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Executive summary:

After being affected by significant exceptional expenses in 2014, the performance of the top six French banking groups[1] recovered in 2015:

- In spite of the low interest rate environment and renewed market volatility, aggregate net banking income increased by 7.3% between 2014 and 2015; however, part of this increase reflects sometimes significant foreign exchange effects as well as the impact of own debt revaluations by some groups.
- Operating costs rose 5.8% but the cost-to-income ratio fell 0.9 percentage point (pt) to 66.4% thanks to a larger increase in net banking income; however, after adjusting to exclude the aforementioned accounting effects, the average cost-to-income ratio comes out higher, pointing to an economic environment that is slow to improve, forcing banks to continue adjusting their costs.
- The cost of risk, which had been falling since 2012 and declined sharply between 2013 and 2014 (down 17.8%), picked up again (up 2.2%), mainly as a result of new provisions for litigation or penalty payments.
- All in all, net profit (group share) recovered to EUR 23.7 billion in 2015 (up EUR 9.4 billion from 2014, an increase of 65.9%); after adjusting to exclude exceptional items in 2014, net profit (group share) grew by around 8%.

Furthermore, information available at the time of writing points to continued strong performance in the first quarter of 2016, with credit risk in particular declining significantly. Return on equity nevertheless remains low and falls far short of investors' expectations, which are probably too high and unjustified in the current environment.

The trend towards healthier balance sheets and a stronger solvency position, already evident last year, has become more established:

- The impaired loan rate fell for the second year running, and the coverage ratio continued to recover, following a trend that began in mid-2010.
- Lending growth accelerated in France and remained well above average in the euro area where, buoyed by the European Central Bank's proactive stance, it moved back into positive territory in 2015 after a lacklustre 2014.
- All six groups achieved higher "full CRR/CRD 4"[2] Common Equity Tier 1 (CET1) ratios, bringing the aggregate CET1 ratio for the six groups to 12.6% (up 0.7 pt from 2014). Reassessed using more or less consistent principles, the amount of CET1 capital held by French banking groups doubled between end 2008 and June 2015.
- Banks continue to have plentiful liquidity, and all reported liquidity coverage ratios (LCRs) of over 100% at end December 2015. This improvement in LCRs is primarily due to a sharp increase in the proportion of high quality liquid assets (HQLAs) making up the numerator in the ratio.
- Loan-to-deposit (LTD) ratios continued to decline as deposits grew faster than lending in a low interest rate environment (up 6% between December 2014 and December 2015, compared with year-on-year growth of 2% in lending).

In spite of this progress, risks continue to hamper institutions' profitability:

- Protracted low and even negative interest rates are eroding banks' net interest margins, which are also adversely affected by the payment of interest on regulated savings. Against this backdrop, banks could be tempted to focus on business areas that are relatively more profitable but also more risky, which could push up the cost of risk in the future. Furthermore, a sharp rise in interest

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

[2] The full CRR/CRD 4 ratios take account of all the regulations set to come into force on 1 January 2019 including – for the largest banks – specific obligations relating to systemically important institutions

rates could undermine interest margins, since interest received on loans would adjust more slowly than interest paid on deposits.

- The global macroeconomic environment also gives rise to other factors that need to be monitored, including weak growth in emerging countries, falling commodity prices and the consequences of political uncertainty in Europe (e.g. the UK referendum).
- Combined with the implementation of new regulations, these risks could adversely affect banks' refinancing conditions just as they need to issue significant volumes of eligible debt to meet resolvability requirements.
- Finally, banks are being forced to question their business models, especially in retail banking, which is likely to be faced with very significant adjustments over the coming years. Not only do they need to take into account all the new regulations and counter the erosion of interest margins; they must also face new challenges arising from the digitisation of the economy, including in particular changes in customer behaviour and entry into the market of newcomers such as FinTechs.

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Foreword

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

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

For some risk indicators, French banks are compared with their European peers using the key risk indicators (KRIs) calculated every quarter by the European Banking Authority (EBA) for a sample of European banks.[3] Individual comparisons are also shown with leading European banks with international reach. However, data on some indicators may not be available for certain banks; where this is the case, it is indicated in a footnote to the relevant table and/or chart.

[3] The scope was widened in 2014 and 2015; see details in Annex 1.

1. Profitability

1.1. An improving overall performance

In 2015, in spite of a continuing unfavourable environment resulting mainly from protracted low interest rates, sluggish growth and falling commodity prices, the top six French banking groups reported a sharp overall improvement in earnings relative to 2014 (Table 1):

- Aggregate net banking income (NBI) increased 7.3% to EUR 146.3 billion;
- The cost-to-income ratio fell 0.9 percentage point (pt) to 66.4%;
- Finally, net profit (group share) increased by EUR 9.4 billion to EUR 23.7 billion, up 65.9% from 2014, when performance was affected by substantial exceptional expenses.[4]

Against this backdrop, the only factor that slightly tarnished this strong performance was an increase in the cost of risk, which rose by 2.2% after falling for several years.

Table 1
Interim management figures

	2014	2015	Change 2015/2014
Net banking income	**136.4**	**146.3**	**+7.3%**
Operating expenses	91.9	97.2	**+5.8%**
Cost-to-income ratio	67.3%	66.4%	-0.9 pts
Gross operating profit (GOP)	**44.6**	**49.2**	**+10.3%**
Cost of risk (CR)	12.6	12.9	**+2.2%**
Net operating profit (GOP-CR)	**32.0**	**36.3**	**+13.5%**
Other gains (+) and losses (-)	**-6.0**	**1.8**	N/A
Pre-tax income	26.0	38.1	**+46.6%**
Tax	10.2	12.6	**+23.3%**
Discontinued or held-for-sale operations	-0.1	-0.1	N/A
Net profit	**15.8**	**25.5**	**+61.3%**
Minority interests	1.5	1.8	**+18.9%**
Net profit (group share)	**14.3**	**23.7**	**+65.9%**

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

1.1.1. Income driven by foreign exchange and accounting effects

NBI grew at all banks, mainly driven by two factors:

- Firstly, the marked depreciation in the euro[5] had a significant impact on income from international business; according to information disclosed by banks, which is neither consistent nor exhaustive, this effect was particularly pronounced in corporate and investment banking (equivalent to a 6-8% increase in income for BNPP, SG and GCA) as well as in foreign retail banking for BNPP and SG (Table 2);

[4] Cf. French banks' performance in 2014, *Analyse et Synthèses,* issue 46, May 2015

[5] In particular, the US dollar gained almost 20% against the euro between 2014 and 2015 (based on average annual exchange rates).

- Secondly, income was helped in 2015 by a favourable accounting effect linked to own debt revaluations[6] (+EUR 1.4 billion) – an effect which had reduced NBI for each of the previous three years (-EUR 1.5 billion in 2014, -EUR 2.8 billion in 2013 and -EUR 4.8 billion in 2012).

After adjusting to exclude these two effects, individual NBI grew at a more moderate pace of between 0.9% and 5.9%.

Table 2
Impact of foreign exchange effects and own debt revaluations on NBI

		Change in reported NBI between 2014 and 2015	Change in NBI excluding forex effects	Change in NBI excluding forex effects and own debt revaluation
BNPP	**Group**	**+9.6%**	**+3.5%**	**+1.4%**
	Domestic retail banking (FR, IT, BE, LUX)	+1.6%	+1.6%	
	International retail banking and SFS	+14.5%	+5.3%	
	Corporate and investment banking	+13.2%	N/K	
	Operating costs	*+11.5%*	*+3.4%*	
	Insurance	+5.7%	+5.1%	
	Wealth and asset management	+7.4%	+4.3%	
SG	**Group**	**+8.8%**	**+7.2%**	**+3.8%**
	International retail banking	-6.8%	-1.8%	
	Specialised financial services (SFS)	+13.4%	+12.8%	
	Corporate and investment banking / asset management	+8.0%	+1.0%	
	o/w investment banking	+6.1%	-2.0%	
	o/w corporate banking	+16.1%	+8.0%	
	o/w asset management / private banking	+4.0%	+4.0%	
GCA	**Group**	**+5.3%**	**N/K**	**+2.4%**
	Corporate and investment banking	+12.9%	+6.7%	
GBPCE	**Group** ("core business")	**+5.4%**	**+3.1%**	**+0.9%**
GCM	**Group**	**+5.9%**	**N/K**	**+5.9%**
LBP	**Group**	**+1.3%**	**N/K**	**+1.3%**

BNPP et SG: change at constant scope and exchange rates; GCA and GBPCE: change at constant exchange rates.

Source: financial disclosures

Stable net interest margin and net fees and commissions

As a proportion of average total assets,[7] which increased by 3% in 2015, aggregate NBI came out at 2.03%, 8 basis points (bps) higher than in 2014 and 12 bps above its previous low in 2011 (Chart 1). However, the various components of NBI followed different trends:

- Net interest income, which increased 2.3% year on year in absolute terms, remained banks' main income stream by far; it equated to 1.02% of average total assets, unchanged from 2014, though it has been on a downward trend since 2010, when it reached 1.22% of average total assets;
- Similarly, fees and commissions, which rose by 5.3% year on year, increased only very slightly as a proportion of average total assets, to 0.53%; they appear to have been very stable since 2012;
- Against this backdrop, growth in NBI between 2014 and 2015 was mainly driven by a 17.2% increase in other net income (9.4% excluding own debt revaluations, which are recognised in other net income), which rose from 0.41% to 0.48% of average total assets; this income comes from a wide range of sources: trading and financial instruments, insurance, leasing, etc.

[6] In accordance with IFRS, when part of an institution's debt is recognised at fair value, the improvement in credit risk leads to an increase in the liability and the recognition of an expense in the income statement; when calculating the solvency ratio, the impact is neutralised by applying prudential ratios.

[7] Average total assets are calculated as the average over the whole year.

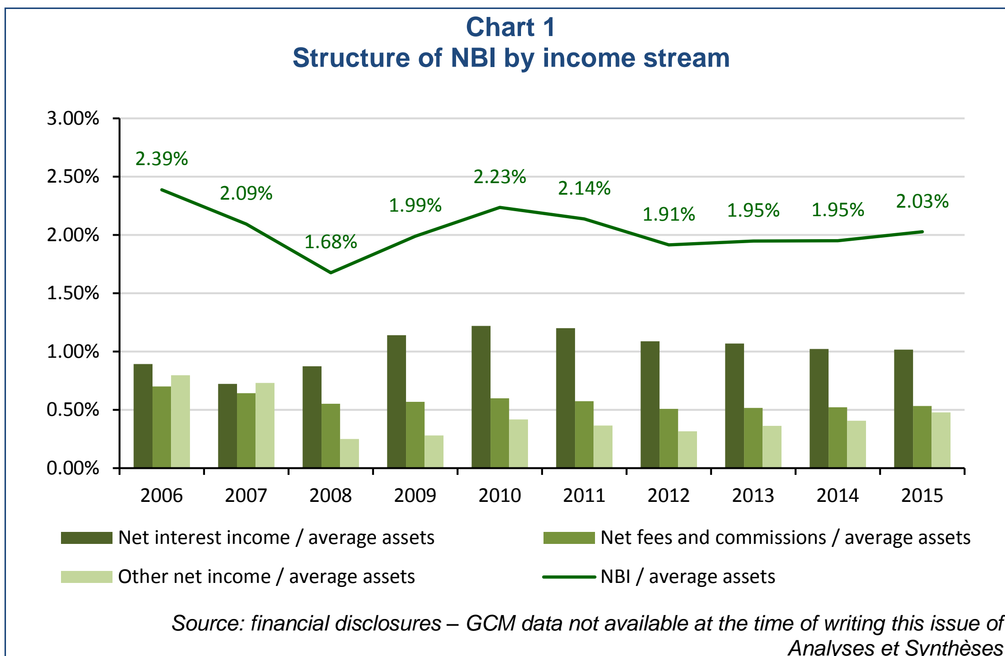

Chart 1
Structure of NBI by income stream

Source: financial disclosures – GCM data not available at the time of writing this issue of Analyses et Synthèses

Given their transformation activities, banks' income in the form of interest improves as the yield curve steepens.

For the past several years, banks' net interest income has been adversely affected by very low interest rates, leading to lower income from loans, and by a relatively flat yield curve, with the spread between short and long yields narrowing (Graph 2).

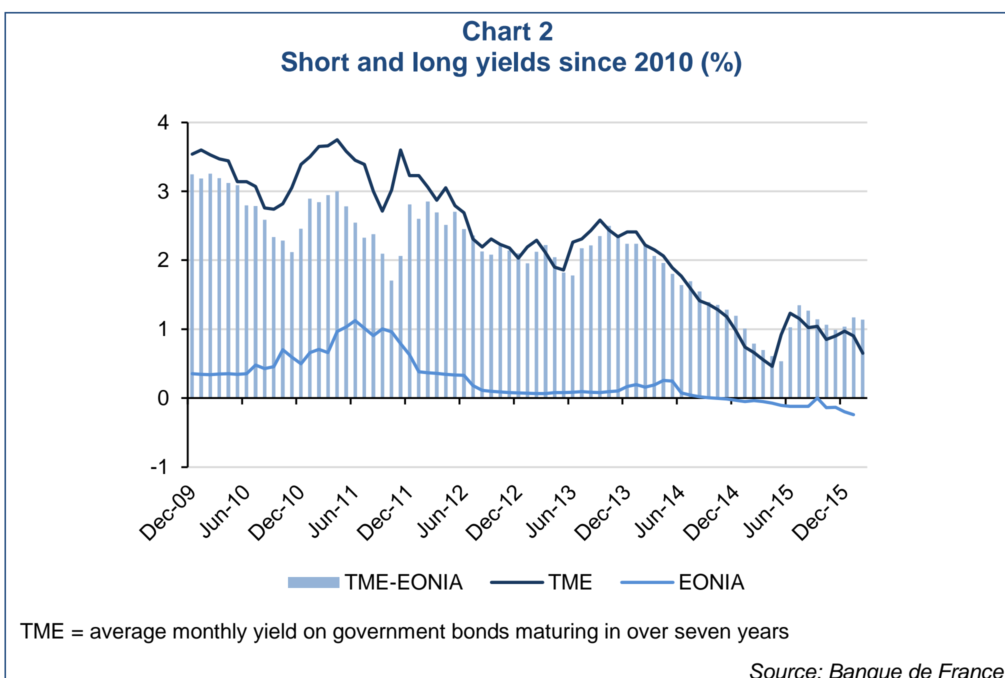

Chart 2
Short and long yields since 2010 (%)

TME = average monthly yield on government bonds maturing in over seven years

Source: Banque de France

Short term yields continued to fall in 2015, moving into negative territory. In France, after declining sharply in 2014, long term yields rose briefly but significantly in the first half of the year before returning to a downward trend.

Net interest income accounts for a lower share of income than among European banks

An analysis of indicators published by the EBA (KRIs)[8] reveals that French banks,

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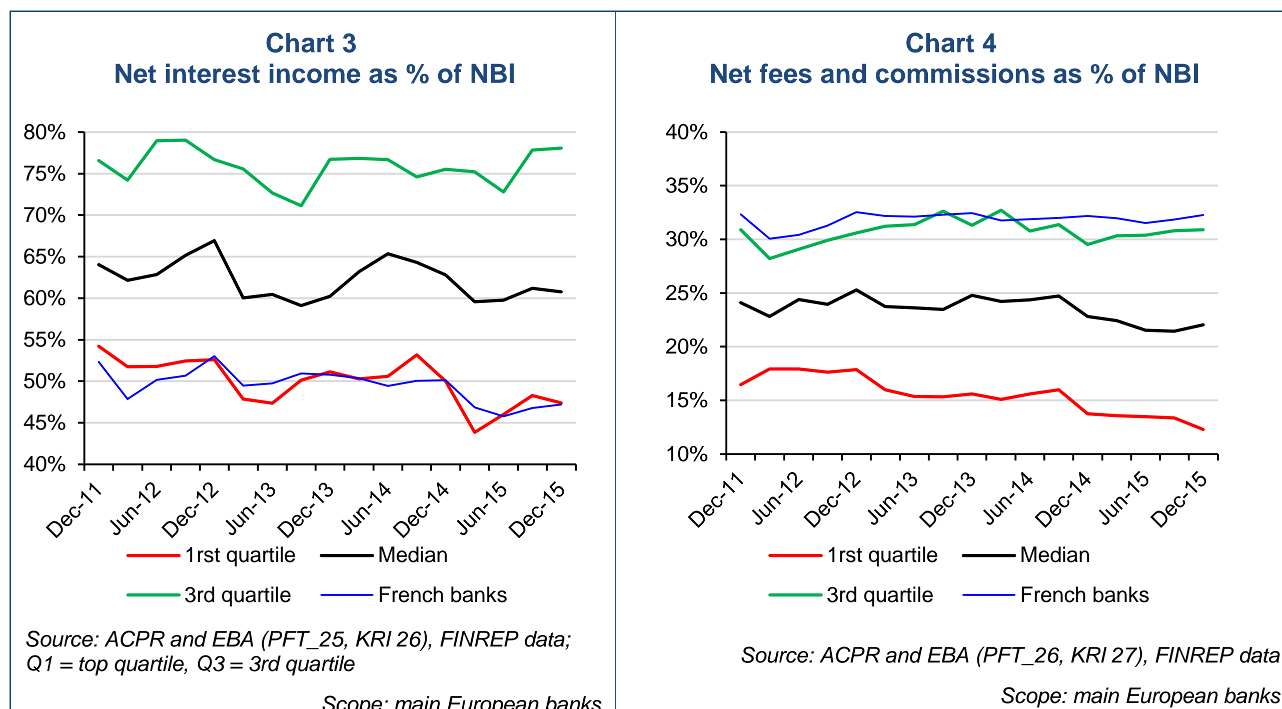
[8] Since 2015, KRIs have been calculated across a sample of 195 banks, 13 of them French.

which in 2015 were in the top quartile based on net interest income as a proportion of NBI, derive comparatively less income from net interest than other European banks (Chart 3); conversely, fees and commissions account for a relatively higher proportion of their income (Chart 4). All other things being equal, they are therefore less sensitive than their competitors to the impact of interest rate fluctuations on this component of income.



1.1.2. A moderate decline in cost to income ratios

The average cost-to-income ratio (i.e. operating expenses as a proportion of NBI) came in at 66.4% in 2015, down 0.9 pt year on year. However, after adjusting to exclude the effects of own debt revaluations, it came out at 67.1% in 2015, up 0.4 pt, after rising by 0.1 pt between 2013 and 2014 (Table 3); operating expenses increased 5.8% between 2014 and 2015, outpacing growth in NBI excluding the effects of own debt revaluations (+5.1%).

Table 3
Cost-to-income ratio over three years

	2013	2014	2015
Cost-to-income ratio	67.9%	67.4%	66.4%
Cost-to-income ratio adjusted to exclude effect of own debt revaluations	66.6%	66.7%	67.1%

Source: financial disclosures (excluding GCM) – weighted average

In spite of the implementation of cost-cutting plans agreed in 2013-2014, which were to have reduced cost-to-income ratios by 2-4 pts depending on the group, ratios have remained above target levels. This may be explained by a less favourable economic and financial environment than that built into scenarios used to forecast income and operating expenses.

Furthermore, the effects of cost-cutting plans were offset by restructuring costs, transformation investments (cf. Annex 3) and regulatory and tax costs arising from measures adopted to bring an end to the crisis. According to indications given by banks that opted to disclose information on this subject, the latter increased to just over 1% of operating expenses in 2015. Regulatory costs include, in particular, contributions to the Single Resolution Fund (SRF), which were made for the first time in 2015 and totalled almost EUR 600 million for the top six French banks;

furthermore, an increase in the French tax on systemic risk was agreed in 2015 to double the amount paid into the local government fund[9] aimed at supporting local authorities that face inflating charges on structured loans.

While French banks' cost-to-income ratios remain high relative to those of European banks in the EBA's broad sample (Chart 5), they are mostly around the median of major European groups with international reach (Chart 6).

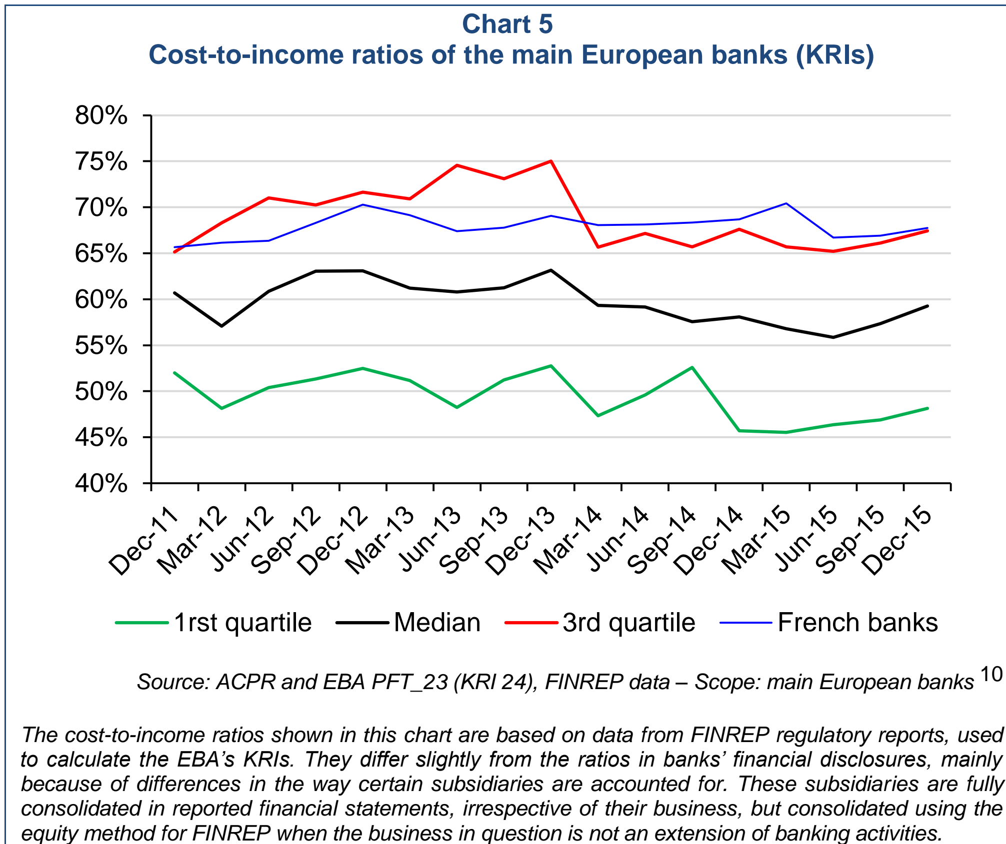


Chart 5
Cost-to-income ratios of the main European banks (KRIs)

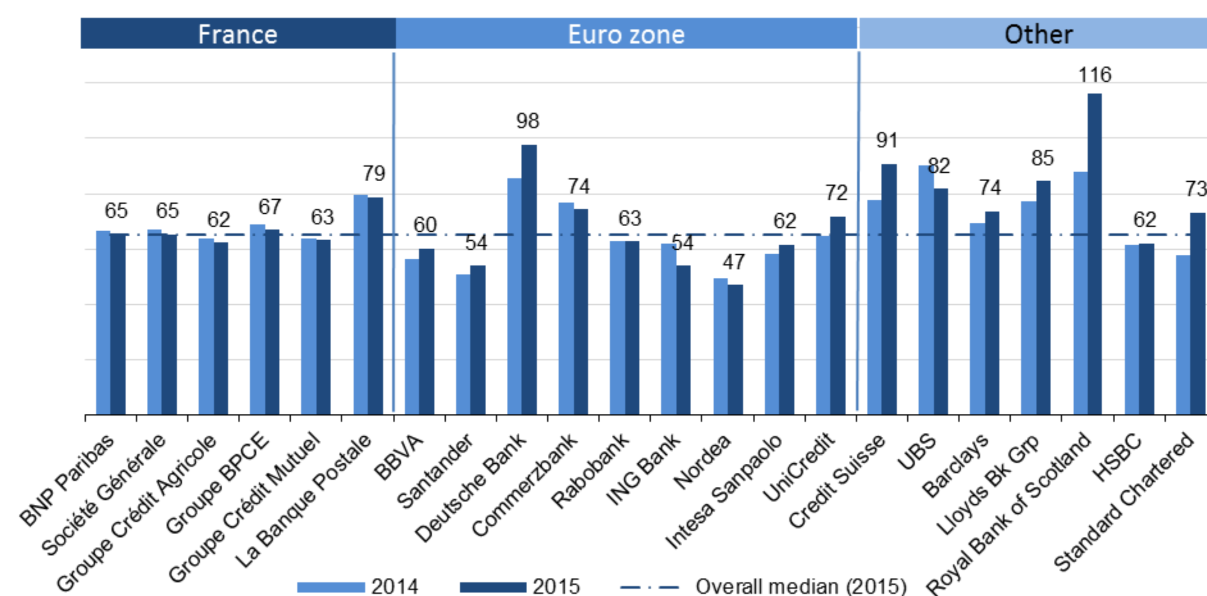
Source: ACPR and EBA PFT_23 (KRI 24), FINREP data – Scope: main European banks [10]

The cost-to-income ratios shown in this chart are based on data from FINREP regulatory reports, used to calculate the EBA's KRIs. They differ slightly from the ratios in banks' financial disclosures, mainly because of differences in the way certain subsidiaries are accounted for. These subsidiaries are fully consolidated in reported financial statements, irrespective of their business, but consolidated using the equity method for FINREP when the business in question is not an extension of banking activities.

[9] This fund is targeted to reach EUR 3 billion after 15 years, with EUR 200 million contributed each year by banks and a matching annual contribution made by the government.

[10] The significant change between end 2013 and 2014, particularly visible in the third quartile, reflects the broadening of the EBA's sample with effect from that date.

Chart 6
Comparison with cost-to-income ratios of other major European banks with international reach
(%)



Source: SNL, ACPR calculation

1.1.3. Decline in cost of risk was interrupted in 2015

Breaking away from a downward trend observed since 2012 and particularly pronounced between 2013 and 2014 (down 17.8%), the cost of risk[11] of the top six French banks rose slightly in 2015 (up 2.2%) to EUR 12.9 billion, compared with EUR 12.6 billion in 2014. This increase was mainly due to SG and GCA setting aside provisions for litigation of EUR 600 million and EUR 500 million respectively and GBPCE setting aside a EUR 104 million provision in respect of Heta Asset Resolution AG in the first quarter of 2015.[12] Excluding these items, the cost of risk in 2015 would have declined by 7% relative to 2014.

SG and GCA also indicated an increase in provisions relating to the energy sector in the fourth quarter of 2015, reflecting the heightened risk affecting some economic agents as a result of the sharp fall in commodity prices, and particularly oil prices, in 2015.

However, as a proportion of average total assets, which grew slightly more quickly (see above), the cost of risk came in at 0.18%, unchanged from 2014; it has thus stabilised above its very low pre-crisis levels (Chart 7).

[11] The cost of risk includes net additions to provisions and impairment for credit risk on loans and receivables, financing and guarantee commitments and fixed income securities, as well as losses on unrecoverable loans and recoveries of loans written off.

[12] Concerning exposure to securities by Austrian bank Hypo Alpe Adria guaranteed by the Austrian Land of Kärnten.

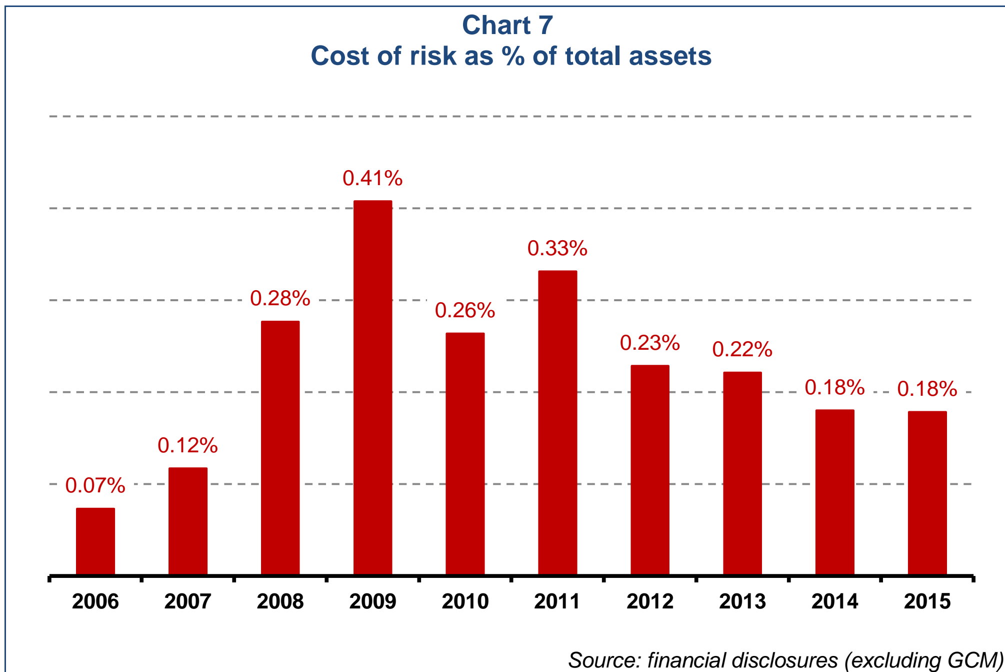


Chart 7
Cost of risk as % of total assets

Source: financial disclosures (excluding GCM)

French banks' cost of risk declined as a proportion of income (8.8%, vs. 9.2% in 2014) but was above the median of major European banks (8.2%), which posted a slightly larger decline in the ratio (down 0.9 pt from 2014) (Chart 8).

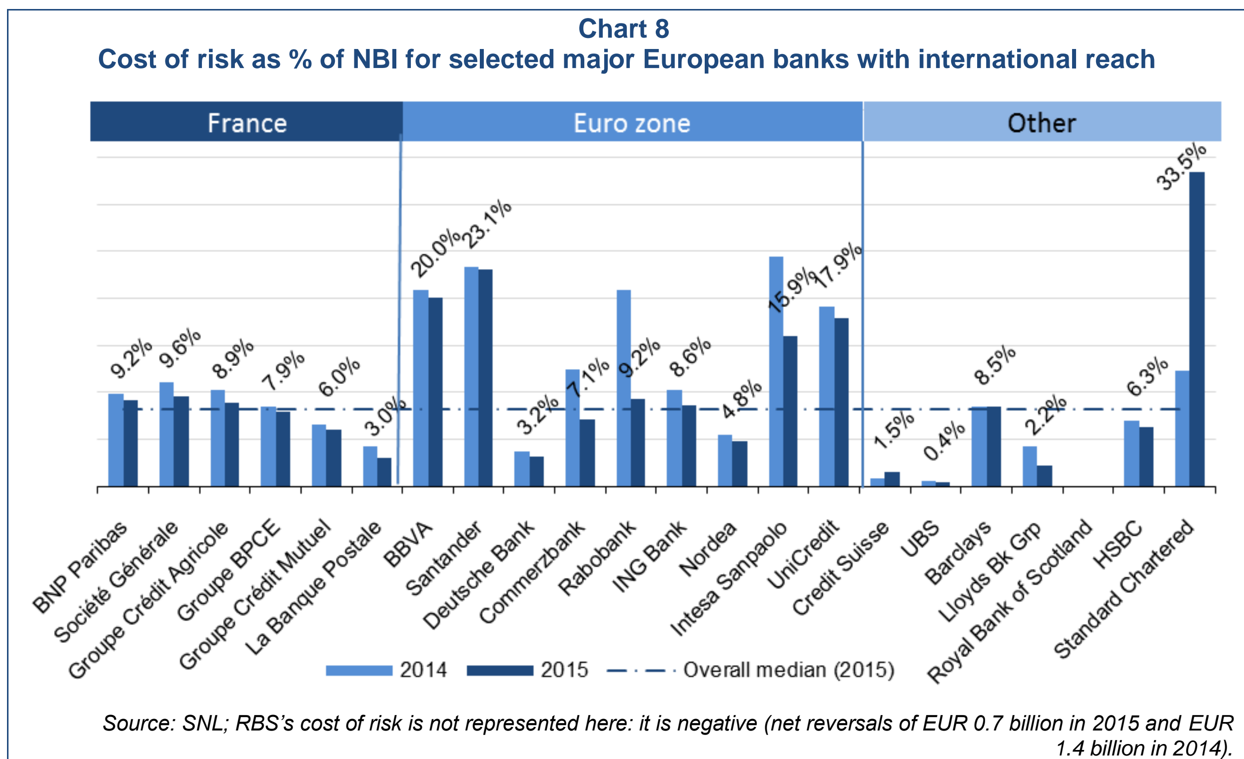


Chart 8
Cost of risk as % of NBI for selected major European banks with international reach

Source: SNL; RBS's cost of risk is not represented here: it is negative (net reversals of EUR 0.7 billion in 2015 and EUR 1.4 billion in 2014).

1.1.4. Earnings excluding exceptional items continue to grow

Operating profit for the top six French banks (defined as NBI less operating costs and cost of risk) rose from EUR 27.9 billion in 2013 to EUR 32.0 billion in 2014 (up 14.7%) and EUR 36.2 billion in 2015, a year-on-year increase of 13.3%. Higher operating expenses (up EUR 5.4 billion) and the slightly higher cost of risk (up EUR 0.3 billion) only partly offset the increase in NBI (up EUR 9.9 billion; up EUR 7 billion excluding accounting effects).

Apart from this trend, pre-tax profit was helped by a significant base effect linked to

the recognition of exceptional items in 2014 affecting BNPP in particular[13] but also SG and GCA;[14] it has increased by almost 50% relative to 2014, to EUR 38.1 billion. After adjusting to exclude the accounting effects of own debt revaluations and the effect of exceptional items disclosed by banks (cf. Box 1), pre-tax profit came in at EUR 39.2 billion, up a more modest 8.8% from 2014 (Table 4).

Table 4
Pre-tax profit excluding accounting and exceptional effects (EUR billions)

	2015	2014	Change
Pre-tax profit	**+38.1**	**+26.0**	**+46.6%**
Adjusted pre-tax profit	**+39.2**	**+36.0**	**+8.8%**
Own debt revaluations	+1.4	-1.5	
Exceptional items	-2.5	-8.6	

Source: financial disclosures

Box 1 – Main exceptional items in 2015

- BNPP sold its entire shareholding in property company Klépierre, giving rise to capital gains totalling EUR 839 million. Furthermore, in accordance with accounting rules, increased capital requirements for Italian subsidiary BNL, notified by the European Central Bank (ECB) in the context of the Supervisory Review and Evaluation Process (SREP), resulted in a EUR 917 million goodwill impairment charge in the parent's accounts, in addition to the EUR 297 million impairment loss already recognised in 2014.
- Provisions for litigation and penalty payments in 2015 represented an additional expense of more than EUR 1 billion for SG and GCA. Meanwhile, BNPP recognised a EUR 100 million increase in the cost of the remediation plan adopted under the terms of its overall settlement with US authorities.
- Finally, the sales of Amundi and Nexity generated gains of EUR 165 million and EUR 130 million for SG and GBPCE respectively.

Source: financial disclosures

With the effective tax rate falling from 39.2% in 2014 to 32.9% in 2015, net profit (group share) as reported by the top six banks increased even more sharply than pre-tax profit, up 65.9% to EUR 23.7 billion. This growth in profits against a backdrop of significant increases in capital over the previous few years (cf. Table 12) enabled banks to contemplate an increase in their dividends, with announced payout rates ranging from 45% for BNPP to 85% for Natixis (Table 5).

Table 5
Planned payout rates by group

2015	BNPP	SG	CASA	Natixis
Earnings per share	5.14	3.94	1.21	0.41
Proposed dividend	2.31	2	0.6	0.35
Payout rate	45 %	51 %	50 %	85 %

Source: financial disclosures, ACPR calculations

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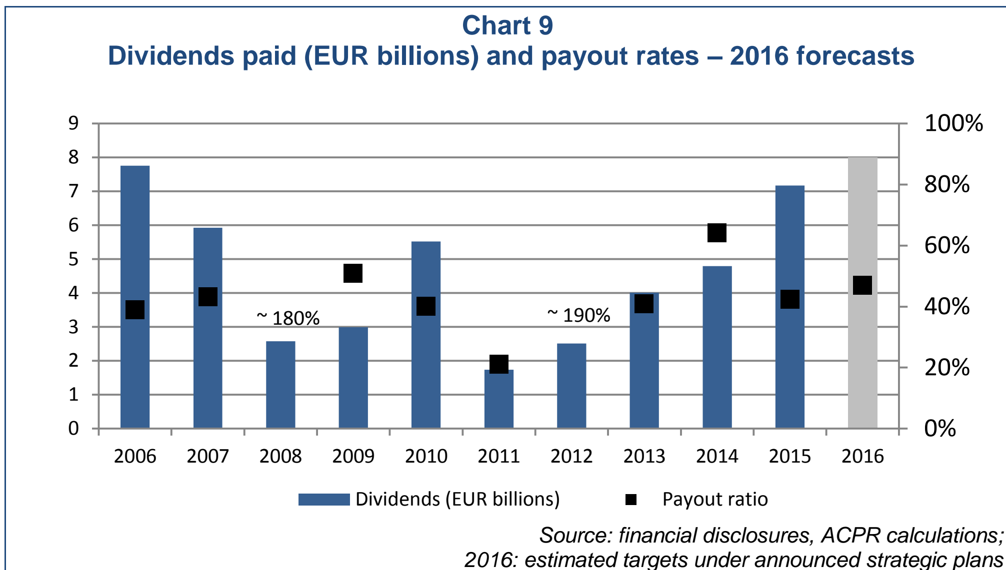
[13] Under the terms of an agreement with US institutions entered into on 30 June 2014, BNP Paribas paid a fine of USD 8.97 billion (EUR 6.55 billion) following an investigation into US dollar transactions concerning countries under UN sanctions (OFAC); with an EUR 800 million provision having been set aside in 2013 to cover part of the risk, an exceptional expense of EUR 5.75 billion was recognised in the second quarter of 2014 and has since been supplemented by a further EUR 250 million for full year 2014, in respect of the implementation of a remediation plan.

[14] Apart from the fine paid by BNP Paribas, the main exceptional items were as follows: for SG, goodwill impairment on its Russian business (EUR 525 million) and the discontinuation of its consumer credit operations in Brazil (EUR 200 million); for GCA, an impairment loss on its investment in Banco Espírito Santo (EUR 708 million).

Major listed groups[15] propose to pay total dividends of just over EUR 7 billion in 2015 (Chart 9), up significantly relative to previous years.

Chart 9
Dividends paid (EUR billions) and payout rates – 2016 forecasts

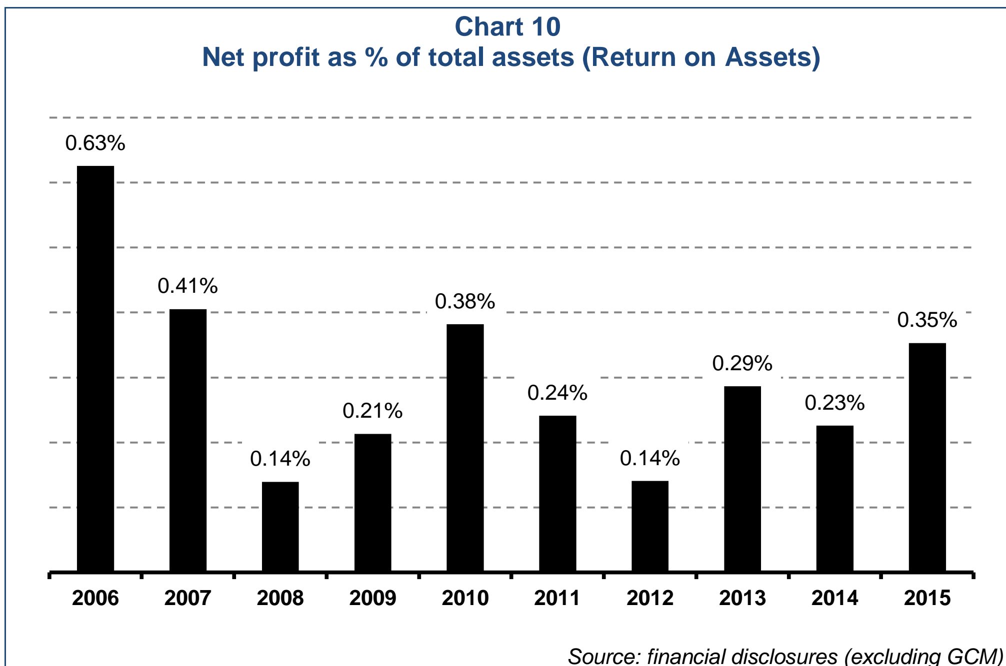


Source: financial disclosures, ACPR calculations; 2016: estimated targets under announced strategic plans

1.1.5. Returns on assets and equity return to the median of major European banks

French banks' net profit as a proportion of average total assets (or return on assets – RoA) came out at 0.35%, the second-highest level of the post-crisis period (Chart 10), up 12 basis points (bps) from 2014 (up 3 bps excluding exceptional items in 2014). RoA was relatively consistent from bank to bank, ranging from 0.32% to 0.37%.

Chart 10
Net profit as % of total assets (Return on Assets)



Source: financial disclosures (excluding GCM)

French banks' RoAs are greater than or equal to the median of major European banks (0.33%).[16] However, as in 2014, this median was pulled down by German

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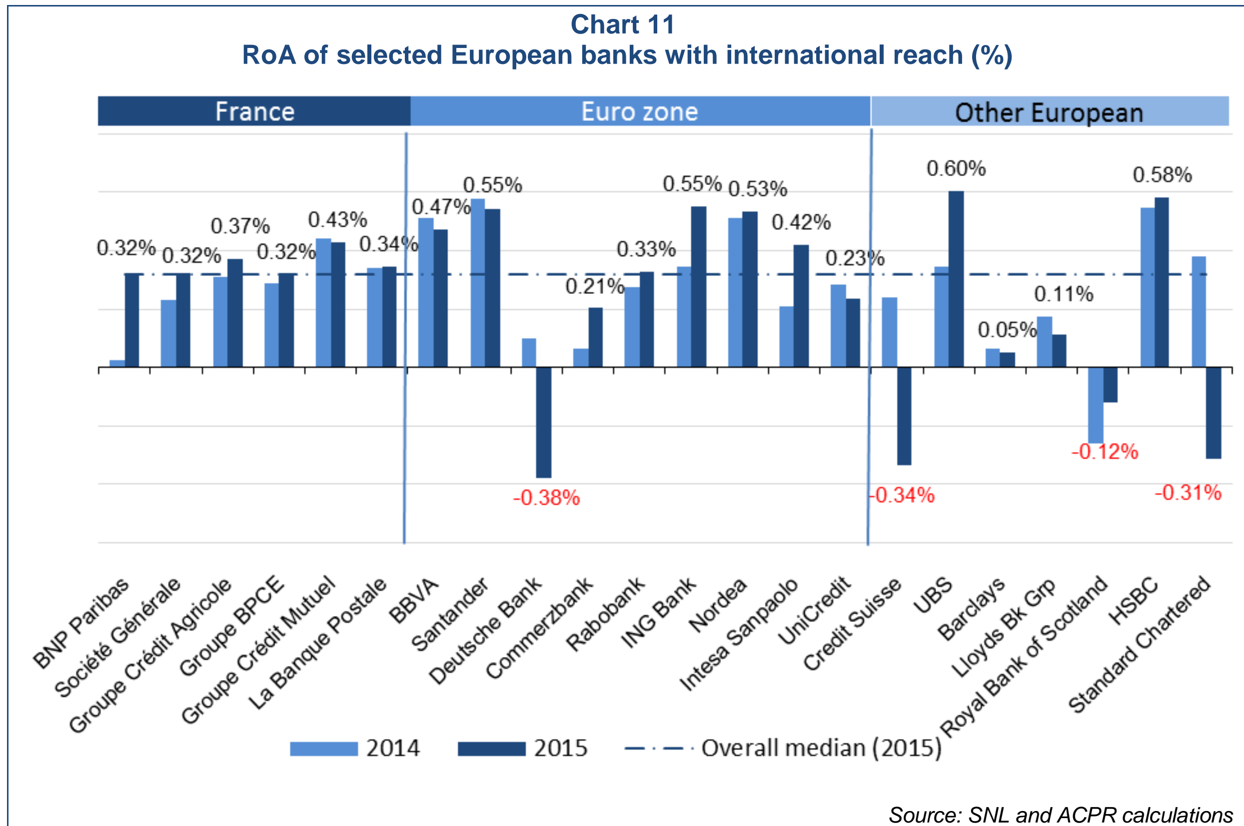
[15] BNP Paribas, Société Générale, Crédit Agricole SA and Natixis.

[16] In the charts and international comparisons that follow, ratios have been calculated based on statutory net profit (available in the SNL database) and not on "adjusted" net profit reported by French banks, which is around 1.4 times higher.[17] A measurement of equity that excludes intangible assets, notably goodwill.

and British banks as well as by losses reported by Credit Suisse and Standard Chartered in 2015 (Chart 11).

Chart 11
RoA of selected European banks with international reach (%)



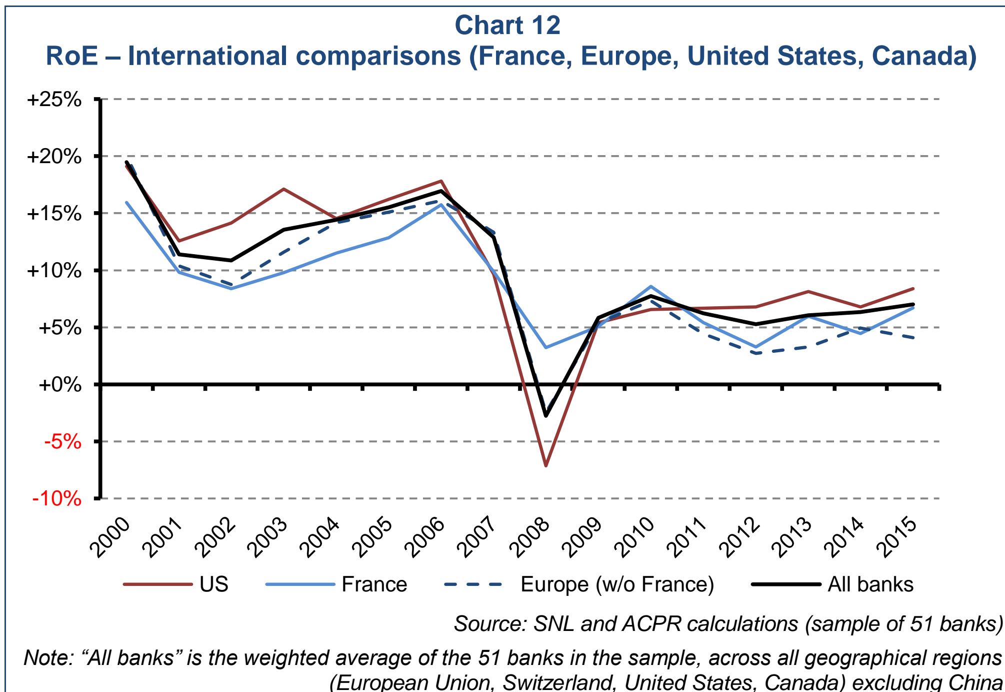
Source: SNL and ACPR calculations

The top six French banks' net profit equated to 6.7% of equity in 2015, up 2.2 pts from 2014 (Chart 12); after adjusting to exclude the effect of exceptional items recognised in 2014 (see above), the increase in return on equity (RoE) falls to 0.5 pt. The ratio for other European banks fell from 4.9% to 4.1% in 2015, though this figure masks significant disparities, from the three major "domestic" British banks (0.2% in 2015 after four years in negative territory) to the six largest Nordic banks (whose RoE has exceeded 10% for several years, coming in at 11.6% in 2015).

At the global level (excluding China and emerging countries), RoE came in at 7% in 2015 (up 0.7 pt), driven partly by major US banks (8.4%) but also by Australian and Canadian banks (15.1% and 13.9% respectively). Japanese banks, which have a non-calendar financial year, posted an RoE of 6.7%.

Generally, it can be seen that a combination of improved solvency (see below) and more modest profits is keeping RoE significantly below pre-crisis levels.

Chart 12
RoE – International comparisons (France, Europe, United States, Canada)



Source: SNL and ACPR calculations (sample of 51 banks)

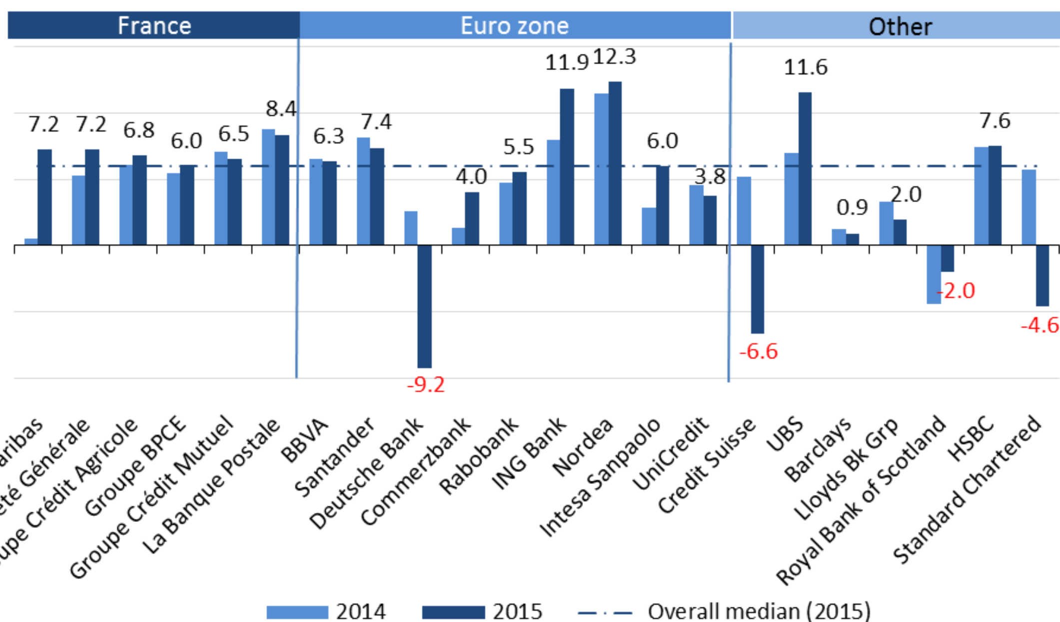
Note: "All banks" is the weighted average of the 51 banks in the sample, across all geographical regions (European Union, Switzerland, United States, Canada) excluding China

French banks' strategic plans drawn up in 2013-2014 targeted 2016-2017 RoE of 10% or RoTE[17] approaching 12%. However, RoE figures observed in 2015 appear to be well below these targets. The median RoE of major European banks in 2015 came in at 6.2% (Chart 13).

Actual RoE levels thus remain below the cost of capital required by the shareholders of banks or their listed subsidiaries, which still averages around 10% in spite of very low returns on "risk-free" assets.

[17] A measurement of equity that excludes intangible assets, notably goodwill.

Chart 13
RoE of selected major European banks with international reach (%)



Source: SNL

1.2. Varying performance by business line

Inset: analysis by business line

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

This information, based on each group's internal structure, varies significantly,[18] and groups can opt to allocate certain individual gains or losses to an "Other" category that falls outside any specific business line and varies in scope. Certain adjustments have therefore been made for consistency of presentation. Accordingly, the figures set out in the rest of this section may differ slightly from those disclosed by banks themselves for the business lines concerned. For example, insurance has been included in asset management for all groups, while some banks include insurance in retail banking or savings.

The analysis set out here is based on banks' own allocations of income and expenses among their various business lines, or those not broken down among business lines and classed as "Other", which, unless otherwise indicated, have not been restated.

The proportion of group income accounted for by the various different business lines has remained relatively constant since 2010, reflecting the absence of far-reaching strategic changes or major acquisitions (Table 6). Over this period, unlike other major European banks, which have opted to make more radical changes, major French banking groups have chosen to continue gradually developing certain business lines (e.g. asset management and insurance) while adjusting the scale of other business areas (corporate and investment banking and foreign retail banking since 2012).

[18] Accounting rules allow banks a degree of flexibility in the way they segment their business. Each bank has its own scope of business deriving from its history and procedures. As such, the three main business lines reported on in banks' registration documents do not cover exactly the same scope, and change over time.

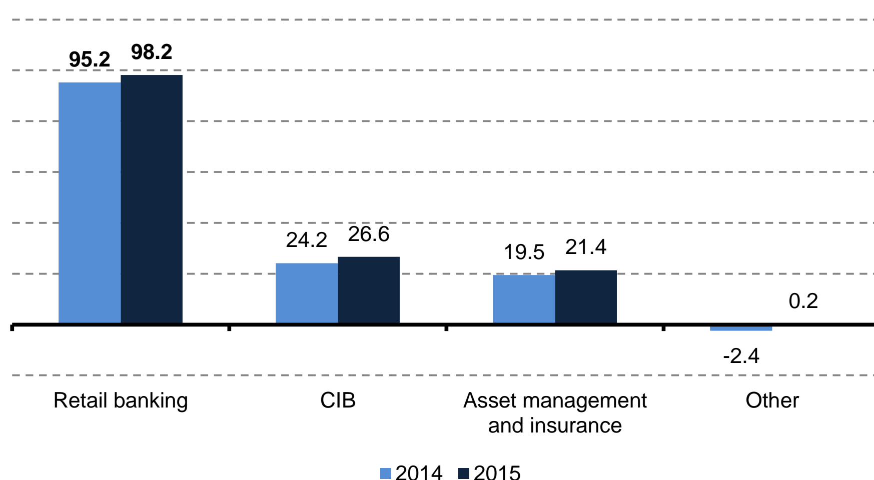
Table 6
Structure of NBI by business line

	2010	2011	2012	2013	2014	2015
Corporate and investment banking	20.2%	16.7%	17.3%	17.4%	16.8%	17.6%
French retail banking	41.6%	42.5%	45.0%	46.5%	46.1%	44.6%
International retail banking	12.7%	13.4%	15.5%	14.7%	14.3%	13.2%
Specialised finance	10.5%	10.6%	10.3%	10.0%	9.0%	9.3%
Asset Management and Insurance	12.2%	12.6%	14.1%	14.2%	14.9%	14.6%
Other	2.8%	4.2%	-2.7%	-2.5%	-1.2%	0.7%

Source: financial disclosures, ACPR calculations

Note: The "Other" line in the table refers to activities that have not been assigned to a specific business line, such as income related to changes in own credit risk, the centralisation of intra-group funding and equity interests.

Chart 14
Net banking income by business line (EUR billions)



Source: financial disclosures and ACPR calculations

Income from the three main business areas increased in 2015 (Chart 14). Retail banking in the broadest sense saw a relatively moderate increase in income (up 3.1%) when compared with corporate and investment banking (up 10%) or insurance and asset management (up 9.8%). Given its large income base, however, it added EUR 3 billion to the six banks' total NBI, compared with EUR 2.4 billion for corporate and investment banking and EUR 1.9 billion for insurance and asset management. "Other" income also increased (up EUR 2.6 billion), largely reflecting the impact of own debt revaluations.

The cost-to-income ratio decreased across all business areas excluding adjustments linked, in particular, to own debt revaluations; however, it increased in retail banking and specialised financial services and more markedly in corporate and investment banking (Chart 15).

Having fallen significantly in 2014, the cost of risk in corporate and investment banking rose sharply in 2015, though it represented only a small proportion of the total cost of risk, which mainly arises from international retail banking and specialised financial services. Some additions to provisions for litigation in 2015 were recognised under the "Other" item: EUR 400 million for Société Générale and EUR 150 million (of EUR 500 million) for Groupe Crédit Agricole (Chart 16).

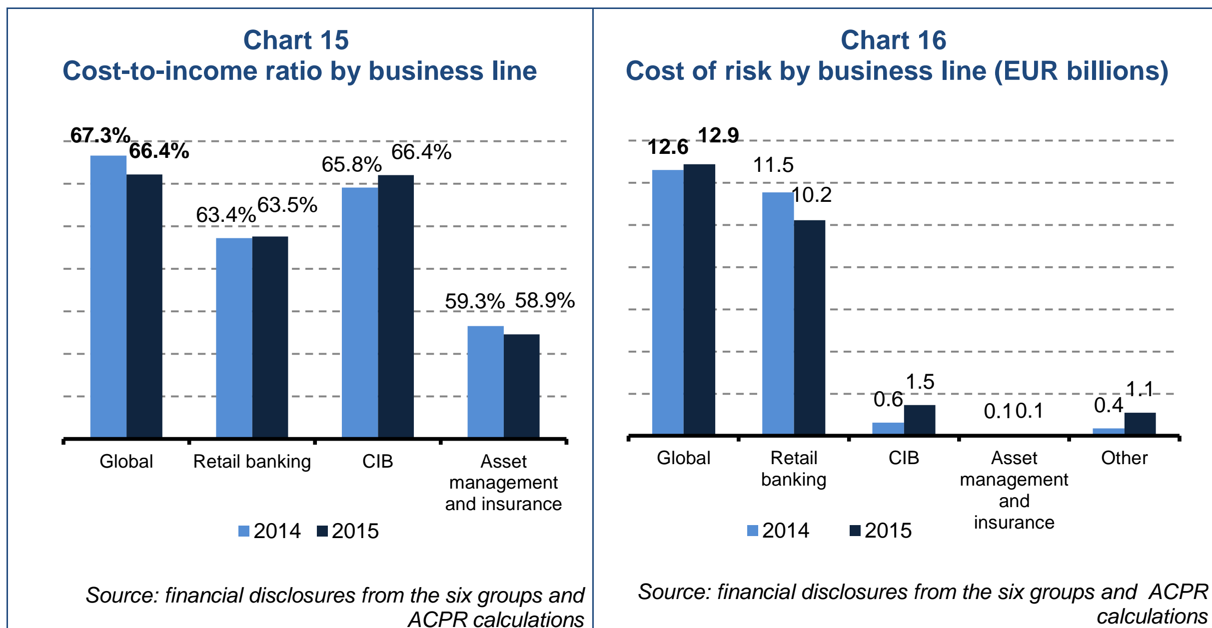


Chart 15
Cost-to-income ratio by business line

Source: financial disclosures from the six groups and ACPR calculations

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

Source: financial disclosures from the six groups and ACPR calculations

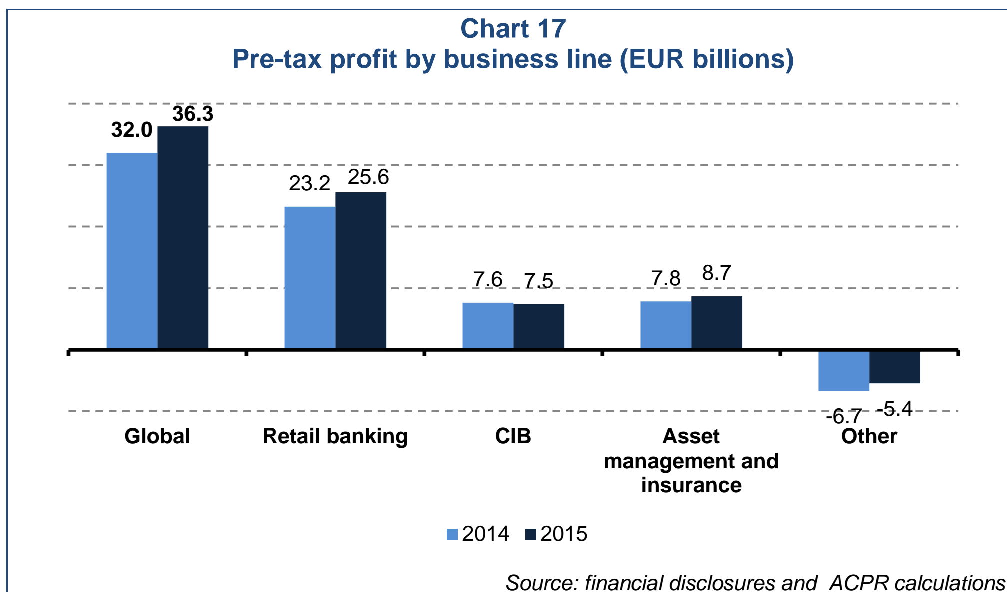


Chart 17
Pre-tax profit by business line (EUR billions)

Source: financial disclosures and ACPR calculations

In terms of pre-tax profit (Chart 17), the 2015 improvement of EUR 4.7 billion excluding exceptional items not assigned to any specific business area was largely driven by retail banking and specialised services (up EUR 4 billion), made up of EUR 2 billion from international retail banking, EUR 1.1 billion from specialised financial services and EUR 0.9 billion from French retail banking.

Meanwhile, asset management and insurance added almost EUR 1 billion. In spite of a sharp increase in income, profit before tax in corporate and investment banking fell by EUR 0.2 billion.

A detailed analysis of performance by business line is set out below. Further information can also be found in Annex 4.

1.2.1. Buoyant performance in retail banking and specialised finance

After being stable year on year in 2014, NBI from retail banking and specialised finance grew by 3.1% between 2014 and 2015 (Table 7). French retail banking income grew by 1.7%; international retail banking delivered more buoyant growth of 3.4%, while specialised finance saw income grow by 10.5%.

With the cost-to-income ratio holding steady at 63.5%, the significant decrease in the cost of risk (down 11.4%) resulted in a 17.6% increase in pre-tax profit.

Table 7
Key figures for retail banking and specialised finance

	French retail banking		International retail banking		Specialised finance		TOTAL	
	2015	*chg on 2014*	2015	*chg on 2014*	2015	*chg on 2014*	2015	*chg on 2014*
Net banking income	**65.2**	***1.7%***	**19.3**	***3.4%***	**13.7**	***+10.5%***	**98.2**	***+3.1%***
Operating expenses	42.7	*+1.6%*	12.5	*+6.5%*	7.2	*+7.9%*	62.4	*+3.3%*
Cost-to-Income ratio	65.5%	*-0.0 pts*	64.5%	*+1.9 pts*	52.6%	*-1.2 pts*	63.5%	*+0.1 pts*
Gross operating profit	**22.5**	***+1.8%***	**6.9**	***-1.9%***	**6.5**	***+13.4%***	**35.8**	***+2.9%***
Cost of risk	**4.4**	***-10.4%***	**3.5**	***-13.1%***	**2.3**	***-10.8%***	**10.2**	***-11.4%***
Operating profit	**18.0**	***+5.4%***	**3.4**	***+13.4%***	**4.2**	***+33.0%***	**25.6**	***+10.0%***
Other gains and losses	0.3	*+3.0%*	0.2	*nm*	0.3	*+16.8%*	0.8	*nm*
Pre-tax profit	**18.3**	***+5.3%***	**3.6**	***+118.7%***	**4.5**	***+31.7%***	**26.4**	***+17.6%***

Source: financial disclosures from the six groups and ACPR

- **French retail banking** faced a number of challenges: the significant effects of the persistent low interest rate environment were accentuated by substantial volumes of mortgage redemptions and renegotiations, accelerating the decline in average portfolio returns; this trend was offset by an immediate but temporary increase in fees and commissions, as well as – more modestly – by continuing sluggish economic growth and demand for credit, though France was in a more favourable position than other euro area countries in this regard. All in all, income grew only modestly (up an average of 1.2% a year since 2010 and up 1.7% in 2015), forcing banks to maintain strict control over expenditure (with the cost-to-income ratio stable at 65.5%). However, the decrease in the cost of risk (down 10.4%) allowed pre-tax profit to increase by 5.3% in 2015.

- Since NBI from **international retail banking** increased by almost half as much as operating costs, the cost-to-income ratio rose by 1.9 pt; however, with the cost of risk down 13.1% relative to 2014, operating profit nevertheless increased by 13.4%; finally, pre-tax profit rose sharply in 2015 (up 118.7%), having been hit in the previous year by substantial impairment losses in Russia and Portugal;[19] taking into account the goodwill impairment charge on BNL, which was not recognised in this business line,[20] would change the outcome somewhat, leading to a 62.4% increase in pre-tax profit.

- Income from **specialised finance** rose sharply in 2015 (up 10.5%), driven partly by scope effects (notably the merger of LaSer and BNPP Personal Finance); pre-tax profit from specialised financial services increased by 31.7%, with operating expenses (up 7.9%) growing more slowly than income and cost of risk decreasing (down 10.8%).

1.2.2. Corporate and investment banking hit by the rising cost of risk

In 2015, in spite of income growing by 10%, with forex effects particularly favourable (cf. Table 2), operating profit from corporate and investment banking declined slightly due to a sharp rise in the cost of risk (up EUR 855 million relative to 2014), more specifically in corporate banking (Table 8). In particular, sector-specific provisions were set aside in the oil and energy sectors in the second half of the year in response to the decline in oil prices and the subsequent deterioration in the financial position of certain counterparties. Furthermore, GCA set aside a EUR 350 million provision in connection with OFAC.[21]

[19] In 2014, GCA recognised a EUR 708 million impairment loss on its investment in Banco Espírito Santo Group and SG recognised a EUR 525 million impairment loss in respect of negative goodwill on its Russian business.

[20] The goodwill impairment charge on BNL (EUR 917 million in 2015) is recognised under "Other activities".

[21] In respect of the investigation into dollar-denominated transactions with countries subject to US economic sanctions (OFAC), in which cooperation with US federal authorities resulted in GCA

Aggregate investment banking income was up 11.7% in 2015, with individual increases ranging from 6% to 18%. While the large banks delivered solid performances in equities in 2015, growth in revenues was more mixed in fixed income, credit, currencies and commodities, where market conditions were more challenging.

In corporate banking, all banks grew their income in 2015 (up 6.8%). However, the more rapid increase in operating expenses and the rising cost of risk pulled down pre-tax profit for the year, which declined by 15%.

Table 8
Key figures for CIB

	Corporate banking			Investment banking			Total		
	2015	2014	*chg on 2014*	2015	2014	*chg on 2014*	2015	2014	*chg on 2014*
Net banking income	**8.3**	**7.7**	***6.8%***	**14.2**	**12.7**	***11.7%***	**26.6**	**24.2**	***10.0%***
Operating expenses	4.7	4.2	*+12.0%*	10.7	9.6	*+11.3%*	17.6	15.9	*+11.0%*
Cost-to-Income ratio	57.2%	54.6%	*+2.6 pts*	75.6%	75.8%	*-0.3 pts*	66.4%	65.8%	*+0.6 pts*
Gross operating profit	**3.5**	**3.5**	***+0.6%***	**3.5**	**3.1**	***+13.0%***	**8.9**	**8.3**	***+8.1%***
Cost of risk	**1.0**	**0.4**	***x2.3***	**0.2**	**0.0**	***nm***	**1.5**	**0.6**	***x2.3***
Operating profit	**2.5**	**3.1**	***-18.5%***	**3.2**	**3.1**	***+4.7%***	**7.5**	**7.6**	***-2.3%***
Other gains and losses	0.3	0.2	*+41.9%*	0.0	0.0	*nm*	-0.4	-0.4	*-19.1%*
Pre-tax profit	**2.8**	**3.3**	***-15.1%***	**3.3**	**3.1**	***+4.9%***	**7.0**	**7.3**	***-3.3%***

Source: financial disclosures

1.2.3. Insurance and asset management continue to enjoy buoyant growth

Insurance and asset management performed well, both internationally and in the French market. NBI from this business line increased by 9.8% to EUR 21.4 billion and, in spite of higher operating costs (up 6.2%) as a result of buoyant business and euro depreciation, pre-tax profit grew by 11.7% to EUR 9.3 billion (Table 9).

Table 9
Key figures for insurance and asset management

	Total		
	2015	2014	*chg on 2014*
Net banking income	21.4	19.5	+9.8%
O/w Insurance	*8.3*	*7.8*	*+6.2%*
Operating expenses	12.6	11.5	+9.1%
Cost-to-Income ratio	58.9%	59.3%	-38.7%
Gross operating profit	**8.8**	**7.9**	+10.8%
Cost of risk	**0.1**	**0.1**	+6.3%
Operating profit	**8.7**	**7.8**	+10.9%
Other gains and losses	0.6	0.5	+24.3%
Pre-tax profit	**9.3**	**8.3**	+11.7%

Source: financial disclosures

agreeing to pay a penalty of USD 787 million (EUR 693 million) in 2015. Payment of this penalty was charged against provisions already set aside.

2. Balance sheets[22]

At end 2015, the top five French banking groups had aggregate total assets of EUR 6,146 billion, compared with EUR 6,333 billion at end 2014, equating to a 2.9% reduction over the period versus an 8% increase in 2014 (Table 10).

Table 10
Aggregate balance sheet for the top five French banking groups (EUR billions)

	2014	2015	Change 2015/2014	Contribution to the total balance sheet growth
ASSETS	**6,333.0**	**6,146.7**	**-2.9%**	
Cash and amounts due from central banks	390.5	415.6	6.4%	0.4%
Financial assets held for trading	1,710.2	1,459.3	-14.7%	-4.0%
Financial assets designated at fair value through profit and loss	106.1	85.2	-19.7%	-0.3%
Available-for-sale assets	429.9	441.3	2.7%	0.2%
Loans and receivables: non-financial corporations	978.6	1,080.9	10.4%	1.6%
Loans and receivables: households	1,430.1	1,430.8	0.0%	0.0%
Loans and receivables : government, credit institutions and other financial corporations	633.3	611.1	-3.5%	-0.4%
Held to maturity investments	45.7	46.4	1.7%	0.0%
Derivatives - Hedge accounting	93.4	81.5	-12.6%	-0.2%
Other assets	515.4	494.5	-4.0%	-0.3%
LIABILITIES(*)	**6,333.0**	**6,146.7**	**-2.9%**	
Financial liabilities held for trading	1,527.9	1,272.7	-16.7%	-4.0%
Financial liabilities designated at fair value through profit and loss	223.8	198.8	-11.1%	-0.4%
Derivatives - Hedge accounting	96.1	85.6	-10.9%	-0.2%
Deposits: central banks	113.8	145.3	27.7%	0.5%
Deposits: credit institutions	285.2	249.8	-12.4%	-0.6%
Deposits: other than credit institutions	2,419.6	2,592.9	7.2%	2.7%
Debt securities issued	881.5	803.3	-8.9%	-1.2%
Provisions	31.1	30.2	-3.0%	0.0%
Subordinated debt	71.9	84.4	17.3%	0.2%
Total equity (group share)	330.7	353.0	6.8%	0.4%
Other liabilities	351.4	330.6	-5.9%	-0.3%

(*): Deposits, debt securities and subordinated debt recognised at amortised cost.

Source: FINREP – tables FIN1, FIN4 and FIN8

2.1. Assets decline due to a drop in held-for-trading financial assets

The total decline in assets suggests a rebalancing away from capital market activities and towards lending. Indeed, the decline was mainly driven by “Held-for-trading financial assets”, which declined by EUR 250.9 billion between 2014 and 2015 and, to a lesser extent, “Financial assets at fair value through profit or loss” (down EUR 20.9 billion); conversely, “Loans and receivables due from non-financial undertakings” increased significantly (up EUR 102.3 billion), while “Consumer loans and receivables” held steady at EUR 1,430.8 billion and the decline in “Other loans and receivables”[23] (down EUR 22.2 billion) contributed only very marginally to the overall reduction in total assets.

Furthermore, the increase in “Cash and cash balances with central banks” (up EUR 25.1 billion) and “Available-for-sale financial assets” (up EUR 11.3 billion) reflects banks’ continued efforts to adapt to the liquidity coverage ratio (LCR), which entered into force in September 2015 (see below).

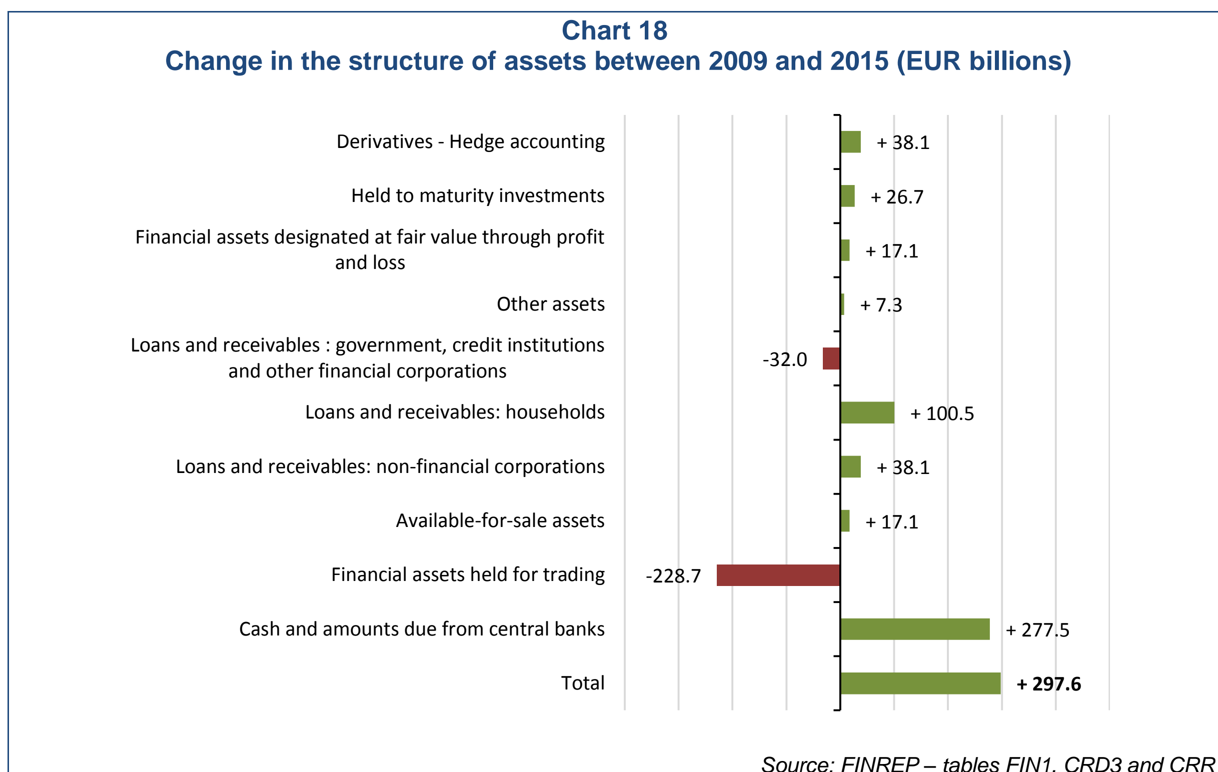
[22] Unless otherwise indicated, this section covers BNPP, SG, GCA, GBPCE and GCM.

[23] Including loans to central banks, public authorities, credit institutions and other financial undertakings.

An analysis of changes in assets over a longer period,[24] between 2009 and 2015, reveals a similar pattern (Chart 18): held-for-trading assets declined significantly (down EUR 228.7 billion), while total assets increased by EUR 297.6 billion. This increase in assets was mainly driven by cash and cash balances with central banks (up EUR 277.5 billion), as well as lending to households, which grew at a sustained pace (up EUR 100.5 billion).

These trends highlight the fact that consolidation in banks' short-term liquidity profiles (also helped by a EUR 53 billion increase in available-for-sale financial assets) has not come at the expense of financing of the real economy; in this regard, as well as lending to households, loans and receivables due from large corporates also increased by EUR 38.1 billion.

Chart 18
Change in the structure of assets between 2009 and 2015 (EUR billions)



Source: FINREP – tables FIN1, CRD3 and CRR

2.2. Similarly, liabilities decline due to reduction in held-for-trading financial liabilities

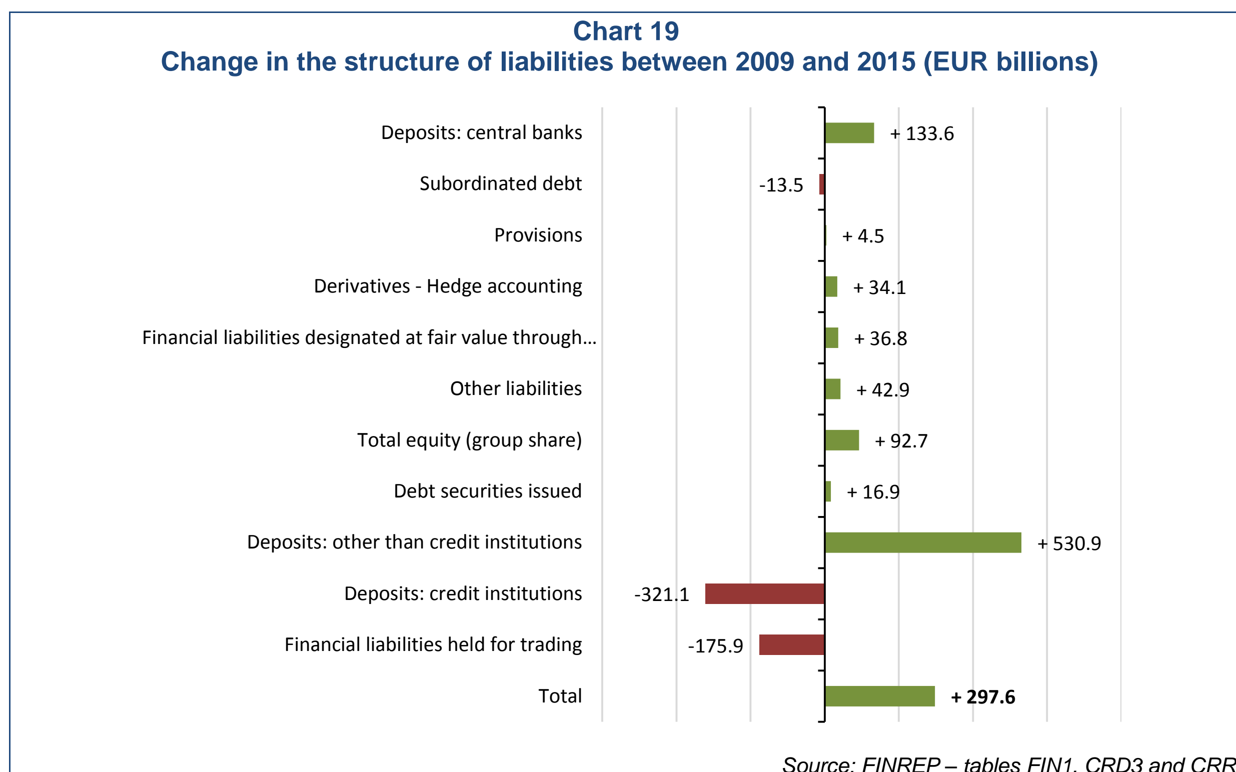
As was the case for assets, the decline in total liabilities was mainly driven by "Held-for-trading financial liabilities", which declined by EUR 255.2 billion in 2015. The reduction in outstanding "Debt securities" (down EUR 78.2 billion) and "Deposits (other than from credit institutions)" (down EUR 35.4 billion) also contributed to this trend. Conversely, a few items saw sustained growth, such as "Deposits excluding credit institutions" (up EUR 173.3 billion), "Central bank deposits" (up EUR 31.5 billion), "Shareholders' equity (group share)" (up EUR 22.7 billion) and "Subordinated liabilities" (up EUR 12.5 billion). As noted above, these various changes reflect adjustments to banks' liquidity profiles, with their net debt reducing, as well as to their solvency profiles (cf. section 4.1).

As was the case for assets, the trends observed between 2014 and 2015 are generally in line with long-term trends (Chart 19): "Deposits from credit institutions"

[24] It should be noted that changes in certain items of assets and liabilities over a long period reflect changes in nomenclature and in the definitions of data available in the new FINREP regulatory reports (applicable with effect from September 2014). In particular, the "consumer" category as it now exists corresponds to the broader category of "retail customers"; conversely, "central governments" now cover a broader scope than "public authorities" insofar as they also encompass public sector entities (such as social security authorities, etc.).

and “Held-for-trading financial liabilities” declined sharply (down EUR 321.1 billion and EUR 175.9 billion respectively), while “Deposits (other than from credit institutions)” and “Central bank deposits” grew by EUR 530.9 billion and EUR 133.6 billion respectively over the same period. Also of note is a significant increase in “Shareholders’ equity (group share)” (up EUR 92.7 billion), highlighting the scale of the improvement in banks’ solvency over the period. The only item not to follow a consistent trend is “Subordinated liabilities” (with volumes declining until end 2013 and then growing), perhaps reflecting their conversion into “core” equity at the beginning of the period, followed by the more recent resumption of debt issues ahead of implementation of the regulation on the resolution of systemic banks.

Chart 19
Change in the structure of liabilities between 2009 and 2015 (EUR billions)



Source: FINREP – tables FIN1, CRD3 and CRR

The increase in “Subordinated liabilities” illustrates continued issues of instruments eligible as Additional Tier 1 (AT1) or Tier 2 (T2) equity. Issues of subordinated securities by the top five French banking groups totalled EUR 14.7 billion in 2015,[25] with most of this amount eligible as Tier 2 equity (Table 11): AT1 issues totalled EUR 3.2 billion (EUR 2.1 billion for BNPP and EUR 1.1 billion for SG) and T2 issues totalled EUR 14.9 billion (with all the banks under review having completed issues during the year); however, some groups redeemed part of their debt by exercising their option to buy AT1 securities, examples being GBPCE and SG, while redemptions of T2 securities were virtually nil.

[25] Source: SNL, March 2016.

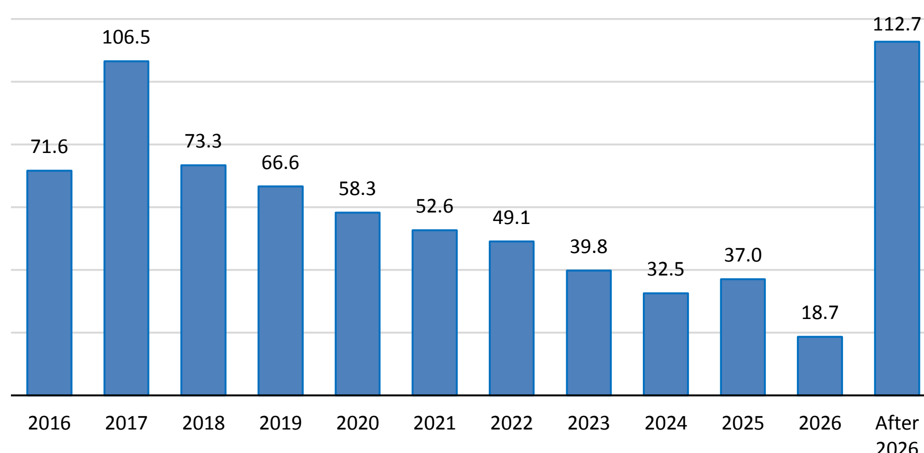
Table 11
Issues and redemptions of eligible equity instruments in 2015 (EUR billions)

	Issues		Redemptions	
	Additional Tier 1	Tier 2	Additional Tier 1	Tier 2
BNPP	2.1	3.1	-	-
SG	1.1	4.9	1.2	0.0
GCA (CASA)	-	3.8	-	-
BPCE	-	3.1	2.2	-
TOTAL	**3.2**	**14.9**	**3.4**	**0.0**

Source: financial disclosures

Meanwhile, the maturity profile of "Debt securities", which accounted for just over 13% of total liabilities at end 2015, remains relatively evenly spread over the next ten years, with the exception of a slight peak in 2017, thus reducing refinancing risk (Chart 20). [26]

Chart 20
Medium- and long-term debt maturity profile of BNPP, SG, GCA, GBPCE and GCM (EUR billions)



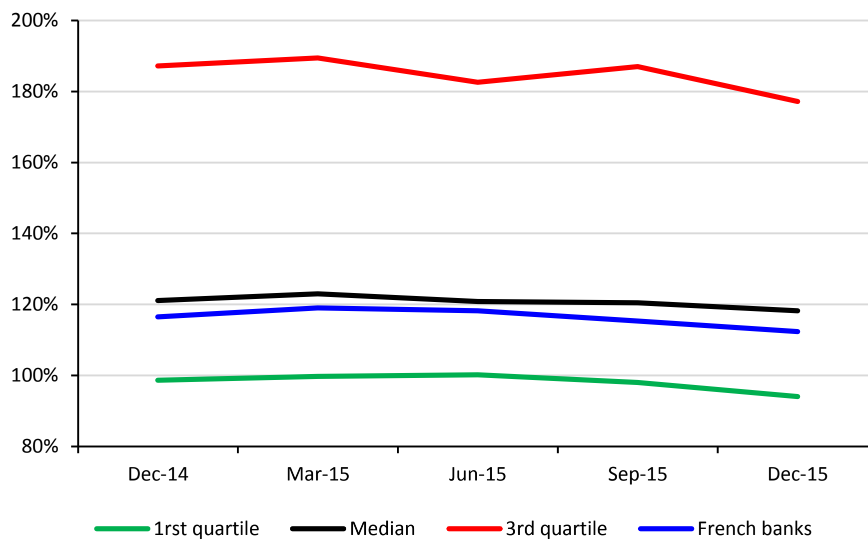
Source: SNL, ACPR calculations

Finally, stronger growth in deposits (up 6% between 2014 and 2015) than in loans (up 2% over the same period) resulted in a 5.6-point decline in the aggregate loan-to-deposit (LTD) ratio, which fell from 116.5% in 2014 to 112.3% in 2015. This improvement, which reflects banks' efforts to adapt to the new LCR regulation, puts the LTD ratio for French banks below the median of European banks[27] (Chart 21).

[26] Total medium-to-long-term liabilities identified by SNL amounted to EUR 719 billion at end April 2016, compared with EUR 803 billion of "Debt securities" shown in FINREP reports at end December 2015. This gap could be explained by differences in scope, with SNL covering a narrower scope than FINREP (in particular, SNL does not include certificates of deposit).

[27] Across a scope including non-financial undertakings and consumers.

Chart 21
Loan-to-deposit ratio on non-financial undertakings and households for the main European banks



Source: ACPR and EBA (FND_32), FINREP data;[28] *scope: main European banks*

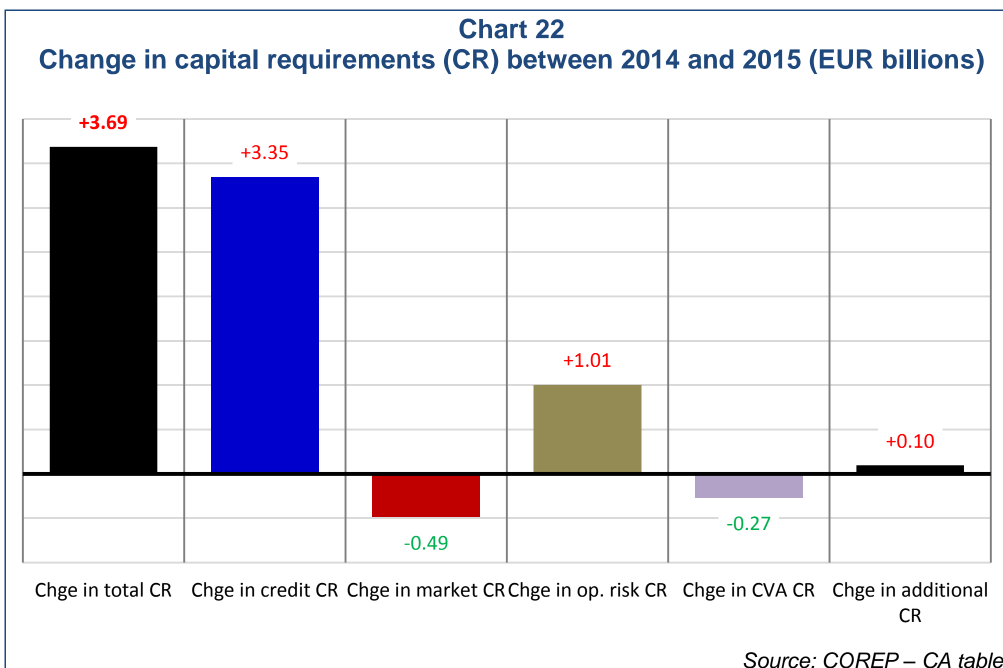
[28] The LTD ratio of French banks shown here does not, however, take into account the specific treatment that should be applied to regulated savings held centrally with Caisse des dépôts et consignations which, as such, are not available to finance new lending. The actual LTD ratio of French banks is therefore higher.

3. Risks[29]

3.1. Increasing capital requirements driven by credit risk

Total capital requirements once again increased between 2014 and 2015 (up EUR 3.7 billion to EUR 170.5 billion), albeit more slowly than between 2013 and 2014 (up EUR 12.3 billion). This increase in capital requirements continued to be driven almost entirely by the "credit risk" component (Chart 22).

Chart 22
Change in capital requirements (CR) between 2014 and 2015 (EUR billions)



Source: COREP – CA table

3.2. A further increase in capital requirements for credit risk

This analysis of credit risk covers both changes in capital requirements, which measure the unexpected cost of future defaults, and changes in observed default behaviour, as measured by payments in arrears and loans in default.

3.2.1. Volumes grow and credit risk picks up slightly

Inset: analysing the change in capital requirements for credit risk

Capital requirements for credit risk equate to 8% of risk-weighted assets (RWAs). The following simplified formula can be used to analyse the main causes of changes in these requirements over a given period for a portfolio or for all credit exposure:

$$RWAs = IGA \times CCF \times RW$$

Where IGA is the initial gross amount of exposure of a given loan book (households, corporate, etc.), CCF is the credit conversion factor, which measures the propensity of off-balance-sheet commitments to turn into credit exposure, and RW is the average risk weighting of exposure.

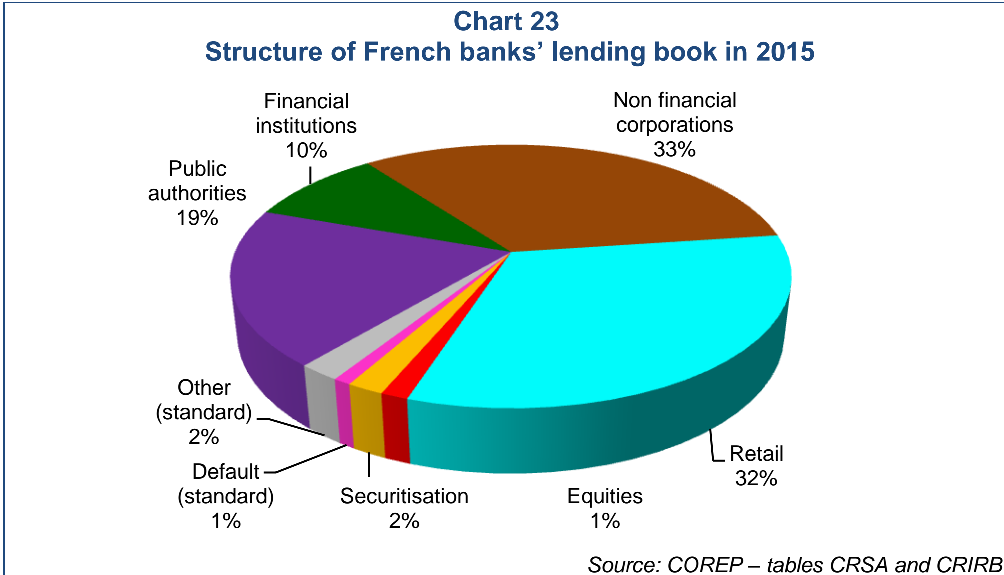
The above formula can thus be used to isolate a "volume effect" that measures the change in the initial exposure amount, a "CCF effect" that reflects changes in the CCF and a "risk effect" that captures the change in the average weighting of exposure:

[29] Unless otherwise indicated, this section covers the BNPP, SG, Crédit Agricole (GCA), BPCE (GBPCE) and Crédit Mutuel (GCM) groups.

- Volume effect = IGA_y / IGA_{y-1} – 1
- CCF effect = CCF_y / CCF_{y-1} – 1
- Risk effect = RW_y / RW_{y-1} – 1

At end 2015, almost the entire exposure of French banks was concentrated in four portfolios: corporates, retail, governments and institutions (Chart 23).

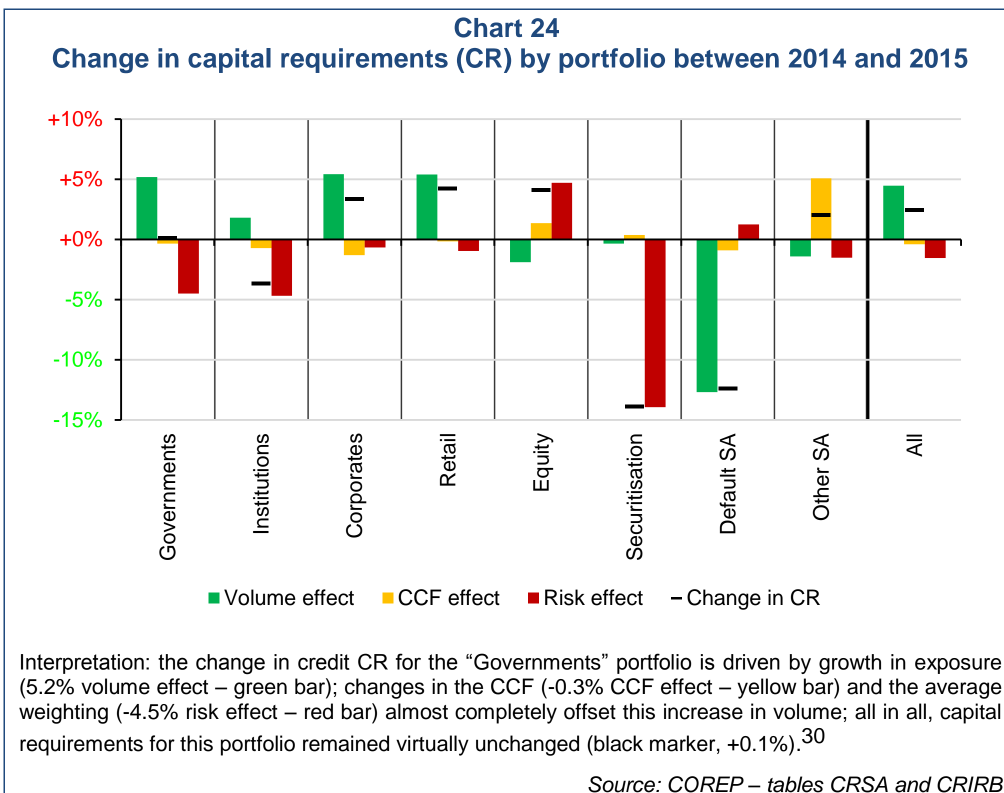
Chart 23
Structure of French banks' lending book in 2015



Source: COREP – tables CRSA and CRIRB

After rising by 8% in 2014, credit capital requirements increased slightly in 2015 (up 2.4%); this increase was driven purely by a volume effect (+4.5%), with CCF and risk effects (-0.4% and -1.6% respectively) both exerting downward pressure (Chart 24).

Chart 24
Change in capital requirements (CR) by portfolio between 2014 and 2015



Interpretation: the change in credit CR for the "Governments" portfolio is driven by growth in exposure (5.2% volume effect – green bar); changes in the CCF (-0.3% CCF effect – yellow bar) and the average weighting (-4.5% risk effect – red bar) almost completely offset this increase in volume; all in all, capital requirements for this portfolio remained virtually unchanged (black marker, +0.1%).[30]

Source: COREP – tables CRSA and CRIRB

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[30] It can be shown that credit CR_y = credit CR_{y-1} x [(1+volume effect) x (1+ CCF effect) x (1+ risk effect) -1].

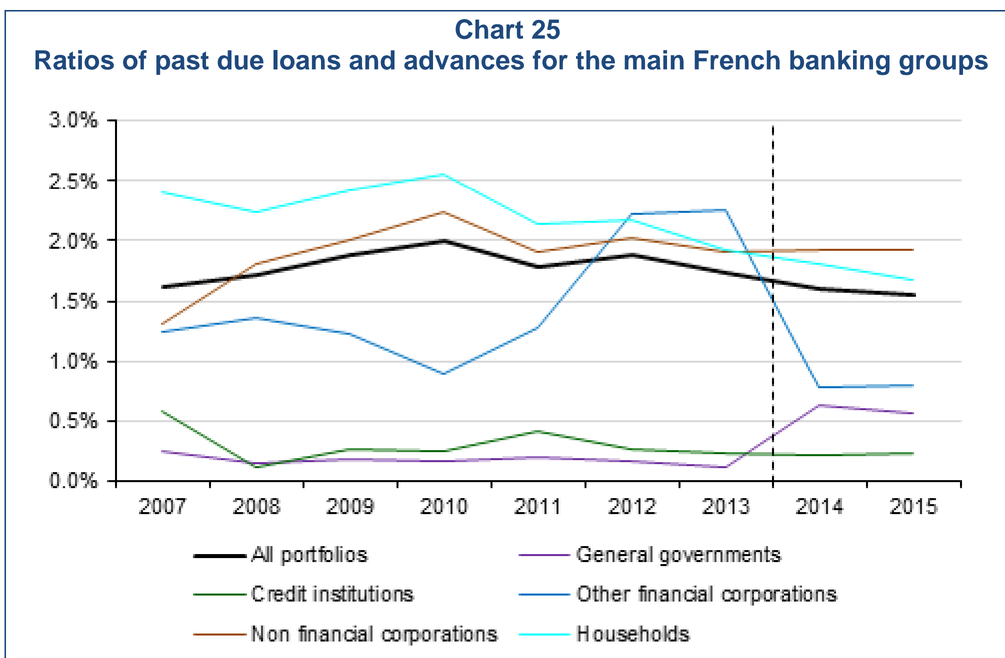
The four main portfolios (cf. left-hand part of chart above) followed a similar trend between 2014 and 2015:

- In spite of a 5.2% increase in exposure, credit capital requirements on the “Governments” portfolio remained unchanged given a significant fall in average weighting (risk effect of -4.5%) and, to a lesser extent, a reduction in the average CCF (CCF effect of -0.3%);
- However, credit capital requirements on the “Institutions” portfolio fell 3.7%, mainly due to the risk effect (-4.7%) comfortably offsetting the volume effect (+1.8%);
- For the “Corporates” portfolio, the reduction in average weighting (-0.7%) and average CCF (-1.3%) was not sufficient to offset growth in volumes (+5.4%); all in all, credit capital requirements increased by 3.3%;
- The “Retail” portfolio followed almost exactly the same trend, with higher volumes (+5.3%), amplified by a small positive CCF effect (+0.1%), only partially offset by the risk effect (-1.8%); all in all, credit capital requirements increased by 3.5%.

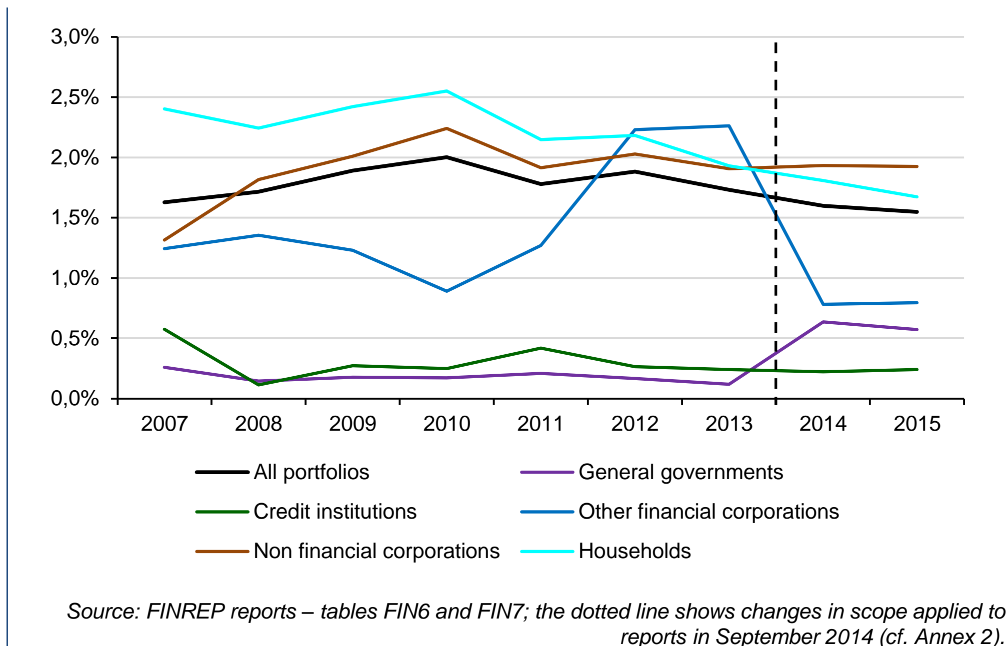
3.2.2. An improvement in the quality of credit portfolios

The ratio of past due loans and advances[31] of the top French banks remained virtually unchanged at end 2015, at 1.55% (down 5 bps relative to 2014; Chart 25); only “Households” stood out, with the ratio visibly declining by 14 bps to 1.67%.

Chart 25
Ratios of past due loans and advances for the main French banking groups



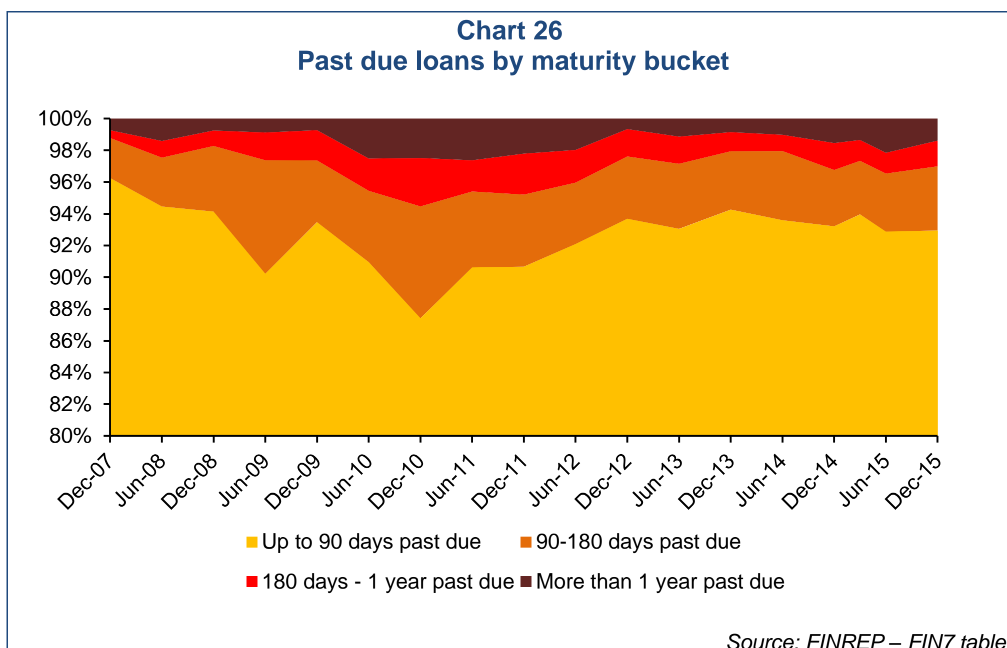
[31] Under IFRS rules, the ratio of past due loans and advances is defined as the ratio of due loans and advances over the total gross amount of non-impaired loans and advances.



Source: FINREP reports – tables FIN6 and FIN7; the dotted line shows changes in scope applied to reports in September 2014 (cf. Annex 2).

Furthermore, an analysis of past due loans and advances by age does not reveal any lengthening in the maturity of these loans; in particular, the proportion of loans past due by less than 90 days increased further between 2014 and 2015, to 95% of total of past due loans (Chart 26).

Chart 26
Past due loans by maturity bucket

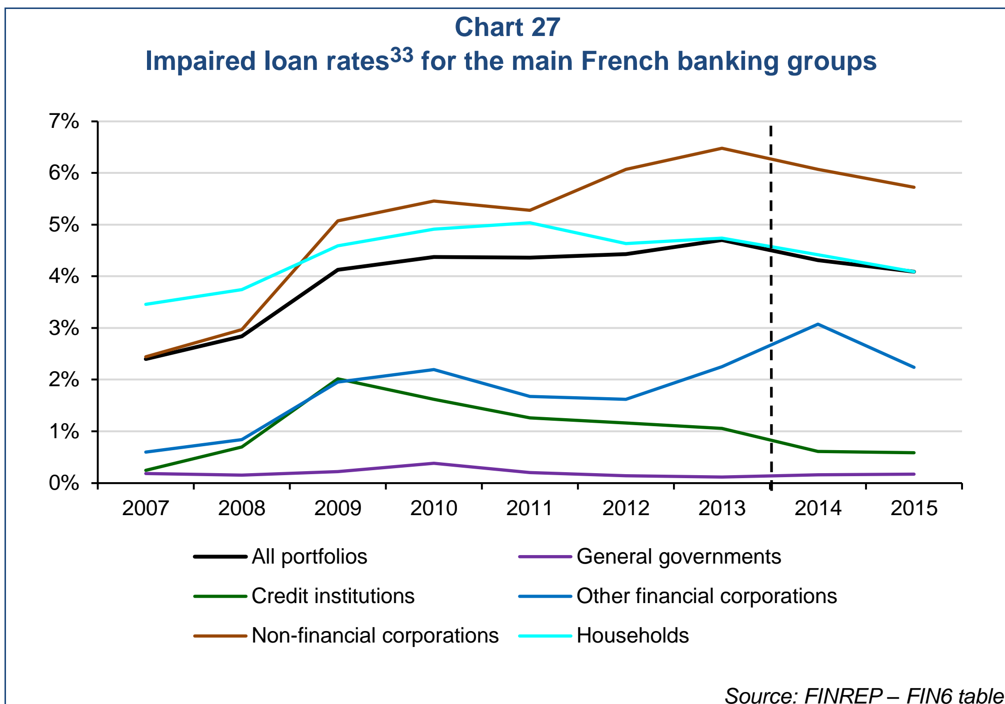


Source: FINREP – FIN7 table

Following a relative stabilisation after the 2007-2008 financial crisis and a decline of 39 basis points between 2013 and 2014, the impaired loan rate[32] once again fell in 2015, down from 4.31% to 4.09% (Chart 27). This change was driven by both a significant reduction in the amount of impaired assets (down 2.6%) and an increase in total exposure (up 2.9%). With the exception of credit institutions and general governments, for which it held steady, the impaired loan rate fell for all other portfolios, including non-financial undertakings (down 35 bps to 5.72%), households (down 32 bps to 4.05%) and other non-financial undertakings (down 84 bps to 2.24%).

[32] Within the "loans and receivables" category of the FINREP reports, the impaired loan rate is defined as the ratio of "gross impaired loans and advances" to the sum of "loans and advances not impaired" and "gross impaired loans and advances".

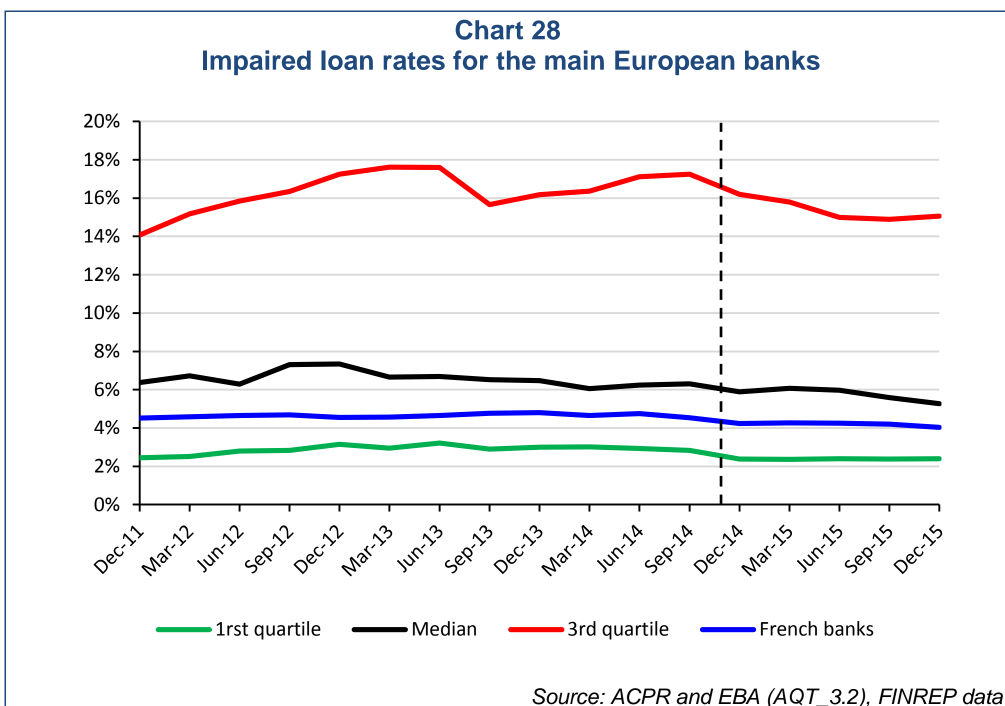
Chart 27
Impaired loan rates[33] for the main French banking groups



Source: FINREP – FIN6 table

Furthermore, French banks continue to have a much lower impaired loan rate than their European competitors, as shown in Chart 28: the average impaired loan rate for the main French banking groups, which has fluctuated very little since 2011, falls between the first quartile and the median.

Chart 28
Impaired loan rates for the main European banks



Source: ACPR and EBA (AQT_3.2), FINREP data

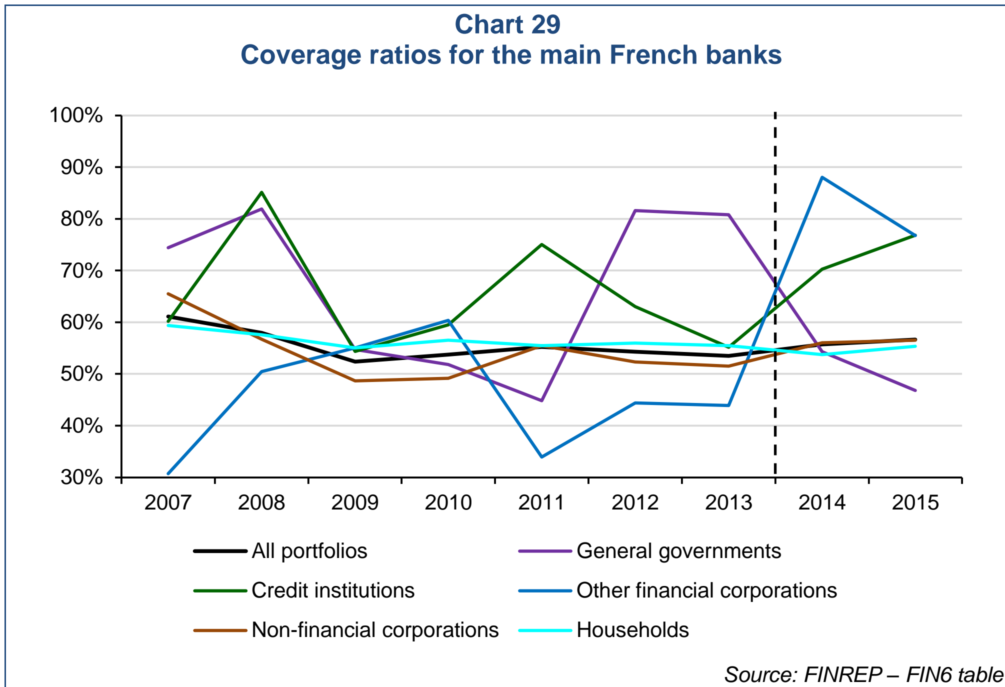
The overall coverage ratio[34] for French banks continued to rise after bottoming out in June 2010 (52.1%), rising from 55.8% in December 2014 to 56.7% in December 2015 (Chart 29); the coverage ratio for non-financial undertakings and households held steady at 55.4% and 56.5% respectively. The coverage ratio fell

[33] The notion of doubtful loans, as defined in French accounting rules used by credit institutions when preparing their individual financial statements, does not exist under IFRS, which is the format used by the major French banking groups when preparing their consolidated financial statements.

[34] The coverage ratio is defined as the ratio of “individual impairment losses” on loans and advances to “gross impaired loans and advances”

particularly sharply on other financial undertakings (down 11 bps to 76.8%), returning to a level close to that of credit institutions, as well as on central government bodies (down 13 bps to 46.8%), on which it had risen sharply from end 2011 at the height of the Greek sovereign debt crisis. However, some of these changes were driven by changes in scope affecting reporting templates from September 2014 onwards.

Chart 29
Coverage ratios for the main French banks

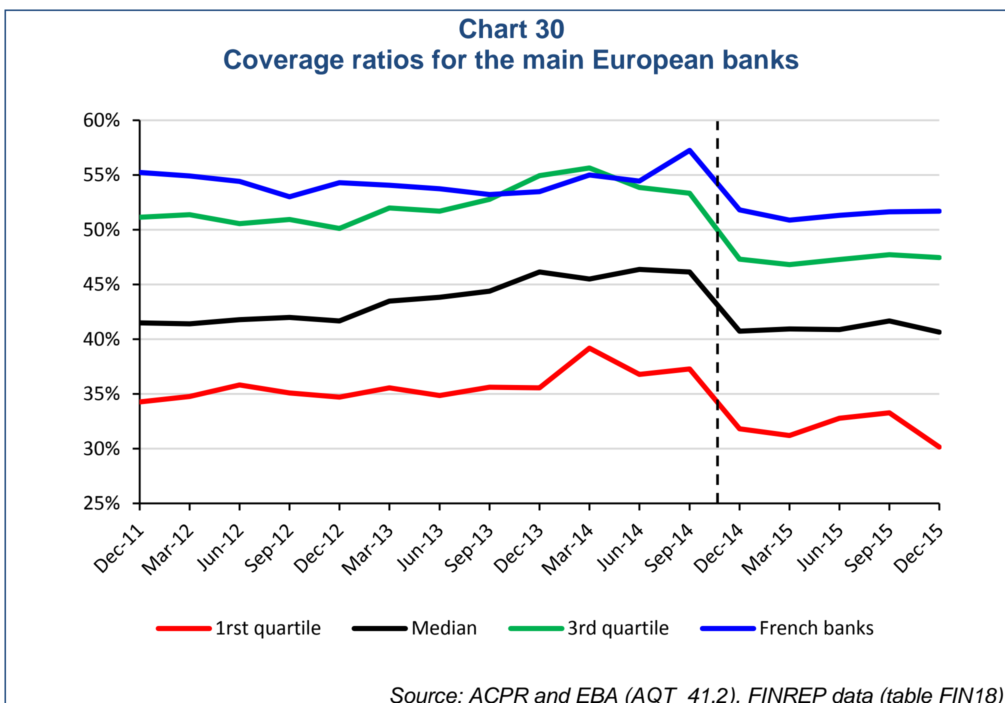


Source: FINREP – FIN6 table

An analysis of the EBA's key risk indicators reveals that French banks' provisioning ratios are better than those of their European counterparts, according to the common European definition (Chart 30[35]): furthermore, their relative advantage has tended to improve since June 2014, exceeding the third quartile of European banks and remaining above 50%.

[35] The FINREP tables use two different definitions of impaired loans:
- In table FIN6, banks input estimated impaired loans based on domestic accounting rules;
- In table FIN18, however, they input estimated impaired loans based on the EBA's harmonised definition.

Chart 30
Coverage ratios for the main European banks



Source: ACPR and EBA (AQT_41.2), FINREP data (table FIN18)

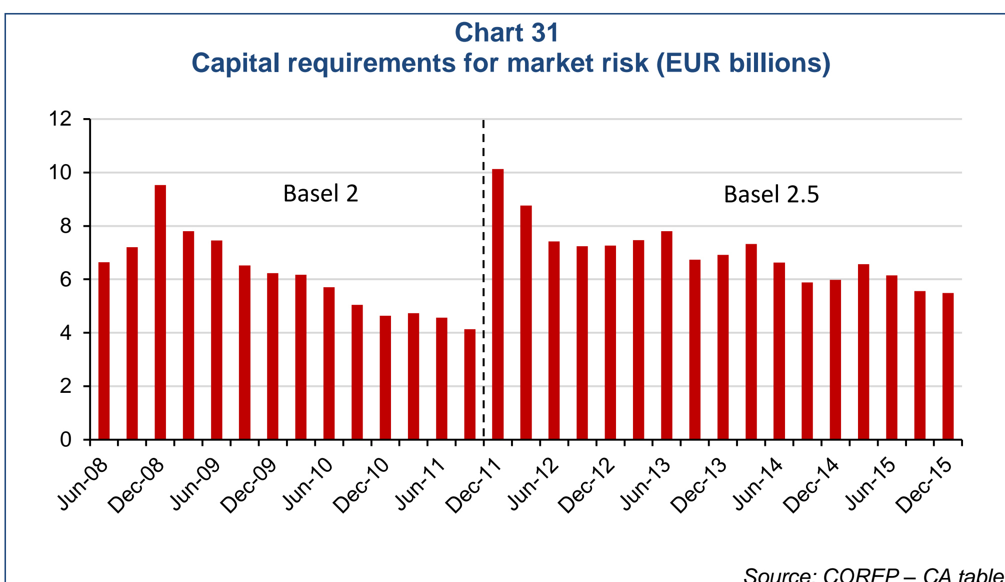
3.3. Capital requirements for credit valuation adjustements (CVAs)

With effect from 1 January 2014, European regulation 575/2013 (Articles 381 and following) introduced a new category of capital requirement for credit valuation adjustments or CVAs[36]. At 31 December 2015, these capital requirement totalled 1.7 billion, or 1% of total capital requirements, down 27% year on year.

3.4. Reduction in capital requirements for market risk

Capital requirements for market risk for the top five French banks once again declined in 2015, down 8.1% relative to 2014. This reduction should be seen in light of the decline in trading assets and liabilities (Chart 31).

Chart 31
Capital requirements for market risk (EUR billions)

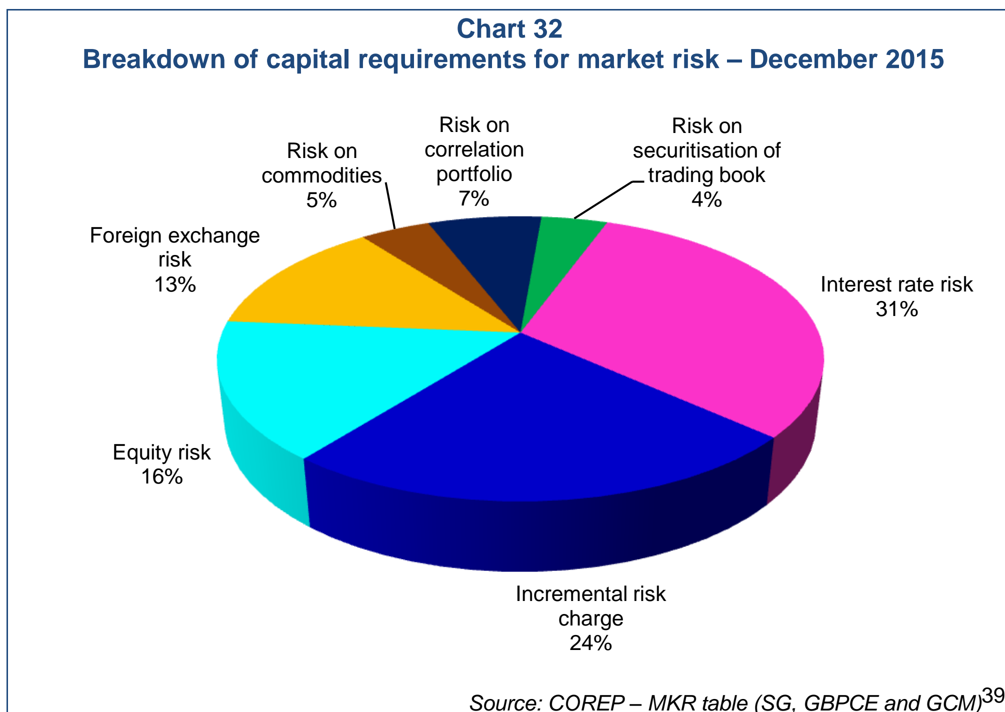


Source: COREP – CA table

[36] CVAs are intended to measure counterparty default risk on over-the-counter derivatives other than credit derivatives recognised as reducing weighted exposure for credit risk purposes.

At 31 December 2015, capital requirements for market risk[37] covered interest rate risk (31%, down 3 pts relative to 2014), followed by the additional requirement in respect of default and migration risk (incremental risk charge[38]) (24%, down 6 pts) and by equity risk (16%, stable) and foreign exchange risk (13%, up 1 pt; Chart 32).

Chart 32
Breakdown of capital requirements for market risk – December 2015



Source: COREP – MKR table (SG, GBPCE and GCM)[39]

After increasing between 2013 and 2014, held-for-trading assets and liabilities as a proportion of total assets declined in 2015, driven by a reduction in derivatives, which form the main component of this category (Chart 33 and Chart 34).[40]

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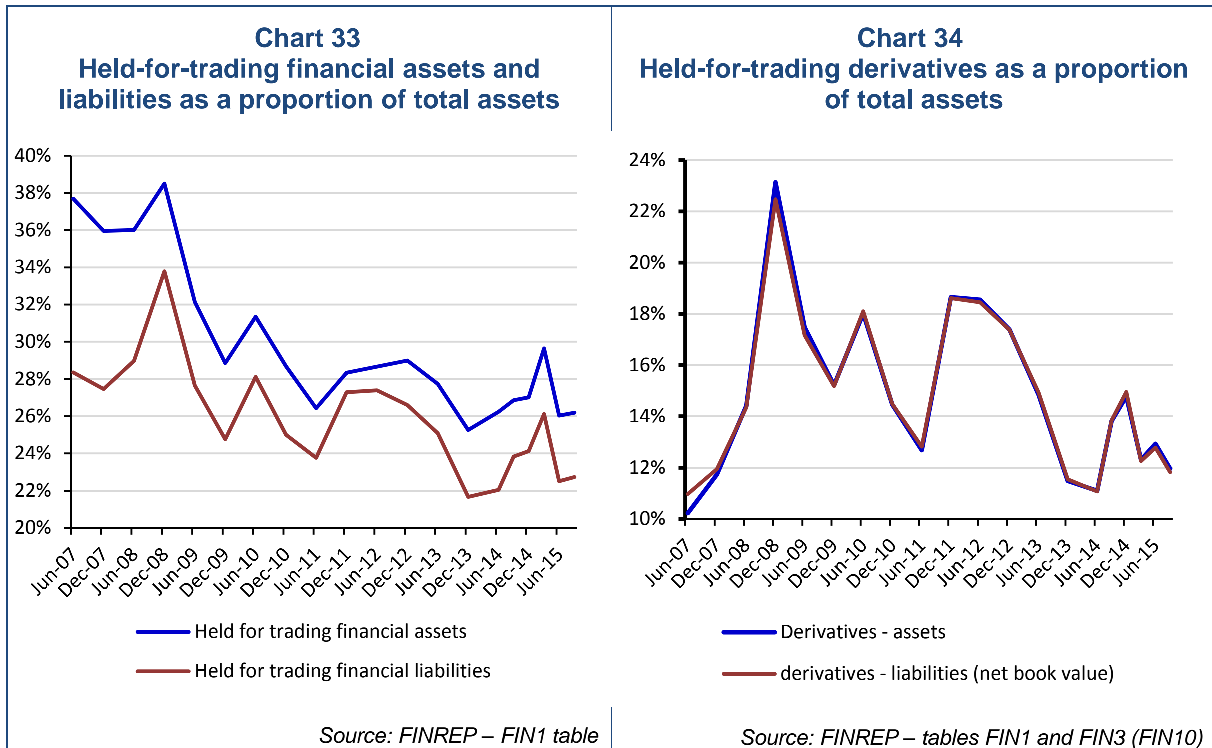
[37] Since BNPP and GCA calculate their reported capital requirements for market risk using internal models before netting, the sum of requirements included in the MKR IM table is higher than the amount in the CA table for both these banks. This makes it impossible to break down the total capital requirement for market risk into the various constituent risks for these groups.

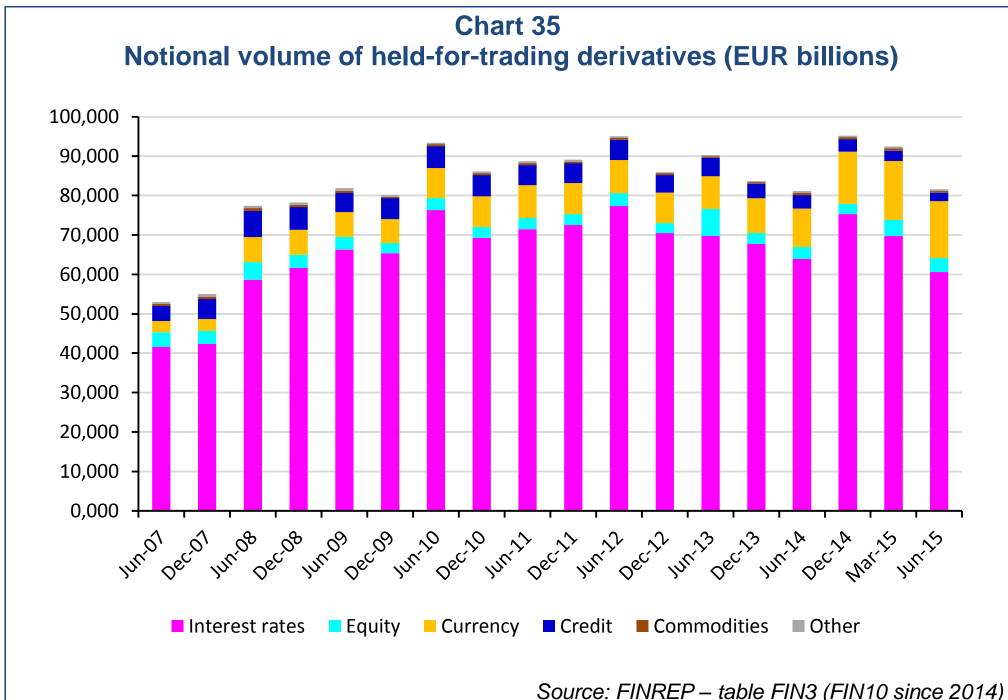
[38] In accordance with the provisions of Article 372 of the CRR, banks that use internal models to calculate their capital requirements for specific risks linked to traded debt instruments must also have an internal incremental default and migration risk (IRC) model in place to capture the default and migration risks of its trading book positions that are incremental to the risks captured by the value-at-risk (VaR) measure.

[39] See note 37.

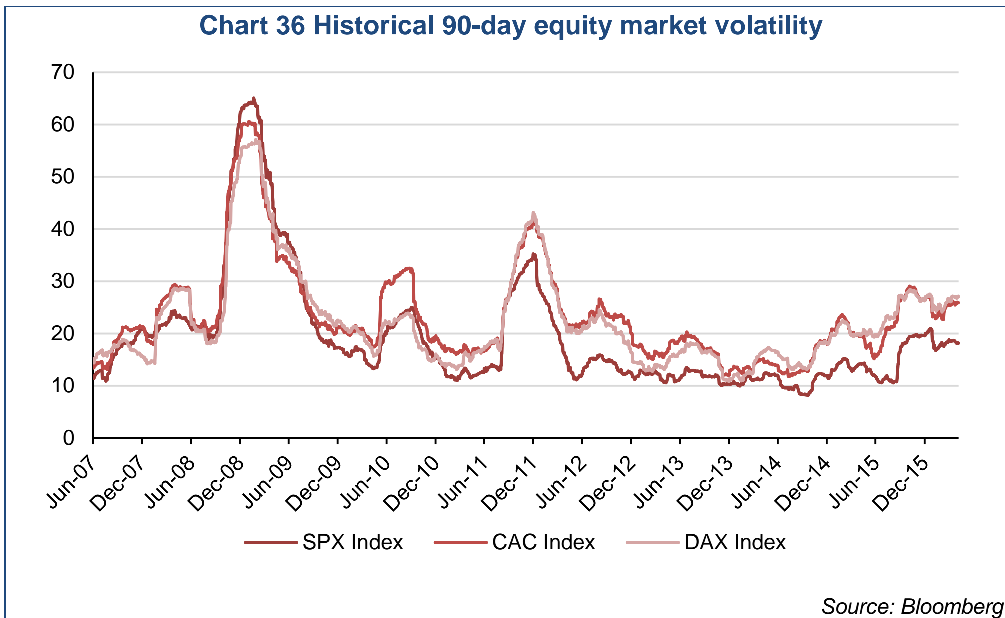
[40] See sections 2.1 and 2.2.



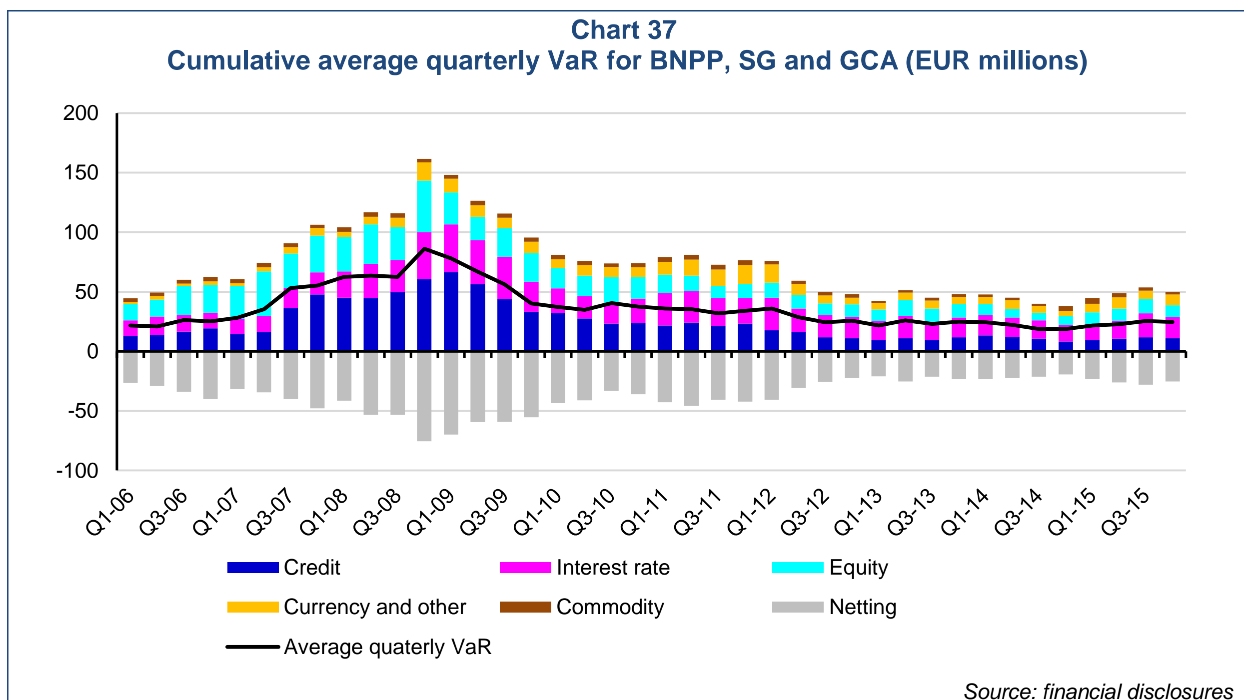
Similarly, the notional amount of held-for-trading derivatives declined further (down 14.3% between 2014 and 2015 after rising by 13.8% between 2013 and 2014), mainly on interest rate products (down 19.5% between 2014 and 2015) (Chart 35).



The reduction in capital requirements for market risk reflects continued favourable market conditions over the first half of 2015; this was followed by a sharp upturn in volatility on equity markets, particularly in Europe (Chart 36).



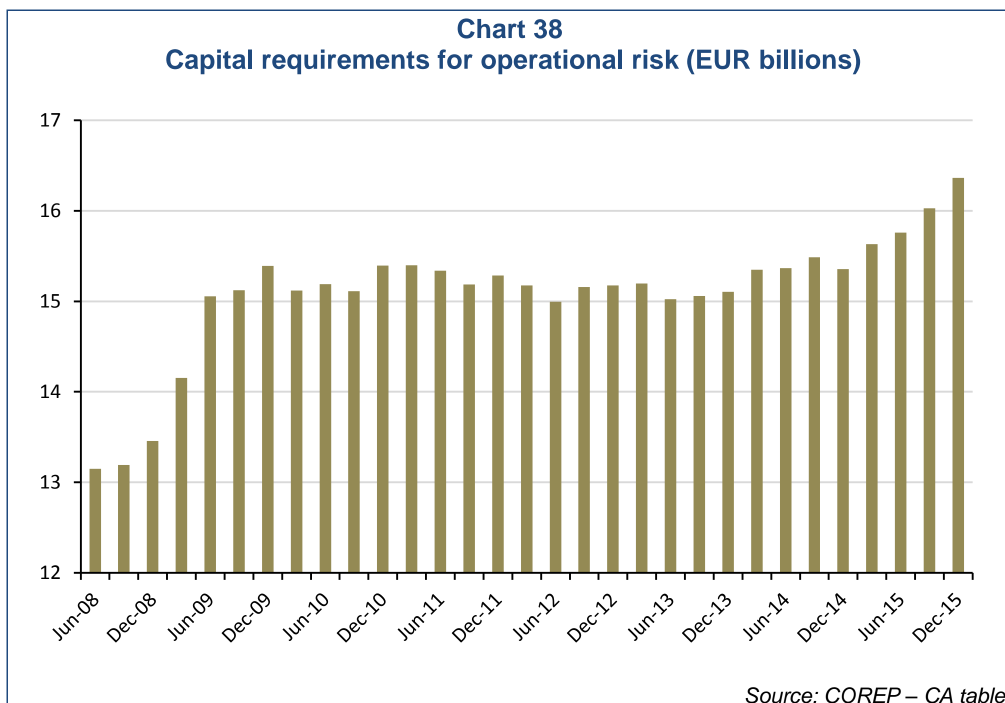
In this context, the cumulative average trading value at risk (VaR)[41] for BNPP, SG and GCA remained low (Chart 37), in spite of a slight upturn in four of its components (currency, interest rates, credit and equities).



3.5. Increase in capital requirements for operational risk

Accentuating the trend observed in 2014, when they increased by 1.7%, capital requirements for operational risk increased by a further 6.6% in 2015 to EUR 16.4 billion (Chart 38).

[41] Calculated for a one-day holding period and with a 99% confidence interval.



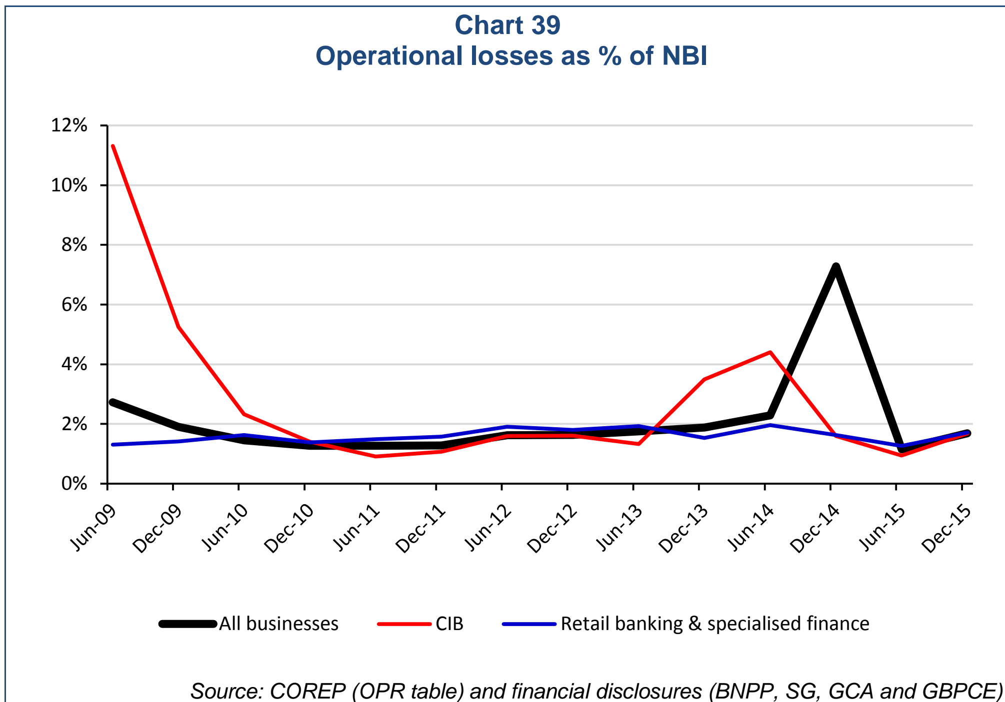
However, after rising by 7.3% between 2013 and 2014 due to the sharp increase in operating losses in international retail banking arising from the payment by BNPP of a EUR 6.6 billion fine, the ratio of operating losses to NBI decreased significantly in 2015, returning to its 2013 level (Chart 39).

The main two business lines followed a similar pattern, though this was in sharp contrast to the decline in the ratio across the business as a whole:

- The level of operational risk (as a proportion of NBI) in retail banking and specialised finance[42] increased further (up 8 bps between 2014 and 2015 after rising by 10 bps between 2013 and 2014) from 1.63% to 1.71% of NBI;
- In corporate and investment banking, operational risk increased slightly in 2015 to 1.69% of NBI, up 10 bps from 2014.

[42] The retail brokerage, commercial banking and retail banking Basel business lines have been assumed to map onto retail banking and specialised finance.

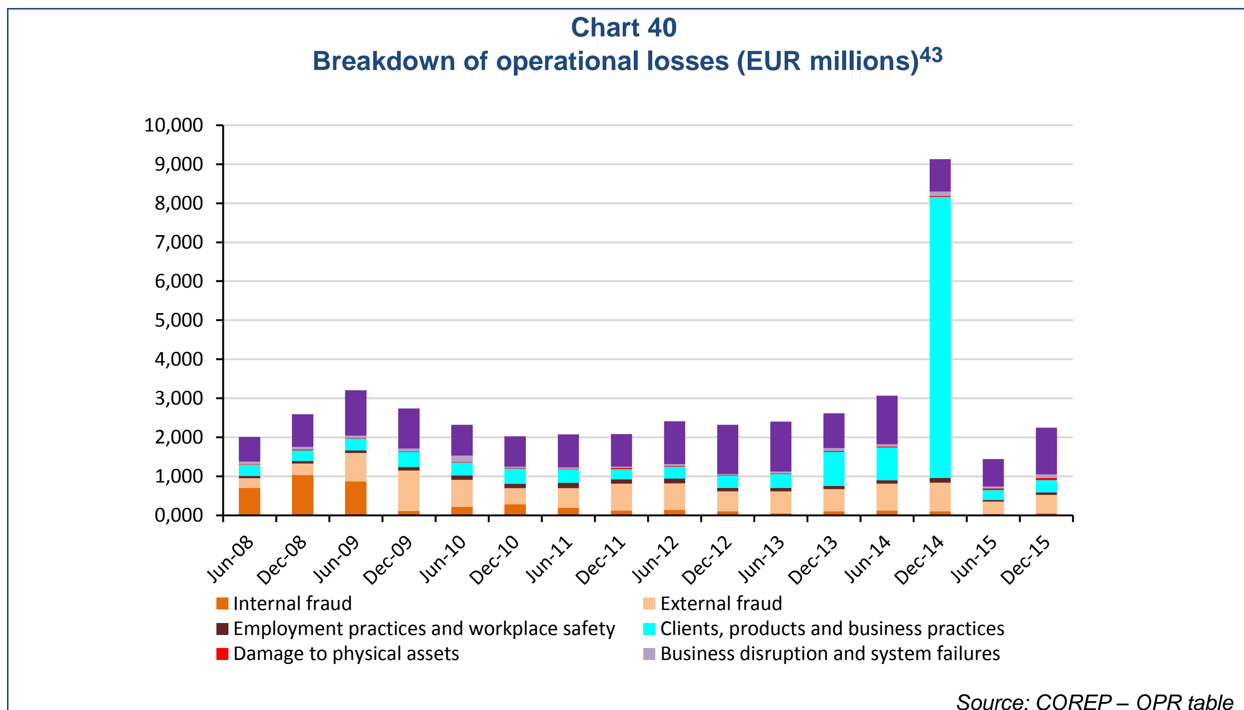
Chart 39
Operational losses as % of NBI



Source: COREP (OPR table) and financial disclosures (BNPP, SG, GCA and GBPCE)

While operational losses arising from execution, delivery and process management increased by 43.3% between 2014 and 2015, the other components of operational risk – notably relating to customers, products and business practices – declined sharply (Chart 40).

Chart 40
Breakdown of operational losses (EUR millions)[43]

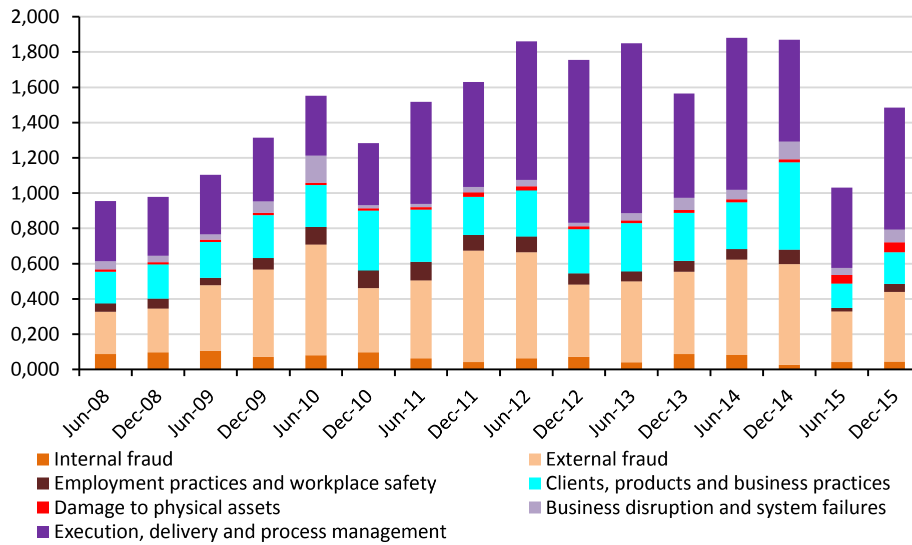


Source: COREP – OPR table

However, the two business lines continue to present distinct profiles (Chart 41 and Chart 42): while the majority of losses in both cases relate to execution, delivery and process management, retail banking and specialised finance is also exposed to the risk of external fraud, which has only a very marginal impact on corporate and investment banking.

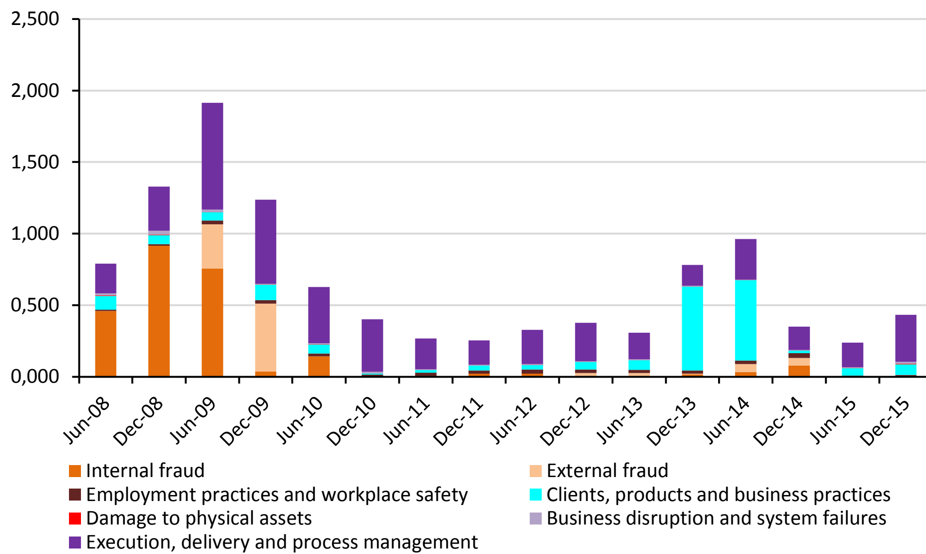
43 Excluding SG's trading loss in 2008.

Chart 41
Breakdown of operational losses – retail banking and specialised finance (EUR millions)



Source: COREP – OPR table

Chart 42
Breakdown of operational losses – CIB (EUR millions)[44]



Source: COREP – OPR table

44 Excluding SG's trading loss in 2008.

4. Regulatory ratios

4.1. Solvability continues to improve

Successive changes in prudential regulations, and in particular those that took effect in 2008, 2011 and 2014, significantly altered the definitions of baseline regulatory solvency ratios. To assess changes in banks' solvency over a long period, adjustments must be made to ensure that measurements remain comparable over time. Equity has therefore been adjusted as far as possible to recalculate CRR data based on Basel I data in 2006 and 2007, Basel II data from 2008 to 2011 and Basel II.5 data from end 2011 to end 2013. Under this approach, the Common Equity Tier 1 (CET1) solvency ratios of the main French banks have risen steadily since 2008 (Table 12).

Table 12
Estimated aggregate CET1 ratio for the main French banks since 2006

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Core Tier 1 equity/full CET1	133	144	132	161	181	198	225	240	253	275
Full risk-weighted assets	1,837	2,124	2,290	2,262	2,305	2,367	2,318	2,207	2,149	2,190
Core Tier 1 ratio/full CET1	7.3%	6.8%	5.8%	7.1%	7.9%	8.4%	9.7%	10.9%	11.8%	12.6%

Source: BAFI/SURFI reports, COREP and Basel III Quantitative Impact Study (QIS) for BNPP, SG, GCA, GBPCE, GCM and LBP; ACPR calculations

Note: changes resulting from regulatory developments and updated reporting requirements have been restated as far as possible to show consistent "full CRR/CRD 4" CET1 capital ratios and RWAs over time. With respect to pre-CRR regulatory restatements, the following assumptions have been made: the 50/50 deductions applied to Tier 2 have been fully deducted from CET1; hybrid securities eligible for Tier 1 have been excluded; the equity method adjustment has been risk-weighted instead of deducting from equity.

French banks' solvency thus increased further relative to 2014: their aggregate "full CRR/CRD 4" CET1 ratio[45] reached 12.6% at end 2015, up 0.7 pt relative to 2014, reflecting a faster increase in equity than in risk-weighted assets (up 9% and 2% respectively). At 31 December 2015, all banks in the sample had a ratio of over 10% (Table 13) and exceeded the requirements to which they were individually subject taking into account additional capital requirements arising from Pillar 2 and systemic risk buffers[46] (Table 14).

Table 13
"Full CRR/CRD 4" CET1 ratio without phase-in

	BNPP	SG	GCA *(CASA)*	GBPCE *(Natixis)*	GCM	LBP	ALL
Dec 2014	10.3%	10.1%	13.1% *(10.4%)*	11.7% *(11.4%)*	15.5%	14.0%	**11.8%**
Dec 2015	10.9%	10.9%	13.7% *(10.7%)*	12.9% *(11.2%)*	15.8%	14.2%	**12.6%**

Source: financial disclosures

[45] The "full CRR/CRD 4" ratios take account of all the regulations set to come into force on 1 January 2019, including – for the largest banks – specific obligations relating to systemically important institutions.

[46] The ECB uses a common methodology to conduct an annual assessment of the risks to which the banks under its supervision are exposed and the strength of their capital bases; following this Supervisory Review and Evaluation Process (SREP), it notifies each bank of the minimum ratios it must meet (Table 14), which take account of any additional capital requirements laid down in Pillar 2, as the case may be, and include an additional safety buffer in respect of systemicity (in accordance with rules laid down by the Financial Stability Board (FSB) for global systemically important banks (G-SIBs) and by the national supervisor for Other Systemically Important Institutions (O-SIIs)).

Table 14
CET1 requirements at 1 January 2016[47]

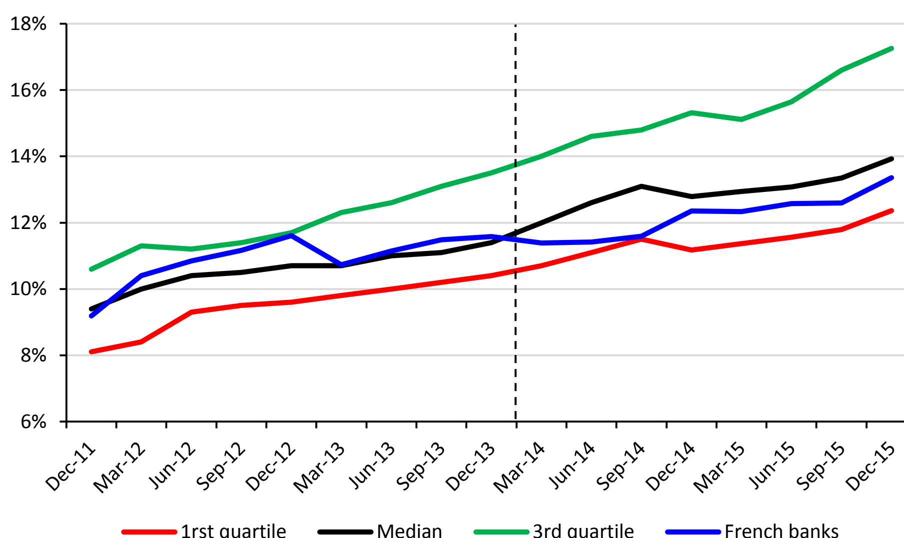
	BNPP	SG	GCA	GBPCE	LBP
CET1 (Pillar 1, Pillar 2 and conservation buf	9.5%	9.5%	9.5%	9.5%	9.25%
CET1 (systemic buffer)	0.5%	0.25%	0.25%	0.25%	0.0625%
Total	10.0%	9.75%	9.75%	9.75%	9.3125%

Source: financial disclosures

The decline in Natixis' ratio in 2015 reflects the acquisition of asset manager DCNA. It should be noted that the reorganisation of Crédit Agricole Group currently under consideration – which would see CASA transfer back 25% of its stake in the regional banks – should, according to the group's communications, improve the listed entity's CET1 ratio by 20 bps.

However, French banks' phased-in CET1 ratio – i.e. taking into account the gradual application of new prudential rules on equity (the ratio's numerator) – comes in below the median of the EBA's sample (Chart 43).

Chart 43
Phased-in Core Equity Tier 1 ratio for the main French banks



Note: the EBA's KRI 3 (which corresponded to the "Tier 1 ratio excluding hybrid instruments") was renamed the "Core Equity Tier 1 ratio" with effect from March 2014 (SVC_3). The CET1 concept corresponds to the new regulatory requirements applicable to banks since implementation of the CRD 4/CRR European regulations on 1 January 2014

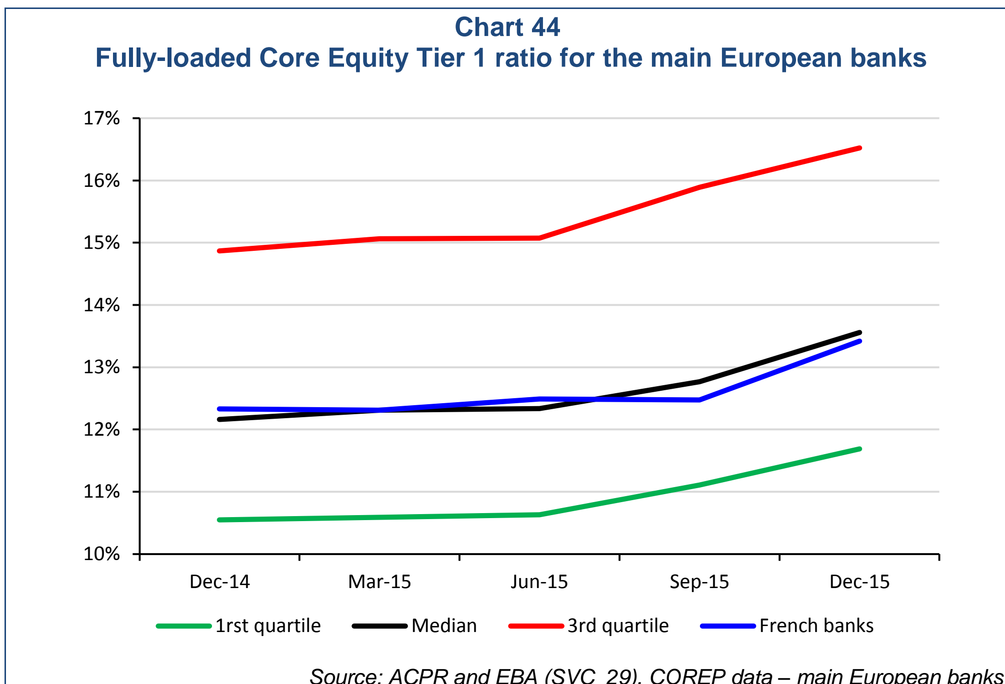
Source: ACPR and EBA (SVC_3), COREP data – main European banks

However, when applied to the non-phased in or "full CRR/CRD 4" CET1,[48] this finding changes somewhat: on this basis, French banks are slightly better positioned relative to the median (Chart 44).

[47] Consolidated data is not available for GCM; however, CM11 and CIC must achieve a total CET1 ratio of 8.25% and 8.50% respectively, of which 0.125% for the systemic buffer.

[48] The "full CRR/CRD 4" ratios take account of all the regulations set to come into force on 1 January 2019, including – for the largest banks – specific obligations relating to systemically important institutions.

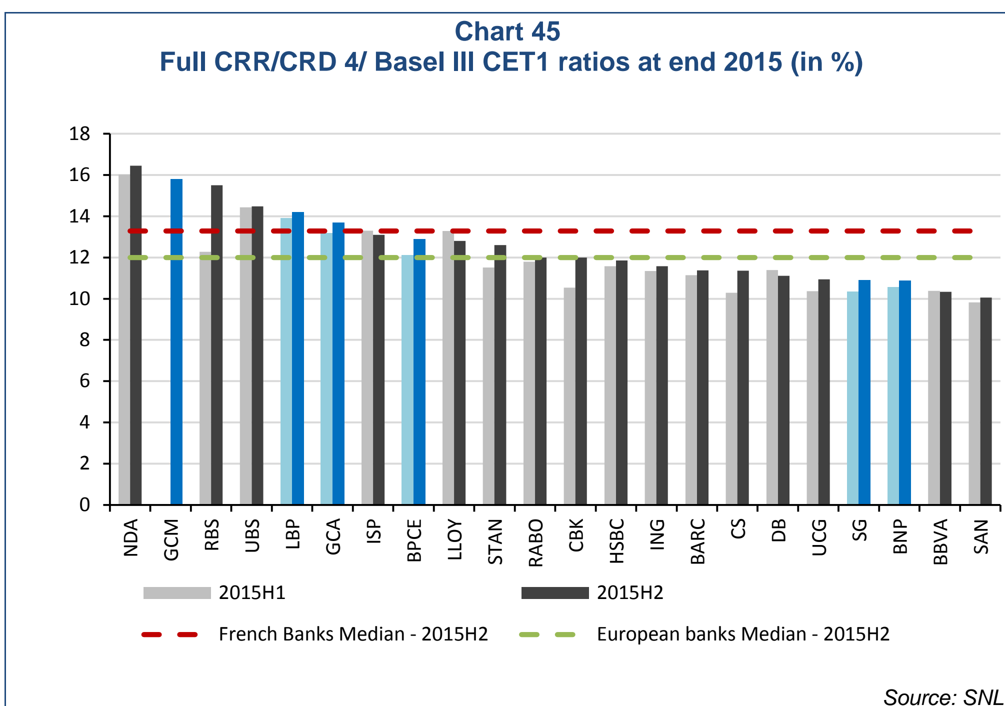
Chart 44
Fully-loaded Core Equity Tier 1 ratio for the main European banks



Source: ACPR and EBA (SVC_29), COREP data – main European banks

Furthermore, an individual analysis of a broader sample of banks (notably including non-euro-area banks) reveals that French banks, all of which have “full CRR/CRD 4” CET1 ratios of over 10%, are relatively well positioned, with most of them still in the top half of the rankings (Chart 45).

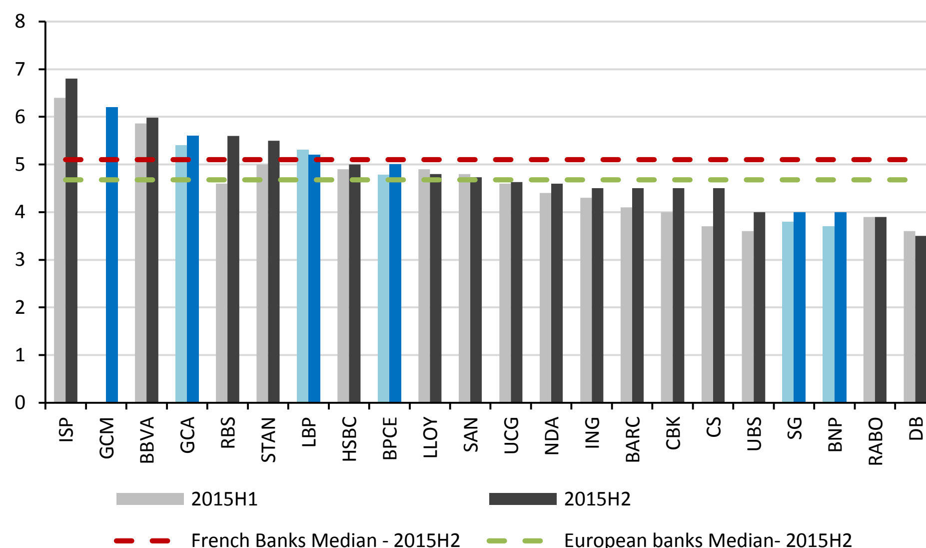
Chart 45
Full CRR/CRD 4/ Basel III CET1 ratios at end 2015 (in %)



Source: SNL

Finally, the aggregate European leverage ratio for the top six French groups now exceeds the 4% threshold (Chart 46). However, the actual level depends on the forthcoming decision by the European supervisor on the application to regulated savings balances held centrally with *Caisse des dépôts et consignations* of the exceptional treatment provided for by the European delegated act.

Chart 46
Leverage ratios at 31 December 2015 (in %)



Source: SNL

Inset: Basel III leverage ratio

The ratio, introduced by the Basel Committee in December 2010, aims to limit banks' leverage, which may have contributed to the financial crisis, as well as limiting the risk of excessive fluctuations in regulatory requirements arising from the use of internal models. The goal is to provide simple and easy-to-compare non-risk-based information on banks' solvency, supplementing the risk-based regulatory requirements, thus acting as a countercyclical safeguard against balance sheet expansion. It is defined as the ratio of Tier 1 equity to total exposure (on and off balance sheet). For the time being, under the current assessment approach, the minimum ratio is 3%.

The leverage ratio was transposed into European Union law by the Capital Requirements Regulation (CRR) and a delegated act of the European Commission published on 10 October 2014. Responsibility for interpreting certain technical characteristics will fall to supervisors – the SSM for large euro area groups.

The leverage ratio is currently the subject of an observation period and banks have been required to report it since 1 January 2015. Within the EU, following assessments in 2016 and 2017, this ratio could become a Pillar 1 regulatory requirement with effect from 2018.

After several years of Quantitative Impact Studies (QIS) and one of year of banks publishing their leverage ratios, on 6 April 2015 the Basel Committee published a proposed revision of the leverage ratio, which was put out to consultation until 6 July 2016. This document clarifies, *inter alia*, certain technical aspects for measuring exposure included in the ratio's denominator. Furthermore, the Basel Committee is considering imposing a surcharge for systemic banks that would increase the minimum ratio for such banks to over 3%.

4.2. Short term liquidity requirements entirely met

Inset: Basel III liquidity ratios

Introduced by the Basel Committee in December 2010, the LCR is intended to harmonise the monitoring of liquidity risk internationally; it requires banks to hold genuinely available high-quality liquid assets (known simply as high-quality liquid assets or HQLAs) to cover their liquidity requirements in the event of a period of stress lasting 30 days or more. Its aim is to ensure that banks are equipped to face a sudden liquidity shock (an unexpected increase in outflows) by drawing on

assets considered liquid by the regulator (obtaining cash by selling or collateralising assets). The LCR is defined as the ratio of the amount of HQLAs to the difference between cash outflows and inflows over a 30-day period; it must be greater than or equal to 100%.

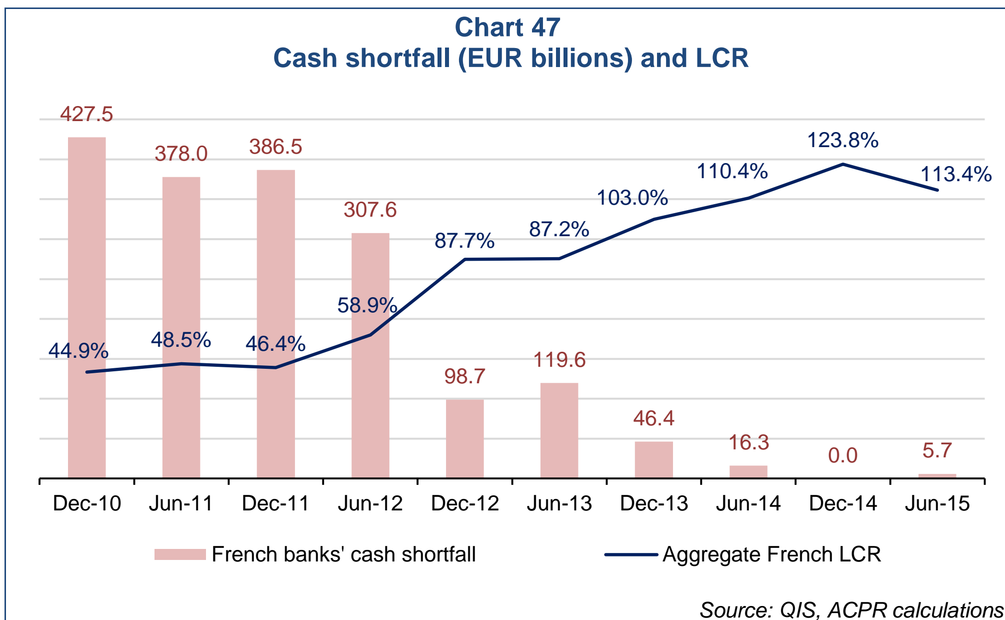
Furthermore, the requirements linked to the LCR were the subject of a European Commission delegated act published on 10 October 2014, which clarifies and adapts international provisions, while European Regulation 2013/575 requires institutions to publish their LCR ratios with effect from 1 October 2015 and those ratios must be at least 60% in 2015 and 100% in 2018.

Alongside the LCR, the Net Stable Funding Ratio (NSFR) aims to ensure that transformation activities (using short-term sources to fund long-term lending) are under control. The NSFR is the ratio of stable resources to stable funding requirements; it must be greater than or equal to 100%.

Since 2010 and in an accommodative monetary policy environment, major French banking groups – like all major European banks – have adapted their balance sheet structures to meet short-term and medium-to-long-term liquidity requirements (via the LCR and the NSFR respectively).

The top six French banks' total cash shortfall to comply with the LCR has gradually decreased significantly, down from EUR 427.5 billion at 31 December 2010 to EUR 5.7 billion at 30 June 2015. At that same date, according to the Basel Committee's definition,[49] the aggregate LCR of the top six French banking groups stood at 113.4%, around 10 bps lower than at end 2014 (Chart 47).

Chart 47
Cash shortfall (EUR billions) and LCR

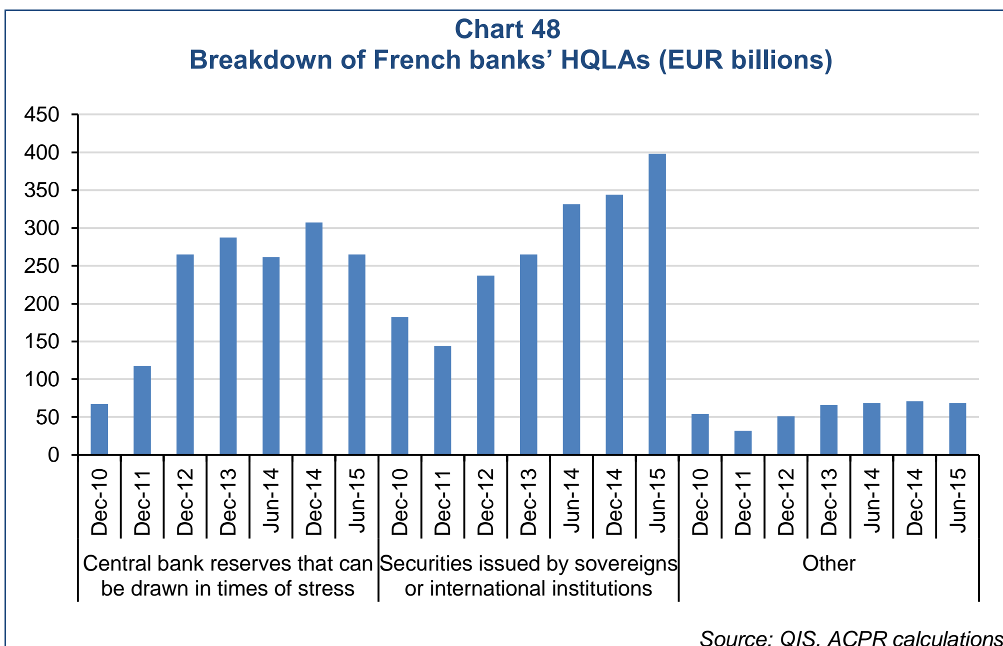


Source: QIS, ACPR calculations

The improvement in the LCR is primarily due to a sharp increase in the amount of HQLAs, which increased by a further 10.4% between June 2014 and June 2015. All in all, HQLAs as a proportion of total assets increased from 5.1% at 31 December 2011 to 11.5% at 30 June 2015. At the latter date, sovereign bonds and bonds issued by international bodies accounted for around 54.7% of total HQLAs, compared with 35.6% for reserves held with central banks (Chart 48).

[49] http://www.bis.org/bcbs/publ/d354.pdf

Chart 48
Breakdown of French banks' HQLAs (EUR billions)



Source: QIS, ACPR calculations

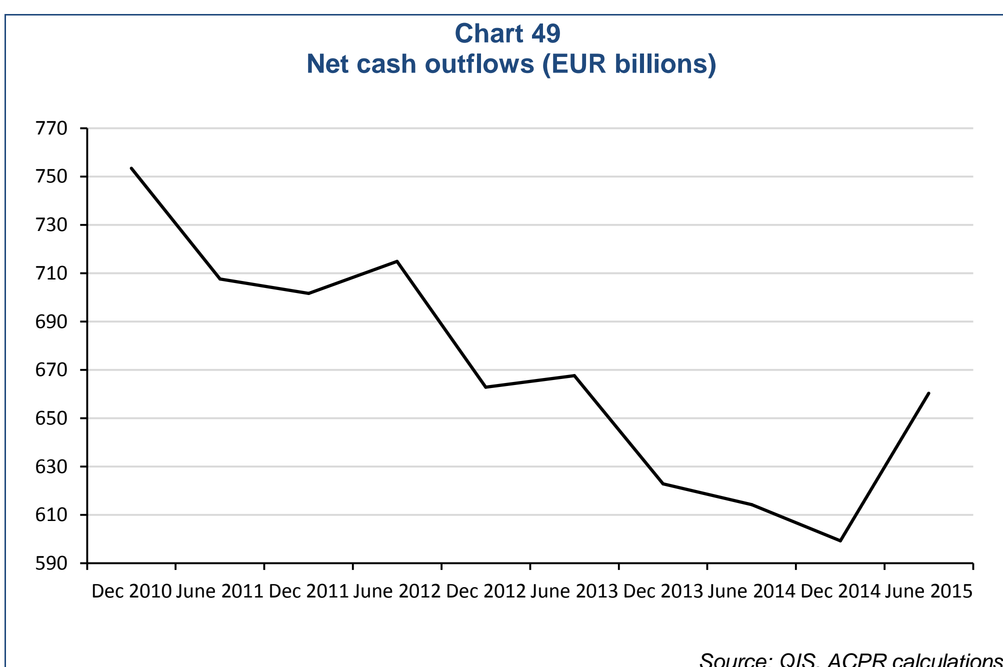
At the same time, banks adjusted their balance sheet liquidity profiles between December 2010 and June 2015.

In particular, they significantly reduced their net cash outflows by reducing their reliance on unsecured wholesale funding (down EUR 107.5 billion or 63%), including debt issues, and on other financial institutions (down EUR 62.3 billion or 18.4%); this reduction in unsecured funding was notably offset by an increase in retail deposits on the liability side of bank balance sheets.

At the same time, cash inflows increased slightly (up EUR 22.8 billion or 6.5%). All in all, net outflows of liquidity (the denominator in the LCR) were reduced by EUR 93.1 billion (or 12.4%) between December 2010 and June 2015 (Chart 49).

The sharp increase in net cash outflows between December 2014 and June 2015 was driven by a decline in other cash inflows (down EUR 37.8 billion or 27.9%), linked in particular to the decline in derivatives, combined with an increase in unsecured funding provided by financial institutions (up EUR 23.1 billion or 9.2%) and secured wholesale funding (up EUR 26 billion or 44.2%) that was only partly offset by a reduction in other cash outflows (down EUR 27.9 billion or 18.9%).

Chart 49
Net cash outflows (EUR billions)



Source: QIS, ACPR calculations

All in all, with the exception of GCM, for which information had not yet been issued in financial disclosures at the time of writing, but whose ratio stood at 125% at 30 June 2015, all banks had an LCR under European CRR standards of greater than 100% at 31 December 2015 (Table 15).

Table 15
LCRs at 31 December 2015

BNPP	SG	GCA	GBPCE	CM11-CIC (*)	LBP
124 %	124 %	> 110 %	> 110 %	125%	218 %

Source: financial disclosures; (*) data at end June 2015

4.3. Continued significant efforts to consolidate loss-absorbing capacity

Inset: ratios defined under new resolution arrangements

Following the financial crisis and the repercussions of the collapse of Lehman Brothers in September 2008, international authorities were keen to put in place arrangements for the orderly resolution of systemic banks, up to now considered “too big to fail”; these new rules require banks to set aside specific funds on the liability side of their balance sheets upon which they would draw if they collapsed or were at risk of collapsing, thus limiting the need to call on public funds.

As such, in accordance with Financial Stability Board (FSB) proposals adopted in November 2015, global systemically important banks (G-SIBs) must increase their total loss-absorbing capacity (TLAC) while complying with twin constraints: total eligible resources must equal at least 18% of total RWAs for the banks in question, and they must achieve a leverage ratio of at least 6.75%. The new regulation is set to enter into force in 2022, with transitional implementation from 2019.

In Europe, Article 45 of the Banking Resolution and Recovery Directive (BRRD) defines a minimum requirement for own funds and eligible liabilities (MREL) which, under a similar approach to TLAC, aims to ensure that banks have a minimum amount of liabilities that can be used for bail-in purposes without having to call on public funds. The MREL is set to apply to all major EU banking groups by 2020. The EBA has published a technical standard, awaiting approval by the Commission, clarifying how the MREL requirement is to be determined. The amount and breakdown of the MREL will be individually set by the Single Resolution Board (SRB) for French banks falling directly within its jurisdiction, and by the ACPR’s Resolution College for the other French banks. Finally, the FSB’s proposals should be transposed into European law when the BRRD is revised in around 2016-2017.

For the first time, the leading groups disclosed information on their TLAC compliance targets (Table 16). While GCA already has the required funding and GBPCE says it is close to meeting the requirement, the other banks will need to raise funds, some of them in substantial amounts.

Table 16
TLAC ratios

BNPP	- Target TLAC of 20.5% in 2019 - Issue around EUR 30 billion of TLAC-eligible senior debt by 1 January 2019, i.e. approximately EUR 10 billion a year, as part of the usual program of medium-to-long-term issues of around EUR 25 billion a year
SG	- Target TLAC of 19.5 % in 2019 - Additional issues required to reach target of the TLAC, including the safety buffer: EUR 3.5-4 billion a year
GCA	- TLAC ratio at 31 December 2015: 19.7% ‘excluding eligible senior debt); required 2019 level already achieved - MREL ratio of8.2% (excluding any eligible senior debt)
GBPCE	- « Overall target solvency ratio of 18% at the beginning of 2019, enabling us to comply with TLAC »

Source: financial disclosures

The French government also announced in December 2015 its intention to alter the hierarchy of creditors of credit institutions to improve the resolvability of French banks. All unsecured creditors prior to entry into force of the legislative provision will be granted preferred status, and banks will be able, prior to the entry into force of the provision, to issue a new category of non-preferred senior liabilities. This provision is included in the transparency, anti-corruption and economic modernisation bill.

Annex 1

Risk Indicators published by the European Banking Autority (EBA) and aggregate data for major French banks

			Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Solvency	SVC_1 - Tier 1 capital ratio	Weighted average	11.1%	11.6%	12.0%	12.3%	12.5%	12.4%	12.6%	12.9%	13.1%	12.4%	12.9%	13.2%	13.4%	13.4%	13.9%	14.1%	14.8%
		1rst quartile	9.4%	9.8%	10.4%	10.3%	10.5%	10.8%	11.0%	11.1%	11.4%	11.2%	11.7%	11.8%	11.7%	11.6%	11.9%	12.1%	12.8%
		Median	10.9%	11.4%	11.7%	11.7%	11.7%	11.6%	12.0%	12.3%	12.8%	12.3%	13.3%	13.5%	13.5%	13.5%	13.8%	14.1%	14.7%
		3rd quartile	12.8%	13.0%	13.3%	13.4%	13.5%	13.4%	13.8%	13.9%	14.8%	15.1%	15.3%	15.7%	16.2%	16.2%	16.7%	17.7%	18.5%
		French banks	10.9%	12.1%	12.5%	12.9%	13.3%	12.4%	12.7%	13.0%	13.2%	12.6%	12.8%	13.0%	13.7%	13.6%	13.8%	13.9%	14.4%
	SVC_2 - Total capital ratio	Weighted average	13.1%	13.6%	13.9%	14.1%	14.4%	14.8%	15.1%	15.4%	15.7%	15.2%	15.7%	16.1%	16.2%	16.1%	16.7%	17.0%	17.7%
		Top quartile	11.3%	11.5%	12.0%	12.0%	12.1%	12.6%	13.1%	13.0%	13.4%	13.8%	14.7%	14.8%	13.8%	13.7%	14.3%	14.4%	14.7%
		Median	12.8%	13.9%	14.1%	14.0%	13.9%	14.4%	14.4%	14.6%	14.8%	15.3%	16.0%	16.3%	16.2%	15.8%	16.6%	16.8%	17.2%
		3rd quartile	15.0%	15.4%	15.8%	15.8%	16.2%	16.3%	16.8%	17.1%	17.4%	18.2%	17.6%	17.8%	19.3%	19.5%	20.4%	21.3%	22.8%
		French banks	12.2%	13.2%	13.5%	13.7%	14.0%	14.4%	14.7%	15.0%	15.1%	14.5%	14.7%	15.2%	15.8%	15.9%	16.1%	16.3%	17.0%
	SVC_3 - CET1 ratio (was T1 excluding hybrids until Q4 2013)	Weighted average	9.3%	9.8%	10.3%	10.5%	10.8%	10.8%	11.1%	11.4%	11.6%	11.4%	11.8%	12.1%	12.5%	12.4%	12.8%	13.0%	13.6%
		Top quartile	8.1%	8.4%	9.3%	9.5%	9.6%	9.8%	10.0%	10.2%	10.4%	10.7%	11.1%	11.5%	11.2%	11.4%	11.6%	11.8%	12.4%
		Median	9.4%	10.0%	10.4%	10.5%	10.7%	10.7%	11.0%	11.1%	11.4%	12.0%	12.6%	13.1%	12.8%	12.9%	13.1%	13.3%	13.9%
		3rd quartile	10.6%	11.3%	11.2%	11.4%	11.7%	12.3%	12.6%	13.1%	13.5%	14.0%	14.6%	14.8%	15.3%	15.1%	15.7%	16.6%	17.3%
		French banks	9.2%	10.4%	10.8%	11.2%	11.6%	10.7%	11.1%	11.5%	11.6%	11.4%	11.4%	11.6%	12.4%	12.3%	12.6%	12.6%	13.4%
	SVC_29 - CET1 ratio fully loaded	Weighted average													11.5%	11.7%	12.1%	12.3%	13.0%
		Top quartile													10.5%	10.6%	10.6%	11.1%	11.7%
		Median													12.2%	12.3%	12.3%	12.8%	13.6%
		3rd quartile													14.9%	15.1%	15.1%	15.9%	16.5%
		French banks													12.3%	12.3%	12.5%	12.5%	13.4%
Credit Risk and Asset Quality	AQT_3.2 - Ratio of non-performing loans and advances (NPL ratio)	Weighted average	5.8%	5.9%	6.0%	6.3%	6.5%	6.5%	6.7%	6.6%	6.8%	6.8%	6.6%	6.7%	6.5%	6.2%	6.0%	5.9%	5.8%
		Top quartile	2.5%	2.5%	2.8%	2.8%	3.1%	3.0%	3.2%	2.9%	3.0%	3.0%	2.9%	2.8%	2.4%	2.4%	2.4%	2.4%	2.4%
		Median	6.4%	6.7%	6.3%	7.3%	7.3%	6.7%	6.7%	6.5%	6.5%	6.1%	6.2%	6.3%	5.9%	6.1%	6.0%	5.6%	5.3%
		3rd quartile	14.1%	15.2%	15.8%	16.3%	17.3%	17.6%	17.6%	15.7%	16.2%	16.4%	17.1%	17.2%	16.2%	15.8%	15.0%	14.9%	15.1%
		French banks	4.5%	4.6%	4.7%	4.7%	4.5%	4.6%	4.6%	4.8%	4.8%	4.7%	4.7%	4.5%	4.2%	4.3%	4.2%	4.2%	4.0%
	AQT_3.1 - Ratio of non-performing exposures (NPE ratio)	Weighted average													5.5%	5.3%	5.2%	5.1%	5.0%
		Top quartile													2.2%	2.0%	2.0%	2.0%	1.9%
		Median													4.8%	4.7%	4.9%	4.9%	4.7%
		3rd quartile													13.0%	12.5%	12.4%	12.4%	12.1%
		French banks													3.7%	3.8%	3.7%	3.7%	3.6%

	RI		Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Credit Risk and Asset Quality	AQT_41.2 - Coverage ratio of non-performing loans and advances	Weighted average	41.0%	41.0%	41.3%	41.3%	41.8%	42.4%	42.4%	44.4%	46.0%	46.9%	46.9%	45.5%	43.3%	42.9%	43.6%	43.7%	43.8%
		Top quartile	34.3%	34.8%	35.8%	35.1%	34.7%	35.6%	34.9%	35.6%	35.6%	39.2%	36.8%	37.3%	31.8%	31.2%	32.8%	33.3%	30.1%
		Median	41.5%	41.4%	41.8%	42.0%	41.7%	43.5%	43.8%	44.4%	46.1%	45.5%	46.4%	46.1%	40.7%	40.9%	40.9%	41.7%	40.6%
		3rd quartile	51.1%	51.4%	50.6%	50.9%	50.1%	52.0%	51.7%	52.8%	55.0%	55.6%	53.9%	53.3%	47.3%	46.8%	47.3%	47.7%	47.5%
		French banks	55.2%	54.9%	54.4%	53.0%	54.3%	54.1%	53.8%	53.2%	53.5%	55.0%	54.5%	57.2%	51.8%	50.9%	51.3%	51.6%	51.7%
	AQT_42.2 - Forbearance ratio for loans and advances	Weighted average													3.9%	3.8%	3.7%	3.6%	3.6%
		Top quartile													1.4%	1.4%	1.3%	1.3%	1.4%
		Median													3.5%	3.4%	3.5%	3.2%	3.1%
		3rd quartile													8.9%	9.3%	8.8%	8.8%	9.3%
		French banks													1.4%	1.4%	1.3%	1.3%	1.3%
Profitability	PFT_24 - Return on assets	Weighted average													0.2%	0.4%	0.4%	0.4%	0.3%
		Top quartile													-0.1%	0.2%	0.2%	0.2%	0.2%
		Median													0.2%	0.4%	0.5%	0.4%	0.4%
		3rd quartile													0.5%	0.7%	0.7%	0.7%	0.6%
		French banks													0.3%	0.3%	0.4%	0.4%	0.4%
	PFT_21 - Return on equity	Weighted average	0.0%	5.6%	3.4%	2.6%	0.5%	9.3%	7.6%	6.4%	2.7%	7.5%	5.7%	5.4%	3.5%	6.9%	6.8%	6.4%	4.7%
		Top quartile	-15.7%	1.8%	-0.9%	-1.5%	-6.5%	1.4%	2.2%	1.5%	-2.9%	2.9%	2.5%	1.3%	-2.8%	3.3%	3.5%	3.5%	2.7%
		Median	2.7%	6.5%	5.3%	3.8%	2.6%	6.6%	6.4%	5.7%	4.8%	7.5%	5.5%	5.4%	3.8%	7.0%	7.0%	6.6%	5.9%
		3rd quartile	7.8%	11.5%	8.9%	8.4%	7.2%	12.3%	10.4%	10.4%	9.1%	10.3%	9.5%	8.9%	8.0%	10.4%	10.2%	10.4%	9.5%
		French banks	5.4%	8.0%	7.1%	5.1%	3.1%	6.1%	6.7%	6.6%	5.9%	6.7%	3.0%	4.2%	4.7%	6.2%	7.5%	7.5%	6.8%
	PFT_23 - Cost-to-income ratio	Weighted average	60.1%	60.6%	59.7%	60.8%	63.2%	56.6%	57.9%	59.6%	63.1%	58.3%	60.3%	61.7%	62.8%	60.9%	59.3%	59.9%	62.8%
		Top quartile	52.0%	48.1%	50.4%	51.4%	52.5%	51.2%	48.2%	51.2%	52.8%	47.3%	49.6%	52.6%	45.7%	45.5%	46.4%	46.9%	48.1%
		Median	60.7%	57.1%	60.9%	63.0%	63.1%	61.2%	60.8%	61.3%	63.2%	59.3%	59.2%	57.6%	58.1%	56.8%	55.9%	57.3%	59.3%
		3rd quartile	65.2%	68.3%	71.0%	70.3%	71.6%	70.9%	74.6%	73.1%	75.0%	65.6%	67.2%	65.7%	67.6%	65.7%	65.2%	66.1%	67.4%
		French banks	65.7%	66.2%	66.3%	68.3%	70.3%	69.1%	67.4%	67.8%	69.0%	68.0%	68.1%	68.3%	68.7%	70.4%	66.7%	66.9%	67.8%
	PFT_25 - Net interest income to total operating income	Weighted average	61.1%	61.2%	60.9%	61.7%	61.6%	55.5%	55.1%	57.3%	59.1%	58.2%	60.1%	59.2%	58.8%	55.6%	54.9%	56.3%	57.4%
		Top quartile	54.2%	51.7%	51.8%	52.5%	52.6%	47.8%	47.4%	50.1%	51.1%	50.3%	50.6%	53.2%	50.0%	43.8%	46.0%	48.3%	47.4%
		Median	64.0%	62.2%	62.9%	65.1%	66.9%	60.0%	60.5%	59.1%	60.2%	63.2%	65.4%	64.3%	62.8%	59.6%	59.8%	61.2%	60.8%
		3rd quartile	76.6%	74.2%	78.9%	79.0%	76.7%	75.6%	72.7%	71.1%	76.7%	76.8%	76.7%	74.6%	75.5%	75.2%	72.8%	77.8%	78.1%
		French banks	52.3%	47.9%	50.2%	50.7%	53.0%	49.5%	49.7%	50.9%	50.8%	50.4%	49.5%	50.1%	50.1%	46.8%	45.8%	46.8%	47.2%
	PFT_26 - Net fee and commission income to total operating income	Weighted average	27.6%	27.3%	27.1%	27.7%	27.9%	25.8%	26.7%	27.7%	28.4%	27.6%	28.5%	27.6%	27.1%	26.5%	26.2%	26.4%	26.9%
		Top quartile	16.5%	17.9%	17.9%	17.6%	17.9%	16.0%	15.3%	15.3%	15.6%	15.1%	15.6%	16.0%	13.7%	13.6%	13.5%	13.3%	12.3%
		Median	24.1%	22.8%	24.4%	23.9%	25.3%	23.7%	23.6%	23.5%	24.8%	24.2%	24.4%	24.7%	22.8%	22.4%	21.5%	21.4%	22.1%
		3rd quartile	30.9%	28.2%	29.1%	29.9%	30.6%	31.2%	31.4%	32.6%	31.3%	32.7%	30.8%	31.4%	29.5%	30.3%	30.4%	30.8%	30.9%
		French banks	32.3%	30.1%	30.4%	31.3%	32.5%	32.2%	32.1%	32.3%	32.5%	31.8%	31.9%	32.0%	32.2%	32.0%	31.5%	31.9%	32.3%
	PFT_29 - Net trading income to total operating income	Weighted average													6.7%	7.8%	6.1%	6.0%	5.1%
		Top quartile													-0.5%	-1.1%	-1.7%	-1.5%	-1.1%
		Median													1.2%	1.1%	1.3%	1.5%	1.0%
		3rd quartile													5.4%	10.0%	5.5%	4.4%	4.6%
		French banks													7.6%	9.2%	9.9%	12.4%	8.5%

	RI		Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Profitability	PFT_41 - Net interest income to interest bearing assets	Weighted average													1.6%	1.6%	1.6%	1.6%	1.6%
		Top quartile													1.1%	1.1%	1.1%	1.0%	1.1%
		Median													1.5%	1.5%	1.5%	1.5%	1.5%
		3rd quartile													1.8%	1.8%	1.8%	1.8%	1.9%
		French banks													1.4%	0.3%	0.7%	1.0%	1.4%
Funding	KRI 34 - Loans to deposit ratio	Weighted average	117.7%	118.0%	117.7%	116.2%	115.7%	117.4%	114.1%	114.7%	112.8%	111.4%	112.9%	109.3%	108.6%	108.3%	108.6%		
		Top quartile	106.0%	105.1%	106.6%	106.4%	103.6%	101.3%	99.9%	97.8%	98.0%	95.0%	96.3%	93.7%	93.4%	94.1%	94.4%		
		Median	124.1%	125.3%	125.9%	124.6%	119.1%	116.8%	115.0%	114.6%	112.1%	110.9%	110.0%	108.0%	109.3%	109.6%	109.2%		
		3rd quartile	146.7%	148.3%	143.4%	137.1%	135.7%	131.5%	130.5%	132.1%	129.4%	131.5%	129.2%	129.4%	124.3%	129.8%	132.2%		
		French banks	116.7%	119.6%	118.9%	115.4%	116.7%	119.5%	118.5%	119.3%	115.9%	118.8%	116.7%	110.7%	110.0%	108.8%	114.0%		
	FND_32 - Loan-to-deposit ratio for households and non-financial corporations	Weighted average													124.3%	125.2%	124.7%	123.2%	120.9%
		Top quartile													98.7%	99.7%	100.1%	98.0%	94.0%
		Median													121.1%	123.0%	120.9%	120.5%	118.2%
		3rd quartile													187.2%	189.5%	182.6%	187.0%	177.2%
		French banks													116.5%	119.0%	118.2%	115.3%	112.3%
	FND_12 - Debt-to-equity ratio	Weighted average	1963.7%	1911.9%	1935.5%	1907.8%	1812.4%	1793.4%	1745.4%	1698.9%	1654.6%	1661.4%	1610.6%	1587.4%	1594.2%	1632.4%	1547.0%	1534.1%	1482.8%
		Top quartile	1360.1%	1322.3%	1363.3%	1350.6%	1333.9%	1267.7%	1253.8%	1259.4%	1208.6%	1245.0%	1167.1%	1176.7%	1137.5%	1139.3%	1164.8%	1136.2%	1111.9%
		Median	1835.6%	1806.8%	1806.9%	1769.6%	1621.4%	1585.6%	1602.5%	1563.6%	1588.1%	1604.6%	1556.0%	1444.4%	1459.6%	1410.7%	1414.4%	1381.1%	1402.5%
		3rd quartile	2750.8%	2500.0%	2412.9%	2411.9%	2265.2%	2212.9%	2231.1%	2143.4%	1956.2%	2005.2%	1922.2%	1942.7%	1929.7%	1979.5%	1934.6%	1859.6%	1789.1%
		French banks	1984.8%	1922.6%	1949.2%	1965.1%	1890.6%	1886.5%	1837.6%	1793.7%	1691.9%	1701.9%	1706.3%	1710.1%	1661.8%	1712.4%	1629.9%	1585.7%	1591.2%
	FND_33 - asset encombrance ratio	Weighted average													25.1%	25.5%	25.7%	25.3%	25.6%
		Top quartile													12.3%	13.4%	13.1%	12.5%	15.2%
		Median													24.0%	24.7%	24.8%	24.5%	25.4%
		3rd quartile													36.7%	36.4%	35.2%	35.6%	36.9%
		French banks													21.9%	23.5%	22.9%	22.5%	22.0%
Liquidity	LIQ_3 - Liquid assets to short-term liabilities	Weighted average													19.1%	19.8%	19.7%	20.6%	21.4%
		Top quartile													14.7%	13.5%	14.5%	15.3%	15.4%
		Median													20.1%	20.1%	20.0%	20.9%	21.9%
		3rd quartile													27.5%	26.6%	28.6%	28.9%	28.8%
		French banks													17.9%	20.0%	16.0%	16.5%	17.9%
	LIQ_4 - Liquid assets to total items requiring stable funding	Weighted average													13.9%	14.6%	14.6%	15.0%	15.3%
		Top quartile													8.9%	8.6%	9.0%	9.9%	10.0%
		Median													12.6%	12.4%	12.7%	13.6%	14.2%
		3rd quartile													17.2%	17.6%	18.0%	18.5%	18.1%
		French banks													11.1%	12.3%	10.0%	10.1%	10.8%

Comments:

With effect from December 2014, the EBA published new Risk Indicators and Detailed Risk Analysis Tools, the methodology for which can be found at the following link:

http://www.eba.europa.eu/documents/10180/1380571/EBA+Methodological+Guide+-+Risk+Indicators+and+DRAT.pdf

Drawn up on the basis of the Implementing Technical Standards resulting directly from European Regulation 575/2013 CRD 4, these harmonised indicators are put together using COREP and FINREP submissions from 195 European Union banks at 31 December 2015 (the same sample as at 31 December 2014). The sample of French banks includes the following institutions: BNP Paribas SA, Crédit Agricole Group, Société Générale SA, GCM Group, Groupe BPCE, Banque Centrale de Compensation (LCH Clearnet), Banque PSA Finance, BPI (Banque Publique d'Investissement) France Financement, CRH (Caisse de Refinancement de l'Habitat), HSBC France, La Banque Postale and RCI Banque (Renault Crédit Industriel). For reference, historical series of old KRIs were based on a sample of 55 European banks (including 5 French banks).

The new indicators are structured into a number of risk categories: liquidity, funding, asset quality, profitability, concentration risk, solvency, operational risk and market risk. Whenever the concepts were similar to those used for the EBA's old Key Risk Indicators, the series was extended to provide significant historical depth. However, significant changes in methodology and/or scope may have occurred since December 2014.

In particular, concepts that have been amended include, but are not limited to, the following:

- SVC_3: the Core Equity Tier 1 Ratio is similar to the Tier 1 ratio excluding hybrid instruments (previously KRI 3): the new data collection reports did not allow hybrid instruments to be accurately recalculated without making a number of assumptions. The EBA therefore opted instead to introduce the concept of CET1, which corresponds to the new regulatory requirements applicable to banks since implementation of the CRD 4 European regulations.
- AQT_3.1 - Ratio of non-performing exposures (NPE ratio) and AQT_3.2 - Ratio of non-performing loans and advances (NPL ratio): according to the ITS definition published in the Official Journal of the European Union on 9 January 2015, non-performing exposure is exposure that meets either of the following criteria: exposure more than 90 days overdue and situations in which the borrower cannot pay off its debt without realising collateral even if the debt is not overdue and/or irrespective of the number of days overdue.
- PFT_25 and PFT_26: the EBA applies a method that consists of neutralising the effects of a numerator and denominator that could have a negative or a positive value, either alternately or concomitantly.

Annex 2

Correlation tables

Correlation between COREP credit risk categories and segmentation used in the analysis since 2014.

New names Standardised approach	Generic categories for analysis
Central governments and central banks	Public authorities
Regional governments or local authorities	Public authorities
Public sector entities	Public authorities
Multilateral development banks	Public authorities
International organisations	Public authorities
Institutions	Institutions
Corporates	Businesses
Retail	Retail
Exposure secured by a mortgages on immovable property	Other standard
Exposure in default	Standard Default
Particularly high-risk items	Other standard
Covered bonds	Other standard
Claims on institutions and corporates with a short-term credit assessment	Other standard
Collective investment undertakings (‘CIUs’)	Other standard
Equities	Equities
Other items	Other standard
Securitisation positions under the standardised approach	Securitisation

New names Advanced approach (IRB)	Generic categories for analysis
Central governments and central banks	Public authorities
Institutions	Institutions
Corporates — SMEs	Businesses
Corporates – specialised finance	Businesses
Corporates – other	Businesses
Retail – exposure secured on immovable property – SME	Retail
Retail – exposure secured on immovable property – non-SME	Retail
Retail – eligible renewable exposure	Retail
Retail – Other SMEs	Retail
Retail – Other non-SMEs	Retail
Equities under IR approach	Equities
Securitisation positions under IR approach	Securitisation
Assets other than credit obligations	Other IRB

Annex 3

Details of cost-cutting plans for BNPP, SG, GCA and GBPCE

- BNPP, whose operating costs totalled EUR 29.3 billion in 2015, has increased its cost reduction target (for recurring cost savings relative to 2014) from EUR 3 billion to EUR 3.3 billion for 2016, having already achieved 91% of its 2015 target; the group is seeking to offset expenses arising from the implementation of new regulations and a stricter compliance regime. However:
  - In 2015, the bank recognised transformation costs arising from this plan (dubbed "Simple & Efficient") totalling EUR 622 million (compared with EUR 717 million in 2014), equating to 2% of its operating costs and around 1.5 pt on its cost-to-income ratio;
  - It also recognised restructuring costs for a number of its subsidiaries (LaSer, Bank BGZ, DAB Bank and GE LLD) totalling EUR 171 million (compared with EUR 40 million in 2014);
  - Finally, its US business faced increased regulatory costs linked to Fed stress tests (under the Comprehensive Capital Analysis and Review – CCAR) and the creation of a foreign bank holding company; these increases account for half of the increase in local operating costs recognised in 2015.

- For SG, following a cost-cutting plan that delivered recurring savings of EUR 0.9 billion over the period 2013-2015, operating costs came in at EUR 16.9 billion in 2015; however, the bank is targeting additional savings of EUR 450 million and EUR 400 million in 2016 and 2017, which will require non-recurring transformation costs of EUR 200 million and EUR 150 million; at the same time, the bank has indicated that its tax and regulatory costs are set to increase by EUR 200 million in 2015.

- GCA, which posted operating costs of EUR 19.8 billion in 2015, announced a new cost-cutting plan in March 2016 ("Ambition 2020") aimed at cutting costs by EUR 900 million a year across the scope of Crédit Agricole S.A. (CASA) and lowering its cost-to-income ratio by 6 pts to bring it below 60%. Furthermore, within the planned four-year EUR 7.7 billion investment programme, EUR 1.8 billion is to be dedicated to improving operational efficiency and cutting costs in all business areas, EUR 1 billion will be dedicated to strengthening compliance and risk management arrangements, and EUR 4.9 billion will be used for business line development and digital transformation (of which around 80% will be in retail banking). Finally, the bank has indicated that operating costs have increased by EUR 230 million as a result of contributions to the SRF and new taxes.

- In its 2014-2017 strategic plan (titled *Grandir autrement* – "Grow differently"), GBPCE targets a cost-to-income ratio of under 65% (currently 69%); in 2014, the group realised cost synergies of EUR 452 million out of an eventual total of EUR 900 million.

Annex 4

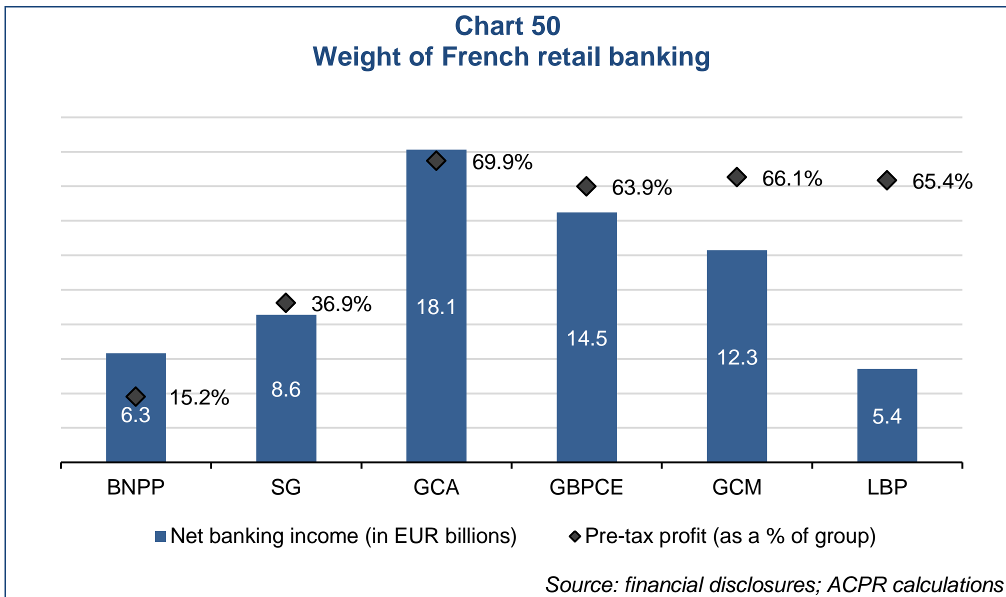
Detailed analysis of business line performance

1. Retail banking and specialised finance

French retail banking

French retail banking remains the main driver of performance for the major French banks, with net banking income accounting for almost 45% of total income and, in 2015, retail banking pre-tax profit accounting for 48% of total group pre-tax profit. However, these proportions vary by institution, with the GCA, GBPCE, GCM and LBP groups more heavily dependent on French retail banking (Chart 50) than BNPP and SG.

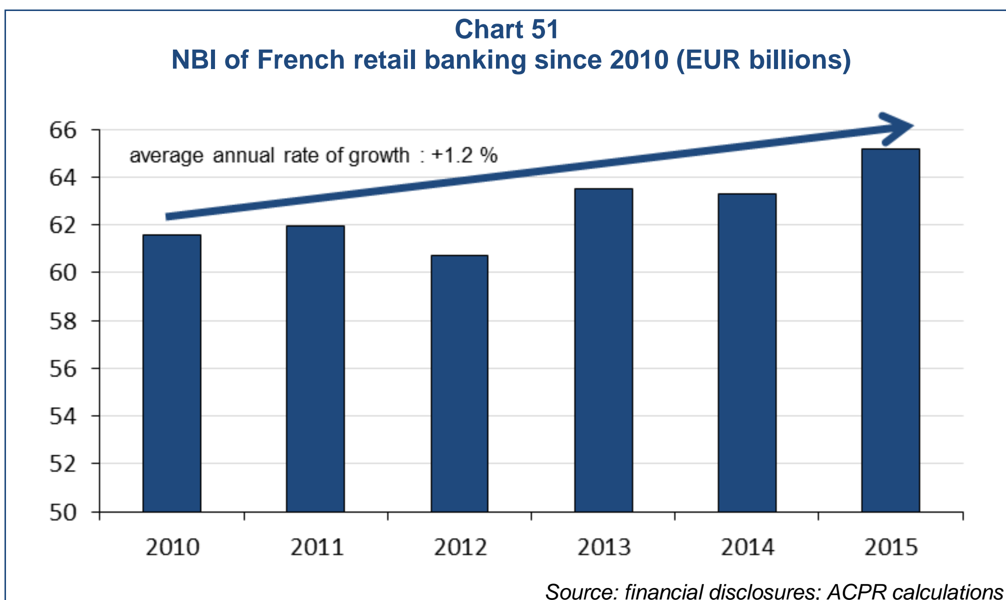
Chart 50
Weight of French retail banking



Source: financial disclosures; ACPR calculations

France's major banks face a number of challenges in their domestic market, reflected in pressure on their margins and income. Firstly, economic growth and demand for credit both slowed, reflected in relatively lacklustre growth in income (up by an average of 1.2% a year since 2010; Chart 51), slightly lower than observed nominal GDP growth over the period (1.8%). Individually, over the same period, NBI growth rates in this business line range from -0.9% (BNPP) to +2.2% (GBPCE).

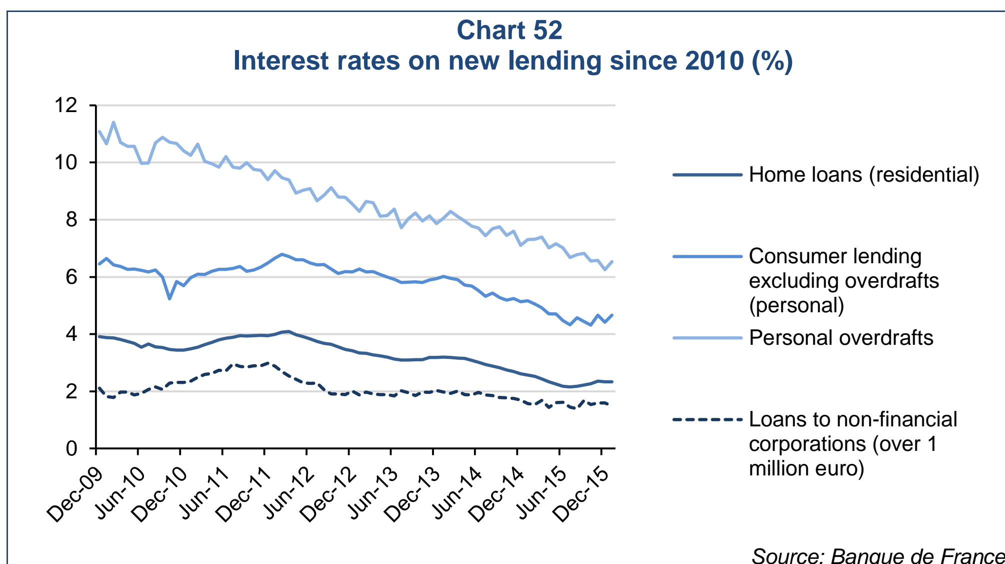
Chart 51
NBI of French retail banking since 2010 (EUR billions)



Source: financial disclosures; ACPR calculations

Secondly, banks' financial disclosures also highlighted the significant effects of the persistent low interest rate environment. Continuing a multi-year trend, the rate of new lending in France continued to decline in 2015, both in corporate lending and in long-term (mortgages) and shorter-term (consumer credit and overdrafts) lending to households (Chart 52). New loans currently being extended are thus structurally reducing the expected return on banking assets in the form of interest in future years.

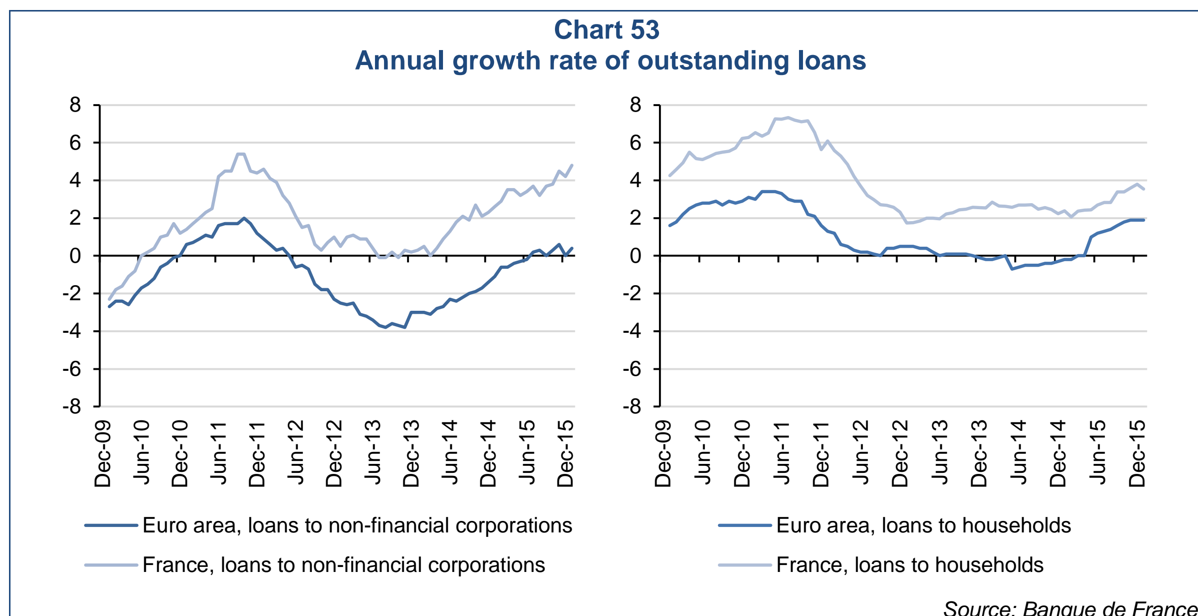
Chart 52
Interest rates on new lending since 2010 (%)



Source: Banque de France

However, new lending to households began to grow again in 2015, and the upturn in corporate loans that began in 2014 became more firmly established; in both cases, the situation in France appears more favourable than that in the euro area, and banks have managed to grow their volumes in the face of falling interest rates (Chart 53).

Chart 53
Annual growth rate of outstanding loans



Source: Banque de France

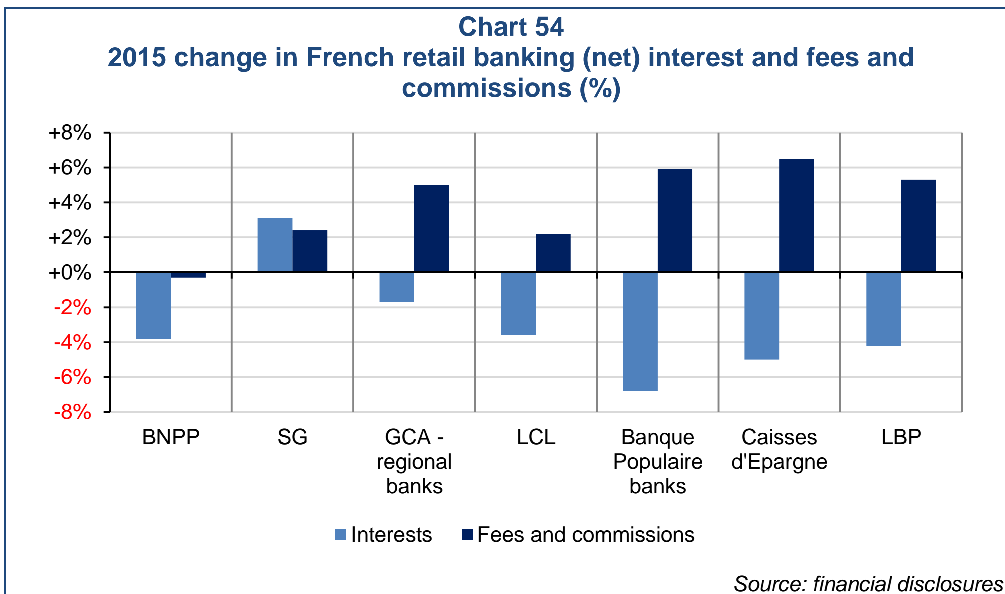
2015 was a very busy year for housing loans transfers and renegotiations – a phenomenon that slowed significantly in 2014 and that adds to growth in new home loans at very low fixed rates of interest.

However, returns on regulated savings were also adjusted downwards at the same time, with rates of 0.75% on passbook accounts and 1.5% on home savings plans in early 2016. Fee and commission income also rose. In particular, income derived from holding and investing assets on behalf of customers (asset management and life insurance) was buoyant in 2015; on top of this, significant income was collected in the form of early redemption penalties on housing loan transfers and

renegotiations. However, this is only a one-off effect, and volumes of loans likely to be repurchased or renegotiated are henceforth lower.

The decline in interest income could continue to be offset by the increase in fee and commission income, based in particular on financial savings but also on account management fees; indeed, a number of institutions have announced that they will charge account maintenance fees in 2016, making this practice slightly more widespread.[50] At the individual level, with the exception of BNPP, growth in net fees and commissions (at LCL and GBPCE) thus lessened the impact of the decline in net interest income and even increased income in French retail banking (Crédit Agricole regional banks, GBPCE and LBP). Finally, SG was in a unique position, with its net interest income growing in 2015, reflecting strong growth in its customer base and new lending at higher margins (Chart 54).

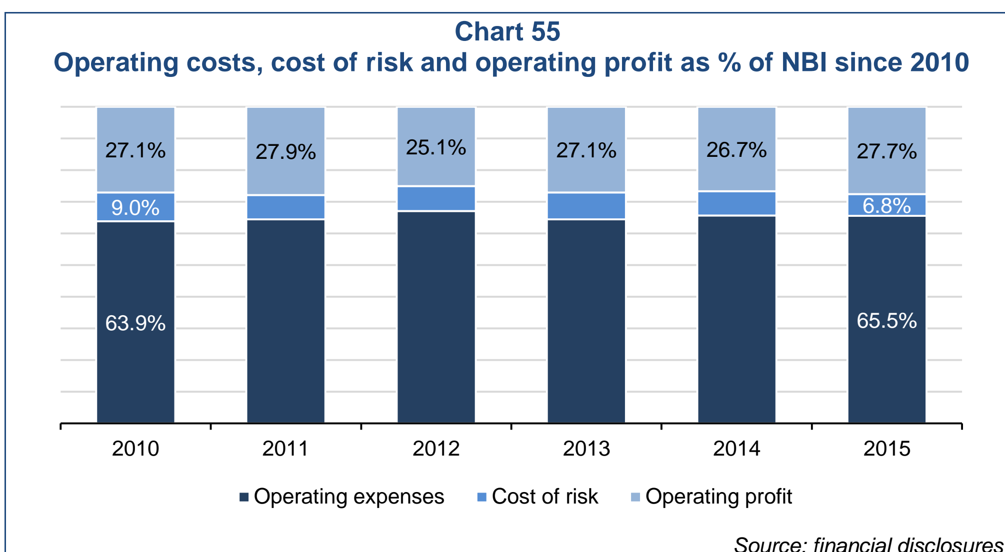
Chart 54
2015 change in French retail banking (net) interest and fees and commissions (%)



Source: financial disclosures

In spite of the challenges facing it, French retail banking has for the past five years been an anchor of stability for banks in terms of profitability, with a low and even declining cost of risk (6.8% of NBI in 2015), and earnings net of operating costs and cost of risk particularly stable over the period (around 27% of NBI; Chart 55). However, weak income growth means banks need to maintain strict control over expenses.

Chart 55
Operating costs, cost of risk and operating profit as % of NBI since 2010



Source: financial disclosures

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[50] EUR 30 for BNPP and some GCA banks, EUR 24 for SG and some GCM banks, and EUR 6.20 for LBP.

The accelerating change in the way banking services are consumed is forcing banking groups to develop a multi-channel offering that combines a traditional physical presence (agencies) with remote relationships (internet/mobile), use of which is growing. This transformation requires substantial investment to digitise the banking offering, adapt the branch format and its sales organisation, and rescale geographical coverage. The reduction in the number of agencies may, in the longer term, be a source of savings, more specifically for banks with a presence in major cities.

Box 2 – Some of the challenges of restructuring French retail banking

- In 2015, the top six French banking groups' retail banking businesses employed approximately 300,000 people in a network of 27,000 agencies (excluding the La Poste network of post offices). During the year, some of these groups communicated their intention to reduce the size of their networks.
- SG plans to invest EUR 1.5 billion in the Société Générale and Crédit du Nord agency networks between now and 2020; it also plans to cut the number of Société Générale agencies by 20% over the same period.
- In 2016, GCA has announced investment of around EUR 550 million a year in its Regional Banks with the aim of modernising the agency network and speeding up the digital transformation.
- GBPCE has announced plans to merge a number of Caisse d'Epargne and Banque Populaire banks.

This change in the way banking services are consumed is also likely either to change existing players' relative competitive positions or to bring new competitors into the market (FinTechs, telecommunications groups, etc.). While the scale of the changes is as yet uncertain, major banking groups have begun to enter into partnerships with some of these new players and to make highly targeted acquisitions.

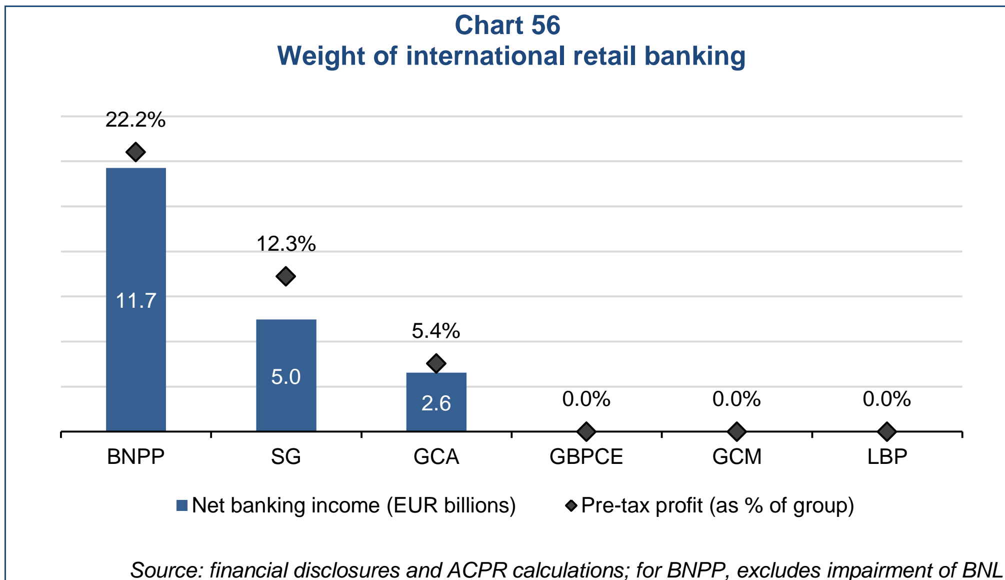
International retail banking

Unlike French retail banking, efforts made by major French banks (mainly BNPP, followed by SG and GCA) to diversify in foreign retail banking have not offered the same stability of income and have run into difficulties in recent years (notably in Greece, Portugal, Italy and Russia).

The performance of this business line improved in 2015, with income up 3.4%. International retail banking generated pre-tax profit of almost EUR 3.6 billion in 2015 (compared with EUR 1.6 billion in 2014), driven both by a falling cost of risk (down 13%) – though which still equated to 18% of NBI (compared with 22% in 2014) – and by the absence of any major impairment losses in this business line, unlike in 2014; however, taking into account goodwill impairment of EUR 917 million on BNL, recognised in "Other activities", the business line's pre-tax profit declined to EUR 2.6 billion.

BNPP is more specifically committed to retail banking outside France (Chart 56) and considers Italy (where it acquired BNL in 2006) and Belgium (where it acquired Fortis in 2009) as "domestic" markets, with NBI of EUR 3.1 billion and EUR 3.5 billion respectively, compared with EUR 6.3 billion in France.

Chart 56
Weight of international retail banking



Source: financial disclosures and ACPR calculations; for BNPP, excludes impairment of BNL

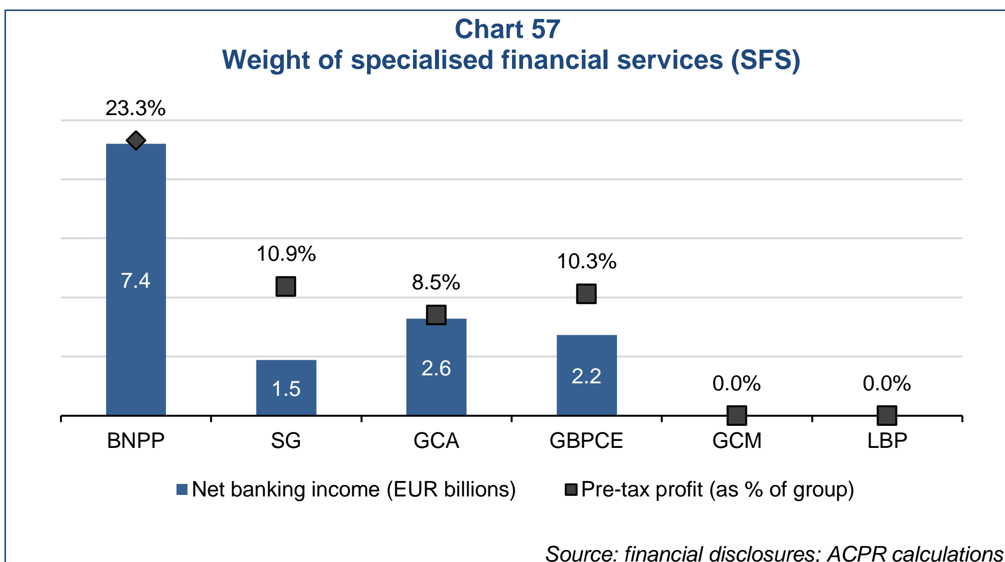
However, performance in 2015 varied from country to country:

- The situation in Italy remained challenging, with the cost of risk relatively high (equating to 40% and 23% of BNPP's and GCA's income in 2015) and only slightly lower than in 2014 (43% and 27% respectively);
- SG's performance in Russia remained mediocre (with net losses of EUR 538 million in 2014 and EUR 221 million in 2015, and an estimated net loss of between EUR 50 million and EUR 100 million in 2016 given the continuing challenging environment) but was offset by strong retail banking performance in Central and Eastern Europe, and particularly in the Czech Republic (where it reported a 2015 profit of EUR 214 million);
- Conversely, BNPP's United States business posted a very strong performance: income grew by 6.4%, the cost of risk was virtually zero and pre-tax profit equated to almost one third of income, accounting for 25% of French banks' profits from international retail banking in 2015. BNPP's Belgian business also delivered a strong performance.

Specialised financial services

Income from this business line rose sharply in 2015 (up 10.5%), driven partly by scope effects (the merger of LaSer and BNPP Personal Finance). Pre-tax profit from specialised financial services increased by 31.7%, also helped by a 10.8% reduction in the cost of risk.

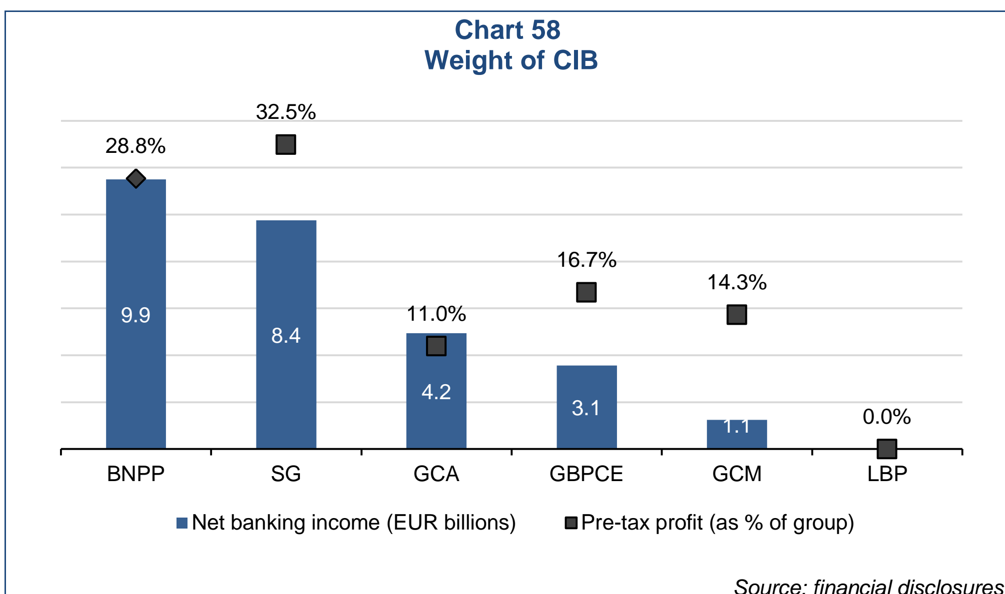
More specifically, this business line accounted for 17.1% of BNPP group's income in 2015 and 23.3% of its pre-tax profit. It is not such an important business line for the other groups, contributing around 10% of SG's, GCA's and GBPCE's pre-tax profits (Chart 57).



A majority (56%) of NBI from specialised financial services, which totalled EUR 13.7 billion in 2015, is derived from consumer credit (EUR 7.7 billion), with the remaining EUR 6 billion coming from lease finance, leasing and factoring.

2. Corporate and investment banking

Corporate and investment banking (CIB) plays a very important role for SG and BNPP, generating almost one third of pre-tax profit; although not negligible, this is less significant for the other groups (Chart 58).



Aggregate investment banking income was up 11.7% in 2015, with individual increases ranging from 6% to 18%. While the large banks delivered solid performances in equities in 2015, growth in revenues was more mixed in fixed income, credit, currencies and commodities, where market conditions were more challenging (Table 17).

Table 17
2015 growth in CIB revenue by bank

	BNPP	SG	GCA	GBPCE
Corporate banking	+5.7 %	+16.1 %	-0.3 %	-0.1 %
Fixed income, credit, currencies and commodities	+9.8 %	-7.2 %	+11.5 %	+1.5 %
Equities	+23.6 %	+12.3 %	+7 %	+26.3 %

Source: financial disclosures

All banks saw their corporate banking income increase in 2015 (up 6.8%). GCA grew its income from structured finance (infrastructure, transport, etc.) by 14%, while the equivalent figure for GBPCE was 4.7%. Conversely, their commercial banking businesses delivered mediocre performances (with income down 13% at both groups). As a result, the two groups saw corporate banking NBI decline by 0.3% and 0.1% respectively. Business was more buoyant at BNPP, with revenue up 5.7% – a figure that rises to 11.1% excluding the effects of the policy of scaling back the energy and commodities business. SG also reported 16% growth in income in this business line, supported by natural resources and infrastructure financing and export business.

3. Insurance and asset management

Insurance

Table 18
2015 growth in insurance revenue

BNPP	+5.1%
SG	+9.8%
GCA	+3.2%
GBPCE	+10.0%
GCM	-2.9%
LBP	+4.3%

Source: financial disclosures

The top six French banks' insurance businesses enjoyed a buoyant year in 2015, both in life insurance/retirement savings and in other areas (credit insurance, health cover and general insurance). Total NBI from this business line increased by 6.2% in 2015, to EUR 8.5 billion.

With the exception of GCM, all the groups reported sustained growth in income from this business (Table 18).

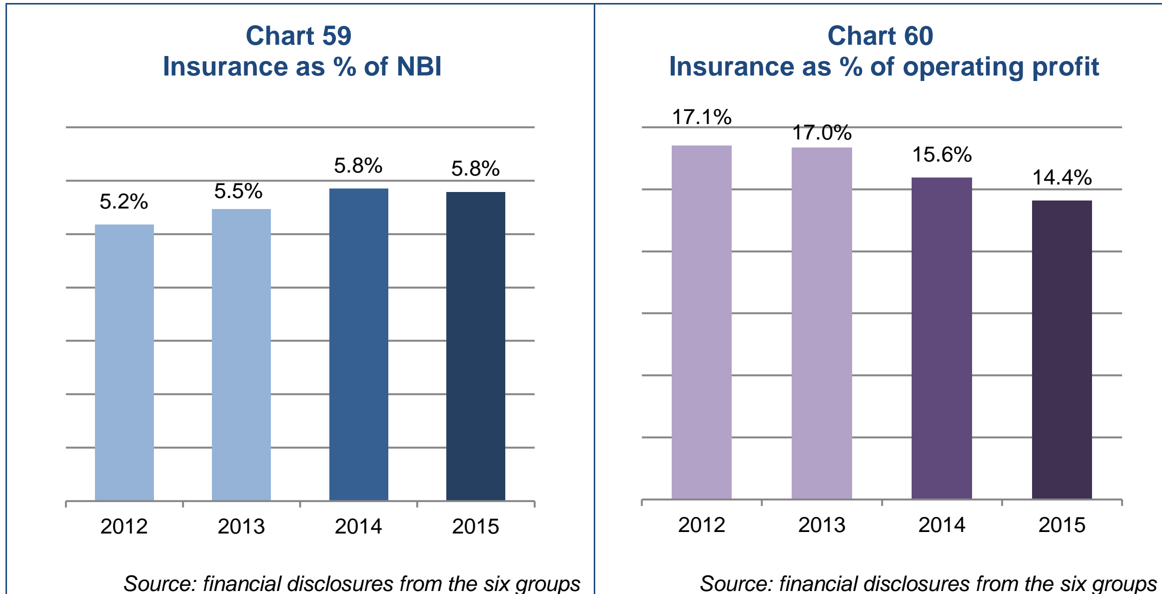
In France, life insurance enjoyed buoyant inflows in 2015, with the major banks reporting growth of 3-4% in business in force, unlike other forms of investment, which recorded net outflows, such as "Livret A" passbook savings accounts (down EUR 9.3 billion in full year 2015[51]).

This growth has been fairly steady for the past several years (up 8.2% in 2014 and 5.6% in 2013), strengthening the development of this business, including in areas that are less traditional for bancassurers, such as general insurance. For example, GBPCE has consolidated its business around Natixis Assurances by reviewing its agreements with CNP Assurances.

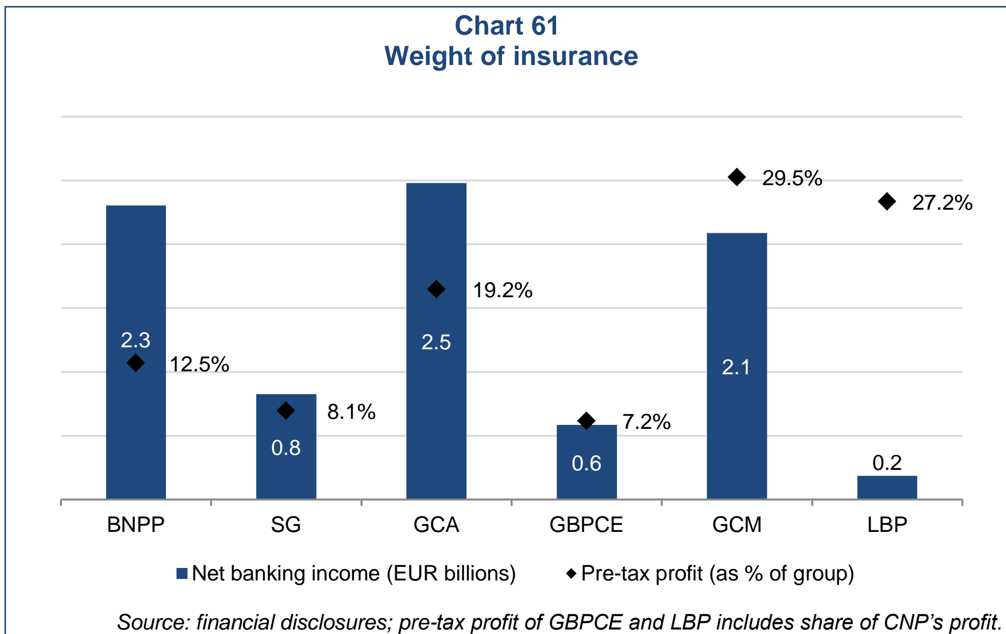
Insurance revenue accounted for 5.8% of NBI for the top six French banks in 2015 (Chart 59). Since operating costs in this business area are relatively low, the contribution of insurance to total operating profit was high, at EUR 5.2 billion

51 http://www.caissedesdepots.fr/sites/default/files/medias/cp_et_dp/20160223_cp_collecte_janvier_2016.pdf

in 2015,[52] up 5.3%. However, its relative weighting declined (14.4% of the total) as a result of stronger growth in total operating profit in 2015 (Chart 60).



The weight of the insurance business varies from bank to bank; it makes a very significant contribution to the earnings of GCM and LBP and, to a lesser extent, GCA, but is more marginal for BNPP, SG and GBPCE (Chart 61).



[52] This figure would be slightly higher if the share of profits from GBPCE's and LBP's investments in CNP Assurances were taken into account.

Asset management, private banking and investor services

Table 19
2015 growth in revenue from asset management, private banking and investor services

BNPP	+9.8%
SG	+7.0%
GCA	+7.2%
GBPCE	+27.8%
GCM	-9.4%
LBP	-2.7%

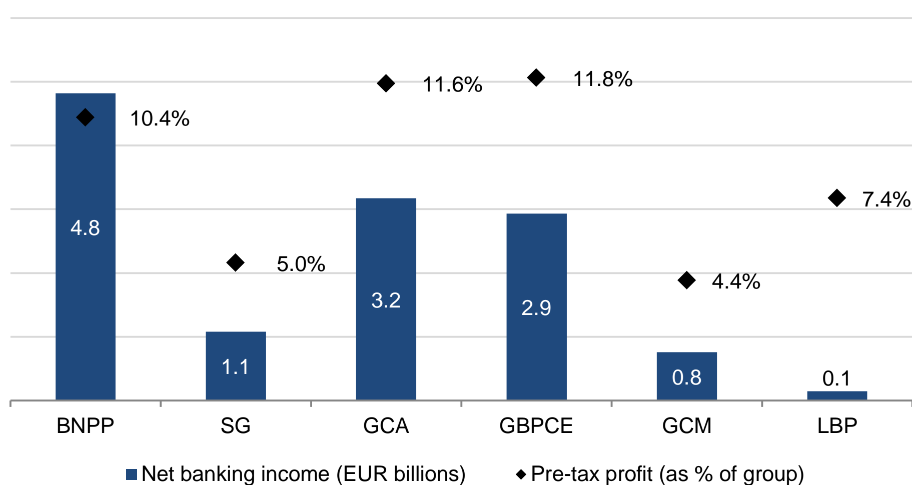
Source: financial disclosures

Revenue derived from asset management, private banking/wealth management and investor services[53] totalled EUR 12.9 billion in 2015, up 12.3% from 2014; however, individual performance was mixed, with GCM and LBP in particular reporting a decline in revenue in this business area (Table 19). Operating profit came in at EUR 3.5 billion (up 20.9%).

This strong performance was driven by the combined effects of favourable market trends and foreign exchange rates in 2015, which helped drive growth in the volume of financial assets under management, and buoyant inflows in the year. French banks also enjoyed strong business momentum in wealth management, favouring the rollout of high-end products.

The main French banks operating in this area are BNPP, GCA and GBPCE, whose strong positions meant they generated more than 10% of their total revenue from this business area in 2015 (compared with between 2% and 4% for the other groups; Chart 62).

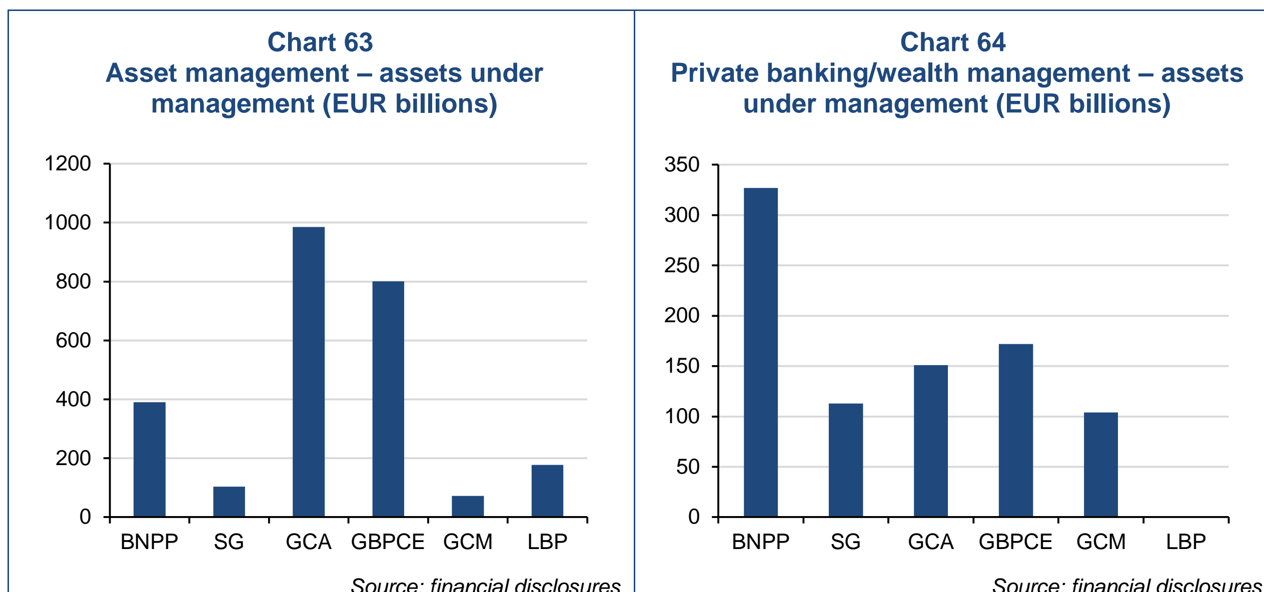
Chart 62
Weight of asset management, private banking and investor services



Source: financial disclosures

While SG has pulled out of traditional asset management by selling its 20% minority stake in Amundi to GCA, the group plans to step up its private banking activities by acquiring Kleinwort Benson's UK business in 2016, and is refocusing on exchange-traded funds (ETFs) managed by Lyxor (with assets under management up 24% in 2015, to EUR 104 billion).

[53] For BNPP and SG, part of investor services is classed as falling within corporate.



In investor services, BNPP and, to a lesser extent, SG and GCA also have recognised global positions in securities custody, ranking among the global top ten in this business area in terms of assets in custody (Table 20). BNPP thus generated NBI of EUR 1.8 billion in 2015 (4.2% of its total NBI), up 14%. Aggregate 2015 NBI for the three French groups totalled EUR 3.2 billion.

Table 20
Assets in custody and under administration (EUR billions)

	Assets in custody	Assets under administration
BPSS	8 068	1 848
SGSS	3 984	589
CACEIS	2 327	1 477

Source: financial disclosures

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