



ANALYSES ET SYNTHÈSES

-  The international banking activities of France's main banking groups since 2006

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Summary

At 31 December 2013, the five major banking groups covered in this study [BNP Paribas (BNPP), Groupe BPCE (GBPCE), Groupe Crédit Agricole (GCA), Groupe Crédit Mutuel (GCM) and Société Générale (SG)] accounted for just over 85% of the aggregate balance sheet¹ of the French banking sector² which comprises 600 individual credit institutions.

With total banking assets equivalent to 280% of French gross domestic product (GDP),³ these five groups have developed a presence extending far beyond their national borders: all rank as major international players, classified as “significant banks” by the European Union, and therefore fall under the ECB’s direct supervision as of 4 November 2014; moreover, on a global level, the four largest groups (BNPP, GBPCE, GCA and SG) qualify as global systemically important banks (G-SIBs).⁴ One of the main factors taken into account in these two classifications is the scale of their international business.

At the end of 2013, all five groups featured a far-reaching international presence, although their activities were concentrated primarily in advanced economies, with the top ten countries in terms of exposure accounting for 72% of their total cross-border (or foreign) claims. The majority of these exposures are denominated in euro (45.6%) and in dollars (34.5%), and correspond to medium- to long-term loans and advances to counterparties such as major corporations, retail customers, other credit institutions and central banks, originated by local branches of the parent company.

Since 2006, the international activities of these groups have undergone a number of transformations, linked in part to changes in the macroeconomic environment, and to new regulatory requirements concerning liquidity and own funds. Banks have been forced to rethink their strategies in terms of exposure, and broaden their international footprint and the scope of their activities. This has in turn added another level of risk to their banking and trading books. Between end-2006 and end-2013, the total foreign exposures of France’s main banking groups went from EUR 1,716 billion to close to EUR 2,550 billion (i.e. excluding guarantee commitments, from 26% to 35% of total banking assets); the rise proved particularly rapid up until December 2010, but exposures subsequently fell sharply due to the financial crisis and the global process of deleveraging, as French banks cut back their lending to foreign banks and, to a lesser extent, to non-bank private counterparties. Exposures to the public sector, meanwhile, continued to rise at more or less the same pace as before the crisis, although this mainly reflects large claims on central banks, especially towards the end of the period, when the economic and regulatory context was more favourable towards this kind of exposure.

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¹ The total assets of these five groups amounted to EUR 5,842 billion at 31 December 2013, compared with a total of EUR 6,687 billion for all institutions filing IFRS consolidated financial statements.

² Credit institutions recognised in France. Source: ACPR, – The French banking and insurance market in figures – 2013 (<http://acpr.banque-france.fr/publications/rapports-annuels/chiffres-du-marche-francais-de-la-banque-et-de-lassurance.html>).

³ i.e. EUR 5,842 billion against total GDP of EUR 2,091 billion (INSEE <http://www.insee.fr/fr/themes/comptes-nationaux>).

⁴ The Financial Stability Board has identified a total of 29 G-SIBs (in November 2013), defined as banks whose leverage ratio exposure exceeds EUR 200 billion. Crédit Mutuel Group also took part in this identification exercise.

⁵ This study is based on figures from the ENGAG_INT database of international exposures (http://esurfi.banque-france.fr/current/banque/tableaux/surfi/detail-dun-tableau-surfi/tableau/ENGAG_INT See Appendix 1 for further details).

⁶ Nadiath Kora-Yarou contributed to the statistical formatting for this study.

NOTES ON METHODOLOGY

To fully understand the data in this study, the following methodological notes must be taken into account.⁷

Choice of a conservative view of risk and an “immediate borrower” approach

Except where indicated otherwise, the exposure amounts given in this study correspond to the total consolidated gross off- and on-balance sheet claims of the five major French banking groups under review. In other words, these amounts do not take into account provisions booked to cover risks or guarantees received from borrowers. They therefore represent the maximum amount of risk exposure, corresponding to the total loss of the assets in question. The “immediate borrower” approach (or “immediate counterparty” approach) consists in designating the country of exposure for a transaction as the counterparty’s country of residence, rather than the country of residence of the ultimate guarantor of the transaction.⁸

This methodology means that the exposure amounts indicated are generally higher than those available from other public data sources (BIS, EBA), which are compiled using different methods.⁹

Change in methodology at end-2011

The data in this study cover the period from end-2006 to end-2013. The regulations on the disclosure of cross-border exposures to the ACPR by major French banking groups evolved as of 31 December 2011:¹⁰ the most notable changes were the switch from an accounting approach to a so-called risk-based approach (as used in COREP¹¹ reporting, for example), and an increase in the granularity of the counterparty categories. To ensure data continuity, therefore, particularly in section 2, the chronological series for counterparty types have been reconstructed, keeping all three categories from the former reporting method and grouping together the categories from the new method to resemble the old breakdown as closely as possible.

⁷ A full description of the methodology is provided in Appendix 1.

⁸ Under this immediate borrower approach, for example, in the case of a loan to a German bank located in Greece and guaranteed by an Italian bank, the country of exposure would be designated as Greece, not Germany. Under the ultimate risk approach, the country of exposure would be Italy.

⁹ The Bank for International Settlements (BIS) publishes consolidated banking statistics. The European Banking Authority (EBA) published certain European bank exposures to a list of countries as part of the stress test, recapitalisation or transparency exercises carried out since 2010.

¹⁰ For more details, see the presentation on the current reporting system for cross-border claims on the e-SURFI portal (http://esurfi.banque-france.fr/current/banque/tableaux/surfi/detail-dun-tableau-surfi/tableau/ENGAG_INT). e-SURFI contains information and documents relating to the regulatory disclosures banks are required to make to the ACPR as part of their ongoing supervision.

¹¹ Common Reporting.

Introduction

The growing internationalisation of French banking groups offers major benefits in that it provides access to greater growth opportunities; however, it can also make them more vulnerable in the event of economic or geopolitical tensions (financial crisis, emerging country crisis, etc.).

In the first section of this report, we look at the current international position of France's largest banking groups and the main features of their cross-border activities; in the second section we describe the main changes in these since 2006.

1. France's main banking groups have placed a strong focus on their foreign expansion

The push by French banks towards international expansion has been motivated primarily by the need to diversify their business portfolio and to take advantage of broader markets that are not experiencing the same cycles of growth and crisis. Those banks that have chosen to build up local branches in foreign markets have done so essentially to reduce the additional costs normally associated with carrying out non-resident transactions from a domestic base; operating expenses such as travel costs and legal fees can be shared across a portfolio of transactions when a company has its own local offices.¹² Thus, the large share of cross-border claims in the aggregate balance sheet of the five major French banking groups¹³ is a completely normal part of their development. At 31 December 2013, their total cross-border claims amounted to EUR 2,070 billion (close to EUR 2,550 billion including off-balance sheet items), accounting for more than a third of their consolidated banking assets.

1.1 A significant international presence

According to BIS statistics for the last quarter of 2013, the total amount of cross-border claims declared by reporting banks, on an immediate borrower basis, was USD 31,137 billion or close to EUR 22,600 billion. French banks accounted for some 10% of this figure (which does not cover all the claims included in the scope of this report)¹⁴ (**Table 1**), which is well above France's share of global GDP (3.8%).¹⁵

In Europe, only the United Kingdom has a stronger international banking presence, accounting for 12% of total cross-border claims against a global share of GDP of 3.7%.

¹² "F. Niepmann, "Banking across Borders with Heterogeneous Banks", *Federal Reserve Bank of New York Staff Reports* No. 609, April 2013 and B. Hills, G. Hoggarth, "Cross-border bank credit and global financial stability", *Quarterly Bulletin* 2013 Q2, p. 126-136, Bank of England.

¹³ In this report, the term "main French banking groups" refers to the following companies: BNP Paribas (BNPP), Groupe BPCE (GBPCE), Groupe Crédit Agricole, Groupe Crédit Mutuel (GCM) and Société Générale (SG). These five account for approximately 85% of total French banking sector assets and an even larger share of French banks' total cross-border claims.

¹⁴ Our calculations show that the five main French banking groups had a total of EUR 2,550 billion in cross-border claims at the end of 2013, which is higher than the figure published by the BIS due to the conservative approach adopted in this report. BIS statistics do not include off-balance sheet commitments and derivatives with a positive market value.

¹⁵ Source: International Monetary Fund or IMF (World Economic Outlook Database, April 2014).

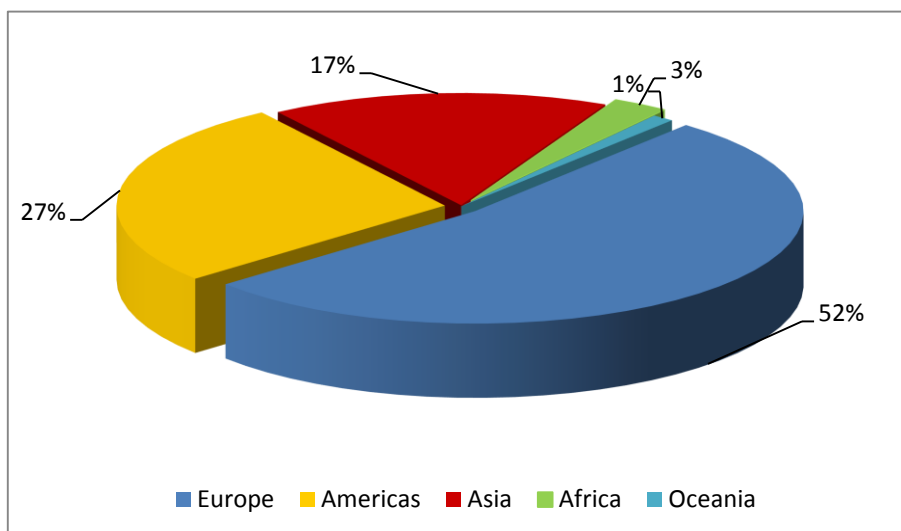
Table 1
Foreign claims declared by banks to the BIS at end-2013 in the top reporting countries – immediate borrower basis

At end 2013, in EUR billions	Amount	Share
Total claims for all reporting banks	22,578	100%
of which banks in the European union	10,948	48%
United Kingdom	2,748	12%
Japan	2,428	11%
United States	2,187	10%
France	2,163	10%
Germany	1,946	9%
Switzerland	1,310	6%
Spain	1,099	5%
Netherlands	936	4%

Source: BIS (consolidated banking statistics)¹⁶.

What are the main features of these international activities? A geographical breakdown of foreign claims shows that French banks are primarily exposed to Europe (52% **Chart 1**), essentially through transactions with euro area countries (37%, **Chart 2**).

Chart 1
Main French banks' cross-border claims by region at end-2013



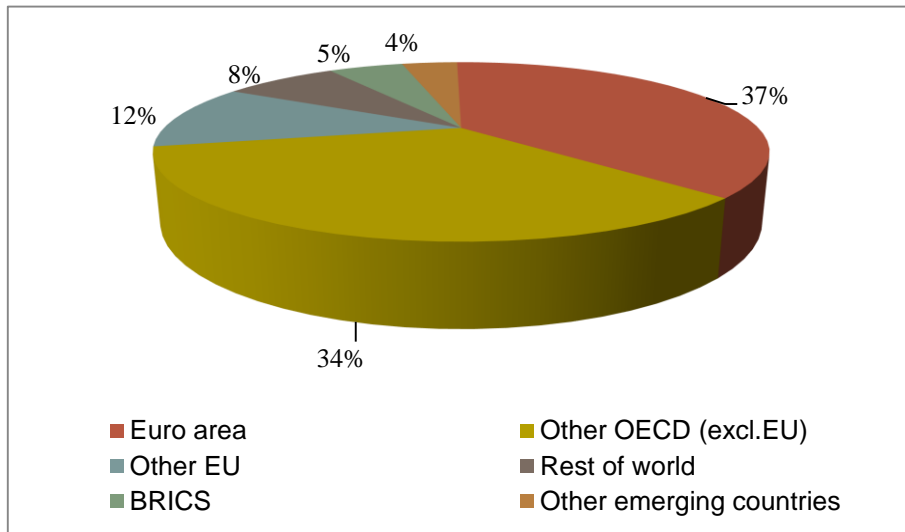
Other OECD countries, excluding the European Union, are the second largest area of exposure (34% of the outstanding stock of foreign claims **Chart 2**).

¹⁶The scope of BIS figures for cross-border claims differs from that of the benchmark data used in this study:

- Population difference: this study covers France's five biggest banking groups, whereas BIS data cover seven French banking groups.
- This study includes on- and off-balance sheet commitments. In BIS data, off-balance sheet commitments and derivative contracts are listed separately under "other exposures", and not under "Foreign claims".
- There is also a difference in the methodology used for derivatives – BIS data do not include all derivative contracts.

This explains why the total amount of bank foreign claims given by the BIS (EUR 2,163 billion) is lower than the benchmark figure for end-2013 for the five major French banking groups provided in this report (EUR 2,550 billion).

Chart 2
Main French banks' cross-border claims by economic area at end-2013

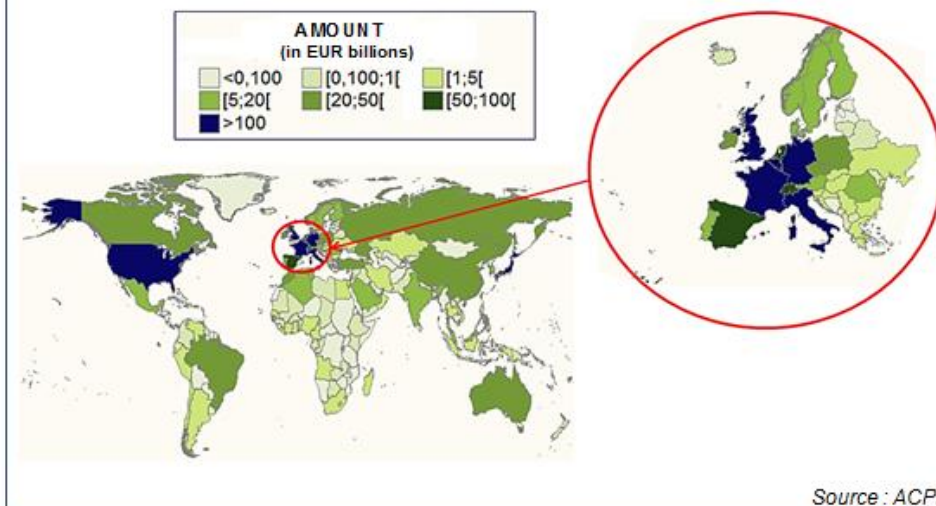


Source: ACPR.

1.2 A broad global footprint, but concentrated in a core of developed economies

An analysis of the countries covered by France's main banking groups shows that their international reach is broad (**Chart 3**). Nonetheless, the top ten countries in terms of exposure account for 72% of total foreign claims (**Table 2**): these include the world's leading financial centres (United States, United Kingdom, Japan), as well as the main euro area countries and France's principal neighbours (Italy, Belgium, Germany, Spain, Netherlands, Luxembourg and Switzerland).

Chart 3
Map of the foreign claims of France's main banking groups at 31/12/2013



Source: ACPR.

Total exposure to the first ten countries (including off-balance sheet items) amounted to EUR 1,833 billion, i.e. 72% of total foreign claims or 31% of the aggregate consolidated balance sheet of the five groups.

Table 2
The top 10 countries of exposure for France's main banking groups at 31/12/2013

Rank (at 31/12/2013)	Country	31/12/2013 In EUR billions	As a % of aggregate balance sheet	Share of all foreign claims	Cumulative of foreign claims
1	United States	571.5	10%	22%	22%
2	Italy	274.1	5%	11%	33%
3	United Kingdom	190.0	3%	7%	41%
4	Belgium	178.9	3%	7%	48%
5	Germany	171.6	3%	7%	54%
6	Japan	128.3	2%	5%	59%
7	Spain	91.1	2%	4%	63%
8	Netherlands	87.3	1%	3%	66%
9	Luxembourg	78.4	1%	3%	69%
10	Switzerland	62.2	1%	2%	72%

N.B.: Total world (excluding France) = EUR 2,549.4 billion at 31/12/2013
The exposure amounts (column 3) correspond to the total of all gross on- and off-balance sheet claims reported by the five banks. Column 5 shows each country as a share of total reported cross-border claims. Column 4 shows each country as a share of the aggregate balance sheet of the five banks at end-2013 (FINREP) i.e. EUR 5,842.7 billion.

Source: ACPR.

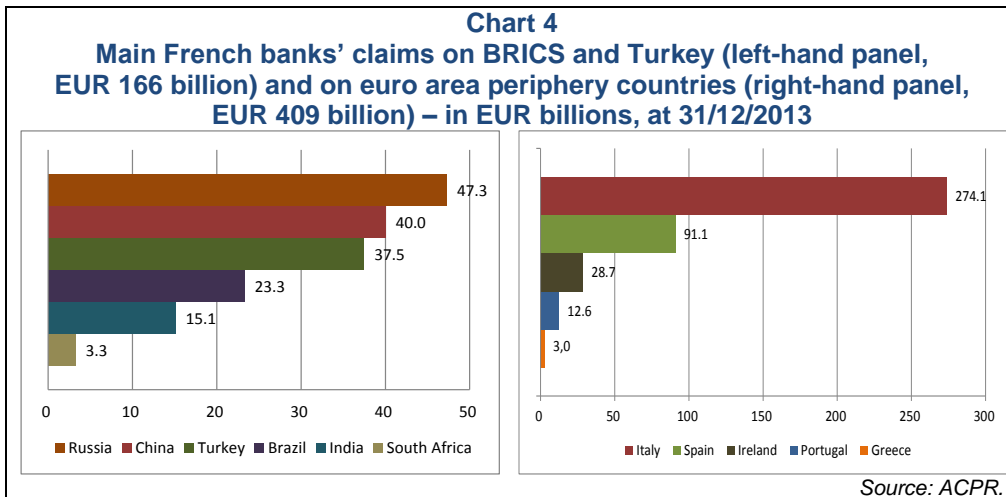
Apart from the United States and Italy, no single country accounts for more than 10% of foreign exposures or more than 3% of the banks' aggregate balance sheet (even using our conservative approach, i.e. including all on- and off-balance sheet items). Beyond this top ten, no individual country accounts for more than 1% of total banking assets (**Table 2**), indicating that although the nominal amount of these positions in euro may be large, they are still modest in relation to the banks' aggregate balance sheet.

1.3 A second, more diversified zone of expansion, but with higher risk

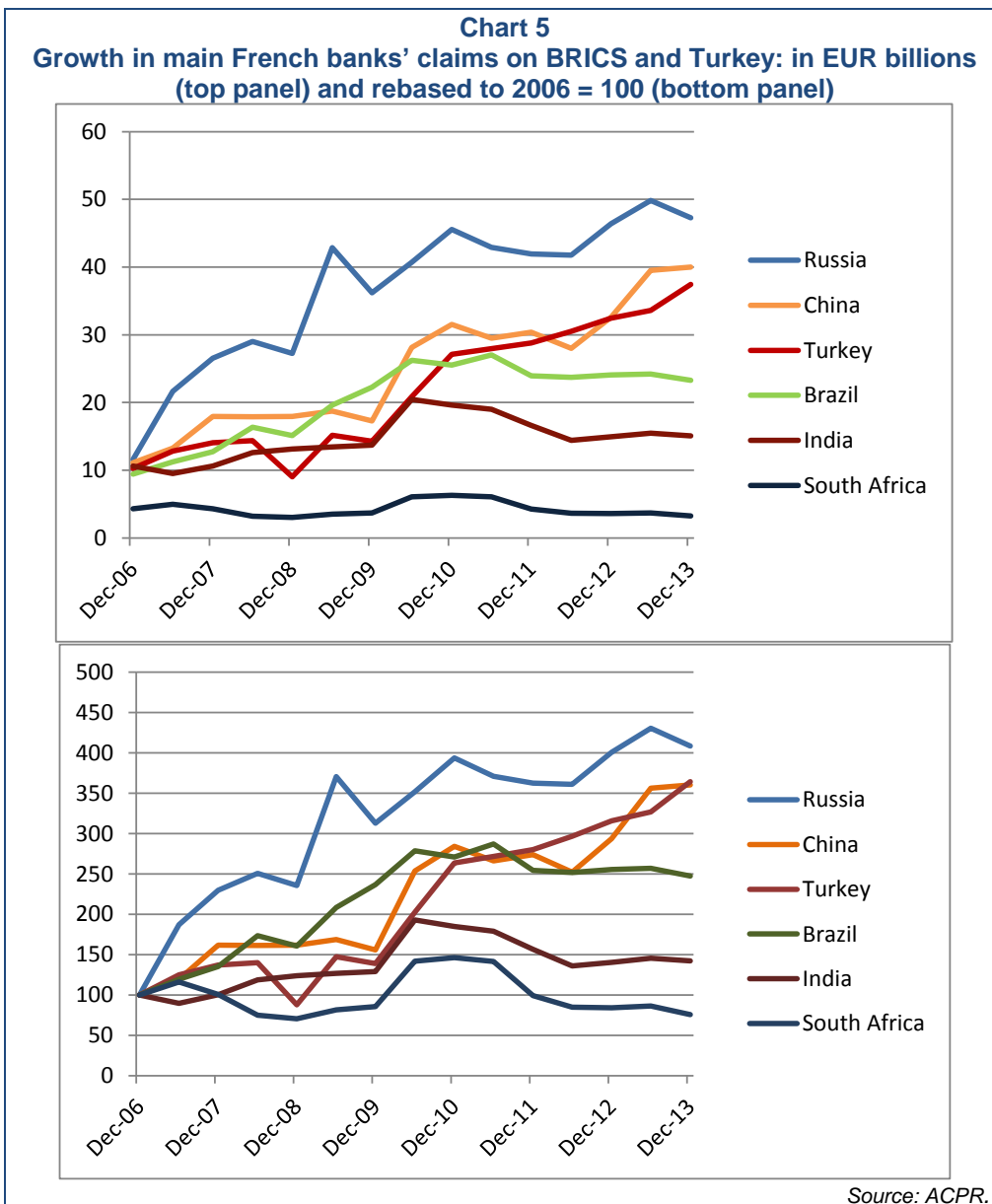
The main French banking groups are exposed to a more modest extent to a second group of 20 countries: positions vis-à-vis individual countries range from EUR 10 billion to EUR 50 billion and, together, all 20 countries account for around 20% of the banks' total foreign claims. The majority of the countries in this group belong to one of the following categories: emerging countries (mainly Russia, China, Turkey, Brazil); central European countries (Czech Republic, Poland, Romania); offshore financial centres (Cayman Islands, Singapore and Hong Kong); and countries with mining or energy resources (e.g. Australia, Canada, Saudi Arabia, United Arab Emirates).

The presence of French banks in emerging countries reflects their efforts to reach into higher-growth areas. As for countries with mining and energy resources, a significant portion of exposures in these areas are linked to structured financing, notably for energy and public infrastructure projects (natural gas, electricity, petrochemicals, desalination, etc.).

Direct exposures to the BRICS (Brazil, Russia, India, China, and South Africa) and to Turkey amounted to EUR 166 billion at end-2013, including EUR 47.3 billion to Russia. By way of comparison, among the euro area periphery countries (Italy, Spain, Greece, Ireland and Portugal), only Italy exceeded the BRICS + Turkey in terms of exposure (EUR 274.1 billion, **Chart 4**).



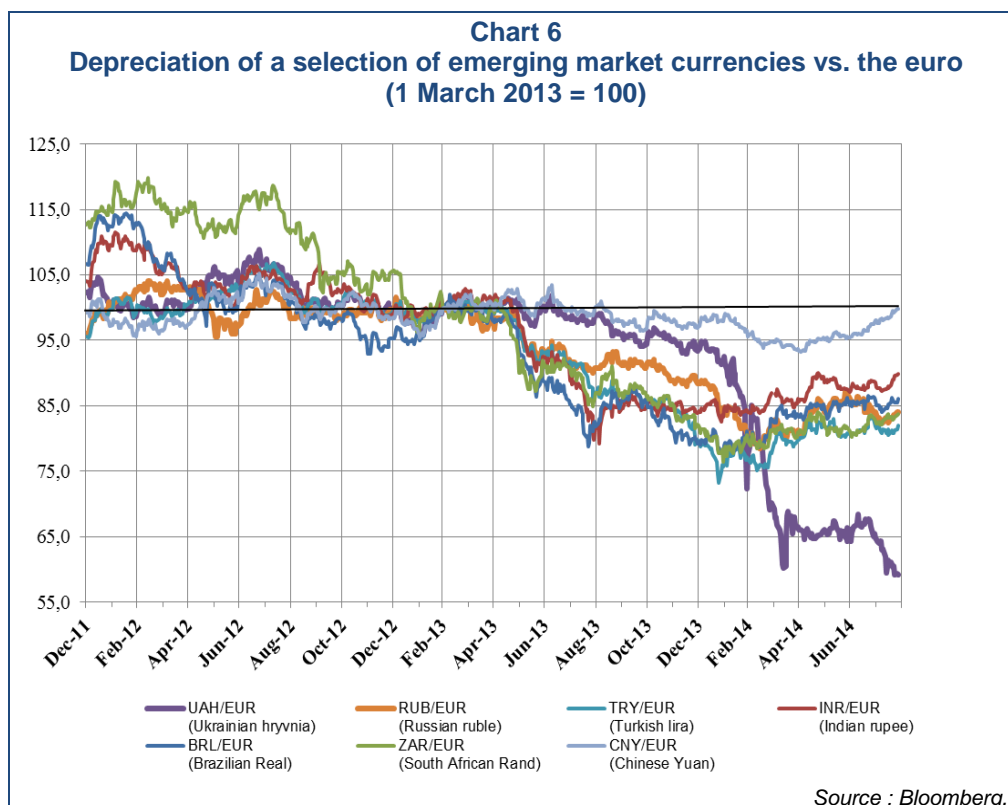
Moreover, outstanding claims on emerging market economies have not all risen at the same pace: Russia, China and Turkey have seen rapid growth, with exposures more than trebling between end-2006 and end-2010, albeit from initially small positions of around EUR 10 billion (**Chart 5**).



Although emerging countries can be said to have “benefited” from the financial crisis in the developed world via increased capital inflows, they have nonetheless experienced rising market tensions since the summer of 2013 and, in some cases, geopolitical pressures. Certain markets have seen strong volatility caused by persistent macroeconomic imbalances (slowdown in growth, high current account deficits, high inflation), and by the scaling back of the US Fed’s economic stimulus programme; this has in turn led to a significant flight of capital and a depreciation in their currencies.

In Russia and Ukraine, meanwhile, political tensions between the two countries have also sparked bouts of market volatility, again prompting major capital outflows and currency depreciation (**Chart 6**).

Nonetheless, the BRICS and Turkey cannot be regarded as a single, homogenous bloc in geographical or economic terms - each country presents its own specific risks.



These tensions have had a knock-on effect on banks throughout the euro area. In the case of France’s main banks, emerging market instability has the potential to undermine profitability and solvency by generating losses on credit claims and investments in the affected countries – a prolonged slowdown in growth would affect local borrowers’ ability to pay down debts, while currency depreciation also makes it harder for bank customers to repay loans contracted in foreign currencies.

1.4 Key features of banks’ international activities

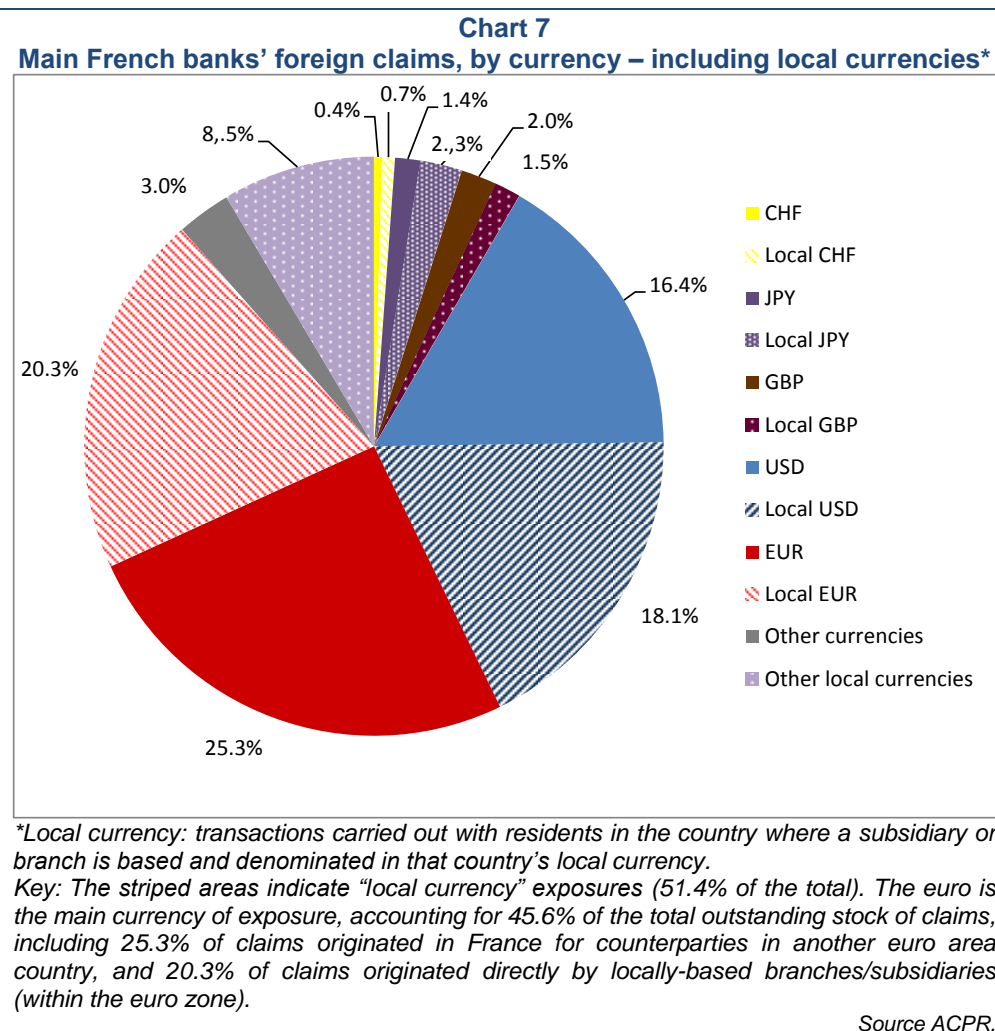
Some 80% of exposures are denominated in euro or dollars

France’s main banking groups are primarily exposed to the euro via their foreign activities: 45.6% of cross-border claims are denominated in the single currency, including 20.3% booked as “local euro” loans (**Chart 7**), i.e. originated by subsidiaries or branches located in euro area countries outside France.¹⁷

¹⁷ Exposures reported as being in “local currency” correspond to transactions carried out with residents of the country where the group’s subsidiaries or branches are located, and denominated in that country’s own currency. Thus, a loan in dollars made by a US subsidiary of BNPP to a US household

The second most important currency in terms of exposure is the US dollar, accounting for 34.5% of foreign claims, of which 18.1% are “local dollar” loans. The pound sterling, yen and Swiss franc together account for less than 7% of exposures.

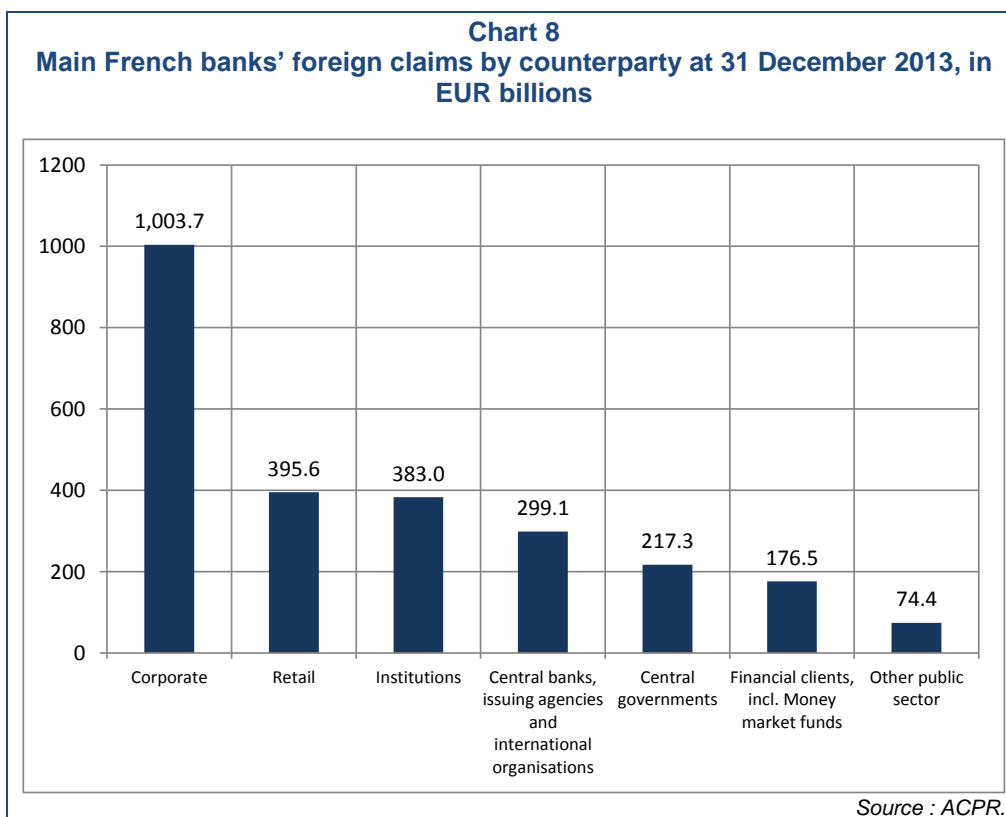
The high proportion of claims denominated in a local currency (51.4%) underscores the importance of activities carried out via subsidiaries and local branches (**Chart 23**). It also means that the groups only incur a moderate foreign exchange risk, as more than three quarters of their exposures are denominated in local currencies or in euro.



will be booked by BNPP as a “local currency” US credit claim (or USD local), and not a US dollar or USD credit claim.

Breakdown of claims by counterparty

Although the vast majority of cross-border exposures are to large corporations, the main French banks still have a significant stock of outstanding claims on retail customers and other credit institutions. Moreover, at end-2013, claims on central banks¹⁸ outstripped those on central governments (**Chart 8**).



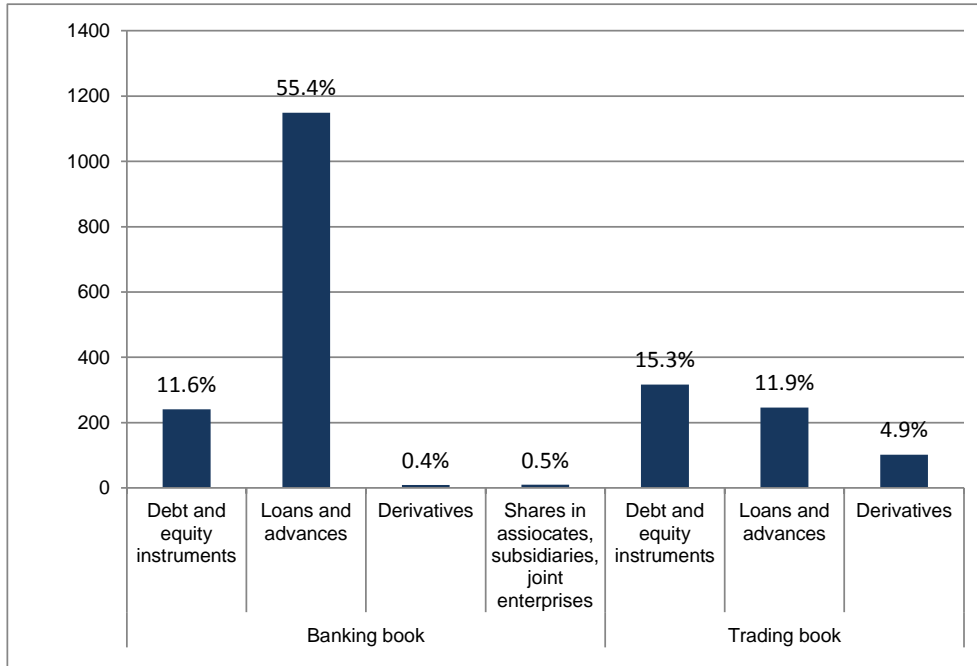
The majority of exposures consist of medium/long-term loans and advances.

In terms of underlying transactions, the majority of exposures (67%) fall under the category loans and advances (**Chart 9**), of which 55% are included in the banking book¹⁹ and therefore have a longer investment horizon than those in the trading book (see box below).

¹⁸ These amounts do not include assets held with the ECB and allocated to France. Note that, according to the BIS's FAQs "Banks in euro area reporting countries should report positions vis-à-vis the central bank in the reporting country."

¹⁹ As indicated in the methodological notes to the ENGAG_INT report, "the financial instruments listed in Engag_Int correspond to the definitions given under the IAS/IFRS international accounting standards adopted by the European Commission, and are listed according to whether they meet the criteria for inclusion in the banking book or the trading book, as defined in the amended Order of 20 February 2007 relating to capital adequacy requirements for credit institutions and investment companies."

Chart 9
Main French banks' foreign claims by book and asset type, in EUR billions and %



Source: ACPR.

Definition of the banking and trading books

Credit institutions are required to classify their on- and off-balance sheet assets under one of two categories when calculating their capital adequacy:

the **banking book** includes medium and long-term claims that give rise to a capital requirement in respect of **credit risk**.

the **trading book** comprises positions in financial instruments and commodities held for short-term trading purposes or to hedge other trading book positions, and giving rise to a capital requirement in respect of **market risk**. A position is deemed to be held for trading purposes if it is intended for resale in the short-term in order to take advantage of favourable changes in price or to lock in arbitrage gains. The prudential trading book is defined in the prudential regulations (point 86 of Article 4(1) of EU Regulation UE 575/2013).

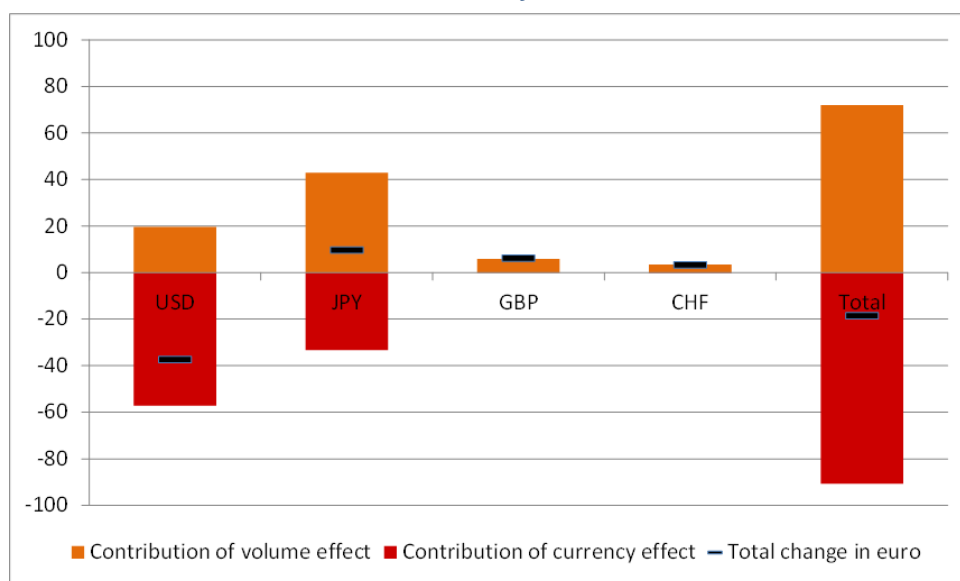
2. A long-standing and significant international presence, despite the impact of the financial crisis

In order to adapt to the increasing globalisation of banking activities, the main French banking groups have expanded their businesses abroad in an intensely competitive environment, taking advantage of the opening up of global capital markets. However, the financial crisis changed the pace and channels of this expansion, as banking groups switched their focus to emerging markets which offered higher rates of return than advanced countries. Thus, between end-2006 and end-2013, the cross-border claims of France's main banking groups went from EUR 1,716 billion to close to EUR 2,550 billion,²⁰ rising particularly sharply in the period up to 2010 before falling back slightly, in part due to the appreciation of the euro (see Focus below).

Focus: impact of currency variations on the value of foreign claims (2011-2013)

The figures in this study are based on the amounts converted into euro reported by the banking groups. As a result the changes described here include both a volume effect (linked to the change in the total value of the positions expressed in foreign currency) and a currency effect (linked to the appreciation or depreciation of the foreign currency against the euro). An assessment of the main currencies of denomination of foreign claims (excluding the euro) for the period 2011-2013²¹ (**Chart 10**) shows that the slight decline in the amount of the positions was linked primarily to the appreciation of the euro against the dollar (+7% over 3 years) and against the yen (44% over 3 years). Excluding currency effects, the amount of the positions in fact rose.²²

Chart 10
Contributions to the 2011/2013 change in French banks' foreign exposures:
volume effect and currency effect, in EUR billions



Key: between 2011 and 2013, the amount of exposures fell by some EUR 20 billion against the USD, JPY, GBP and CHF. However, this net decline masks a rise of around EUR 70 billion at constant exchange rates (2013 euro) in local currencies (rise in the volume of transactions), which was offset by a decline of around EUR 90 billion stemming from the appreciation of the euro against the main currencies (currency effect).

²⁰ From 26% to 35% of their total banking assets.

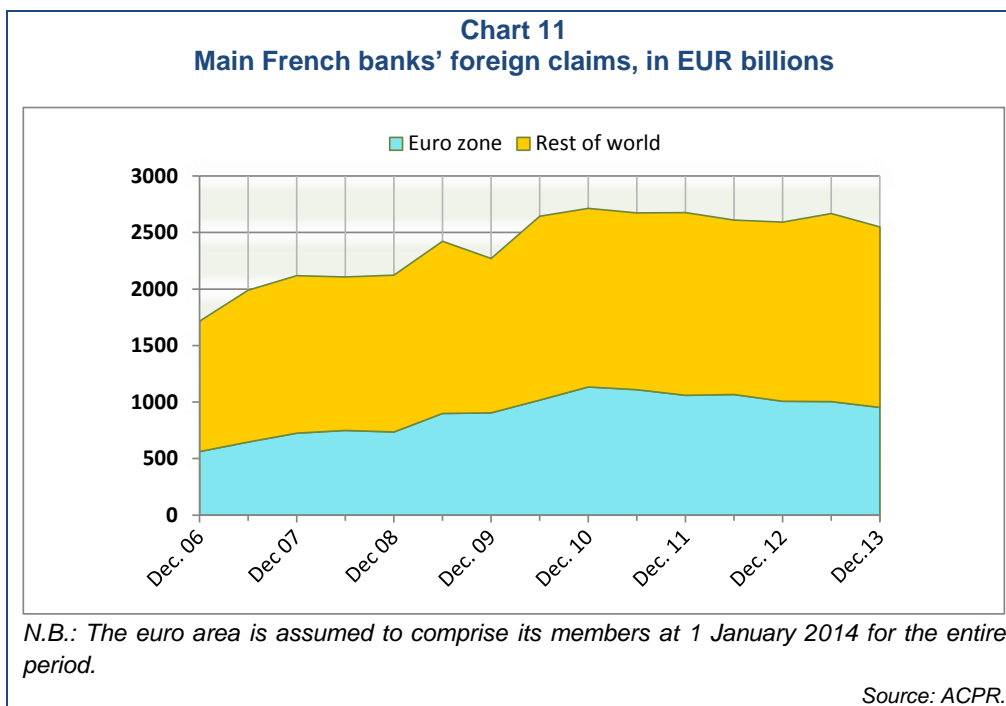
²¹ Reporting banks have only disclosed the original currencies of their foreign claims since 2011 in ENGAG_INT; as a result it was not possible to assess the currency effect for the entire period under review.

²² Mainly the Japanese yen (JPY), and the US dollar (USD), but also, to a lesser extent, the pound sterling (GBP) and the Swiss franc (CHF).

2.1 The underlying trend towards cross-border expansion was slowed by the crisis

French banks have been expanding their international activities for a long time, and as part of a very gradual process: BancWest, for example, only became a wholly owned subsidiary of BNPP in 2001, even though BNPP first began investing in the US market in the 1970s.²³

Between the end of 2006 and the end of 2013, the foreign claims of France's main banking groups grew from EUR 1,716 billion to close to EUR 2,550 billion, rising sharply up to June 2009 (EUR 2,422 billion), and peaking again in December 2010 (EUR 2,713 billion), before stabilising and falling back again slightly over the remainder of the period (**Chart 11**).



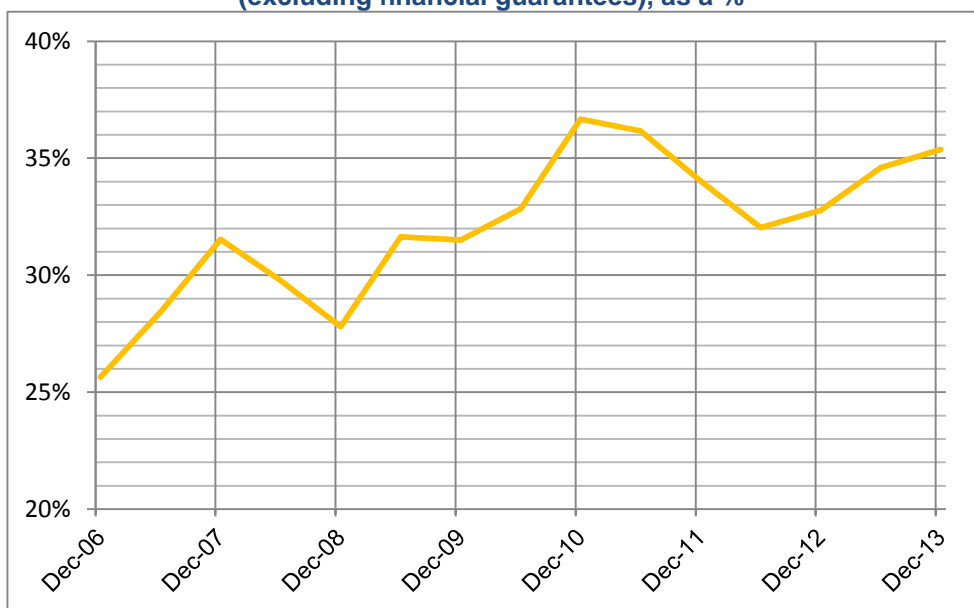
The slight fall between 2011 and 2013 was in part due to a currency effect, as the appreciation of the euro at this time led to a fall in the value of investments denominated in local currencies. Over the entire period 2006-2013, the euro rose by just 5% against the dollar, and was at more or less the same level against the yen at end-2013 as it was at the start of 2006; however, this masks strong fluctuations in both currencies during the period, especially between 2008 and 2009, which affect the analysis of variations in exposures over time (see Focus: Impact of currency variations).

Following the creation of the euro area in 2000, the main banks focused a large part of their foreign expansion on European countries and notably the single currency bloc. At end-2006, Europe already accounted for some 25% of their aggregate balance sheet (excluding guarantees) (**Chart 12**).

French banks' European exposures subsequently grew rapidly up to the 2008 financial crisis, and again in the period prior to the sovereign debt crisis of 2011, reaching 37% of total banking assets at end-2010.

²³ In 1970, Banque Nationale de Paris (BNP) set up the French Bank of California. In the 1970s, First National Bank of San Jose changed its name to Bank of the West. In 1979, BNP bought Bank of the West and merged it with French Bank of California.

Chart 12
Main French groups' foreign claims as a share of their total balance sheet
(excluding financial guarantees), as a %²⁴



Note: the difference in relation to Chart 2 (“% of total balance sheet” column) is due to the exclusion here of financial guarantees. This adjustment was made to avoid overstating the total amount of foreign exposures in relation to the balance sheet, as loan guarantees which have not yet materialised are not included in balance sheet exposures.

Source: ACPR.

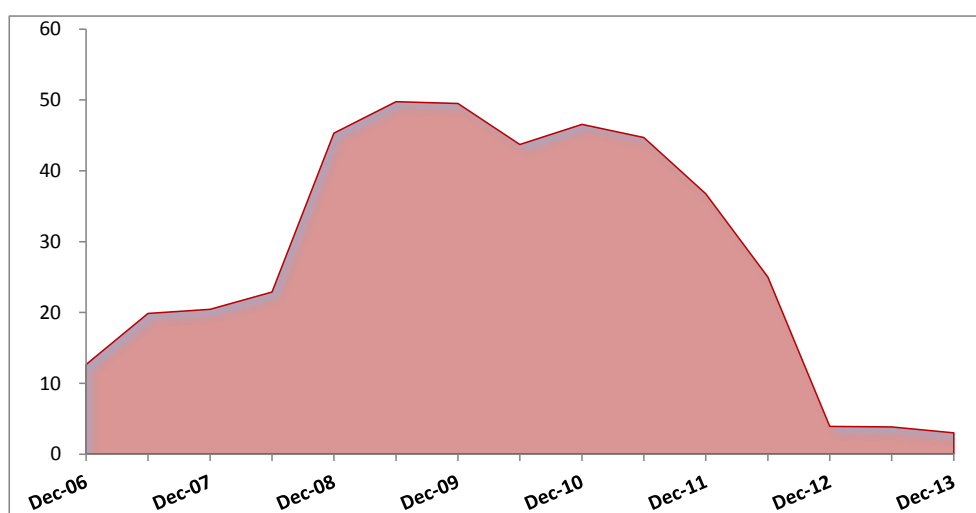
The process of European integration, culminating at the start of the 2000s with the launch of the euro, led to emergence of “quasi” domestic markets in neighbouring countries such as Germany, Belgium, Spain and Italy.

The main French banking groups made significant acquisitions in these countries: BNPP bought Banca Nazionale Del Lavoro (BNL) in Italy in 2006 (included in the reported foreign commitments as of 2007), the sixth largest player in the Italian banking market, and in 2009 acquired Fortis in Belgium (included in foreign commitments as of 2010). GCA, meanwhile, bought Greece’s Emporiki in 2006 (included in data as of 2008);²⁵ the latter accounted for nearly all of French banks’ Greek exposure up to the outbreak of the Greek debt crisis in 2011-2012, after which French and other banks began to pull out of the country en masse (the sale of Emporiki at end-2012 is the most representative example of the trend) (**Chart 13**). One of the last groups to expand abroad was GCM, which acquired Targo Bank in Germany in 2008 in response to criticism from the rating agencies that its activities were too domestic-focused.

²⁴ Note that the total value of the balance sheets of the five main banking groups fell in 2013, in part due to the application of IAS 32 by Crédit Agricole, as explained in [Analyse et Synthèse No. 29](#) on the financial performance of France’s main banking groups in 2013: “The aggregate balance sheet for the five banking groups declined 7.5% between 2012 and 2013. Although significant, the fall was largely the result of an accounting change at Crédit Agricole Group concerning derivatives cleared through central counterparties.”

²⁵ See Appendix 2 for a table listing the principal acquisitions of the five main French banking groups.

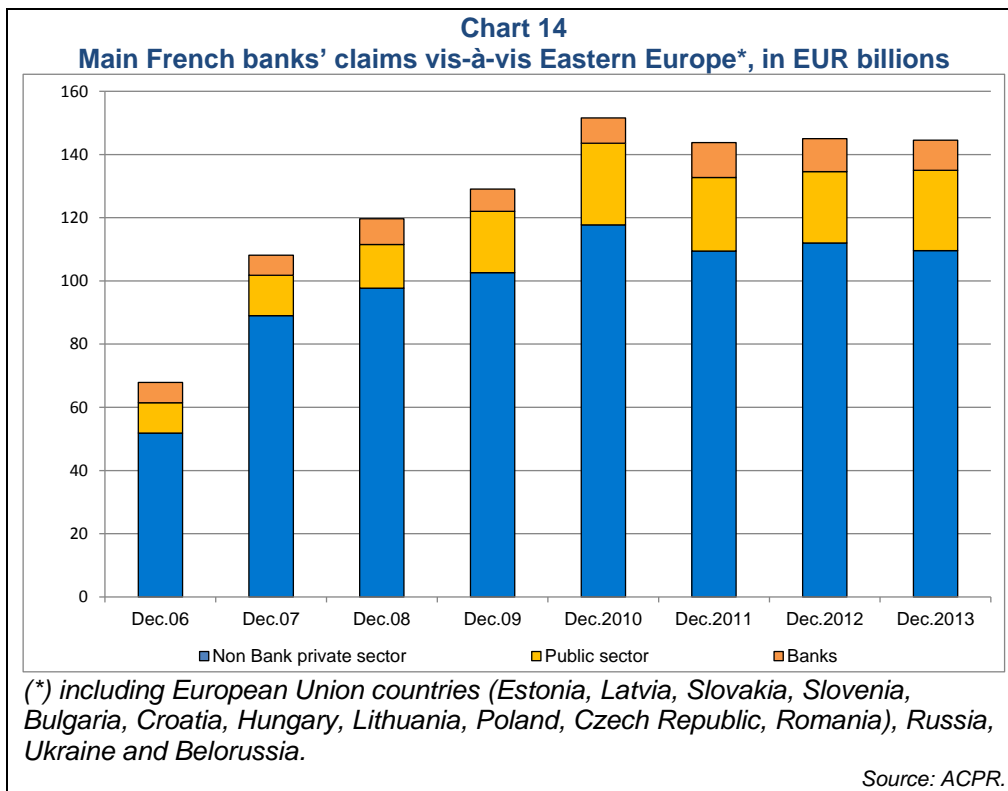
Chart 13
Main French banks' exposures to Greece, in EUR billions



Source : ACPR.

Between end-2006 and end-2010, the main French banks' claims vis-à-vis euro area countries doubled to just over EUR 1,100 billion, before declining slightly from their 2010 peak under the impact of the crisis, and finishing at EUR 953 billion at end-2013 (**Chart 11**).

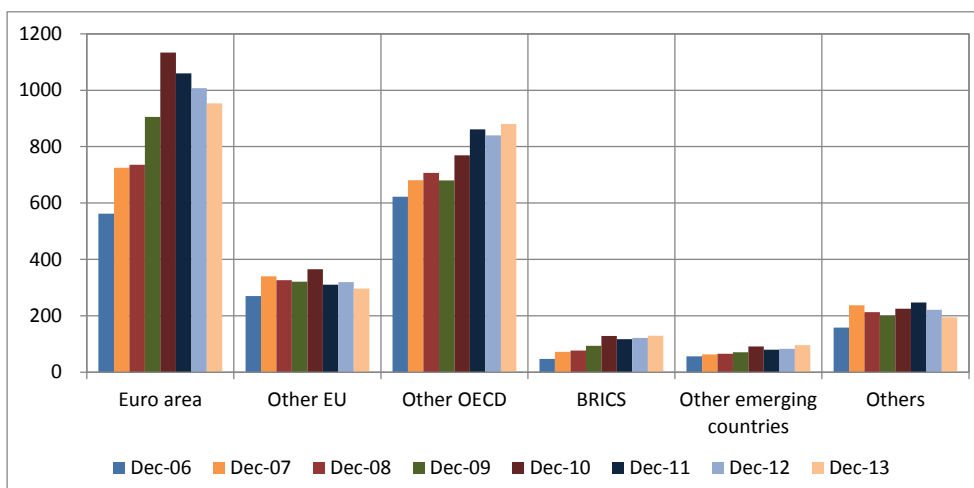
Exposures to Eastern Europe followed a similar trend, rising to a peak between 2006 and 2010 before falling back slightly in subsequent years (**Chart 14**). The majority of claims were loans to large corporates and retail customers, primarily in the following four countries: Russia (32%), the Czech Republic (23%), Poland (17%) and Romania (11%). Indeed, these four saw the sharpest growth in the period 2006-2010, particularly Russia and Poland where exposures virtually tripled. French banks then pulled out of Eastern Europe to an extent, reducing their exposures in the region from EUR 152 billion to EUR 145 billion (Eastern Europe accounted for around 3% of the total foreign exposures of France's main banking groups for the period 2006-2013).



Outside the euro area, claims grew at a slightly slower but nonetheless dynamic pace, especially in the period from end-2006 to end-2010 (+37%, **Chart 11**). This process of cross-border expansion enabled French banks to diversify their risk exposure and tap new sources of growth in countries experiencing higher rates of expansion than France. Prior to the crisis, the euro area accounted for the lion's share of their exposure, far outstripping non-EU OECD countries (**Chart 15**); from 2010 onwards, however, French banks cut their positions vis-à-vis euro area countries (from 42% to 38%), in favour of non-EU OECD countries (**Chart 15** and **Chart 16**).

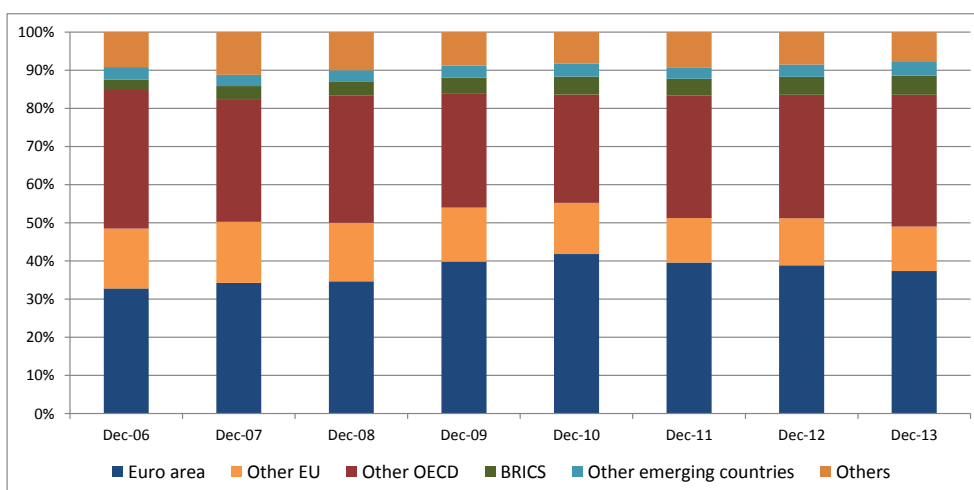
In addition, as French banks have had to keep pace with the international expansion of their large corporate clients, the variation in their foreign claims reflects differences in economic growth rates between countries.

Chart 15
Main French banks' foreign claims by geographical area, in EUR billions



Source: ACPR.

Chart 16
French banks' principal geographical areas of exposure as a % of total foreign claims

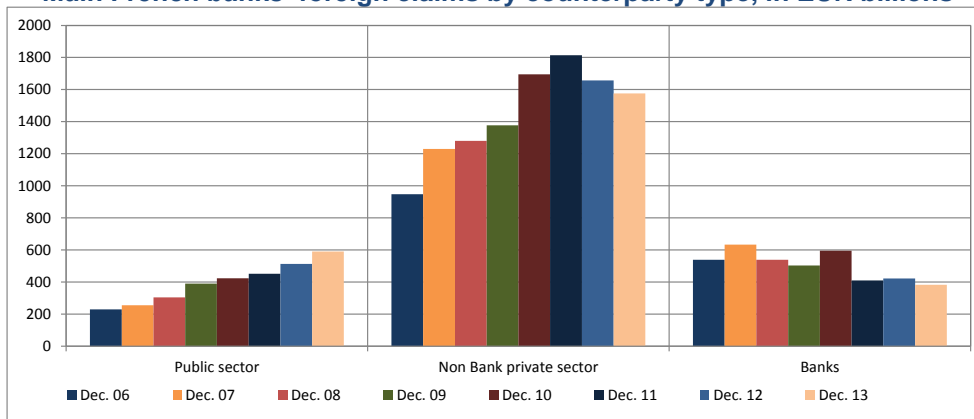


Source: ACPR.

2.2 A sharp reduction in cross-border interbank exposures since the 2008 financial crisis

At end-2013, the main French banks were less exposed to foreign financial institutions than before the collapse of Lehman Brothers; indeed, after peaking in 2007 (EUR 633 billion), their claims on other banks had fallen to EUR 383 billion by end-2013. The decline was almost continuous over this seven-year period, with the exception of 2010 when exposures rose to EUR 595 billion (**Chart 19** and **Chart 18**).

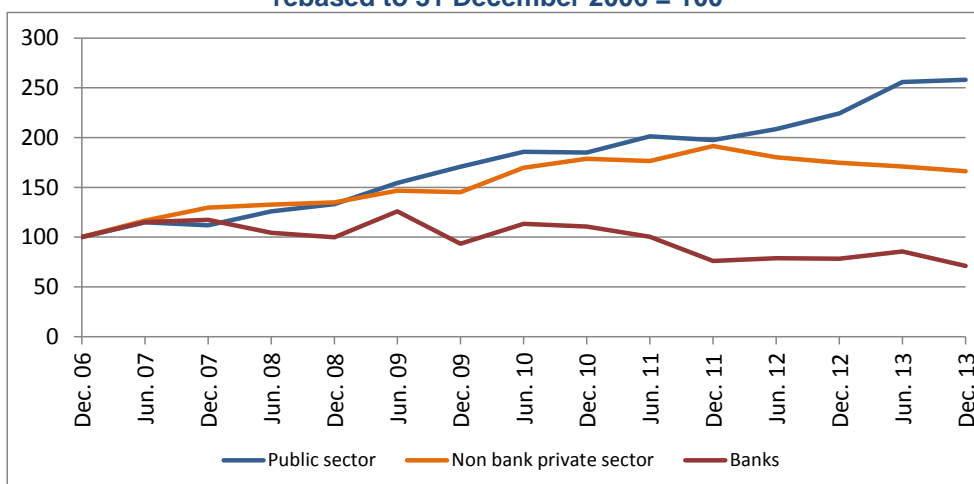
Chart 17
Main French banks' foreign claims by counterparty type, in EUR billions



Note: The category public sector includes central governments, central banks and other public bodies (see section 2.4 below).

Source : ACPR.

Chart 18
Change in main French banks' claims on their principal counterparties, rebased to 31 December 2006 = 100



Note: The category public sector includes central governments, central banks and other public bodies (see section 2.4 below).

Source : ACPR

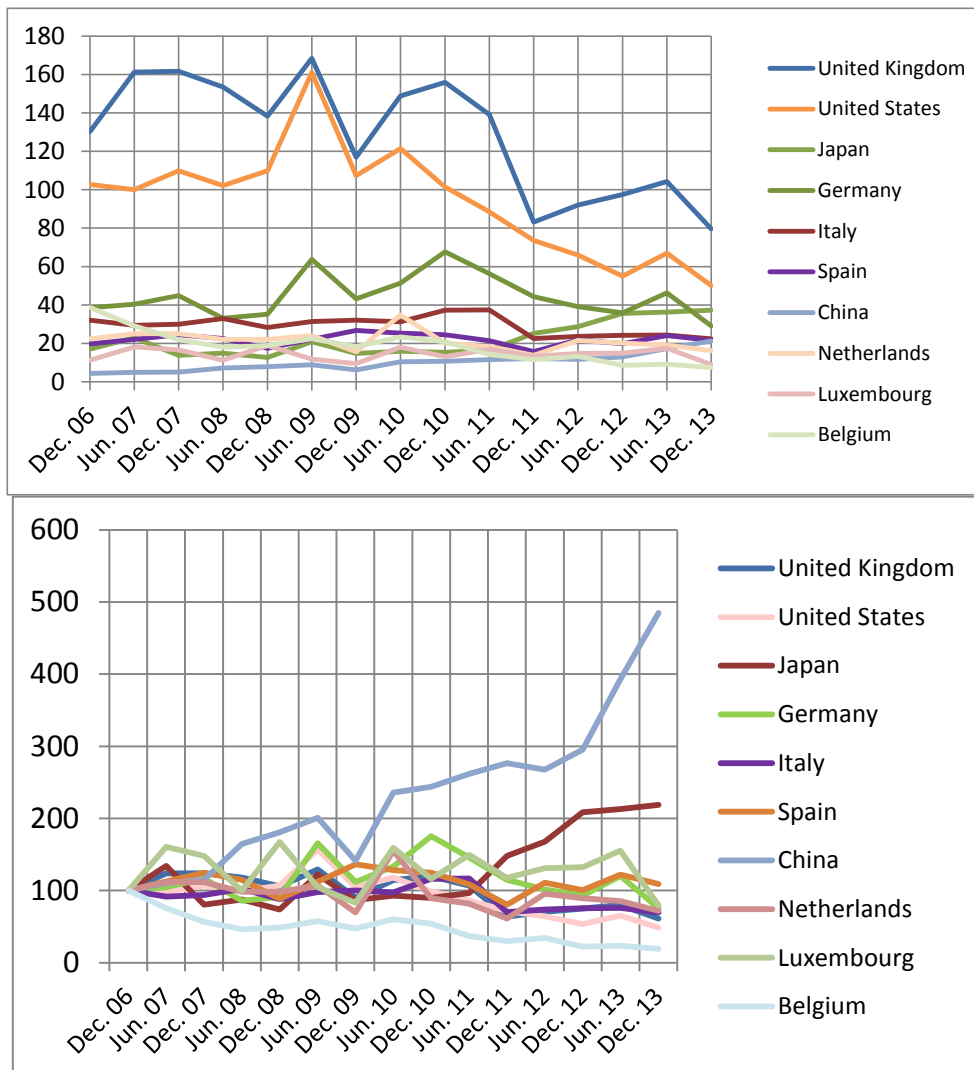
Following the initial freeze in the interbank market at end-2008 and the subsequent period of normalisation over 2009, the emergence of tensions in the sovereign debt market in 2010 raised fresh concerns over the solvency of banks in the affected countries (see section 2.3 below).

The only countries where French banks increased their claims vis-à-vis financial institutions over 2006-2013 were Japan and China (**Chart 19**). In the case of China, interbank claims rose at a very sharp pace, although this was from a particularly low starting point of EUR 4.4 billion at end-2006, and total exposures to China at end-2013 still only amounted to EUR 40 billion (**Chart 4** above). Moreover, due to regulatory restrictions on foreign competition in the Chinese banking market, French banks only have limited retail banking activities in the country (accounting for just 1% of their commitments in China).

With regard to Japan, the rise in exposures can largely be attributed to the overall upward trend in cross-border claims over the period, aside from the currency effect described above (+31% in two years), as well as to an improvement in Japanese banks' finances.²⁶

²⁶ As indicated in an OECD study, "Japanese banks generally have strong balance sheets."
<http://www.oecd.org/fr/eco/etudes/Synth%C3%A8se%20Japon%202013.pdf>

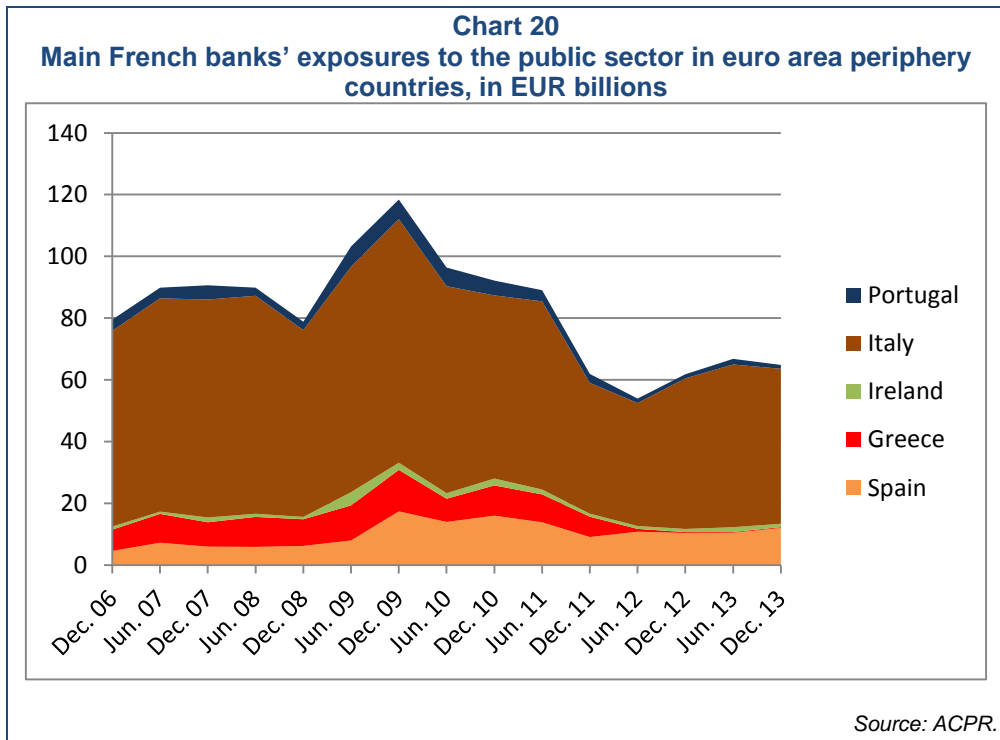
Chart 19
Main French banks' foreign interbank claims in the top 10 countries of exposure at end-2013: in EUR billions (top panel) and rebased to end-2006 = 100 (bottom panel)



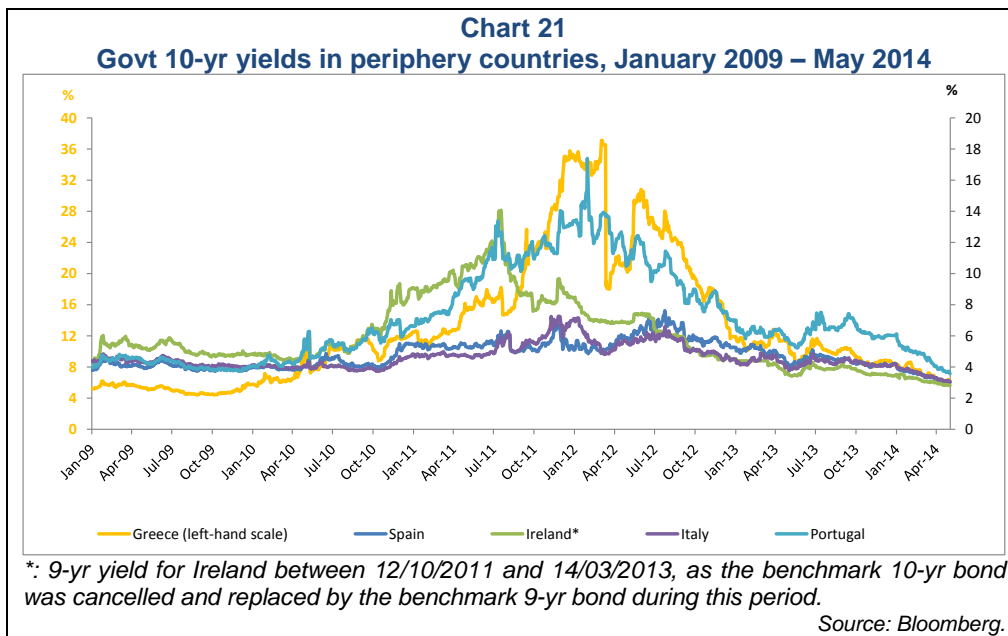
2.3

2.4 From mid-2010 onwards, the level and distribution of foreign exposures was affected by the sovereign debt crisis

As described previously, after rising almost continuously up to the middle of 2010, the volume of French banks' foreign claims stabilised overall, but declined in euro area countries (**Chart 11**). The intensification of the Greek sovereign debt crisis (the first Greek bailout was in May 2010), and its subsequent spread to other euro area periphery countries (Ireland, Portugal, Spain and Italy) led to a widespread reduction in claims vis-à-vis public sector counterparties in the affected economies (**Chart 20**).



The European sovereign debt crisis illustrated all too well the links between sovereign risk and bank risk. In certain countries (Spain and Ireland), governments could not afford to bail out their national banking sector on their own; doubts were subsequently raised over the solvency of certain governments (Greece, Italy), as demonstrated in the sharp rise in risk premiums and thus in the rates these governments had to pay on their borrowing (**Chart 21**); and this in turn sparked deep concerns over the solvency of banks holding those countries' debt.

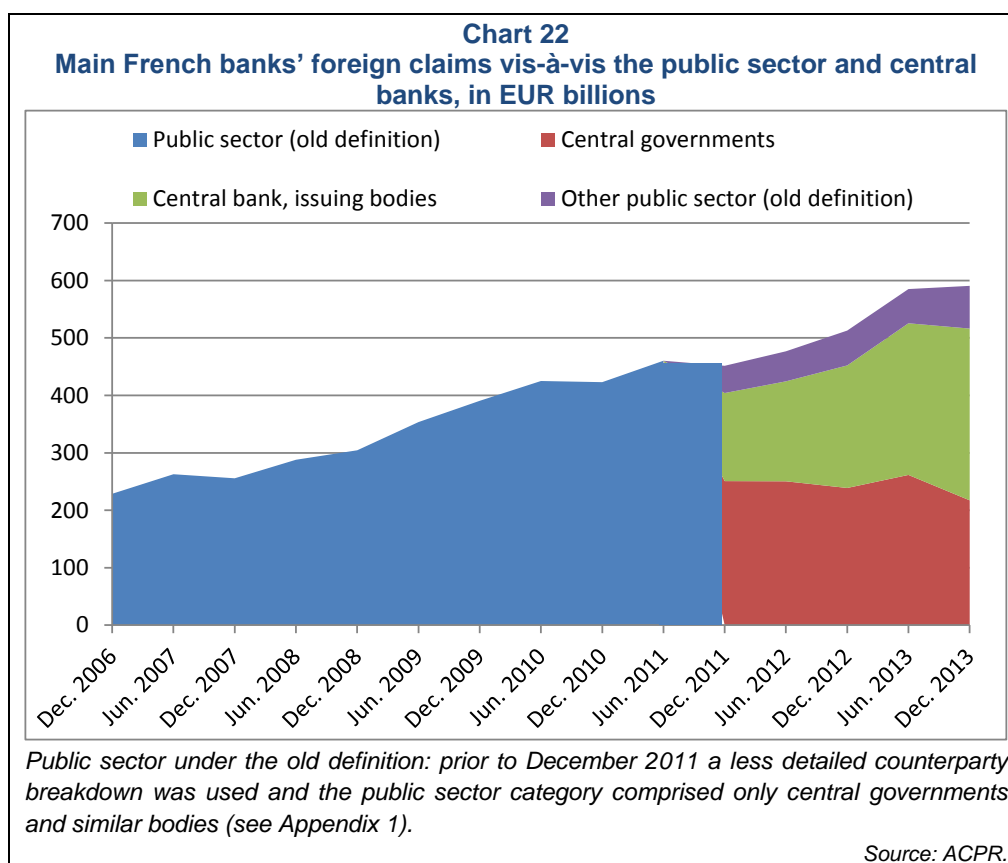


The next stage of the crisis was a contraction in overall economic activity and thus in the activity of the main banks' clients. In addition, in a context of sluggish global growth and increased regulatory requirements (notably capital ratios), acquisitions became rare and highly selective, with banks opting instead to focus on internal restructurings, spinning off certain business lines or bringing them back in-house.

This phenomenon has widely been described as a vicious circle.²⁷ It was one of the main reasons behind the creation of the European Banking Union, which was a major step towards breaking the links between bank risk and sovereign risk. However, despite this backdrop, the overall level of cross-border claims remained high, thanks in large part to continued growth in exposures to the public sector (under the broad definition of the term, i.e. including central governments, central banks and other public sector bodies).

2.5 Claims on the public sector and central banks have risen thanks to a favourable regulatory environment

Since 2006, outstanding claims on the public sector and central bank counterparties have tripled, to total EUR 600 billion at end-2013 (**Chart 22**).



There are a number of factors behind this growth, notably the size of transactions with foreign central banks,²⁸ and the accumulation of additional deposits at central banks. An analysis of outstanding claims vis-à-vis the main countries of exposure shows that, in some, claims on central banks account for over three quarters of exposure to the public sector (**Table 3**). In 2013, the item “Cash and deposits held with central banks”, which falls under the public sector category, rose sharply (increase of EUR 203 billion),²⁹ in part due to French banks’ efforts to build up liquidity reserves in order to prepare for their future liquidity coverage ratio requirements (LCR).

²⁷ Carmen Reinhart, Kenneth Rogoff (2009a; 2010). Brunnermeier et al. 2011.

²⁸ Due to a lack of available data over a longer period, it was not possible to determine the share of exposures to central banks prior to 2011 and therefore to distinguish between different public entities.

²⁹ *Analyses et Synthèses* No. 29, May 2014.

Table 3
Main French banks' foreign claims vis-à-vis the public sector at 31/12/2013, in EUR billions

Country	Government (1)	Central Banks* (2)	Other public sector (3)	Total public sector (4) = (1)+(2)+(3)	Central banks as a share of total public sector (5) = (2)/(4)	Breakdown of Central banks* exposures by country : (6) = (2)/(total (2))
United States	42.0	158.7	20.6	221.3	72%	53%
Italy	37.1	4.2	8.9	50.2	8%	1%
Belgium	22.7	7.8	12.7	43.1	18%	3%
Germany	21.2	14.3	6.7	42.1	34%	5%
Japan	11.3	23.6	2.8	37.8	63%	8%
Luxembourg	2.4	15.9	4.0	22.3	71%	5%
United Kingdom	5.1	15.2	0.3	20.6	74%	5%
Switzerland	0.5	12.2	1.0	13.7	89%	4%
Spain	7.9	0.1	4.0	12.0	1%	0%
Netherlands	9.1	1.7	0.1	10.9	15%	1%
Total for top 10	159.3	253.7	61.1	474.1	54%	85%
Total for all countries (excl. France)	217.3	299.3	74.9	591.5	51%	100%

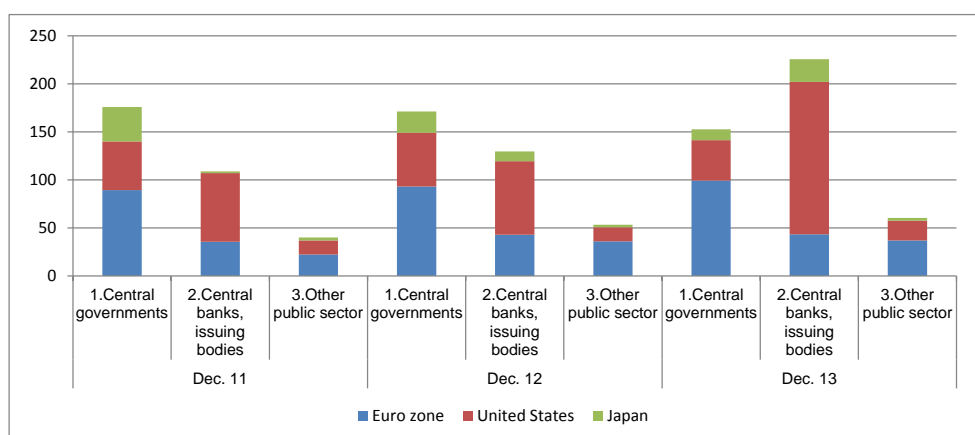
* Central banks, issuing bodies and international bodies

Note: the amount of outstanding claims reported in France alone at end-2013 was EUR 513 billion, of which EUR 222 billion were claims on the government, EUR 201 billion on other public sector bodies and EUR 90 billion on the central bank.

Source: ACPR.

The rise registered in the United States is primarily due to an almost twofold increase in claims on the Federal Reserve between 2011 and 2013 (+107%: see **Chart 23**); indeed, French banks now deposit all surplus dollar funds obtained from Money Market Mutual Funds with the Fed, and these funds rose sharply from 2011 to 2013.

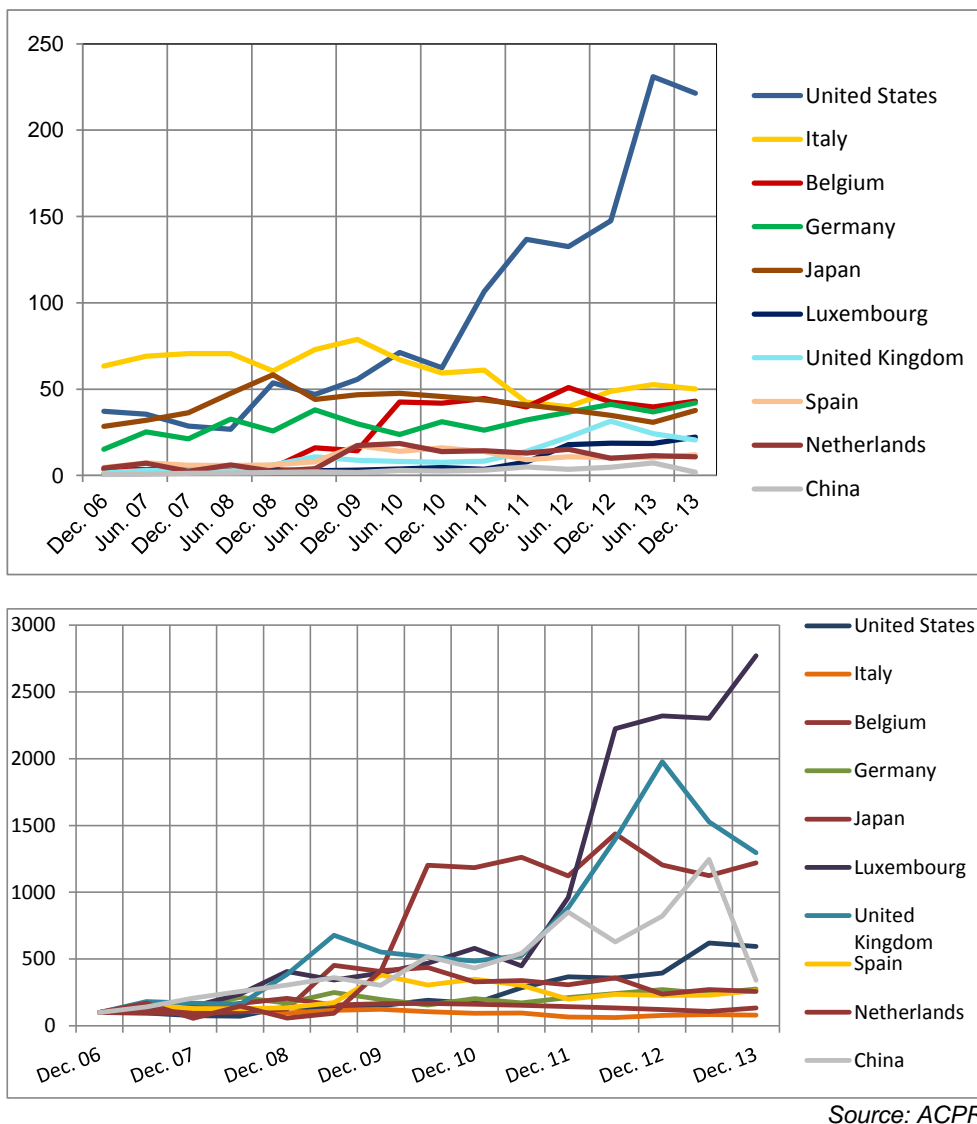
Chart 23
Main French banks' cross-border claims vis-à-vis the public sector in the top three geographical areas of exposure (United States, euro area(*) and Japan) at 31/12/2013, in EUR billions



Source: ACPR.

Government debt holdings nonetheless remained high over the period, and even rose in the first half of 2013 (**Chart 22** above). However, in a sign of the general “flight to quality”, banks tended to focus more on countries deemed to have sounder finances: hence US bond holdings rose and German bond holdings remained stable (see **Chart 24** on the countries considered less risky). Another indication of this is the fall in exposures to euro area periphery countries (Greece, Ireland, Italy, Portugal and Spain – the PIIGS).

Chart 24
Foreign claims on the public sector and central banks in the top 10 countries of exposure, at end-2013: in EUR billions (top panel) and rebased to 2006 = 100 (bottom panel)



Source: ACPR.

This shift towards government debt and central bank deposits, despite concerns over the sovereign debt crisis, largely reflects efforts by banks to increase their holdings of liquid assets which generate lower capital requirements. However, these holdings still need to be monitored closely in the current context of public debt crises.³⁰

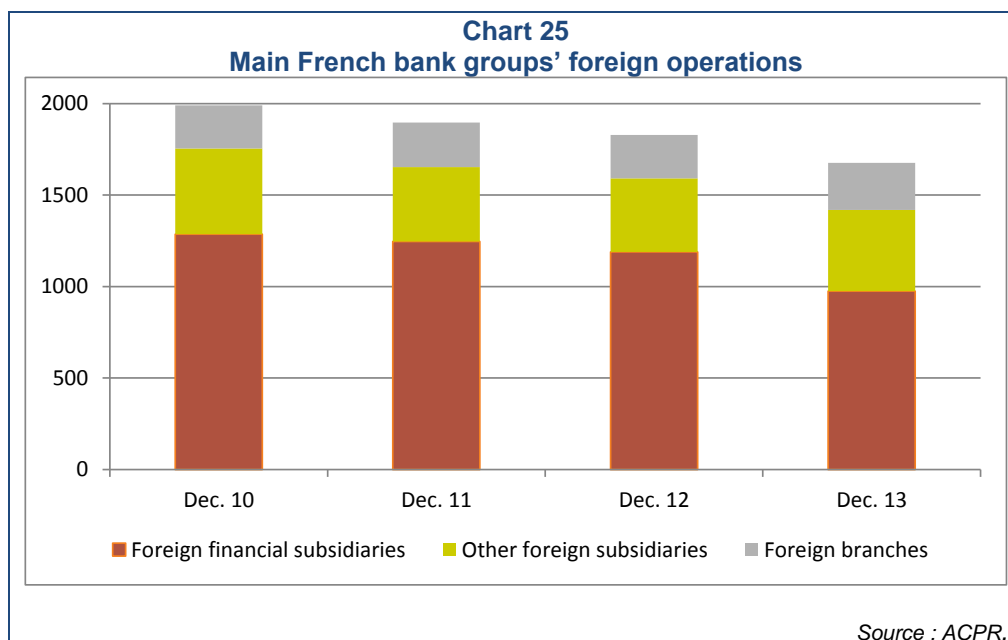
2.6 Foreign operations and activities with non-bank private clients have been adapted to the new financial and regulatory context

There are a number of ways in which banks can develop an international banking business: first, they can operate out of their existing domestic offices (cross-border transactions); second, they can set up a local branch or subsidiary in a foreign country; and third, they can create a new foreign entity from scratch or acquire an existing credit institution with an established network of branches.

³⁰ For details of the prudential regulations relating to sovereign exposures, see article by D. Nouy in the April 2012 *Financial Stability Review*.

The development of French banks' foreign banking operations

In the case of the main French banking groups, a large share of their international expansion has been achieved through the creation of local structures. At end-2013, the five groups under review had around 1,700 foreign operations, of which some 85% were local subsidiaries, notably financial subsidiaries (excluding insurance companies), and 15% were foreign branches of their existing domestic operations (see **Chart 25**).



Nonetheless, this figure of 1,700 was low for the period, particularly with respect to 2010; prompted by the crisis and the introduction of new regulatory requirements, many French banks chose to sell off certain non-core activities.³¹

Aside from creating operational difficulties (e.g. the challenge of merging the reporting systems of all the consolidated entities), a broad international presence clearly increases the likelihood that a bank will have a systemic impact in the event of its default, and also makes it harder to organise its resolution.³² Efforts have thus been made to limit banks' global expansion by tightening prudential requirements and ensuring greater regulatory coordination between countries.³³

As a result of these moves, banking groups may find there is no real benefit to be gained from expanding internationally, except in their most profitable activities.

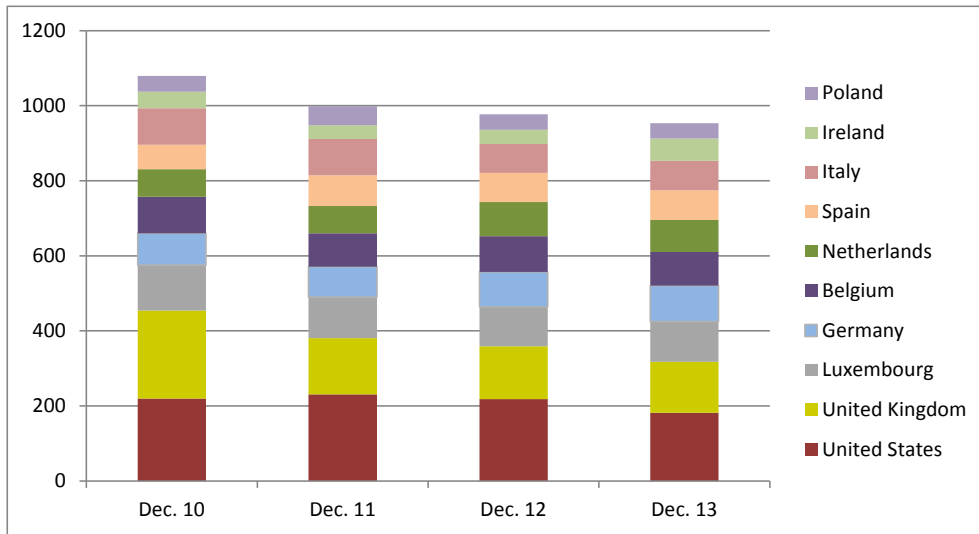
This is reflected in the 15% decline in the main French banking groups' foreign operations since 2010 (**Chart 26**); indeed, operations have only been increased in a limited number of countries (Germany +11, Netherlands +12, Ireland +14 and Spain +16), and even there, the rises have been too small to offset the sharp drop in operations in the United Kingdom (-98) and the United States (-38).

³¹ These include, for example, the introduction of a leverage ratio, the reinforcement of capital requirements, both in terms of quality and quantity, and the inclusion of cross-border activities (and therefore cross-border claims) as a criterion for determining whether a bank is systemically important.

³² A resolution plan: the series of tools needed to resolve the situation of a bank which no longer has any realistic prospect of meeting its regulatory capital requirements: sale of activities, separation of assets, transfer of "good" bank assets to a temporary structure, bail-in of creditors, etc. The aim is to either prevent the bank from becoming insolvent, or minimize the risks of its insolvency to financial stability while safeguarding essential banking operations and protecting counterparties.

³³ Due to the large number of different organisations, tools were introduced to encourage greater convergence between supervisors. CRD 2 made it compulsory, from end-2010 onwards, for banks with at least one subsidiary in another European Union country to set up a college of European supervisors. In the summer of 2011, Crisis Management Groups were set up to discuss and improve the Recovery and Resolution Plans (RRP) defined by the major cross-border banking groups, and take into account their complexity.

Chart 26
Number of foreign operations (branches and subsidiaries) in the 10 countries where French banks are most present

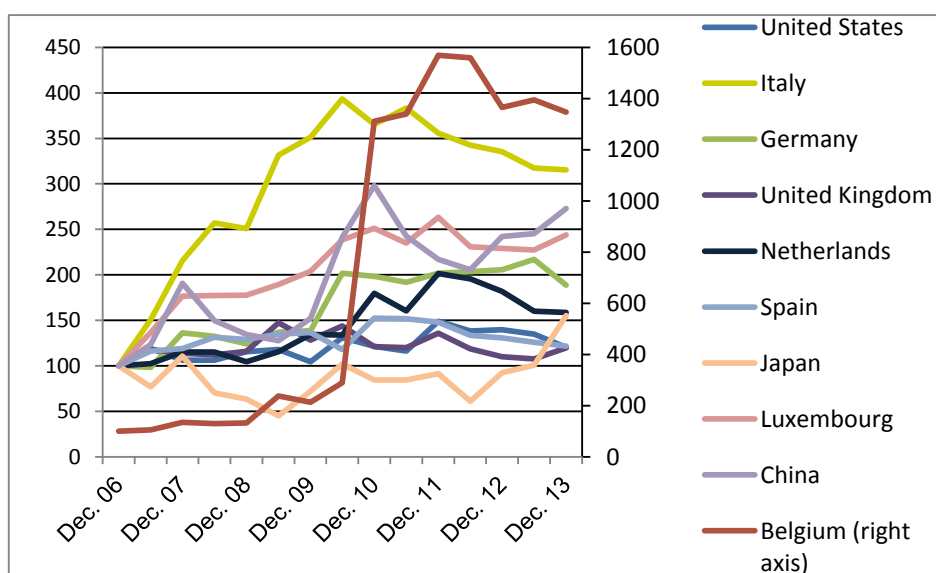
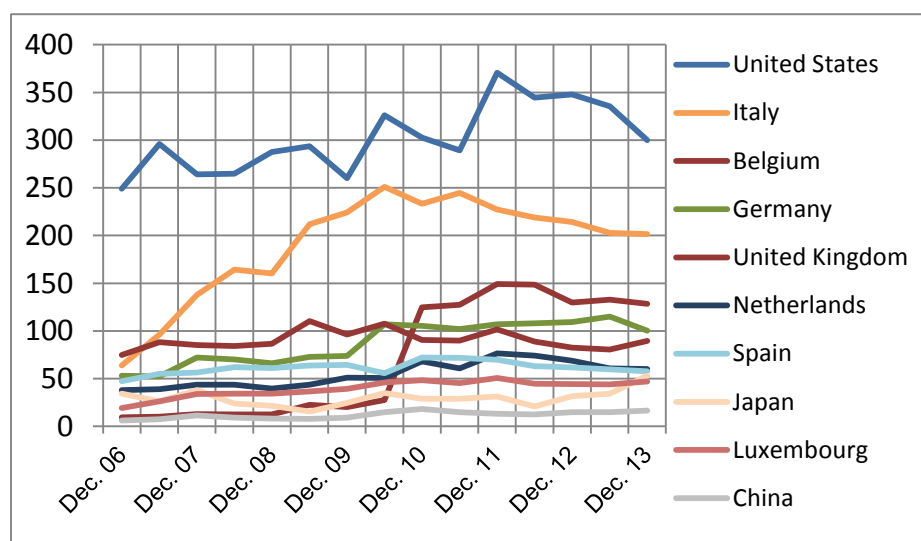


Source: ACPR

Slowdown in cross-border activity with non-bank private clients

These regulatory changes were accompanied by a slowdown in lending to non-bank private clients, the last segment to be affected (**Chart 17** above and **Chart 27** below for a breakdown by country). The trend can in part be attributed to sluggish demand in certain countries (notably Italy); however it is also linked to a strategic refocusing by banks, which led to the spin-off of certain activities (in the US, for example, in 2012, following a change in the conditions of USD refinancing operations).

Chart 27
Foreign claims vis-à-vis non-bank private clients in the top 10 countries of exposure at end-2013: in EUR billions (top panel) and rebased to 2006 = 100 (bottom panel)



N.B. Belgium is shown on the right-hand scale in the bottom panel. The sharp rise in credit claims on Belgian clients is due to BNPP's acquisition of Fortis in 2009 (see table of principal acquisitions in the Appendix).

Source: ACPR.

The main French banks also saw a decline in lending to North African and Middle Eastern countries, as a result of rising geopolitical tensions in the regions. Egypt saw the biggest net drop, resulting from the sale of activities, with outstanding claims on Egyptian counterparties falling by some EUR 13 billion or nearly three quarters in two years (from EUR 18 billion in December 2010 to EUR 4.8 billion in December 2013; **Table 4**).

An interesting parallel can be made between Egypt and Greece: in both cases, French banks had invested heavily in the country (acquisition of local banks: Emporiki and Geniki in Greece; expansion by Societe Generale of an existing subsidiary in Egypt) just before the economic situation degenerated sharply. This underscores the fact that physical operations with non-bank private clients take longer to sell off than interbank or purely financial operations. Like any large corporation, therefore, banks are exposed to a country risk – either in the form of an economic risk as in the case of Greece, or in the form of a geopolitical risk as in Egypt.

Table 4
Main French banks' foreign claims vis-à-vis North Africa and the Middle East, in EUR billions

	Dec. 10	Dec. 13	Change
Countries affected by geopolitical tensions	28.3	13.7	-52%
Bahrain	2.8	3.1	11%
Tunisia	4.9	5.2	7%
Egypt	18.0	4.8	-74%
Yemen	1.1	0.4	-65%
Syria	1.0	0.2	-85%
Libya	0.5	0.1	-79%
Other countries in the region	117.2	116.5	-1%
Of which			
Algeria	7.6	9.9	29%
Turkey	27.1	37.5	38%
Morocco	23.8	26.2	10%
Saudi Arabia	17.1	17.7	3%
United Arab Emirates	15.8	12.0	-24%
Qatar	9.3	3.9	-58%
Total for the region	145.5	130.2	-11%

Source: ACPR.

APPENDICES

Appendix 1: Methodology

To facilitate comprehension, the following Appendix describes the methodology used in this study:

Choice of a conservative view of risk and an immediate borrower approach
Except where indicated otherwise, the exposure amounts given in this study correspond to the total consolidated gross off- and on-balance sheet claims of the five major French banking groups under review. In other words, the amounts do not take into account provisions booked to cover risks or guarantees received from borrowers. They therefore represent the maximum amount of risk exposure, corresponding to the total loss of the assets in question. The “immediate borrower” approach (or “immediate counterparty” approach) consists in designating the country of exposure for a transaction as the counterparty’s country of residence, rather than the country of residence of the ultimate guarantor of the transaction.³⁴ This methodology means that the exposure amounts indicated are generally higher than those available from other public data sources (BIS, EBA), which are compiled using different methods.³⁵

Definition of “the main French banking groups”

The term “main French banking groups” in this study refers to the following companies: BNP Paribas (BNPP), BPCE Group (GPCE), Groupe Crédit Agricole (GCA), Groupe Crédit Mutuel (GCM) and Société Générale (SG). These five account for approximately 85% of total French banking sector assets and an even larger share of French banks’ total cross-border claims

The study is based on the data disclosed to the ACPR by the banks in question, either at consolidated level or at the highest available sub-consolidation level (the level with the highest concentration of international activities). Given that these groups may be consolidating several hundred entities, monitoring and disclosing cross-border claims by country, currency, counterparty, etc. presents a major challenge for their IT reporting systems.

Change in methodology at end-2011

The data in this study cover the period from end-2006 to end-2013. However, the regulations governing the submission of data on cross-border exposures to the ACPR by French banking groups evolved as of 31 December 2011. The most notable change was the switch from an accounting approach to a so-called risk-based approach (as used in COREP³⁶ reporting, for example).

This change had a limited impact on the overall level of exposures (i.e. for all countries together). However, for individual country analyses or counterparty sector breakdowns, the impact may be more significant, as the counterparty sector classifications were made more granular under the new methodology (see methodological note below).

It is therefore important to bear this in mind when looking at data for before and after December 2011.

Definition of counterparty sectors

With the change in reporting methodology in December 2011, the counterparty breakdown of exposures was made more granular: the existing three counterparty

³⁴ Under this immediate borrower approach, for example, in the case of a loan to a German bank located in Greece and guaranteed by an Italian bank, the country of exposure would be designated as Greece, not Germany. Under the ultimate risk approach, the country of exposure would be Italy.

³⁵ The Bank for International Settlements (BIS) publishes consolidated banking statistics. The European Banking Authority (EBA) published certain European bank exposures to a list of countries as part of the stress test, recapitalisation or transparency exercises carried out since 2010.

³⁶ Common Reporting.

sector categories (Governments and similar bodies; Credit institutions; Non-bank private sector) were divided into a total of seven categories (Central governments; Central banks and issuing bodies and international organisations; Other public sector; Credit institutions; Financial clients; Retail clients; Corporate clients). In order to ensure data continuity, the time series for counterparty sectors were reconstructed keeping the three original categories and grouping the new categories together in such a way as to resemble the old breakdown as closely as possible. Nonetheless, the new groupings do not correspond exactly to the former breakdown as there is a slight difference in the non-bank private sector category: as of December 2011, this sector was expanded slightly, while the credit institution sector was reduced.

The old and new breakdowns are shown below:

Name used in the study	Name used in ENGCT_INT (prior to end-2011)	Name used in ENGAG_INT (after end-2011)
Public sector	Governments and similar bodies Central governments, treasuries, central banks and issuing bodies	Central governments Central banks and issuing bodies and international organisations Other public sector
Banks	Banks Credit institutions and investment companies	Credit institutions
Non-bank private sector	Non-bank private sector	Non-bank financial clients and money market funds Retail Corporates

Appendix 2: Table of the main acquisitions made by France's five largest banking groups³⁷

Group	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
BNPP	Increase in stake in BancWest (US) to 100% from 45%	United California Bank (US) merged with BancWest		Community First Bankshares and Union Safe Deposit Bank (US)	TEB (Turkey) + Commercial Federal Corporation and UCB (US)	Banca Nazionale del Lavoro (Italy) + UrkSibbank (Ukraine)			Fortis (Belgium) + BGL (Luxembourg)		Disbank (Turkey)		BGZ (Poland)
BPCE				Banque des Mascareignes (Mauritius)		BCI (Congo), Banque BCP Luxembourg		60% stake in BTK (Tunisia)			Banque Malgache de l'Océan Indien BMOI (Madagascar)		
GCA			50% stake in Crédit Agricole Belgium			75% stake in Egyptian American Bank + 72% stake in Emporiki (Greece) + acquisitions in Ukraine and Serbia	Cariparma Group (Italy) + 20% stake in Bankinter (Spain)				Centea (Crelan) in Belgium		
GCM								Citigroup branch network (Targobank) (Germany)	COFIDIS (businesses in Spain, Italy, Portugal and Eastern Europe)			Citibank (Belgium)	
SG	Komerční Banka (Czech Republic) + SKB Banka (Slovenia) + GEFA and ALD (Germany) + TCW (US)	UIB (Tunisia) + private banking business (Japan) and consumer credit business (Morocco) + Fidelity (Italy)	Acquisition of operations in Ghana	General Bank of Greece + increase in stake in BRD (Romania) from 51% to 58%	Hanseatic Bank (Germany), Promek Bank (Russia), Eurobank (Poland), Finagen (Italy), MIBank (Egypt), Delta Credit (Russia)	SG Splitska Bank (Croatia) + Bank Republic (Georgia) + 20% stake Rosbank + Modra Pyramida (via KB)	Société Générale Albania + Banco Pecunia and Banco Cacique (Brazil) + OnVista (via Boursorama) + Mobiasbanca (Moldavia)	Société Générale (China) Limited (CN) + controlling stake in Rosbank (57.6%)	Increase in stake in Rosbank (Russia) to 65%	Increase in stake in Rosbank (Russia) from 65% to 75%	Rosbank, Rusfinance and Delta Credit (Russia, already held) + merger of Rosbank and BSGV (subsidiary developed locally)		

³⁷ In addition to Credit Agricole's sale of its Greek subsidiary Emporiki in 2012, the most significant disposals carried out recently by the five main banks are (in 2013): the sale of Bankinter (Spain) by GCA (for EUR 0.22 billion), the sale of SG Private Banking Ltd in Japan (EUR 3.1 billion) and NSGB in Egypt (EUR 2 billion) by Société Générale, and the sale of BNPP SAE in Egypt (EUR 0.5 billion) by BNPP.

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