similarly, net commissions are expected to remain under continuing pressure as a consequence, on the one hand, of reducing corporate and investment banking activities and, on the other hand, of a stricter regulation on commissions charged to households in retail banking.

Chart 5 Commissions and fees / NBI (KRI)



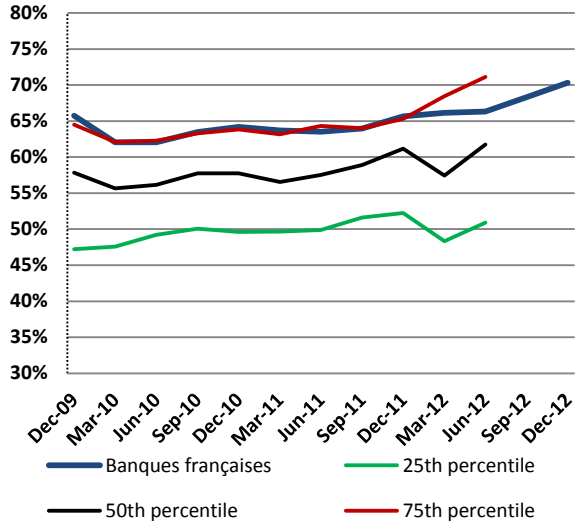
Source: ACP (FINREP) and EBA (KRI 27, main European banks)

1.2.2 An increasing cost-to-income ratio

Operating expenses fell by 1% between 2011 and 2012 but the control of costs was not sufficient to outweigh decreasing revenues. The average cost-to-income ratio (representing the ratio of operating expenses to NBI) climbed therefore to 69.3 % in 2012 (before adjustments for exceptional items, cf. infra), i.e. a 4.6 percentage points increase compared with 2011. Setting exceptional items (such as own credit adjustments) aside, the cost-to-income ratio stood at 66.6% in average in 2012.

Nevertheless French banks cost-to-income ratio is globally higher than that of other large European banks (Chart 6).

Chart 6 Cost-to-income ratios of the main European banks (KRI)



Source: ACP (FINREP) and EBA (KRI 24, main European bank

Note: Cost-to-income ratios in the above chart are based on data from regulatory financial reporting (FINREP), used to compute the Key Risk Indicators of EBA. They offer slight differences with cost-to-income ratios reported in banks financial disclosures. These differences mainly come from disparities in the way that certain subsidiaries are consolidated for accounting versus for regulatory purposes: companies under the exclusive control of the banking group are fully consolidated in accordance with IFRS while the equity method is required for regulatory purposes when the subsidiary's activities are not an extension of banking or connected financial activities. The equity method is notably applied to insurance undertakings.

This graph does not include adjustments for exceptional items.

The higher level of cost-to-income ratios for French banks has several explanations, one of them relating to tight interest margins especially on mortgage loans (which can however be put in relation with low level of incurred risks, as evidenced over the long term, on these loans). Furthermore, the regulation on consumer credit has been recently strengthened when the relevant European directive was transposed in France so that interest rates have been more strictly bound. In addition the law of separation and regulation of banking activities (draft-law currently discussed in Parliament when this article was written) may also include additional measures of consumer protection, notably by introducing a ceiling on fees when they are charged to households, especially those in fragile situations, for unauthorised overdrafts or other unauthorised operations. Other explanations can also be put forward such as the ramified network of retail banking which is costly but provides a better level of service to clients and a more lasting customer relationship.[3] Payments by check,[4] although they have been steadily decreasing, remain widespread and still generate a certain burden for the French banking sector.

As a consequence, banks have to step up efforts to improve their cost-to-income ratios. This need has been clearly identified and banks have announced plans to streamline their organisation and cut costs, in retail banking as well as in corporate and investment banking. As an illustration of this:

- BNP Paribas launched a 3-year EUR 1.5 billion programme named « Simple & Efficient » and designed to simplify its functioning and improve operating efficiency in order to achieve cost savings starting in 2013 and which are expected to reach EUR 2 billion a year as of 2015. About half of these savings are expected to come from retail banking and a third from CIB;
- In addition to the adjustments plans of CACIB and Crédit Agricole Consumer Finance (CACF), Crédit Agricole Group launched a cost reduction programme named « MUST » aiming at saving EUR 650 million costs by 2016 in the areas of IT, procurements and real estate across the entire group;
- Société Générale initiated a cost control plan aiming at additional savings of around EUR 900 million by 2015 (i.e. a total of EUR 1.45 million over the 2012-2015 period). This plan should require around EUR 600 million of transformation costs and investments over the period;
- BPCE programme *« Together 2010-2013 »* has already generated more than EUR 950 million savings.

1.2.3 In spite of declining gross figures, the underlying cost of risk actually slightly increased.

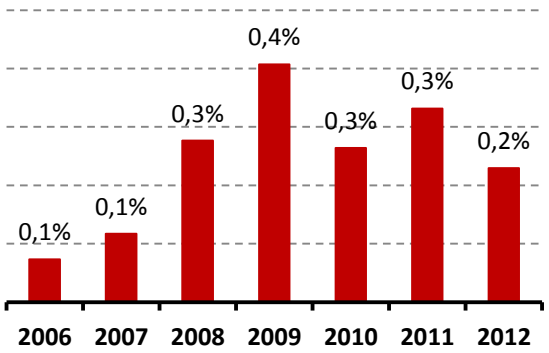
Cost of risk[5] stood at EUR 16.1 billion in 2012, apparently plunging by 28.6% compared with 2011 on year-on-year reported figures. Although it remained at a substantially higher level than at the beginning of the crisis, as a percentage of total assets (Chart 7), it stood at half of the peak that was reached at the end of 2009, a year marked by an important recession in many countries

[3] Pauget G., Contans E. (2010), *Rapport sur la tarification des services bancaires*

[4] France ranks first in Europe for the use of check ; see Edgar, Dunn & Company pour le Comité consultatif du secteur financier (2011) : *L'utilisation du chèque en France*

[5] Cost of risk includes allocation, net of reversals, to provisions and to impairment for credit/counterparty risk on loans and receivables, financing and guarantee commitments and fixed income securities. Cost of risk includes as well the amount of loans considered uncollectible and the amount of recoveries on loans written off.

Chart 7 Cost of risk / total assets



Source: financial disclosures top 6 banks

But the apparent fall in the cost of risk in 2012 comes from the fact that French banks had been significantly affected by impairments on Greek sovereign debt in 2011. Setting that exceptional event aside, cost of risk actually slightly rose (+2 %) between 2011 and 2012.

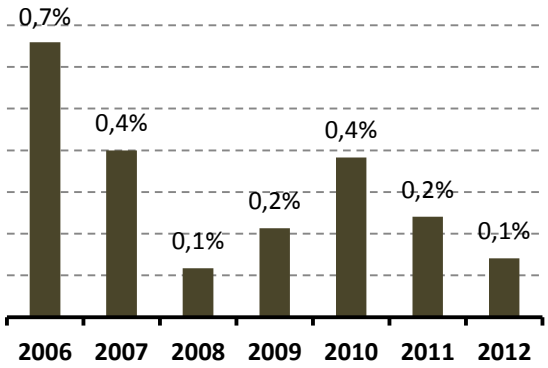
1.2.4 Net income was substantially affected by numerous disposals.

2012 results were significantly affected by gains and losses on disposals and goodwill impairments.[6] Indeed, since the beginning of the crisis, French banks have generally been focusing on core businesses and domestic markets (as illustrated by GCA and SG disposal of their respective Greek retail banking subsidiaries Emporiki and Geniki ; SG sold as well its Egyptian retail banking subsidiary National Société Générale Bank (NSGB). In corporate an investment banking, GCA sold CL Securities Asia (CLSA). In asset management, SG sold Trust Company of the West (TCW). BNPP sold its equity stake in Klepierre). If the exceptional items are set aside, the underlying profit after tax decreased more moderately, down -6 % between 2011 and 2012 (cf. supra 1.1).

Against this backdrop, reported net income of the top 6 French banks was substantially down, in absolute as well as in relative terms: as a percentage of total assets, it bottomed out at end 2012 since the beginning of the financial crisis

[6] Goodwill, cautiously considered as having no real value for supervisory purposes, is deducted from Tier 1 capital. Therefore, subsequent changes in goodwill, such as the impairments that were recorded in 2012, have no impact on solvency ratios.

Chart 8 Return on Assets



Source: financial disclosures of the top 6 French banks

As a percentage of equity it decreased as well reaching approximately the same level as 2008.

1.3 Performance by operational business lines

Box 2. Evaluating performance by global business lines

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

However, in accordance with IFRS 8, this information is reported on the same basis as is used internally for evaluating operating segment performance. As a consequence, information can be very heterogeneous from one group to another, making comparisons rather difficult.[7] Therefore, certain adjustments were made in order to provide a homogeneous presentation. Figures in the following tables and charts may slightly differ from those in the financial disclosures of individual banks. For instance, insurance has been included in the global asset management business line for the overall 6 banks whereas this classification may differ depending on banks (some institutions include insurance in specialised financial services, while others put it in asset management).

In this analysis by major business lines, key financial indicators refer to gross figures reported in banks financial disclosures without adjustments because it has not always been possible to break down exceptional items by business lines.

Since the beginning of the financial crisis, French banks have reconsidered their business model and have rebalanced their activities. The share of retail banking has been increasing so that it

[7] See Autorité de Contrôle prudentiel (2011a), *Les chiffres du marché français de la banque et de l'assurance 2011*

represented almost 70 % of NBI in 2012. The share of CIB has been brought down back to 18% of NBI, while asset management represented 14% of NBI; the rest corresponded to other operations that were not related to a specific business line but concerned the group as a whole, such as own credit adjustment. In comparison, in 2006, before the outburst of the financial crisis, retail banking accounted for 58% of total NBI of BNPP, SG and GCA, while CIB and asset management respectively made for 27% and 15% of NBI.[8]

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8 See Commission bancaire (2006), Rapport annuel de la Commission bancaire

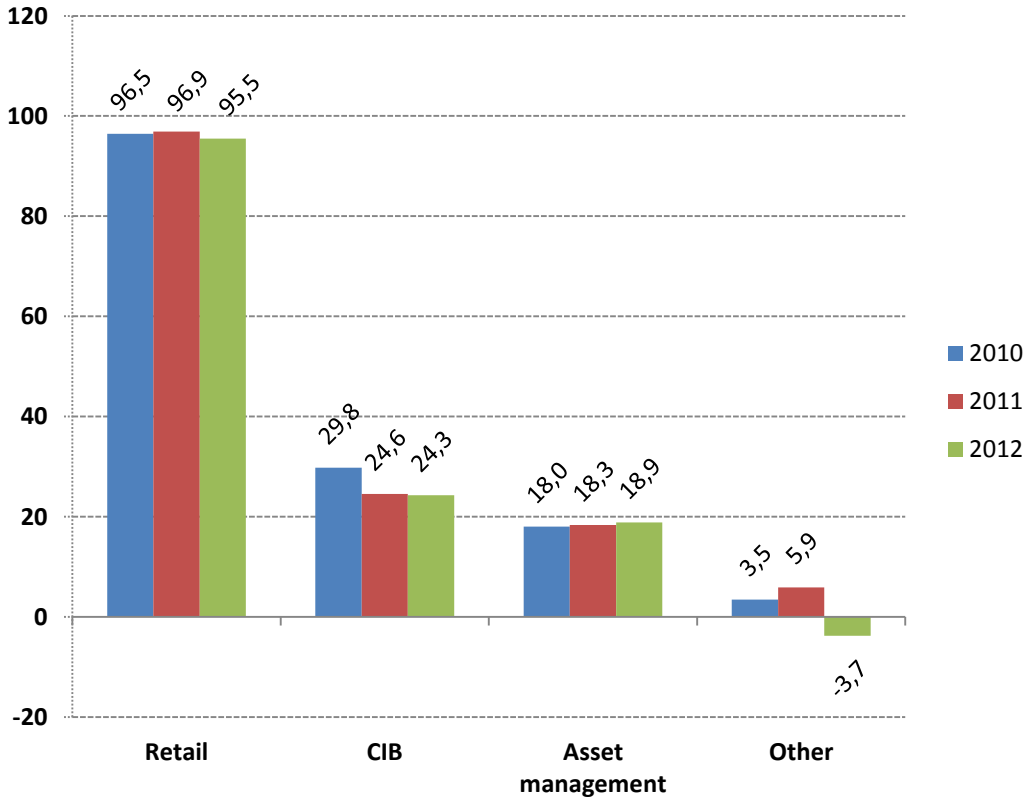
Table 4 Income statement key indicators by business lines

in EUR billions	Retail banking			CIB			Asset management			Other		
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012
NBI	96.5	96.9	95.5	29.8	24.6	24.3	18.0	18.3	18.9	3.5	5.9	-3.7
Cost-to-income ratio	61.6%	62.3%	64.1%	56.3%	66.5%	66.3%	63.7%	64.5%	61.3%	ns	ns	ns
Gross operating income	37.4	37.4	34.5	13.0	8.5	7.9	6.4	7.2	6.3	-2.3	-1.6	-7.1
Cost of risk	15.2	15.2	13.1	2.0	2.0	1.8	-0.2	1.1	0.1	0.4	4.3	1.1
Operating income	22.2	22.2	21.4	11.0	6.5	6.1	6.6	6.1	6.2	-2.7	-5.9	-8.3

Source: financial disclosures of the top 6 French banking groups and SGACP calculations for business lines allocations

Note: Indicators are not adjusted for exceptional items. The « Other » category refers to items that concern the group as a whole without being related to a specific business line. It includes some large exceptional items (e.g. goodwill impairments).

Chart 9 Net banking income breakdown by business lines (EUR billions)



Source: financial disclosures of the top 6 French banking groups and SGACP calculations for business lines allocation

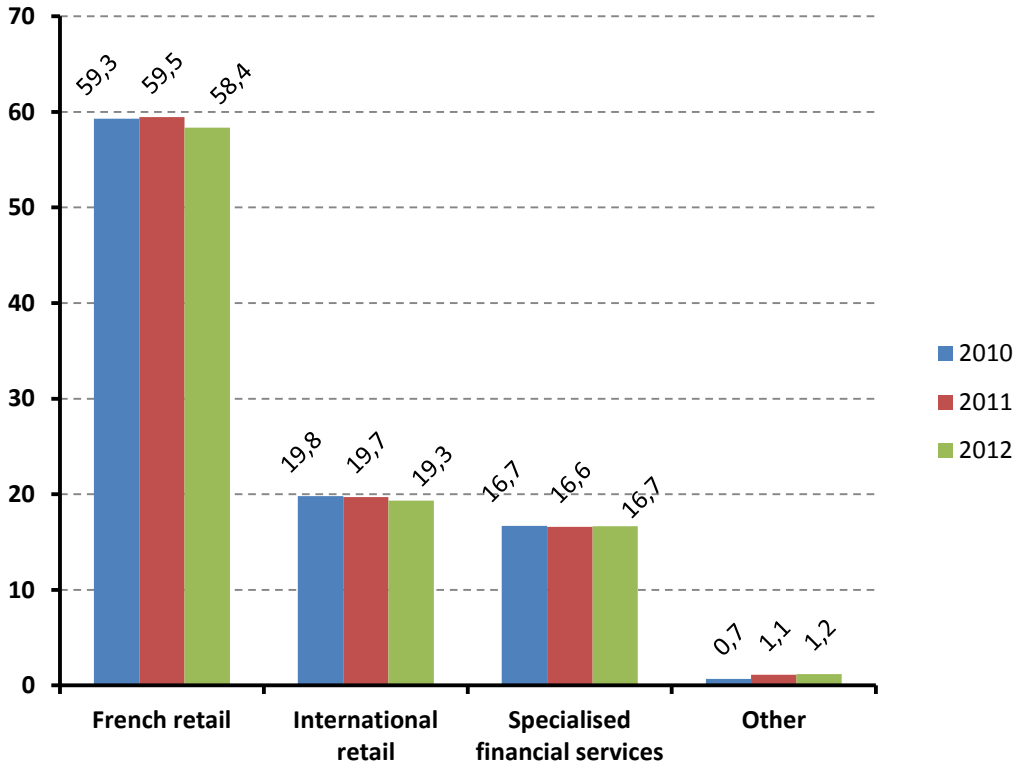
More in detail, business lines performance can be further broken down:

- For retail banking, into French retail banking, international retail banking and specialised financial services;
- For CIB, into corporate banking (which provides advisory services as well as global finance activities including structured financing especially for large corporates) and investment banking (which provides clients with access to the different markets and also includes the activities of proprietary trading).

NBI for **retail banking** slightly declined (-1.4 %) between 2011 and 2012. More in detail, the volume of activity remained stable in French retail networks but the slowing economic environment put pressure on loan interest margins and commissions.

Adjusting for changes in the group structure (to take into account the exit from retail banking in Greece), international retail banking showed a good resilience in central and eastern Europe (with the exception of Romania) and in Italy as well, despite the economic slowdown. Furthermore, revenues from specialised financial services (which group together consumer credit, factoring and leasing) remained stable.

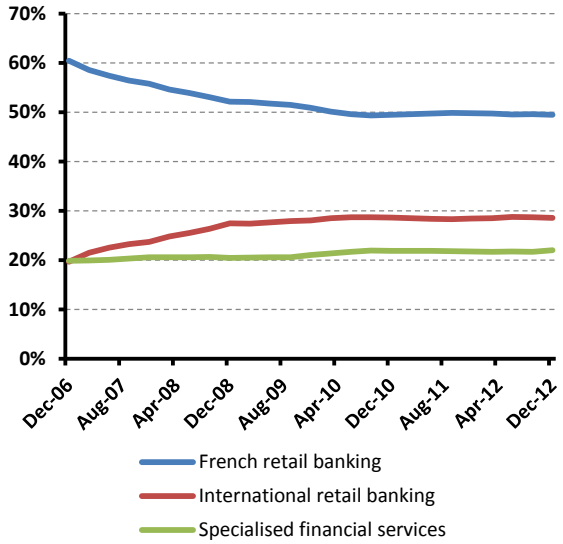
Chart 10 Retail banking: breakdown of net banking income (EUR billions)



Source: financial disclosures of the top 6 banks

The revenue structure of retail banking has slightly changed over a longer period (Chart 11): Whereas French retail banking contribution has gradually diminished by 10 percentage points between 2006 and 2010 and levelled off since, the share of international retail banking has increased more or less by the same amount until the end of 2008 and has remained flat since then. Finally the share of specialised financial services slightly increased in 2010.

Chart 11 Retail banking : Net Banking Income structure

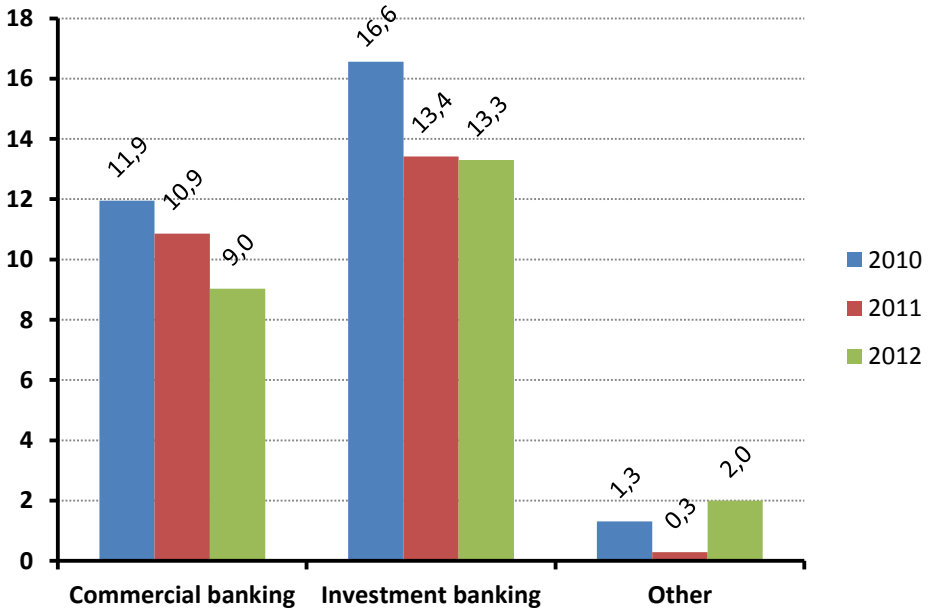


Source: financial disclosures of BNPP, SG and GCA

Total NBI of **corporate and investment banking** of the top 4 French banks (GCM and LBP do not disclose a CIB business line in their financial reports), including legacy assets, decreased slightly, down -1 % between 2011 and 2012. NBI fell substantially (-14.4 %) in commercial banking, while investment banking posted more stable revenues (-0.7 %).

Confronted with the increased constraints of the new regulatory and operating landscape, especially concerning EUR and USD funding, French banks have been rebalancing their activities and focusing on their core strengths, while disposing of non-core assets and, for certain banks, closing down market activities that had been the sources of significant losses during the financial crisis. As a consequence, it can be observed that the value-at-risk of the major French banks, which is one measure of their exposure to market, has remained on a declining trend (see Chart 39 and Chart 40). Furthermore, in the commercial banking business, French banks have been increasingly referring to the development of an “originate to distribute” model.

Chart 12 Corporate and investment banking: breakdown of net banking income - excl. GCM and LBP (EUR billions)

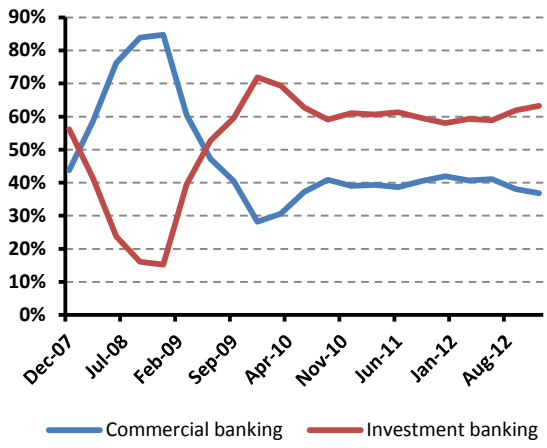


Source: financial disclosures of BNPP, SG, GCA and GBPCE

On the long-run, commercial and investment banking respective contributions display only limited evolutions. Commercial banking, which represented a little less than 40 % of total NBI of CIB at end 2012 vs. a bit more than 40% at the beginning of the financial crisis, lost overall a little ground to investment banking. The sharp swings than were observed between 2007 and 2009 are mostly related to the large fluctuations of market activities revenues during the crisis. Conversely, the slight increase of the contribution of investment banking activities to NBI since mid-

2012 reflects the rebalancing of commercial banking.

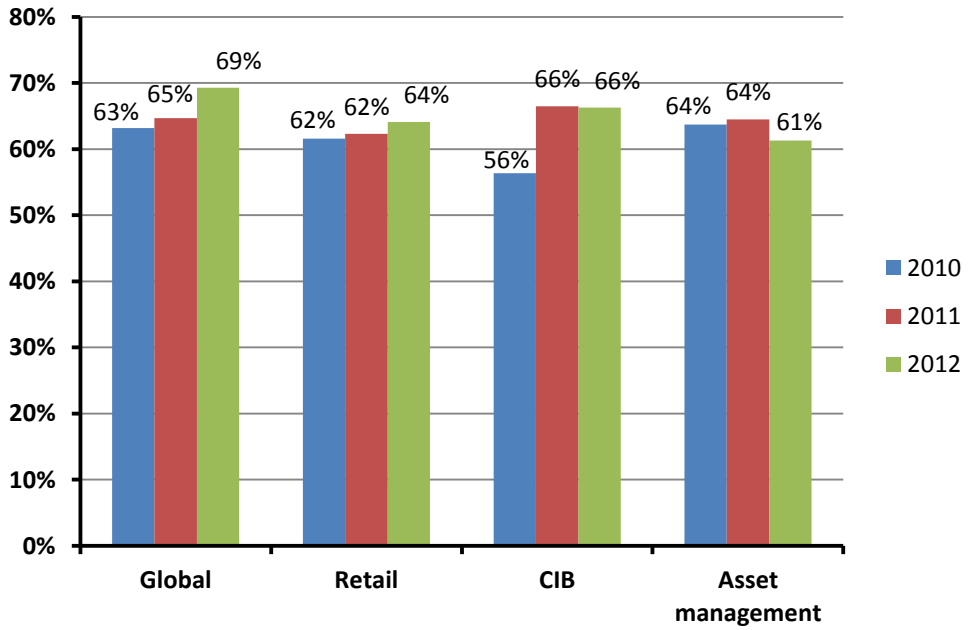
Chart 13 Corporate and investment banking : Net Banking Income structure



Source: financial disclosures of BNPP, SG and GCA

Cost-to-income ratios (without adjustment for exceptional items) reflected deterioration in retail banking while the CIB ratio also remained high.

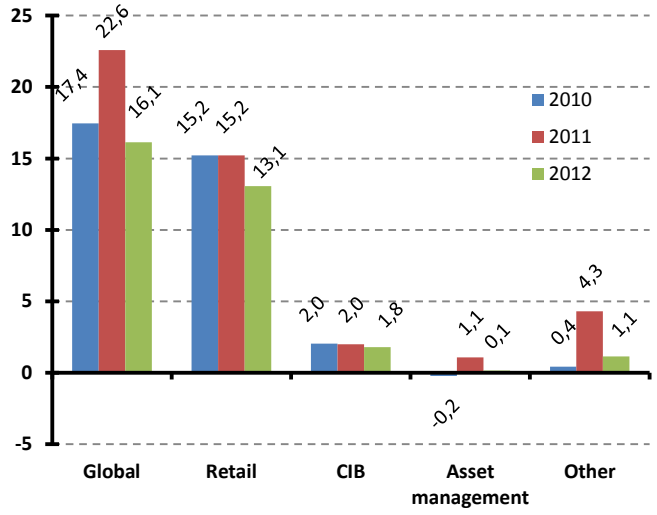
Chart 14 Cost-to-income ratio by business line



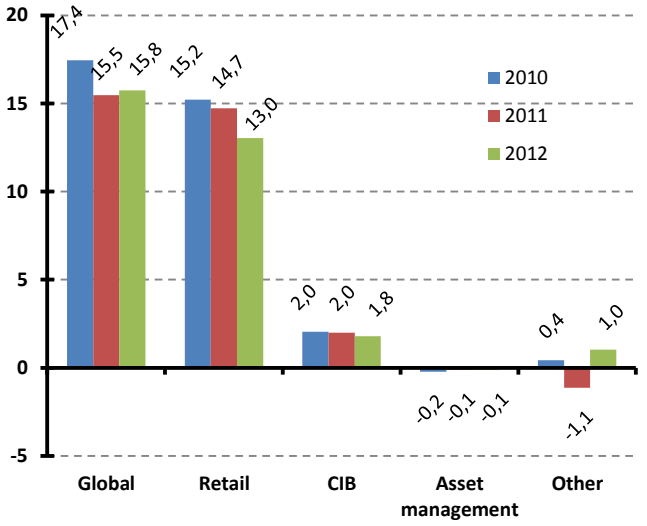
Source: financial disclosures of the top 6 banks

Cost of risk might appear to plunge in 2012 in the different business lines (Chart 15), but (see 1.1) this is essentially due to the comparison with 2011, which included impairments on Greek sovereign bonds (see category « Other » in Chart 15). Adjusting for the exceptional items (Chart 16), cost of risk in retail banking was in fact almost stable in 2012, slightly growing. The seeming fall in the cost of risk in retail banking resulted from the exit from certain geographic area (notably the disposal of Greek subsidiaries). Overall cost of risk in retail banking resulted from opposite evolutions depending on geographic areas and activities, but overall a gradual increase of the cost of risk has been felt in 2012.

Chart 15 Reported cost of risk (EUR billions)



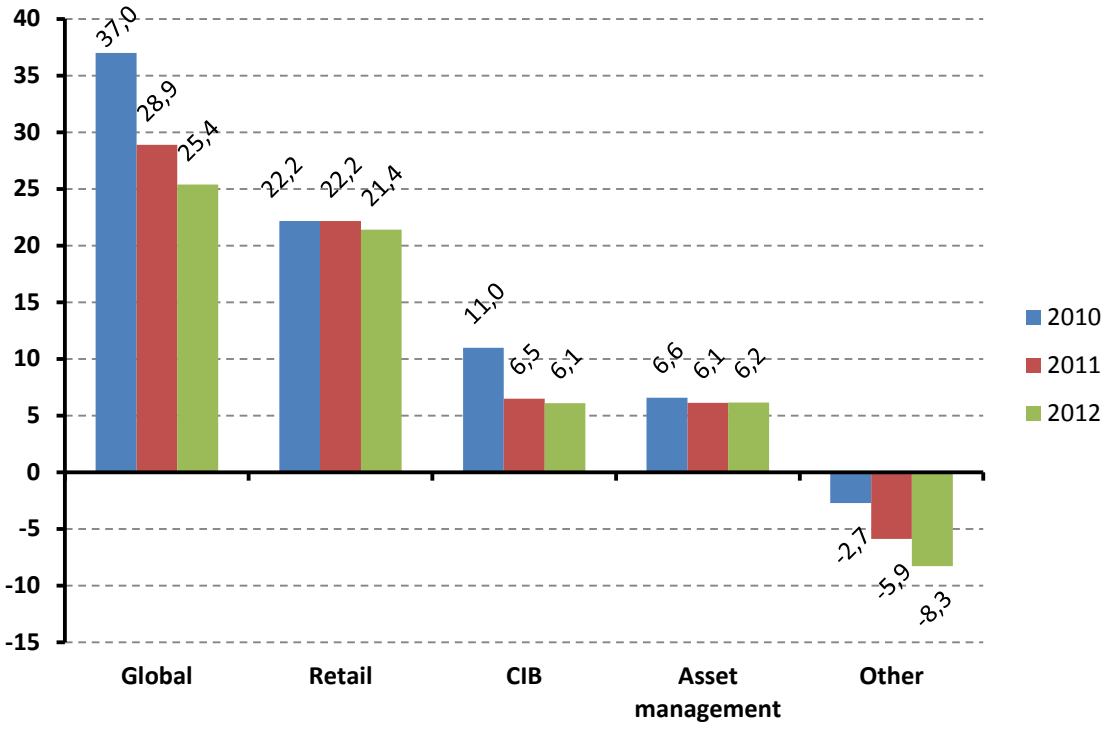
hart 16 Cost of risk, excluding exceptional items (EUR billions)



Source: financial disclosures of the top 6 banks and SGACP calculations

Net operating income fell in CIB as well as in retail banking so that **asset management** became the second contributor to net operating income after retail banking.

Chart 17 Operating income by business lines (EUR billions)



Source: financial disclosures of the top 6 banks

Indeed **insurance business** (which was included in the asset management and savings global business line for this study) represents a growing part of NBI, from 4.4% in 2009 to 6.2 % in 2012,

for BNPP, SG, GCA and GCM. In a challenging economic environment for other business lines, the share of insurance activities in operating income even increased proportionally even though insurance businesses supported a strong cost of risk in 2011 due to the Greek crisis as well.

Chart 18 Insurance NBI/ total NBI

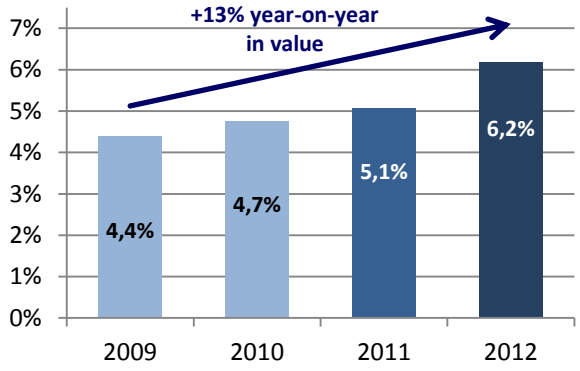


Chart 19 Insurance operating income / total operating income

Source : financial disclosures of BNPP, SG, GCA and GCM

In the life insurance business, where French banking groups have developed for a long time large dedicated subsidiaries, the market as a whole witnessed net outflows in the second half of 2011 and all along 2012.[9] However, in a market environment of strong competition for gathering household savings, bancassurance groups delivered strong performances. The lifting of the ceiling on regulated tax-exempt savings accounts (Livret A and Livret de Développement Durable) in October 2012 and January 2013 did not lead to any significant surrender increase.

2. Risks

Note: Unless told otherwise, the scope in this part covers BNPP, SG, GCA, GBPCE and GCM in accordance with the scope in 2011.

2.1 Balance sheets structure

After a 4.4 % increase between 2010 and 2011, the total balance sheet of the top 5 banks rose further, up 2.2 % in 2012. This trend, which may seem relatively counter-intuitive in a period when most banks have been striving to deleverage, masks however changes in the balance sheet structure.

The strong growth of "cash and balances at central banks", which explained most of total balance sheet increase, reflects the attention dedicated by banks to keep sufficient liquidity buffers in an uncertain market environment and in the prospect of the coming implementation of the Basel IIII liquidity ratio (LCR).

The two main components of assets ("loans and advances" and "financial assets held for trading") showed diverging evolutions (respectively -3.9 % and +4.6 %). While the reduction of loans to retail clients was relatively modest (-0.9 %), loans to large companies were substantially down (-5.1 %), either because certain corporations may have suffered from a possible tightening of credit conditions or because they took profit from sometimes better funding conditions directly on the market than those offered by banks. The decrease in outstanding loans was even larger for other categories of borrowers, mainly public sector entities and credit institutions (-8.6 %).

The liability structure on the contrary remained relatively constant. The two main categories (« customer deposits » and « financial liabilities held for trading ») remained almost unchanged compared with previous year in spite of the growth of regulated tax-exempt savings. Moreover the substantial growth of consolidated equity and the closely related decrease of subordinated debt clearly showed the steady strengthening in quality and quantity of banks common equity tier 1.

[9] See *L'évolution des flux de placements financiers des ménages français et son incidence sur les groupes de bancassurance*, Analyses et Synthèses n°10, December 2012

Table 5 Total balance sheet of the top 5 French banks (EUR billions)

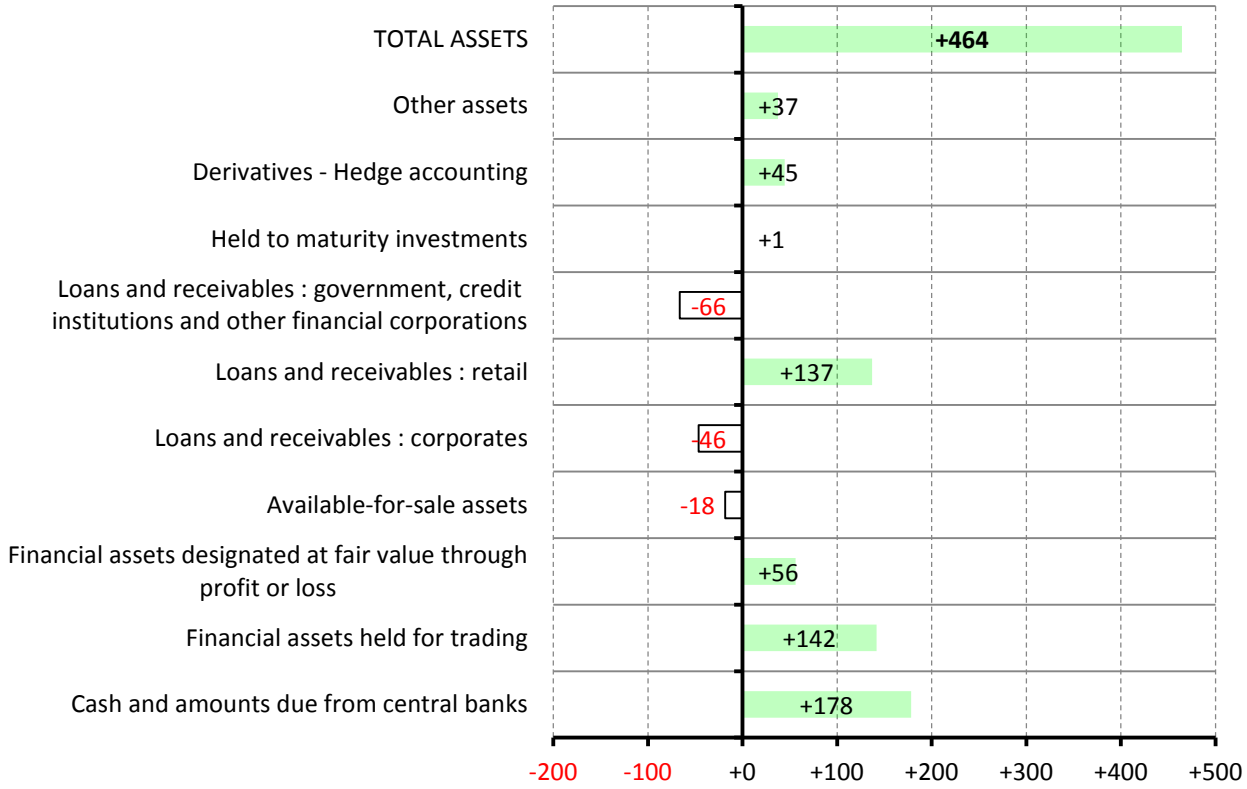
in EUR billions	2011	2012	2012/2011 Evolution	2012 Structure
ASSETS				
Cash and amounts due from central banks	183.7	316.4	72.3%	5.0%
Financial assets held for trading	1 750.1	1 829.8	4.6%	29.0%
Financial assets designated at fair value through profit or loss	93.5	124.2	32.8%	2.0%
Available-for-sale assets	373.8	370.1	-1.0%	5.9%
Loans and receivables : corporates	1 050.4	996.4	-5.1%	15.8%
Loans and receivables : retail	1 480.8	1 467.1	-0.9%	23.2%
Loans and receivables: government. credit institutions and other financial corporations	631.0	576.7	-8.6%	9.1%
Held to maturity investments	20.9	20.3	-3.1%	0.3%
Derivatives - Hedge accounting	70.8	88.0	24.2%	1.4%
Other assets	519.7	524.7	1.0%	8.3%
TOTAL ASSETS	**6 174.7**	**6 313.6**	**2.2%**	**100.0%**
LIABILITIES				
Financial liabilities held for trading	1 685.3	1 680.0	-0.3%	26.6%
Financial liabilities designated at fair value through profit or loss	168.5	176.7	4.8%	2.8%
Derivatives - Hedge accounting	80.0	93.4	16.7%	1.5%
Deposits : credit institutions	526.6	468.4	-11.0%	7.4%
Deposits : other than credit institutions	2 209.8	2 214.1	0.2%	35.1%
Debt securities issued	795.3	859.4	8.1%	13.6%
Provisions	25.1	26.6	5.6%	0.4%
Subordinated debt	88.6	71.5	-19.3%	1.1%
Capital attributable to shareholders	271.3	294.5	8.5%	4.7%
Other liabilities	324.1	429.1	32.4%	6.8%
TOTAL LIABILITIES	**6 174.7**	**6 313.6**	**2.2%**	**100.0%**

Source: FINREP – FIN1 Table

Over a longer period, from 2009 to 2012, balance sheets of the major French banks increased by almost 8 % (+EUR 464 billion):

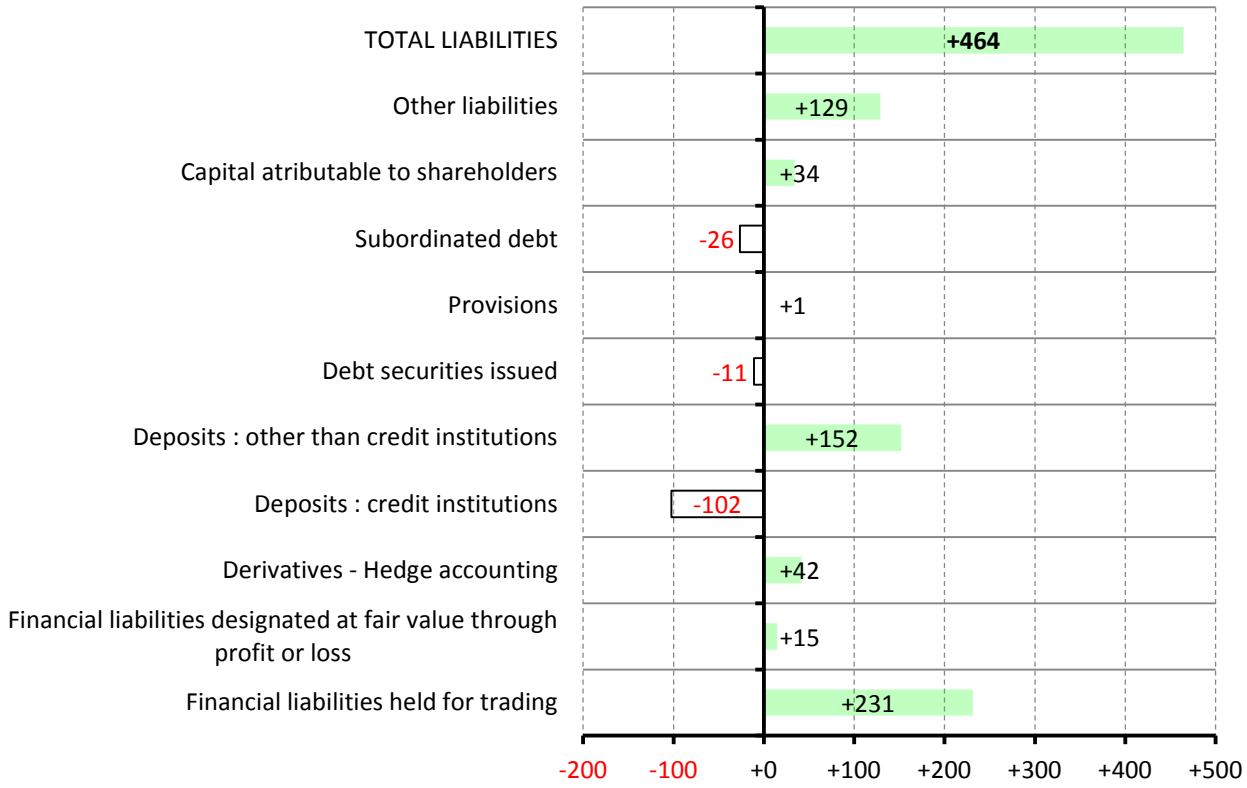
- On the asset side (Chart 20), this growth mainly came from cash and balances at central banks, which have almost doubled since 2009 (+EUR 178 billion or +129 %), financial assets held for trading (EUR 142 billion or +8.4 %), and retail loans, which have dynamically grown (+EUR 137 billion or +10.3 %), unlike loans to other borrower types.
- On the asset side (Chart 21), the increase of financial liabilities held for trading (+EUR 231 billion or +16 %) explained half of the total balance sheets growth. Customer deposits have also substantially grown (+EUR 152 billion or +7.4 %).

Chart 20 Main asset structure from 2009 to 2012 (EUR billions)



Source: FINREP – FIN1 table

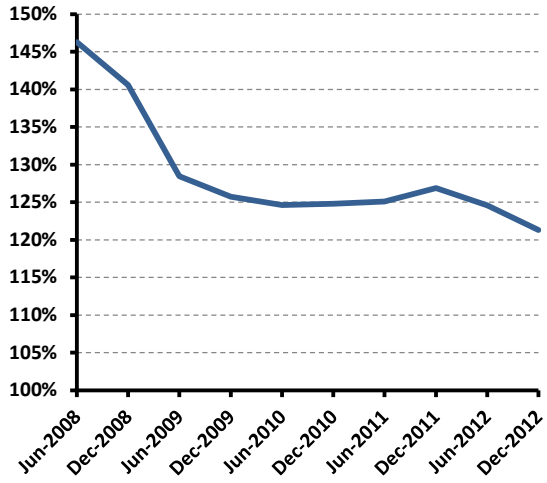
Chart 21 Main changes in liability structure from 2009 to-2012 (EUR billions)



Source: FINREP – FIN1 table

Substantial increase of customer deposits and selective deleveraging actions that focused on US dollar denominated activities and structured finance[10] allowed a significant improvement of loan-to-deposit ratios. However, for French banks, this indicator has remained in the upper range among European peers. This situation is notably explained by the volume of off-balance sheet savings, which include life insurance policies and investment funds. Another specificity of the French banking system relates to the fact that a large portion of funds collected by banks on regulated tax-free savings accounts has then to be transferred at the Caisse des Dépôts et Consignations.

Chart 22 Loan-to-deposit ratio

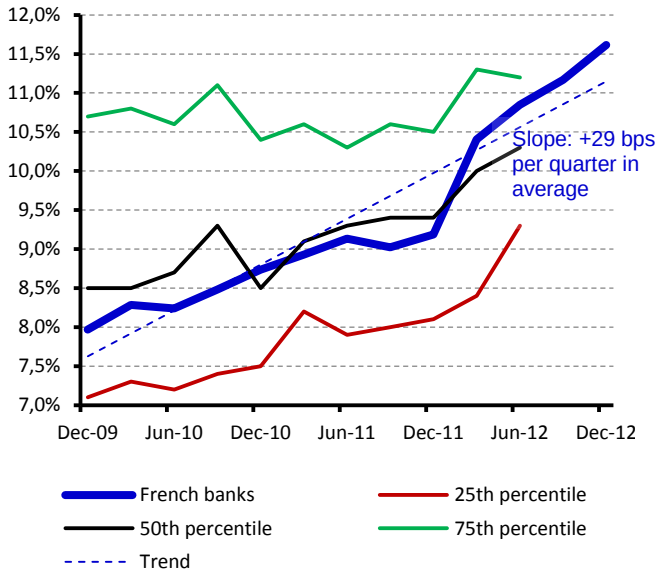


Source: FINREP (BNPP, SG, GCA, GBPCE, GCM and LBP)
Note: customer loans (excl. credit institutions) / customer deposits (excl. credit institutions) - without adjustments for CDC centralisation

2.2 Solvency positions improved further.

French banks Core Tier 1 ratios have been regularly climbing: calculated under Basel 2.5 since the end of 2011,[11] solvency ratios have been significantly strengthened following the financial crisis (on average, Core Tier 1 has been growing by 29 basis points per quarter since the end of 2009) and, individually, Core Tier 1 ratios stand all above 10 %. Moreover, since the beginning of 2012 and the removal of the Basel I floor mechanism, which sometimes generated substantial increase in risk weighted assets (RWAs) for some of them,[12] French banks generally display a higher solvency ratios than their European peers, although international comparisons remain difficult due to national options and still differing progress in the international implementation of the Basel Committee strengthened standards.[13]

Chart 23 Core Tier 1 ratio of the main European banks



Source: FINREP and EBA (KRI 3, main European banks)
Note: For this comparison between European banks, Core Tier 1 is defined as Tier 1 less hybrids that are eligible to Tier 1.

This improvement of solvency ratios together with decreasing net income has kept return on equity (RoE) significantly below the levels that were reached before the crisis.

In 2012 market participants were informed of the results of the capital exercise that the European Banking Authority (EBA) had launched, aiming at addressing potential equity shortfalls of European banks taking into account the valuation of sovereign exposures in order to restore confidence in the banking sector. The modalities of this recapitalisation and funding exercise (which was approved on 26 October 2011 by the members of the European Council) consisted in

[10] Whereas the growth of loans to households and companies (excl. financial institutions) has remained more dynamic in France than in Europe in average (see *Bulletin de la Banque de France n° 191*)

[11] The large losses that international banks posted during the financial crisis led the Basel Committee to strengthen regulatory requirements regarding market risks through a package of measures known as Basel 2.5. These measures were implemented in Europe by the directive 2010/76/UE of 24 November 2010, also known as CRD III. See Autorité de Contrôle prudentiel (2011b), *La Revue de l'Autorité de Contrôle prudentiel*

[12] Until 31 December 2011, the transitional regulatory Decree was setting the floor for Basel 2.5 risk-weighted assets at 80% of the Basel 1 risk weighted assets (RWAs). Although, these transitional arrangements were not renewed as such in 2012, the Secrétariat général de l'Autorité de Contrôle prudentiel has been ensuring that Basel 2.5 RWAs remained above 80% of the Basel I RWAs.

[13] International progress in the implementation of Basel 2, Basel 2.5 et Basel 3 have been monitored by the Basel Committee for Banking Supervision and have been regularly disclosed. See BCBS (2013c), *Report to G20 Finance Ministers and Central Bank Governors on monitoring implementation of Basel III regulatory reform*

ensuring that the 71 main European banks had built a temporary capital buffer large enough to withstand significant shocks while still having sufficient net equity afterwards. To this end, banks were required to reach a 9% Core Tier 1 ratio by 30 June 2012, after the removal of the prudential filters on the sovereign assets in the available-for-sale portfolio and the conservative valuation of sovereign debt exposures in the held-to-maturity and loans and receivables portfolios, reflecting market prices as of 30 September 2011.

The final results were published by the EBA on October 3rd 2012 and showed that French banks had largely respected the goal of the exercise: for the 4 banks that were part of it (BNP Paribas, BPCE Group, Crédit Agricole Group and Société Générale), which represented more than 80 % of the French banking sector, the total equity shortfall had initially been estimated at EUR 7.3 billion. As of June 30th 2012, the 4 groups presented a total surplus of EUR 23.3 billion above the 9 % Core Tier One target ratio.

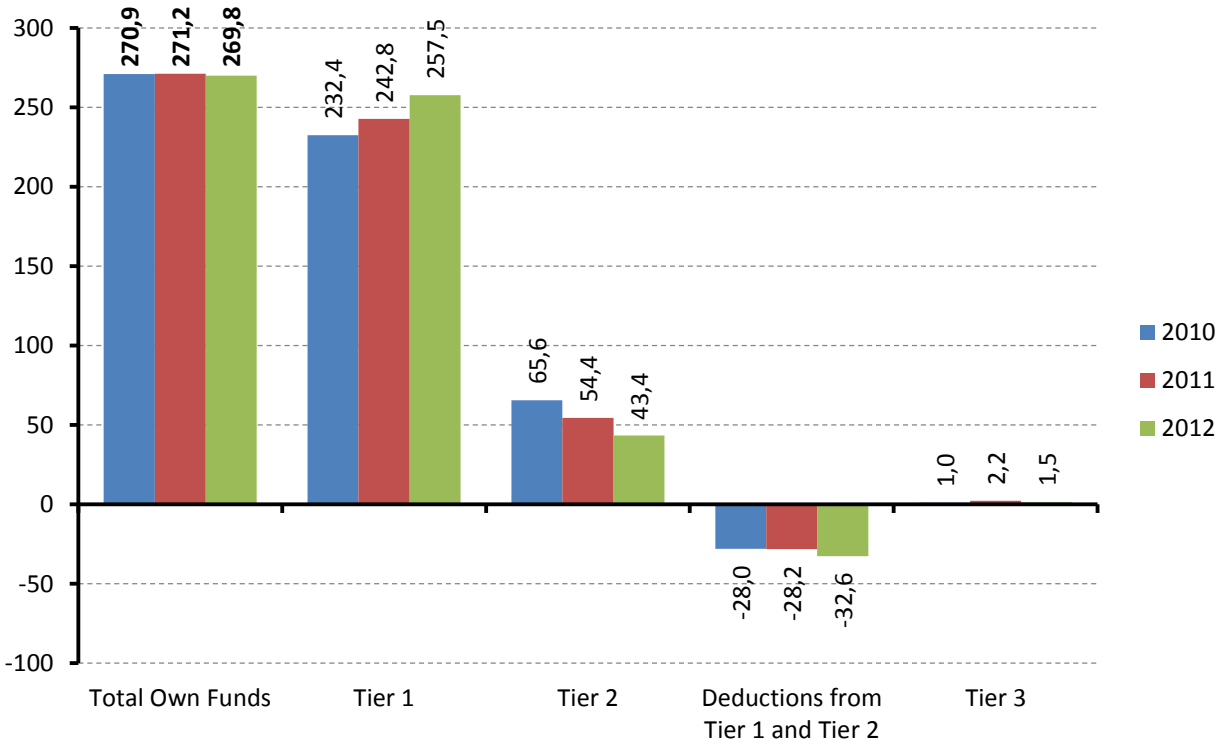
Large French banks are therefore continuing to prepare actively the implementation of the Basel III new regulation. All of them have confirmed their plan to reach a full CRD4 Common Equity Tier 1 above 9 % before the end of 2013, that is to say well before these new rules become fully in force in Europe.

Box 3. Core Tier 1 vs. CET1

Core Tier 1 and Common Equity Tier 1 are relatively close concepts but not identical though and should not be confused. On the one hand, although a Core Tier 1 definition was homogeneously used by the EBA in its recommendation[14] setting a 9 % minimum ratio, it is not internationally harmonised yet so that foreign banks may use different definitions in their financial disclosures depending on local standards. On the other hand, Common Equity Tier 1 has received a regulatory harmonised definition in Basel III. The major differences between the two concepts notably concern the deductions of participations in insurance undertakings.

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

Chart 24 Evolution of French banks regulatory capital (EUR billions)



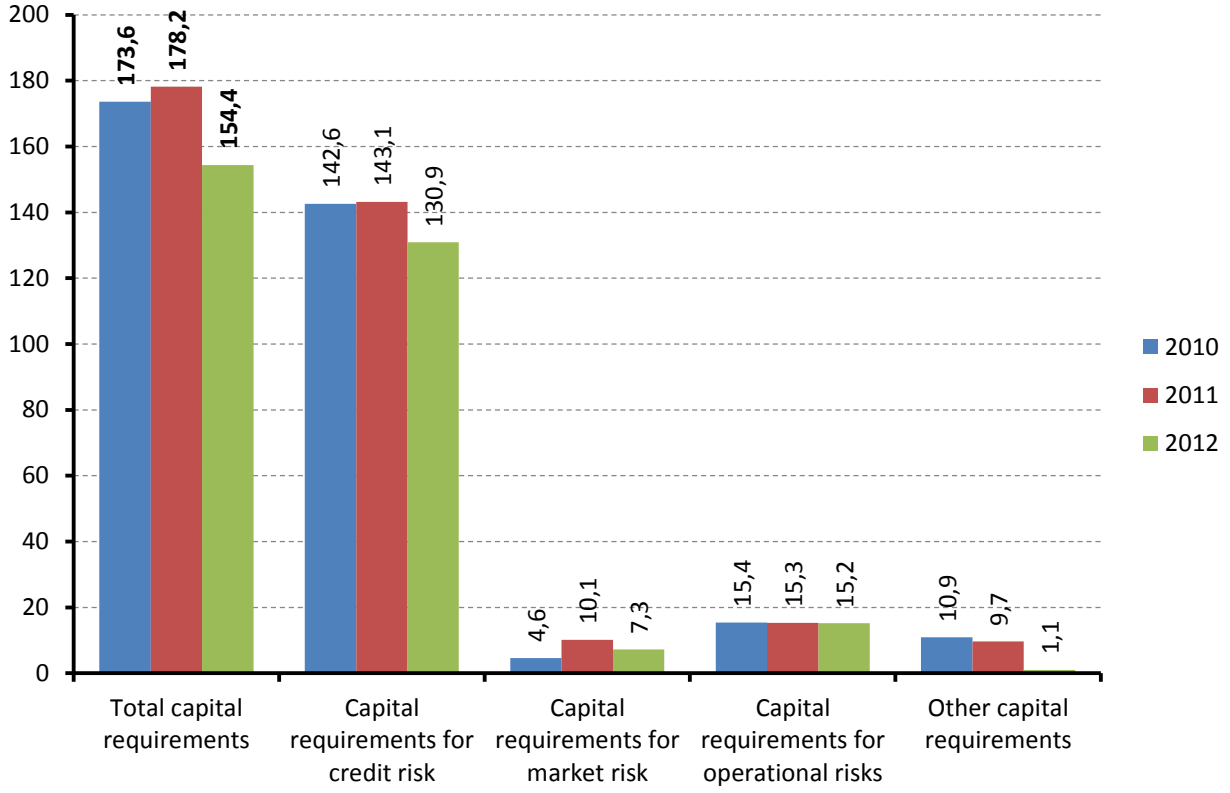
Source: COREP – CA template

The growth of solvency ratios primarily reflects the continuous strengthening of equity, in quantity as well as well as in quality, as illustrated by the new increase of Common Equity Tier 1 and the simultaneous decrease of Tier 2. Banks' capital positions strengthened primarily through retained earnings and lower dividend pay-outs.

The improvement of French banks solvency ratios is also related to a decrease in Risk Weighted Assets (RWAs): unlike the previous year, RWAs fell substantially (-13.4 %) between 2011 and 2012. Every component of RWAs shrank:

- Capital requirements related to credit risk were -8.6 % down partly because the asset structure changed towards less risky and therefore less risk weighted assets, and also because two banks have been allowed to use advanced internal ratings based approaches (IRBA) to compute capital requirements for some of their assets (allowing a more precise measure of their risks) (cf. infra) ;
- Capital requirements related to market risks decreased as well (-27.7 %), on a constant regulation basis, reflecting the on-going reduction of market risk (see. Chart 39 and Chart 40) ;
- Capital requirements related to operational risk also slightly diminished (-0.7 %);
- Other capital requirements almost vanished (-89.1 %) as the former Basel I floor came to an end on 1 January 2012.

Chart 25 Evolution of capital requirements (EUR billions)



Source: COREP – CA template

International supervisors launched in 2012 a concerted in-depth assessment programme of RWAs consistency.[15] This work will go further in Europe in 2013, in order to achieve a much stronger regulatory consistency.

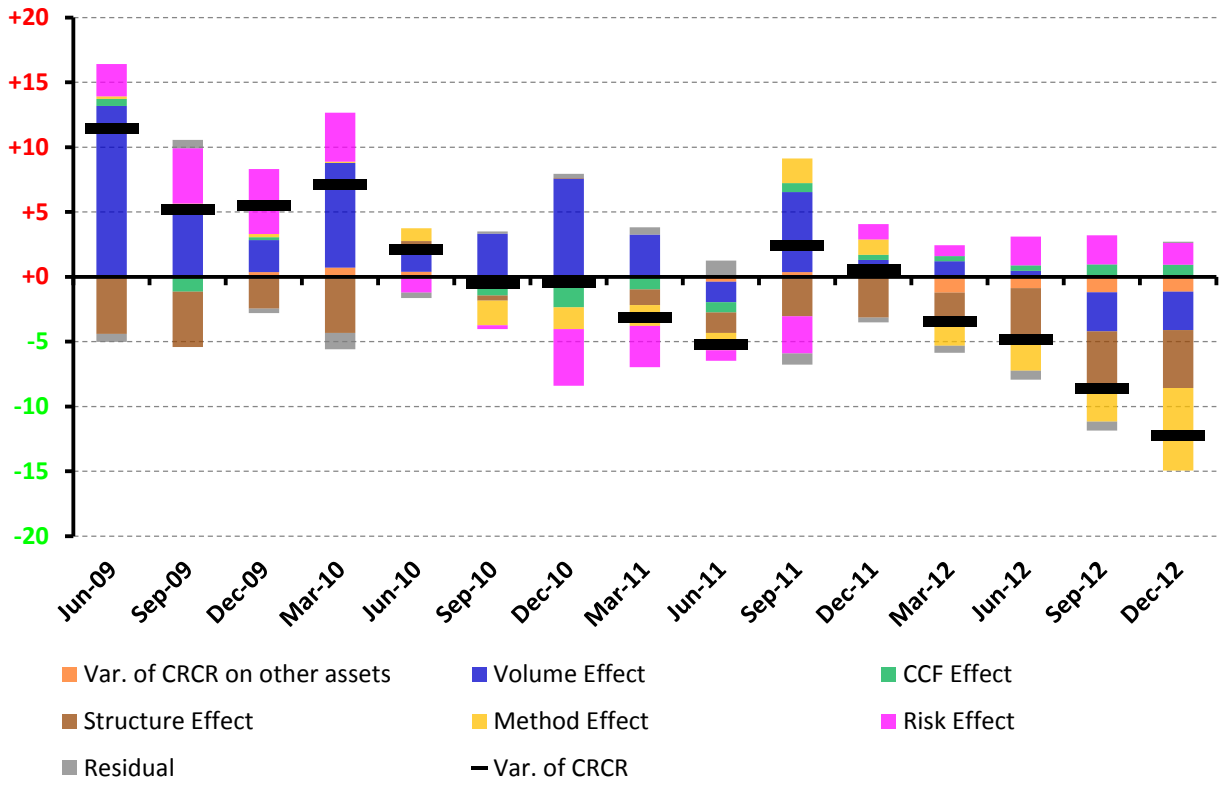
The Secrétariat général de l'Autorité de Contrôle prudentiel initiated as well in 2012 an in-depth review of French banks calculations of RWAs, with a special focus on sovereign, large corporate and mortgage portfolio.

2.2.1 Decreasing capital requirements for credit risks

As of December 2012, capital requirements related to credit risks decreased the most since mid-2008.

[15] See BCBS (2013b), *Regulatory consistency assessment programme (RCAP) – Analysis of risk-weighted assets for market risk* and European Banking Authority (2103b), *Interim results of the EBA review of the consistency of risk-weighted assets, Top-down assessment of the banking book*

Chart 26 Capital requirements breakdown (EUR billions)



Source: COREP – CRIRB and CRSA template

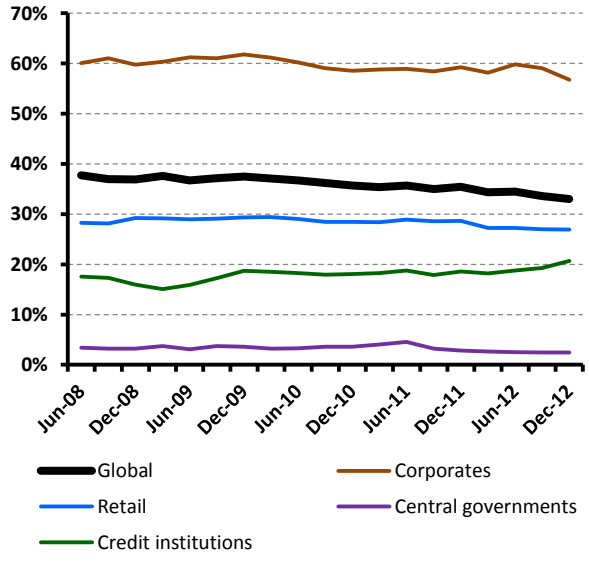
Note: CRCR stands for capital requirements for credit risk.

The detailed analysis of the evolution of capital requirements for credit risk (see methodology in Annex 2) shows that the decrease is mainly due to:

- A **"method" effect (-EUR 6.4 billion)**, reflecting the transition to IRBA models for two banks, subject to the prior approval of the Autorité de Contrôle prudentiel ;

- **"Structure" and "volume" effects (EUR -7.4 billion)**. The structure effect reflects the increased proportion of « claims on central government » which receive the lowest risk weights (see Chart 27). The « volume » effect results from the global decline of original gross credit exposures – i.e. on- and off-balance sheet gross credit exposures of the 5 main French banks (BNPP, SG, GCA, GBPCE and GCM).

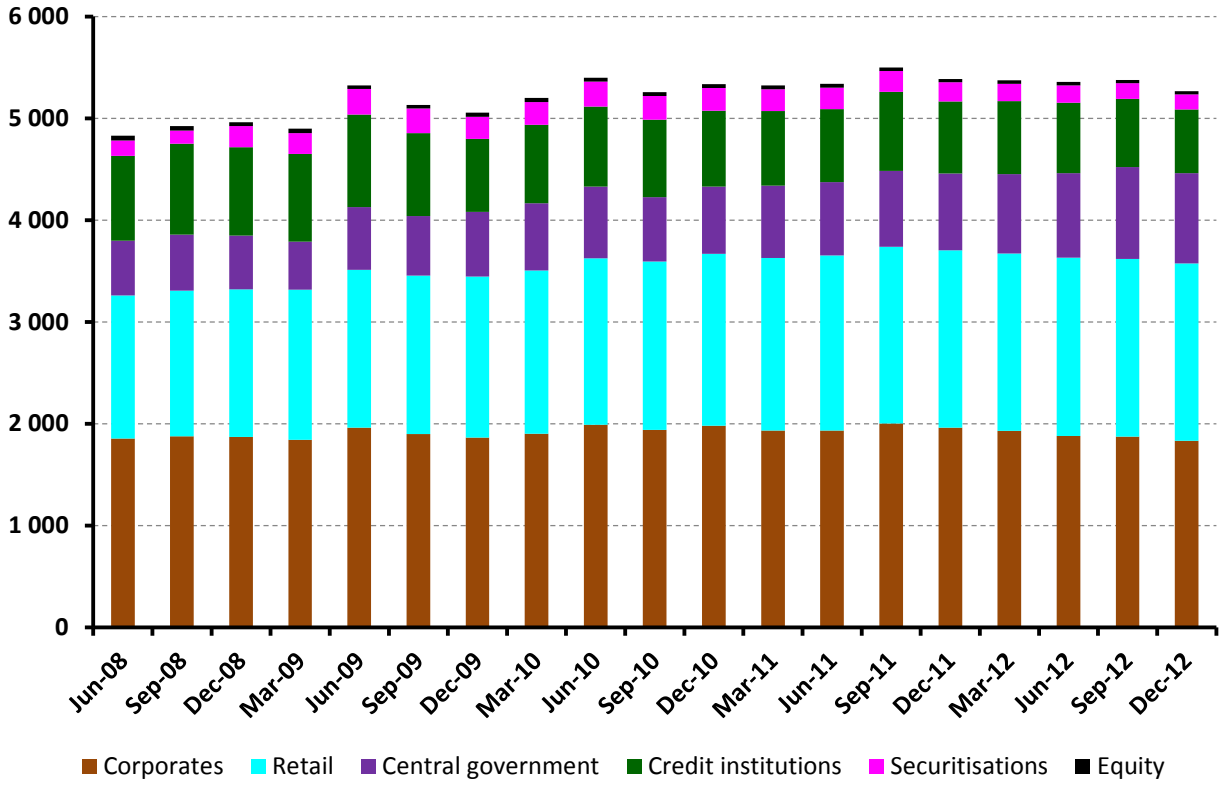
Chart 27 Average risk weights



Source: COREP – CRIRB template

The year-on-year diminution of original gross credit exposures in September and then again in December 2012 is rather new, since they only fell once before – in June 2011 (-0.8 %) – since mid-2008.

Chart 28 Original gross credit exposures (EUR billions)



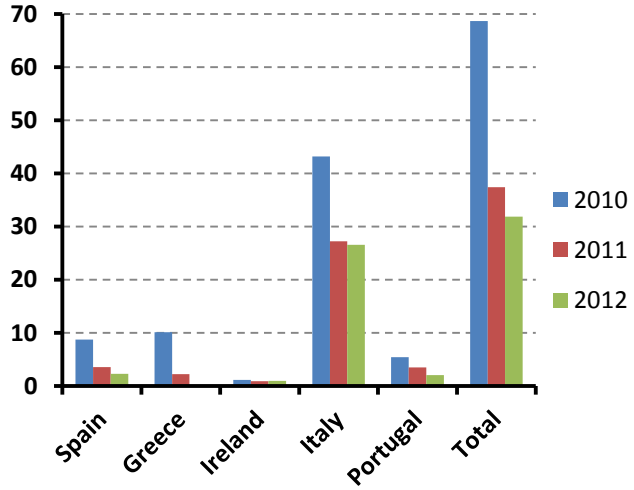
Source: COREP –CRIRB and CRSA template

The decrease of original gross credit exposures between 2011 and 2012 was witnessed for almost all credit portfolios[16] :

- Beyond the reduction of capital requirements related to the smaller portfolios (« Institutions » (-11.3 %), « Securitisation » (-20.5 %) and « Equity » (-4.6 %)), capital requirements related to the corporate portfolio, which represents more than a third of total credit exposures, were 6.6 % down, i.e. the strongest diminution over the whole period under study ; furthermore the trend intensified in 2012 for this portfolio;[17]
- Only the retail portfolio (+0.1 %), which represents a third of credit exposures, and the « claims on central governments and central banks » portfolio (+17.1 %), which has been increasing mainly because of the purchase of high quality liquid assets in preparation of the liquidity coverage ratio recorded an increase of original gross credit amounts; however the retail portfolio growth has been progressively decelerating since the end of 2010.[18]

While they increased their claims on « central governments and central banks », French banks on the contrary have reduced their exposures on more vulnerable sovereigns following the Eurozone sovereign debt crisis in 2011.

Chart 29 Sovereign exposures on Spain, Greece, Ireland, Italy and Portugal (banking book, EUR billions)



Source: banks financial disclosures

[16] Portfolio definitions differ a little bit between COREP and FINREP. This is the reason why some slightly diverging evolutions can be observed between the two systems of reference.

[17] Year-on-year original gross credit exposures in the corporate portfolio fell 0.2 % in March 2012, 2.7 % in June and 6.4 % in September.

[18] +6.7 % in December 2010, +3.2 % in December 2011, +2.7 % in March 2012, + 1.7 % in June 2012 and +0.6 % in September 2012.

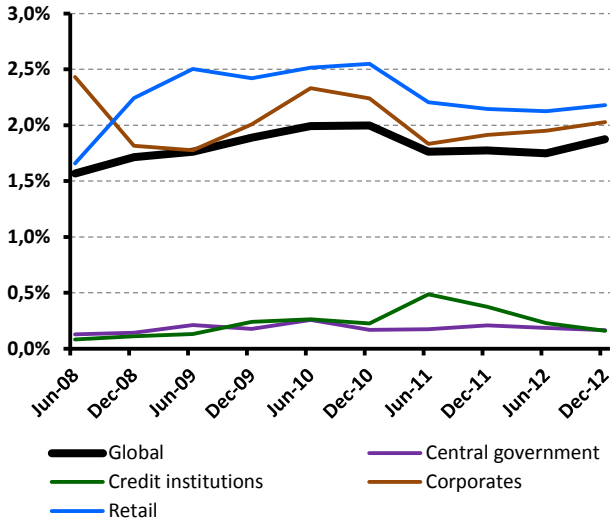
In this respect, the perception of sovereign risk in the Eurozone has somewhat abated in the end 2012 in large part because of decisive actions from monetary authorities: ECB announcements (intervention of M. Draghi the 26 July 2012,[19] *Outright Monetary Transactions* in September 2012) and the project of a European Banking Union. Long-term interest rates came back to their 2010 level for European countries under stressed conditions, while French 10-year interest rates remained at historically low levels due to a flight-to-quality.

On the contrary, the "risk effect" remained very moderate (+EUR 1.7 billion), reflecting that the quality of credit portfolios of the major French banks remained under control.

First, the **delinquency rate**[20] of the top French banks which had rose steadily in the wake of the financial crisis reaching 2 % at the end of 2010, then decreased, however it has recently been slightly increasing reaching 1.9 % at the end of 2012.

The two main portfolios, which together represent more than 80 % of loans, recorded relatively cyclical and similar evolutions: while the delinquency rate on the corporate portfolio has been rising again since mid-2011, this similar upward trend was more recent for the retail portfolio.

Chart 30 Major French banks delinquency rate



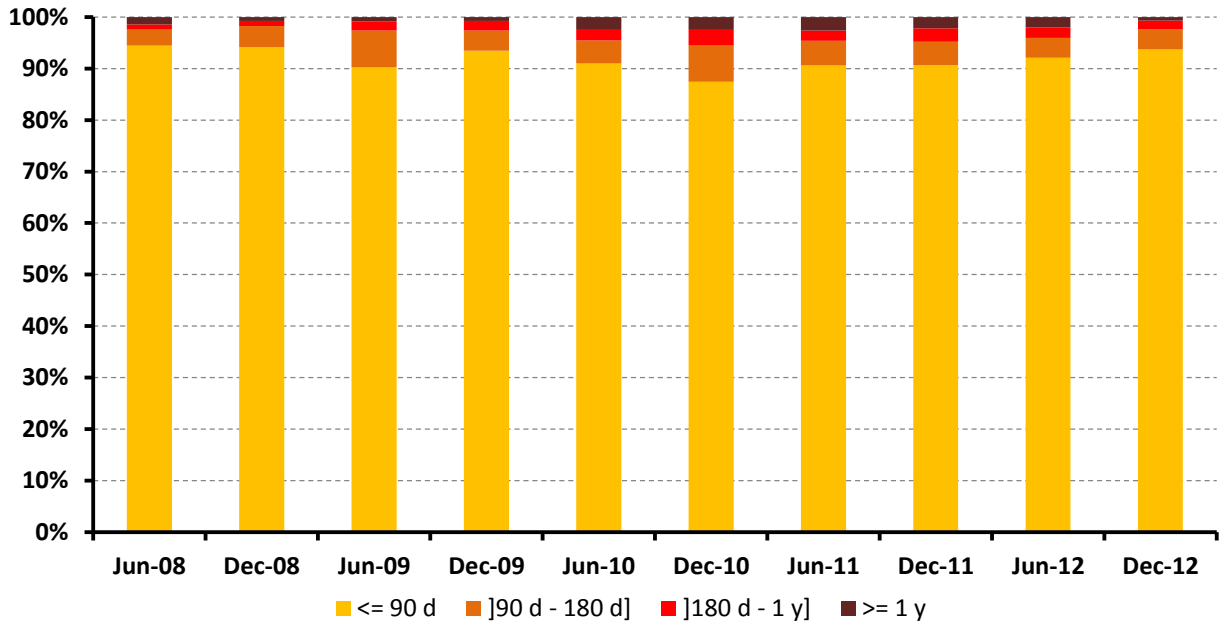
Source: FINREP – FIN6 and FIN7 table

19 "*ECB has pledged to do whatever it takes to protect the Eurozone from collapse*".

20 In the « loans and receivables » category of FINREP, 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.

The analysis of past due loans by age does not point to a particular deterioration, as most of them remained below 90 days (94 % as of end 2012 and 91.8 % in average since the end of 2008, with an 87.4% trough at the end of 2010).

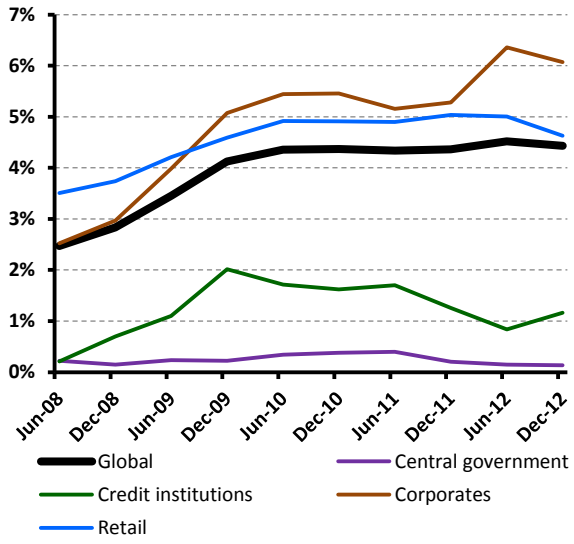
Chart 31 Breakdown of past due loans by age



Source: FINREP – FIN7 table

Second, after a fast increase in the wake of the 2007-2008 financial crisis, the **ratio of doubtful loans**[21] has remained stable at circa 4.3 % since mid-2010. However the relative stability of doubtful loans covers marked evolutions as illustrated in the following chart.

Chart 32 Doubtful loan ratio of the major French banks

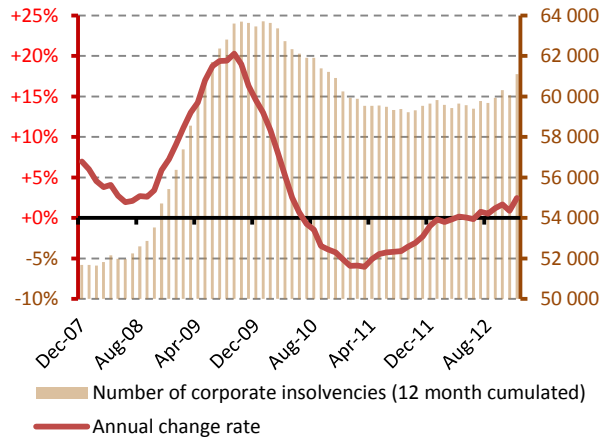


Source: FINREP – FIN6 table

While almost all credit portfolios recorded an increasing and then stabilising default rate, only the corporate portfolio has recorded a substantial increase of the ratio of doubtful loans since the end of 2011, from 5.2 % to 6 % at the end of 2012, with a peak at 6.3 % in June 2012. Conversely, the rate of doubtful loans in the retail portfolio went from 5.1 % at the end of 2011 to 4.6 % at the end of 2012. The rate of doubtful loans has decreased as well in other smaller credit portfolio since mid-2011.

The deterioration of the rate of insolvency for the corporate portfolio coincided with the increasing number of company failures in France since mid-2012.

Chart 33 Number of company failures in France

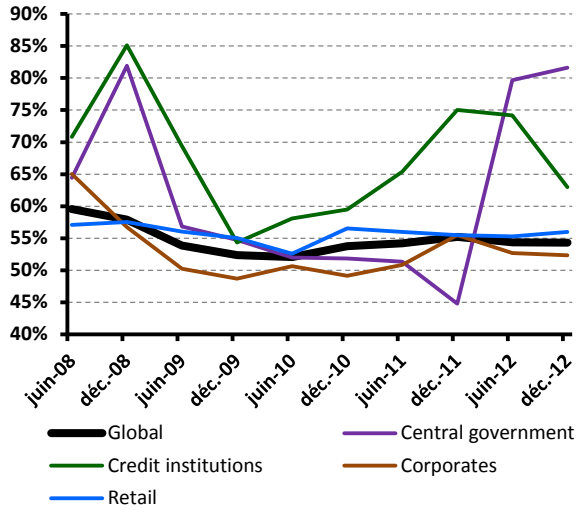


Source: Banque de France – Observatoire des Entreprises; all industries and all company size

21 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

Third, after a 52.1 % trough in June 2010, the **coverage ratio** (specific allowances for loans to total gross impaired loans) has progressively improved to reach 54.3 % in December 2012. However it stood below its mid-2008 peak (59.3 %) as well as the level that it had reached at the end of 2011 (55.2 %)

Chart 34 Coverage ratio of the major French banks



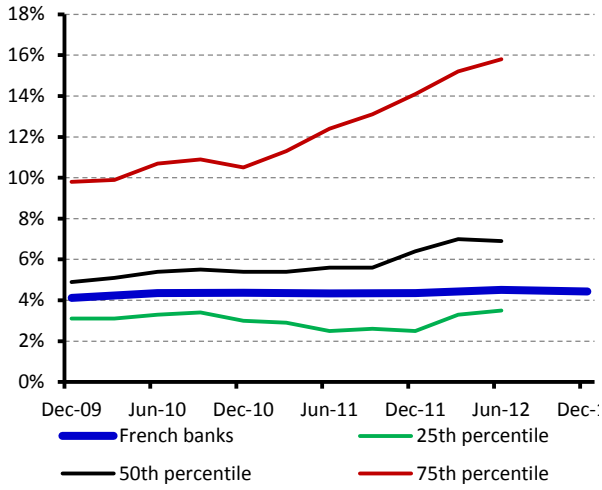
Source: FINREP – FIN6 table

Note: The coverage ratio is defined as the ratio of specific allowances for loans to total gross impaired loans reported in the FINREP «loans and advances » category.

Same as for doubtful loans, coverage ratios showed marked differences between credit portfolios. The coverage ratio for the retail portfolio has decreased compared with the end of 2010 but has been very slightly increasing in the second half of 2012. The coverage ratio of the corporate portfolio has been moderately declining, since the end 2011. More abrupt evolutions were observed on other credit portfolios, especially for the coverage ratio of the central government credit portfolio which rocketed following the Greek event.

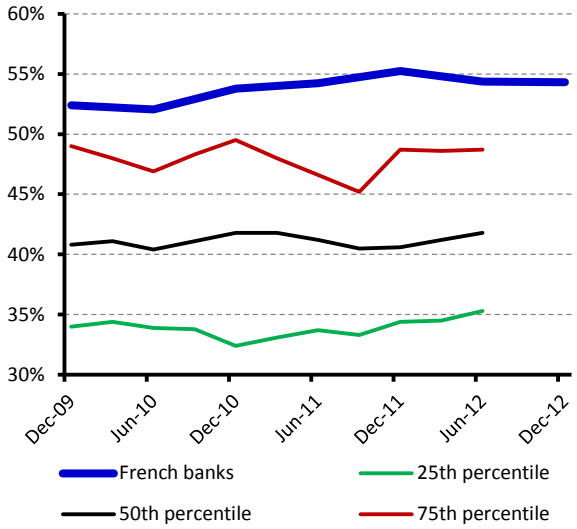
In comparison at the **European level**, the analysis of the Key Risk Indicators (KRI) disclosed by the EBA shows that French banks stood relatively well compared with their European peers, in terms of doubtful loan ratios as well as coverage ratio –the latter being substantially better than European peers– as illustrated in the two following charts.

Chart 35 Impaired loans and Past due (>90 days) loans to total loans - for the major European banks (KRI)



Source: ACP (FINREP data) and EBA (KRI 13, major European banks)

Chart 36 Coverage ratio (specific allowances for loans to total gross impaired loans) of the major European banks (KRI)



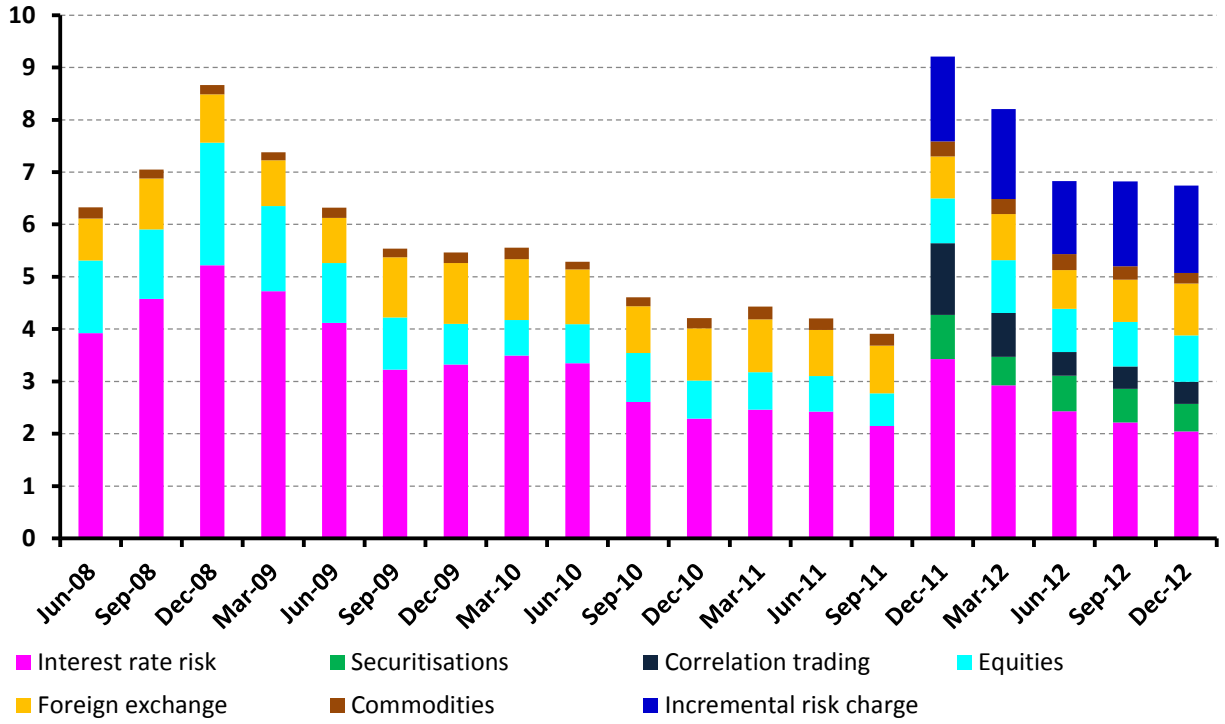
Source: ACP (FINREP data) and EBA (KRI 14, major European banks)

In conclusion, past due loans, which are an early warning indicator of problem loans, do not show an abrupt deterioration of credit at this juncture. Nevertheless, in the current challenging economic environment it is essential that banks, under the control of their statutory auditors, keep paying a close attention to the early identification and classification of non-performing loans, and ensure that assets are prudently valued and impairment provisions rigorously recognised.

2.2.2 Market risks generated less capital requirements.

After a jump on 31 December 2011 due to the implementation of CRD 3 (Basel 2.5), capital requirements for market risk of the top 5 French banks fell rapidly (-27.7 % between the end of 2011 and 2012). The strongest decreases were related to correlation portfolio (-68.9 %) and interest rate (-40.4 %). However capital requirements increased for some risk components in 2012: foreign exchange risk (+24.5 %), equity risk (+3.7 %) and incremental risk charge (IRC; +2.8 %).

Chart 37 Breakdown of capital requirements for market risk (EUR billions)



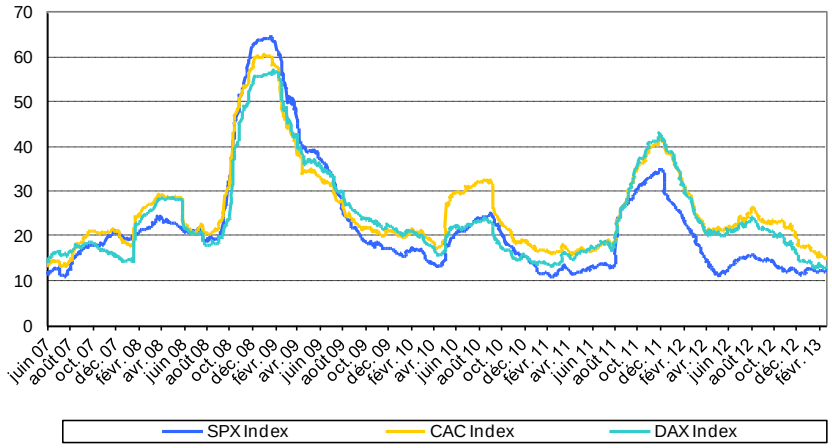
Source: COREP – MKR template, standard approach and internal models

Note: Some banks do not provide the breakdown of their capital requirements for market risk along the same categories as COREP. Therefore, the figures in the above chart are slightly smaller than those in Chart 25.

The Incremental Risk Charge (IRC) is one of the new market risk components that credit institutions have to measure since the end of 2011 and include in the computation of their solvency ratio. This incremental capital requirement takes into account the risk of default and ratings migration in stressed period, related to counterparty risk for market operations.

The 2012 evolution is mainly reflective of the diminution of French banks market risk exposures while market conditions have been relatively stabilising during the second half of 2012 (Chart 38).

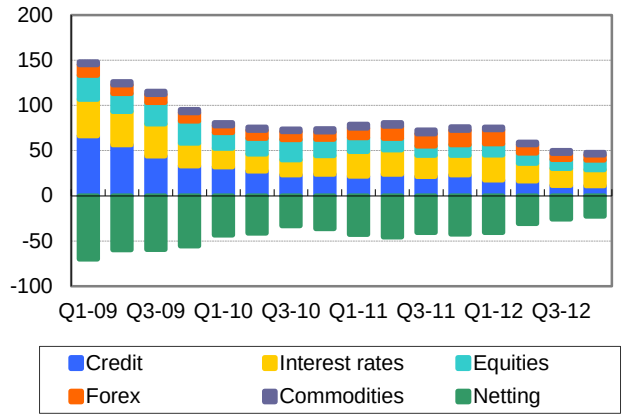
Chart 38 Volatility in equity markets



Source: Bloomberg

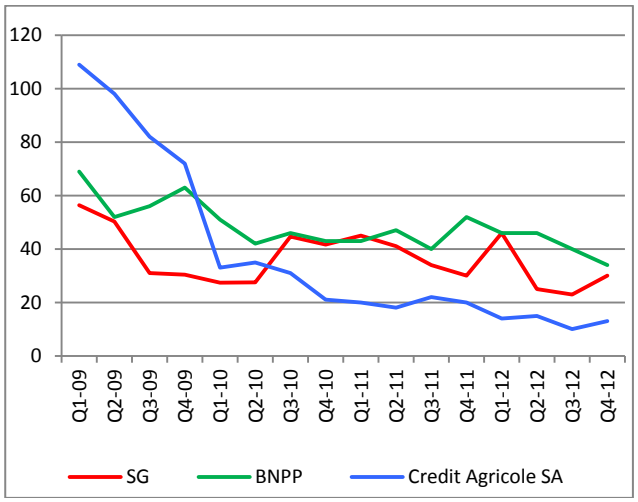
The average Value-at-Risk (VaR) for trading activities (over a 1-day horizon and a 99 % level of confidence) therefore levelled off (Chart 39), even though SG and GCA (CASA) VaR rose in the last quarter of 2012 (Chart 40).

Chart 39 Aggregated quarterly VaR of the major French banks (EUR millions)



Source: Financial disclosures of BNPP, SG and CASA

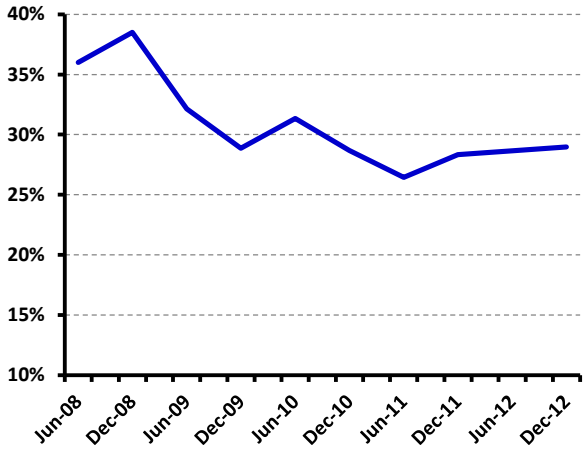
Chart 40 Individual quarterly VaR of the major French banks (EUR millions)



Source: Financial disclosures of BNPP, SG and CASA

After a relatively steady fall until June 2011, the size of financial assets held for trading by French banks, as a proportion of total assets, rose slightly in 2012 (Chart 41) ; their size remained however significantly below the 2008 peak (-10 percentage points of total assets).

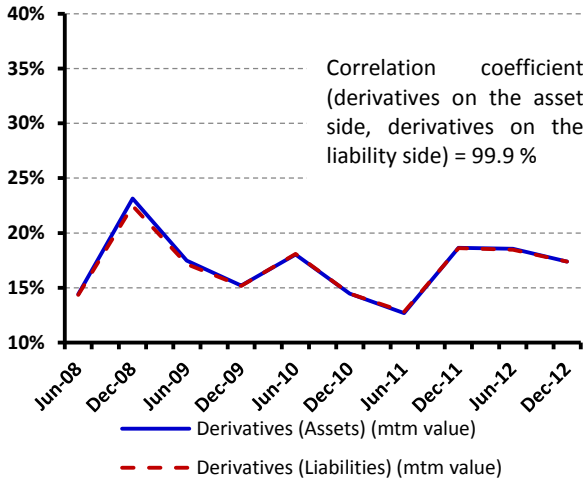
Chart 41 Financial assets held for trading / total assets



Source: FINREP

Within financial assets held for trading, derivatives, which are marked-to-market, still represented a substantial part of total assets (Chart 42).

Chart 42 Derivatives held for trading / total assets



Source: FINREP

This very volatile proportion does not display any significant downward trend. On the other hand, the matching between derivatives on the asset and liability sides appears extremely strong. Consequently the net position on derivatives has a much smaller scale than their face value.

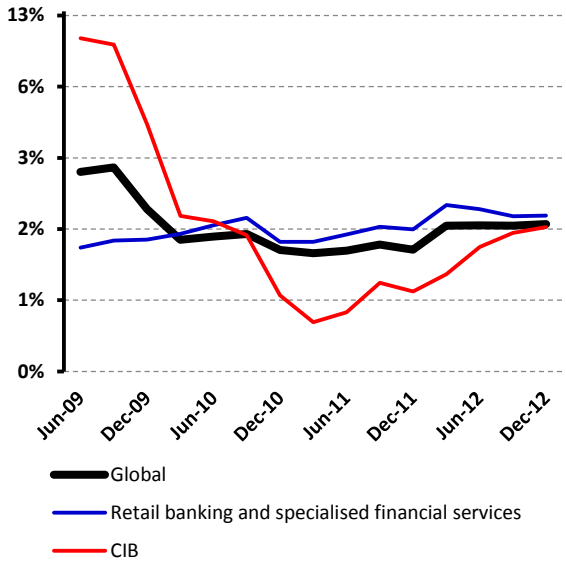
As far as the assessment of market risk is concerned, French banks stand relatively well compared with their foreign peers. Indeed, the Basel Committee for Banking Supervision published on 31 January 2013 a report on the regulatory consistency of risk-weighted assets for market risk on sample of banks with significant

trading activity.[22] This analysis was part of the regulatory consistency assessment programme (RCAP) of Basel III that the Basel Committee initiated in 2012 and contributes to the follow-up by the Financial Stability Board of the progress of the financial reforms decided by the G20. The comparison made by the Basel Committee consisted on the one hand of an analysis of publicly available data of 16 large globally active banks with significant trading operations (including BNPP and SG for France) and, on the other hand, of a hypothetical test portfolio exercise on a sample of 15 banks (including BNPP and SG for France) to examine what methodology choices were the greatest potential drivers behind the variability of internal market risk model outcome. As for French banks, BNPP and SG apparently presented, on the basis of their financial reports, a relatively low level of RWAs based on the market risk framework (mRWAs) -measured as mRWAs to total RWAs- compared with their foreign, mainly Anglo-Saxon, competitors (Barclays, Royal Bank of Scotland, Credit Suisse, Deutsche Bank, Morgan Stanley and Goldman Sachs). This relatively low level was mainly explained by their profile of universal banks and notably the predominance of retail banking. Furthermore, in fact, the level of mRWAs of BNPP and SG that were observed in the hypothetical portfolio exercise actually stood out as relatively conservative, which may be explained by the multiplicative factors set by the Autorité de Contrôle prudentiel and applying to the VaR and stressed VaR computed by these credit institutions.

2.2.3 Capital requirements for operational risks slightly diminished.

After a 1.2 % trough in March 2011, operational risk level, measured as operational losses to NBI, stabilised at around 1.6% in 2012. The increase that had been previously observed had come from a rise of operational losses in the first quarter of 2012 (cf. infra) while NBI was contracting; since then operational losses ebbed in the same proportion as NBI.

Chart 43 Operational losses / NBI



Source: COREP – OPR template – and financial disclosures (BNPP, SG, GCA and GBPCE)
Note: In this chart, Retail brokerage, Commercial banking and Retail banking were assimilated to Retail Banking and Specialised Financial Services. Corporate Finance and Trading & Sales were assimilated to CIB.

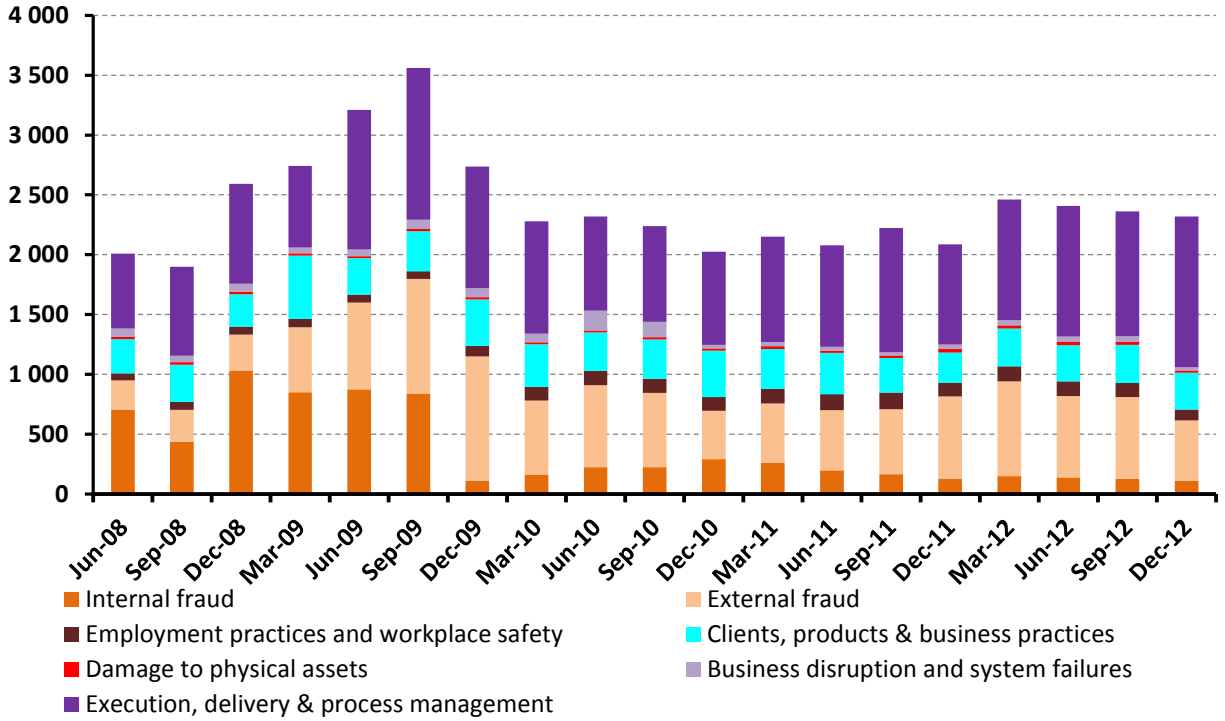
However the two main global business lines followed different paths:

- Operational risk in retail banking and specialised financial services has been relatively steadily increasing since June 2009, from 1.3 % of NBI to 1.8 % in December 2012; after a 2% peak in March 2012. Lately, however, it seems to have started declining as operational losses decreased more strongly than NBI ;
- After a sharp contraction between June 2009 and March 2011, when it bottomed out at 0.6 % of NBI, operational risk in CIB has been substantially increasing, reaching 1.6 % of NBI at end 2012, due to the conjunction of growing operational losses and weakening NBI.

The risk profile of the top 5 banking groups has remained relatively constant since the end of 2009. Incidents related to execution, delivery and process management, as well as external frauds have been concentrating most of operational losses. However, the total amount of these losses rose substantially in the beginning of 2012 (+18 % compared with December 2011), mainly because of incidents related to execution, delivery and process management. Operational losses have slightly decreased since. In value, operational losses were chiefly divided up between retail banking and specialised financial services (75.7 % of total operational losses) and CIB (16.2 % of total operational losses), while the remaining part was distributed between the other business lines of the Basel mapping for operational risk.

22 See BCBS (2013b), *Regulatory consistency assessment programme (RCAP) – Analysis of risk-weighted assets for market risk*

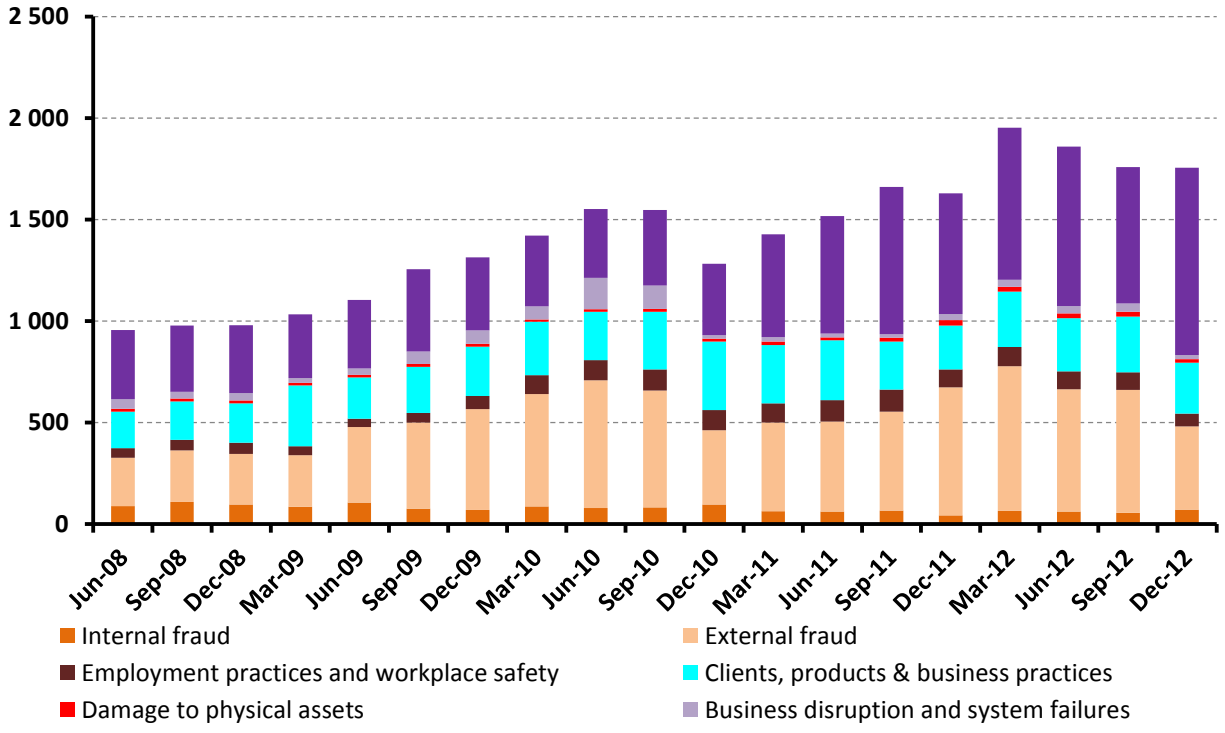
Chart 44 Breakdown of operational losses by category of events (EUR millions)



Source: COREP – OPR template
Note: Excluding SG 2008 loss related to rogue trading

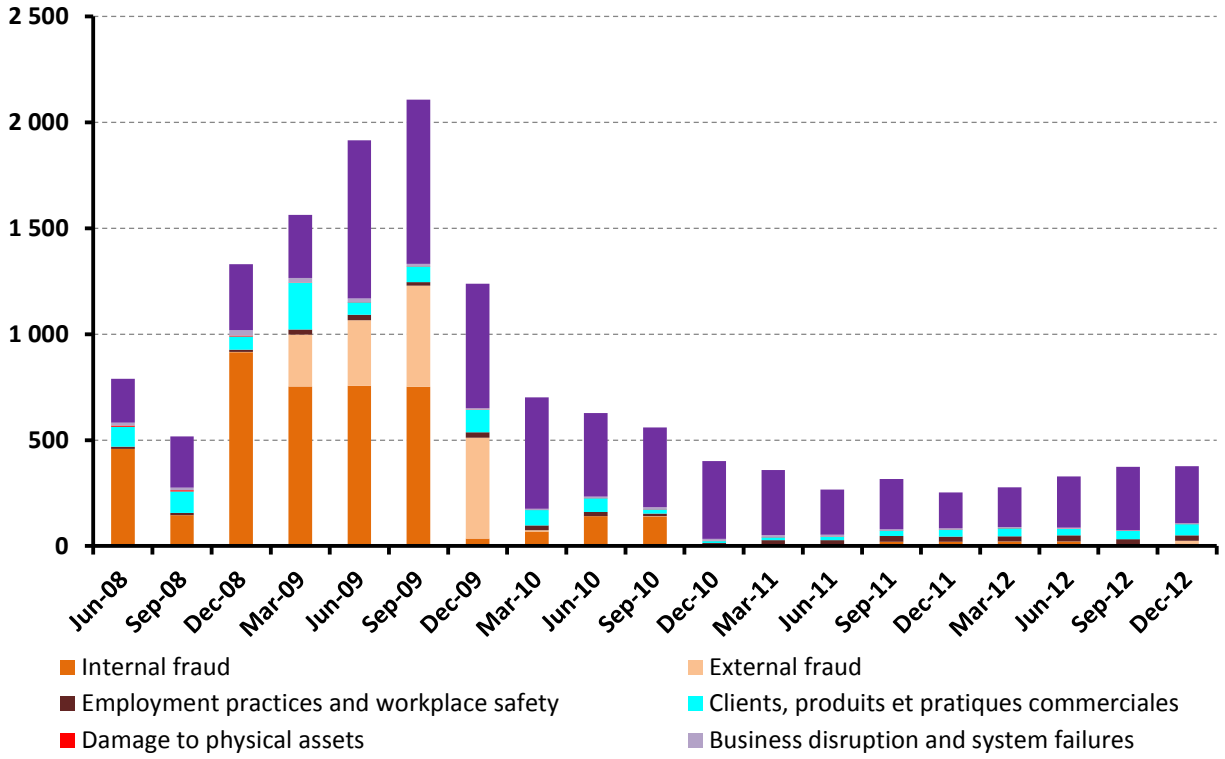
The two main business lines continued nevertheless to display substantially different risk profiles, as illustrated in the two following charts.

Chart 45 Breakdown of operational losses by category of events (EUR millions)
Retail banking and specialised finance services



Source: COREP –OPR template

Chart 46 Breakdown of operational losses by category of events (EUR millions)
Corporate and investment banking

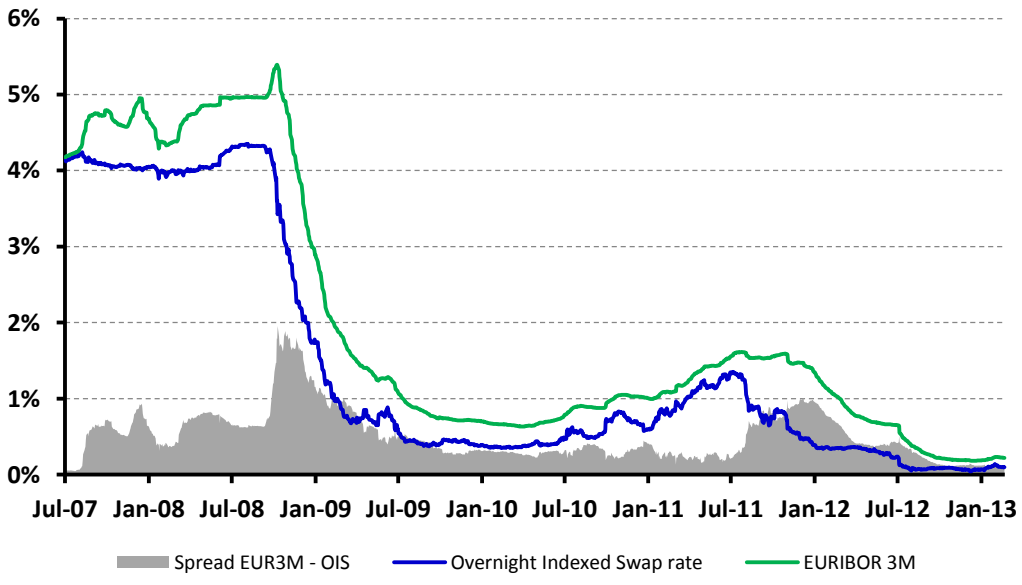


Source: COREP – OPR template
Note: Excluding SG 2008 loss related to rogue trading

2.3 Funding profiles strengthened.

Compared with 2011, funding conditions for French banks have markedly improved. Like other banks in the Eurozone, they have benefited from the positive impact of the non-standard measures that the ECB has put in place since 2011: Very Long Term Refinancing Operations (VLTRO), extension of the list of assets accepted as eligible collateral for refinancing operations, reduction by 25 basis points of the key interest rates, extension of the US dollar liquidity swap agreement with the Federal Reserve System and announcement of Outright Monetary Transactions (OMT). These measures helped European banks to improve their liquidity while tensions were affecting the interbank market. 3 Month EURIBOR-OIS spread has been tightening reflecting an improvement of the interbank market for the main European banks.

Chart 47 3 Month EURIBOR – OIS Spread



Source: Bloomberg

Box 4. EURIBOR-OIS spread

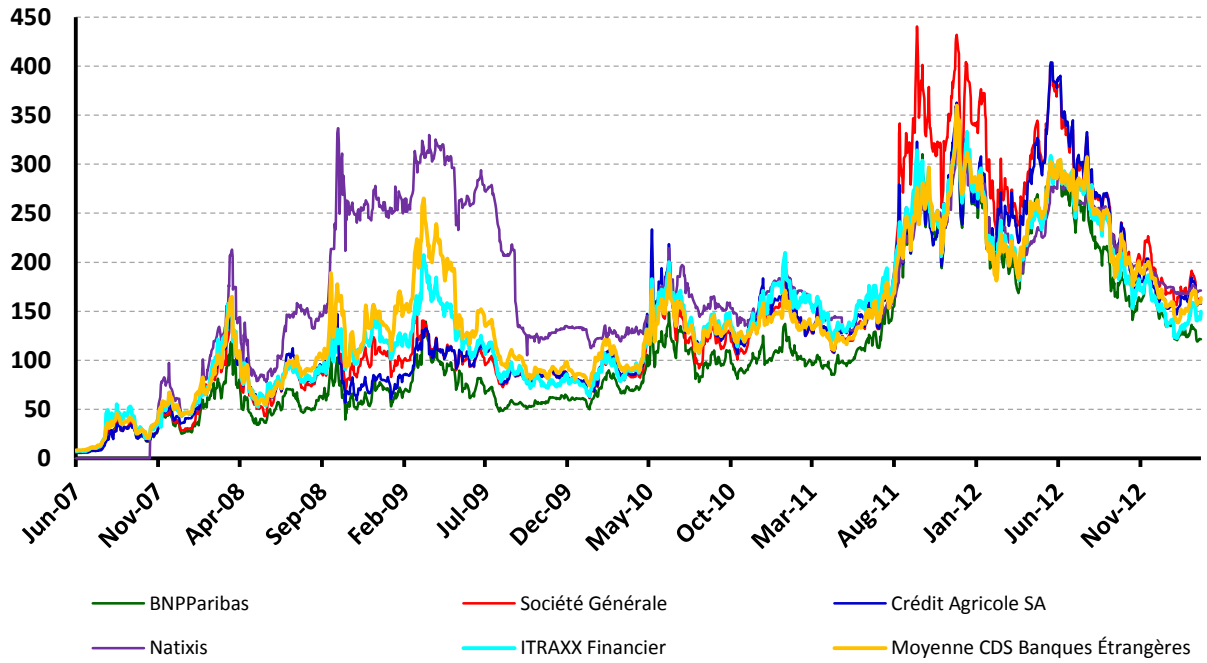
The 3 month EURIBOR[23]-OIS[24] spread is one of the most commonly used indicator of stress in the interbank market, reflecting a combination of liquidity risk, credit risk, and swings in the risk appetite of investors. In times of stress, the EURIBOR, referencing a cash instrument, reflects both credit and liquidity risk, but the OIS has little exposure to default risk because these contracts do not involve any initial cash flows The spread therefore reflects the assessment of default risk of prime banks to one another. It represents the risk premium that a prime bank would be willing to pay to guarantee itself a 3 month funding while still paying close to the overnight rate, instead of rolling over the funding on a daily basis.

[23] EURIBOR (Euro Interbank Offered Rate) is the rate at which Euro interbank term deposits are offered by one prime bank to another prime bank within the European monetary union. A representative panel of banks provide daily quotes of the rate that each panel bank believes one prime bank is quoting to another prime bank for interbank term deposits within the euro zone. For each maturity, EURIBOR rates are computed as the daily averages of all the quotes collected, after eliminating the highest and lowest 15%.

[24] OIS (Overnight Indexed Swap) rates are the interest rates applied to swap contracts where one counterparty receives a variable payment indexed to the interest rate on overnight unsecured interbank deposits and the other counterparty receives the fixed OIS. The periodic floating rate of the swap is equal to the geometric average over the period (e.g. 3 month) of an overnight index rate based on actual transactions. OIS refers to the fixed rate of the swap. Only the net difference in interest rates is paid at maturity of the swap so there is limited counterparty risk. Therefore it is typically considered as a proxy for the risk free rate.

CDS spreads for French banks, which may be an indicative estimation of their cash funding spread, have reflected the developments of the sovereign debt crisis, because the international development of French banks had led them to be present in the Greek, Spanish and Italian markets where investors uncertainties focused (see following chart).

Chart 48 French banks CDS spreads – senior debt, 5 year



Source: Bloomberg – in basis points

Following the massive flight of US money market funds during the summer 2011, French banks have engaged balance sheet adjustments in order to loosen liquidity constraints. The deleveraging plans that were carried out have progressively reduced funding needs in 2012 (especially in US dollar denominated activities) whereas the re-focus on the most stable funding sources contributed to limit the proportion of short term wholesale funding.

Nonetheless, access to wholesale funding is still fragile. Confidence in bank debt remains weakened notably as long as vulnerabilities related to sovereign risk and uncertainties related to banks balance sheet repair have not been totally addressed.

Against this background, French banks have strongly increased their liquidity reserves (by almost EUR 280 billion over 2012), so that they have been covering their short term funding needs.

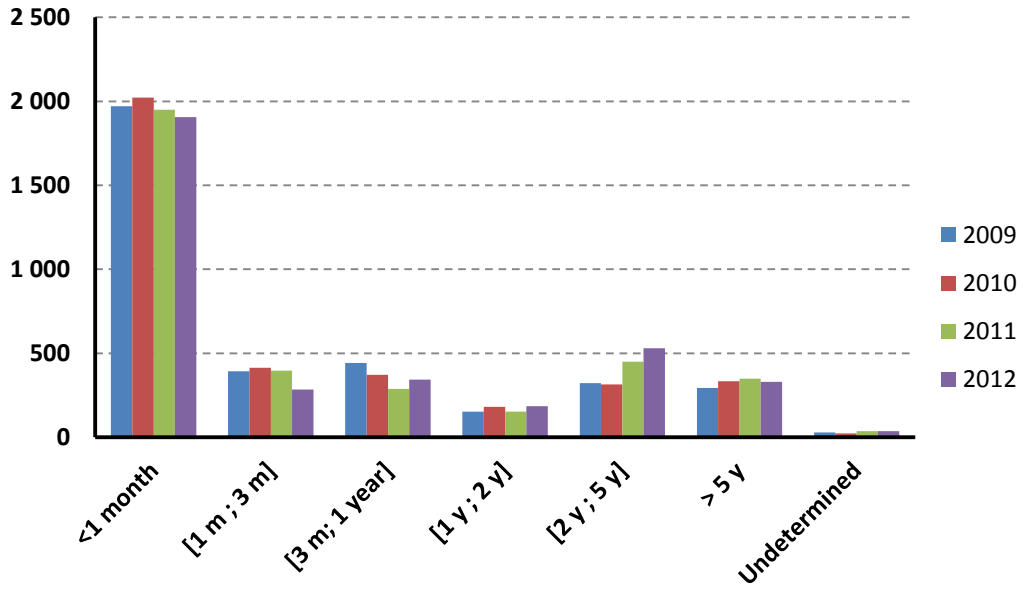
Table 6 Liquidity buffers

EUR billion	BNPP	SG	GCA	GBPCE
Deposits with central banks and unencumbered assets to central banks	231	135	229	147

Source: Banks financial disclosures

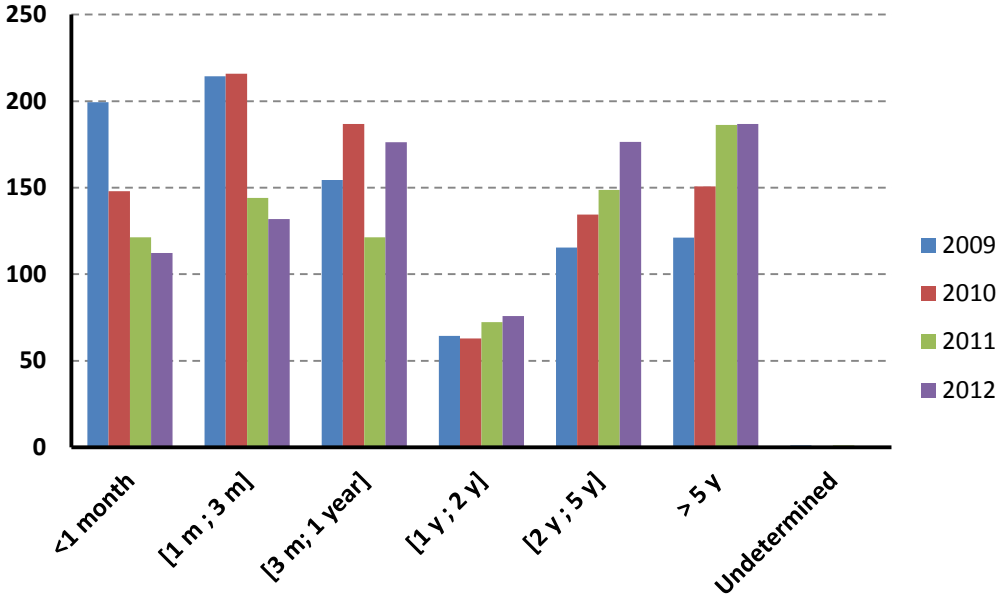
Despite these positive evolutions, the liability structure of French banks balance sheets has relatively slowly evolved and important efforts have to be accomplished to lengthen the average debt maturity. Financial liabilities measured at amortised cost, which represented 57 % of total liabilities at end 2012 and includes deposits and debt securities (including bonds), show a strong stability (Chart 49). Within these liabilities, debt securities measured at amortised cost (which represented 14 % of total liabilities at end 2012) have however significantly grown for maturities lying between 3 and 5 years (Chart 50), as well as above 5 years, while debt securities below the 6 months maturity have decreased. However, French banks efforts must be further intensified to increase the share of stable funding (customer deposits and long term debt) in total liabilities.

Chart 49 Maturity ladder of financial liabilities measured at amortised cost (EUR billions)



Source: FINREP –FIN 50 table (BNPP, SG, GCA, GBCPE, GCM)

Chart 50 Maturity ladder of outstanding debt securities measured at amortised cost (EUR billions)



Source: FINREP – FIN50 table (BNPP, SG, GCA, GBCPE, GCM)

As far as medium and long term debt is concerned, French banks achieved and exceeded their 2012 funding programme, which had been prudently defined. In the first quarter of 2013, banks medium and long term funding programme are already well advanced by taking profit of more favourable market conditions.

Table 7 2013 Medium and long term funding programme

Bank	Programme	Realised *	Realised (%)	Average Maturity
BNPP	EUR 30 bn	EUR 19 bn as of mid-April	63 %	5.7 years
SG	EUR 20 bn	EUR 13.4 bn as of 22 April	65 %	5.7 years
GCA (CAsa)	EUR 12 bn	EUR 6.6 bn as of end April	55 %	6.2 years
GBPCE	EUR 21 bn	EUR 14.1 bn as of March	67 %	5.4 years

Source: Financial disclosures

Note: (*) Figured disclosed by banks include issues at the end of 2012 that were completed on top of their the 2012 programme

Annex 1 - EBA Key Risks Indicators

Descriptive statistics from the EBA Key Risk Indicators[25]
Complemented with global figures for the top 5 French banks (BNPP, SG, GCA, GBPCE, GCM)

	KRI	Descriptive Statistics	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Solvency	1 - Tier 1 capital ratio	Weighted average	10.2 %	10.2 %	10.4 %	10.6 %	11.0 %	11.3 %	11.4 %	11.4 %	11.3 %	11.9 %	12.1 %		
		25th percentage	9.0 %	9.0 %	8.8 %	9.0 %	9.3 %	9.7 %	9.4 %	9.6 %	9.5 %	10.1 %	10.5 %		
		50th percentage	9.8 %	10.1 %	10.1 %	10.3 %	10.6 %	11.2 %	11.1 %	11.0 %	10.9 %	11.4 %	11.7 %		
		75th percentage	11.3 %	11.1 %	11.4 %	11.6 %	12.3 %	12.7 %	12.5 %	12.6 %	12.7 %	13.0 %	13.3 %		
		French banks	10.0 %	10.4 %	10.3 %	10.5 %	10.7 %	10.9 %	11.0 %	10.9 %	10.9 %	12.1 %	12.5 %	12.9 %	13.3 %
	2 - Total capital ratio	Weighted average	12.9 %	12.9 %	12.9 %	13.1 %	13.5 %	13.7 %	13.6 %	13.5 %	13.3 %	13.8 %	14.0 %		
		25th percentage	11.5 %	11.2 %	11.4 %	11.5 %	11.7 %	11.9 %	11.6 %	11.4 %	11.3 %	11.6 %	12.1 %		
		50th percentage	12.5 %	12.6 %	12.2 %	12.4 %	12.8 %	13.3 %	13.0 %	12.8 %	12.6 %	13.9 %	14.1 %		
		75th percentage	14.0 %	13.9 %	14.1 %	14.6 %	14.9 %	15.3 %	15.1 %	15.1 %	15.1 %	15.6 %	15.6 %		
		French banks	12.2 %	12.4 %	12.3 %	12.4 %	12.5 %	12.5 %	12.6 %	12.4 %	12.2 %	13.2 %	13.5 %	13.7 %	14.0 %
	3 - Tier 1 ratio (excluding hybrid instruments)	Weighted average	8.9 %	9.0 %	9.2 %	9.3 %	9.0 %	9.3 %	9.3 %	9.4 %	9.4 %	10.1 %	10.4 %		
		25th percentage	7.1 %	7.3 %	7.2 %	7.4 %	7.5 %	8.2 %	7.9 %	8.0 %	8.1 %	8.4 %	9.3 %		
		50th percentage	8.5 %	8.5 %	8.7 %	9.3 %	8.5 %	9.1 %	9.3 %	9.4 %	9.4 %	10.0 %	10.3 %		
		75th percentage	10.7 %	10.8 %	10.6 %	11.1 %	10.4 %	10.6 %	10.3 %	10.6 %	10.5 %	11.3 %	11.2 %		
		French banks	8.0 %	8.3 %	8.2 %	8.5 %	8.7 %	8.9 %	9.1 %	9.0 %	9.2 %	10.4 %	10.8 %	11.2 %	11.6 %
Credit Risk and Asset Quality	13 - Impaired loans and Past due (>90 days) loans to total loans	Weighted average	5.1 %	5.0 %	5.1 %	5.3 %	5.3 %	5.2 %	5.4 %	5.4 %	5.8 %	5.7 %	5.8 %		
		25th percentage	3.1 %	3.1 %	3.3 %	3.4 %	3.0 %	2.9 %	2.5 %	2.6 %	2.5 %	3.3 %	3.5 %		
		50th percentage	4.9 %	5.1 %	5.4 %	5.5 %	5.4 %	5.4 %	5.6 %	5.6 %	6.4 %	7.0 %	6.9 %		
		75th percentage	9.8 %	9.9 %	10.7 %	10.9 %	10.5 %	11.3 %	12.4 %	13.1 %	14.1 %	15.2 %	15.8 %		
		French banks	4.3 %	4.5 %	4.6 %	4.8 %	4.9 %	4.6 %	4.6 %	4.5 %	4.5 %	4.6 %	4.7 %	4.7 %	4.4 %
	14 - Coverage ratio (specific allowances for loans to total gross impaired loans)	Weighted average	42.4 %	40.4 %	37.1 %	36.5 %	37.0 %	35.8 %	41.0 %	38.9 %	41.1 %	41.5 %	41.8 %		
		25th percentage	34.0 %	34.4 %	33.9 %	33.8 %	32.4 %	33.1 %	33.7 %	33.3 %	34.4 %	34.5 %	35.3 %		
		50th percentage	40.8 %	41.1 %	40.4 %	41.1 %	41.8 %	41.8 %	41.2 %	40.5 %	40.6 %	41.2 %	41.8 %		
		75th percentage	49.0 %	48.0 %	46.9 %	48.3 %	49.5 %	48.0 %	46.6 %	45.2 %	48.7 %	48.6 %	48.7 %		
		French banks	52.4 %	52.2 %	52.1 %	52.9 %	53.8 %	53.7 %	54.2 %	54.3 %	55.2 %	54.9 %	54.4 %	53.0 %	54.3 %
	18 - Impaired financial assets to total assets	Weighted average	1.6 %	1.4 %	1.9 %	1.4 %	2.1 %	1.9 %	1.8 %	1.7 %	1.9 %	1.8 %	1.9 %		
		25th percentage	0.9 %	1.0 %	1.1 %	1.0 %	1.2 %	1.1 %	0.6 %	1.0 %	1.0 %	1.0 %	1.1 %		
		50th percentage	1.8 %	1.7 %	1.8 %	1.7 %	2.0 %	1.9 %	1.9 %	2.0 %	2.2 %	1.9 %	2.0 %		
		75th percentage	3.4 %	3.4 %	3.6 %	3.8 %	4.0 %	4.3 %	4.6 %	5.3 %	5.6 %	5.8 %	6.9 %		
		French banks	1.1 %	1.1 %	1.1 %	1.2 %	1.2 %	1.2 %	1.3 %	1.2 %	1.2 %	1.2 %	1.2 %	1.1 %	1.1 %

[25] See European Banking Authority (2013a), *Risk Assessment of the European Banking System*

	KRI		Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Credit Risk and Asset Quality	20 - Accumulated impairments on financial assets to total (gross) assets	Weighted average	1.3 %	1.2 %	1.3 %	1.3 %	1.4 %	1.3 %	1.4 %	1.3 %	1.5 %	1.4 %	1.5 %		
		25th percentage	0.9 %	0.9 %	0.8 %	0.8 %	0.8 %	0.8 %	0.8 %	0.7 %	0.8 %	0.8 %	0.7 %		
		50th percentage	1.5 %	1.5 %	1.5 %	1.6 %	1.7 %	1.6 %	1.5 %	1.5 %	1.6 %	1.6 %	1.7 %		
		75th percentage	2.2 %	2.3 %	2.3 %	2.8 %	2.7 %	2.9 %	2.9 %	3.1 %	3.7 %	3.7 %	4.0 %		
		French banks	1.5 %	1.5 %	1.5 %	1.5 %	1.6 %	1.5 %	1.6 %	1.5 %	1.7 %	1.5 %	1.5 %	1.4 %	1.4 %
	21 - Impairments on financial assets to total operating income	Weighted average	25.6 %	17.2 %	19.2 %	18.1 %	18.2 %	12.9 %	17.9 %	20.3 %	21.8 %	19.4 %	22.1 %		
		25th percentage	20.7 %	15.5 %	17.5 %	14.5 %	14.3 %	5.0 %	10.0 %	14.7 %	14.8 %	8.4 %	9.9 %		
		50th percentage	26.9 %	20.4 %	22.9 %	21.0 %	21.5 %	12.6 %	20.2 %	21.6 %	26.2 %	19.6 %	21.7 %		
		75th percentage	39.6 %	28.1 %	31.9 %	31.6 %	30.7 %	25.1 %	32.0 %	36.9 %	55.7 %	31.1 %	39.8 %		
		French banks	20.7 %	12.8 %	12.8 %	12.5 %	12.4 %	9.7 %	11.3 %	14.3 %	14.4 %	11.9 %	12.4 %	10.7 %	11.0 %
	22 - Return on equity	Weighted average	4.5 %	1.9 %	3.6 %	5.0 %	5.9 %	2.1 %	3.5 %	3.6 %	1.7 %	1.4 %	1.8 %		
		25th percentage	-0.5 %	3.0 %	3.0 %	3.0 %	1.7 %	5.3 %	2.8 %	-0.7 %	-13.7 %	1.7 %	0.1 %		
		50th percentage	5.4 %	6.3 %	6.4 %	5.7 %	5.4 %	8.6 %	7.2 %	5.3 %	2.7 %	6.7 %	5.7 %		
		75th percentage	9.1 %	11.5 %	11.1 %	10.1 %	9.5 %	13.3 %	12.1 %	9.5 %	7.8 %	11.4 %	9.1 %		
		French banks	5.2 %	10.5 %	10.1 %	9.1 %	8.3 %	8.9 %	9.0 %	7.2 %	5.4 %	7.9 %	7.0 %	5.1 %	3.1 %
Profitability	24 - Cost-to-income ratio	Weighted average	55.2 %	53.3 %	54.7 %	55.7 %	56.2 %	58.9 %	58.2 %	59.6 %	60.1 %	60.5 %	59.0 %		
		25th percentage	47.2 %	46.9 %	49.1 %	48.7 %	49.2 %	49.2 %	49.7 %	51.0 %	50.4 %	48.4 %	50.4 %		
		50th percentage	57.8 %	55.1 %	56.2 %	57.7 %	57.8 %	55.9 %	57.3 %	58.6 %	60.1 %	56.8 %	58.4 %		
		75th percentage	64.3 %	62.1 %	62.4 %	63.5 %	64.1 %	63.2 %	63.8 %	63.9 %	64.5 %	68.1 %	69.9 %		
		French banks	65.7 %	62.1 %	62.1 %	63.5 %	64.2 %	63.7 %	63.5 %	64.0 %	65.7 %	66.2 %	66.3 %	68.3 %	70.3 %
	26 - Net interest income to total operating income	Weighted average	57.9 %	56.2 %	58.7 %	58.4 %	58.1 %	56.6 %	57.4 %	60.3 %	60.9 %	61.7 %	61.7 %		
		25th percentage	52.8 %	53.2 %	52.3 %	53.2 %	51.9 %	48.9 %	50.4 %	52.5 %	54.2 %	51.7 %	52.6 %		
		50th percentage	64.1 %	61.9 %	62.5 %	64.9 %	64.2 %	59.2 %	62.8 %	65.0 %	63.5 %	63.9 %	63.2 %		
		75th percentage	74.1 %	72.5 %	72.5 %	77.5 %	76.8 %	77.4 %	75.4 %	75.2 %	76.0 %	74.5 %	77.9 %		
		French banks	53.5 %	51.6 %	51.6 %	51.9 %	52.1 %	48.5 %	49.0 %	51.3 %	52.3 %	47.9 %	50.2 %	50.7 %	53.1 %
	27 - Net fee and commission income to total operating income	Weighted average	26.0 %	25.8 %	26.7 %	26.7 %	26.8 %	26.6 %	27.0 %	27.6 %	27.6 %	27.1 %	26.9 %		
		25th percentage	16.7 %	14.9 %	15.6 %	15.1 %	15.8 %	13.1 %	16.1 %	16.7 %	16.3 %	17.8 %	16.9 %		
		50th percentage	22.6 %	23.5 %	24.3 %	24.0 %	24.1 %	23.7 %	24.4 %	25.8 %	24.1 %	23.1 %	24.4 %		
		75th percentage	29.0 %	30.6 %	31.5 %	30.8 %	30.6 %	30.2 %	29.2 %	30.5 %	30.9 %	28.2 %	29.0 %		
		French banks	33.0 %	31.0 %	31.0 %	31.6 %	31.9 %	31.5 %	31.7 %	31.9 %	32.3 %	30.1 %	30.4 %	31.3 %	32.6 %
	33 - Net income to total operating income	Weighted average	9.3 %	16.3 %	16.5 %	15.2 %	13.4 %	19.6 %	16.7 %	11.9 %	4.5 %	12.5 %	11.4 %		
		25th percentage	-3.1 %	7.3 %	7.0 %	7.1 %	5.6 %	14.2 %	8.7 %	-3.6 %	-34.0 %	4.1 %	0.9 %		
		50th percentage	10.9 %	17.4 %	16.0 %	15.4 %	14.7 %	19.8 %	17.8 %	13.2 %	9.9 %	16.3 %	13.6 %		
		75th percentage	19.3 %	23.0 %	24.0 %	23.4 %	22.3 %	30.4 %	26.4 %	22.6 %	19.3 %	28.6 %	22.4 %		
		French banks	9.8 %	18.5 %	18.5 %	17.9 %	17.6 %	18.5 %	18.9 %	15.7 %	11.8 %	17.4 %	15.9 %	12.3 %	7.6 %

	KRI		Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Balance Sheet Structure	**35 - Customer deposits to total liabilities**	Weighted average	40.6 %	39.7 %	39.6 %	40.5 %	42.5 %	43.1 %	43.2 %	40.1 %	41.6 %	41.7 %	41.9 %		
		25th percentage	35.6 %	35.0 %	33.3 %	34.7 %	37.4 %	39.3 %	38.5 %	35.0 %	35.2 %	36.3 %	35.8 %		
		50th percentage	49.7 %	49.5 %	43.5 %	45.8 %	46.9 %	48.8 %	48.3 %	44.6 %	46.0 %	45.7 %	44.5 %		
		75th percentage	59.2 %	58.1 %	56.8 %	58.1 %	59.9 %	60.3 %	57.7 %	56.1 %	56.4 %	56.6 %	56.3 %		
		French banks	38.1 %	37.1 %	36.1 %	37.9 %	39.8 %	39.8 %	40.3 %	37.1 %	38.5 %	38.4 %	38.0 %	37.6 %	38.8 %
	36 - Tier 1 capital to [total assets - intangible assets]	Weighted average	4.2 %	4.3 %	4.3 %	4.2 %	4.5 %	4.6 %	4.6 %	4.4 %	4.5 %	4.6 %	4.9 %		
		25th percentage	3.9 %	4.0 %	3.8 %	3.9 %	4.1 %	4.1 %	4.1 %	3.9 %	4.0 %	4.0 %	4.1 %		
		50th percentage	5.5 %	5.2 %	5.0 %	5.0 %	5.2 %	5.2 %	5.2 %	5.0 %	5.0 %	5.3 %	5.2 %		
		75th percentage	5.9 %	6.1 %	5.9 %	5.9 %	6.2 %	6.3 %	6.1 %	6.2 %	6.1 %	6.1 %	6.3 %		
		French banks	3.7 %	3.6 %	3.6 %	3.7 %	4.0 %	4.0 %	4.1 %	3.8 %	4.0 %	4.1 %	4.1 %	4.0 %	4.2 %
	45 - Debt-to-equity ratio	Weighted average	18.7	19.2	19.5	19.3	18.3	17.8	17.9	19.4	19.4	18.7	18.6		
		25th percentage	12.1	12.6	13.1	12.9	12.5	12.3	12.7	13.1	13.7	13.3	13.8		
		50th percentage	14.9	15,30	16.1	17.0	16.6	16.2	17.2	17.2	17.6	17.5	17.1		
		75th percentage	22.6	23.0	24.4	24.4	24.1	22.8	21.7	25.1	25.1	24.4	23.1		
		French banks	19.4	20.2	21.0	19.9	18.8	18.4	18.4	20.2	19.8	19.2	19.5	19.7	18.8

	Bank name (EBA KRI)	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 Crédit Agricole	FR
28	Société Générale	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 the evolution of capital requirements for credit risk

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

- CRCR on the following portfolios[26] : i) *Central Government and Central Banks*, ii) *Institutions*, iii) *Corporates*, iv) *Retail*, v) *Equity* and vi) *Securitisation*;
- CRCR on *Other Items,* which are not claims.

While COREP templates do not provide any details on the computation of CRCR on *Other Items*, they allow a detailed analysis of the evolution of CRCR on credit portfolios. In this case, CRCR are equal to 8% of Exposures at Default (EAD) multiplied by their Risk Weight (RW):

$$CRCR = 0{,}08 \times EAD \times RW$$

Furthermore:

- Exposures at default are equal to Original Gross Credit Exposures (*OGCE*) multiplied by a Credit Conversion Factor (*CCF*) reflecting the propensity of off-balance sheet items to turn into credit exposures ;
- The average risk weight of the credit portfolio can be written as:

$$RW = \sum_{p} q_{\mathrm{p}} \times \sum_{a} q_{p,\mathrm{a}} \times RW_{p,\mathrm{a}}$$

Where

- q_{p} stands for the ratio of EAD of portfolio *p* to total EAD of all portfolios;
- $q_{\mathrm{p,a}}$ stands for the share of portfolio *p* treated according to approach *a* (being either the standardised, foundation internal ratings-based or advanced internal ratings-based approach);
- and $\mathrm{RW}_{\mathrm{p,a}}$ stands for the average risk weight of portfolio *p* where approach *a* has been applied.

The first equation then becomes:

$$CRCR = 0{,}08 \times OGCE \times CCF \times \sum_{p} q_{p} \times \sum_{a} q_{p,\mathrm{a}} \times RW_{p,\mathrm{a}}$$

Let $\Delta CRCR$ be the variation of CRCR between two periods, then:

$$\Delta CRCR = 0{,}08 \times \Delta OGCE \times CCF \times \sum_{p} q_{p} \times \sum_{a} q_{p,\mathrm{a}} \times RW_{p,\mathrm{a}} \quad (1)$$

$$+0{,}08 \times OGCE \times \Delta CCF \times \sum_{p} q_{p} \times \sum_{a} q_{p,\mathrm{a}} \times RW_{p,\mathrm{a}} \quad (2)$$

$$+0{,}08 \times OGCE \times CCF \times \sum_{p} \Delta q_{p} \times \sum_{a} q_{p,a} \times RW_{p,\mathrm{a}} \quad (3)$$

$$+0{,}08 \times OGCE \times CCF \times \sum_{p} q_{p} \times \sum_{a} \Delta q_{p,\mathrm{a}} \times RW_{p,\mathrm{a}} \quad (4)$$

$$+0{,}08 \times OGCE \times CCF \times \sum_{p} q_{p} \times \sum_{a} q_{p,a} \times \Delta RW_{p,\mathrm{a}} \quad (5)$$

$$+R \quad (6)$$

The variation of CRCR between two periods can therefore be broken down into:

(1) A *volume effect*, reflecting the CRCR variation due to changes in gross credit exposures;

(2) A *CCF effect*, measuring the effect of variation of portfolios average CCF on CRCR;

(3) A *structure effect*, reflecting the impact on CRCR of changes in the composition of banks' global credit portfolio across the four examined sub-portfolios (*Central Government and Central Banks*, *Institutions*, *Corporates* and *Retail*);

[26] See article 79 of Directive 2006/48/EC

(4) A *method effect*, measuring the impact of the changes of distribution across the 3 different regulatory methods for the computation risk weight (standardised, internal ratings-based foundation and internal ratings-based advanced approaches);

(5) A *risk effect*, measuring the impact of risk weight changes within each credit portfolio;

(6) A *residual term* which represents the changes of CRCR that are not explained by the effects listed above.

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List of tables and charts

List of tables

List of charts

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