2021

The French banking and insurance market in figures

ACPR

BANQUE DE FRANCE

Contents

OVERVIEW

The year 2021 saw a strong economic recovery, supported by policy measures taken by public authorities and central banks. In this favorable context, the French financial sector (including both banking and insurance actors) has shown exceptional results and has strenghtened its overall resilience to finance the real economy. The additional accumulated savings in 2020 continued to grow in 2021; they remained an important source of economic growth financing.

The French banking sector continued to grow against the context of a dynamic credit market.

Following a consolidation path, the French banking system (769 entities in 2021, down by 29 entities between 2020 and 2021) saw its total balance sheet increase by 3% to reach EUR 9,934 billion at consolidated level at the end of 2021. This increase can be partly explained by the catching-up of activity following lock-downs and the effects of public policies: on the asset side, this translated into higher central bank deposits needed for *Targeted Longer-Term Refinancing Operations* (TLTRO III) and to finance the economy; on the liabilities side, in addition to rollovers obtained from the Eurosytem, deposits accumulated by non-financial customers during the health crisis continued to grow.

Net banking income (NBI) of the French banking system increased sharply, reaching EUR 164.2 billion (up 9.4% compared with 2020), driven jointly by improved revenues and a controled increase in operating costs. Profitability also developed very favorably: return on assets (RoA) reached 0.4% at the end of 2021, against 0.2% the year before and 0.3% in 2019, close to the European average, but still structurally low compared with US and UK banks.

The prudential situation of the banking system, already solid, was strengthened, making it possible to increase the resilience of banks. The aggregate solvency ratio of French banks thus amounted to 16.3% at the end of 2021 , a slight increase compared to 2020 (16.1%).

The strengthening of earnings and solvency was accompanied by an improvement in the quality of the credit portfolio, the rate of non-performing loans in the portfolio accounting on average for only 2.9% of total outstanding loans.

Banks continued to play their role as regards lending to the economy. The credit market remained dynamic: +6.1% growth in loans to Small and medium-sized enterprises (on a consolidated basis); +6.7% for housing loans to resident households (on a solo basis). Credit in France continued to grow faster than the economy as corporate and household debt rose. Moreover, the ratio between the banking system total balance sheet and the GDP reached 43 % at the end of 2021, up by 10 percentage points from the end of 2020.

The gradual phasing-out of government support schemes for companies appeared to be a manageable risk to the financial sector at this stage. Credit mediation, backed by the Banque de France, remained under-used for restructuring requests relating to state-guaranteed loans (SLG - fewer than 200 loans out of a total of 700,000 SLG).

With a high level of concentration (the top six banking groups accounted for 82% of the total assets of the sector), the French banking sector has continued to have a major economic weight at international, European and global levels. The French ten “significant institutions” thus represented 34% of the total balance sheet of banks directly supervised by the European Central Bank under the Single Supervisory Mechanism (SSM). In addition, out of thirty global systemically important banks (G-SIBs), four were French and seven French groups were classified as domestic systemically important bank (D-SIBs).

The insurance sector has been consolidating its solvency in a more favorable interest rate environment.

Activity and earnings in 2021 grew significantly, showing the resilience of the insurance sector amid the exit from the health crisis and economic recovery. After a weak 2020, French insurers saw their net inflows increase by +6%, exceeding pre-health crisis level.

Life insurance in particular has seen a strong rebound, benefiting from a dynamic market environment, ample private savings and the recovery of the economy. In this context, unit-linked products recorded an unprecedented annual inflow of EUR 30.6 billion and now account for 44% of gross inflows into redeemable products. These products enjoyed an attractive yield thanks to the very good stock market performance recorded in 2021 and a very active commercial policy by insurers to guide customers towards this type of funds. In euro-funds, however, outflows continued to stand at EUR -12.3 billion.

The non-life insurance sector also showed sustained growth (+6.9% for gross premiums), which was observable across all activities, after the stagnation in 2020. Claims were contained but developments were contrasted depending on segments. Claims returned to pre-crisis levels in the branches that had been affected by the health crisis. Examples include insurance for financial losses and casualty and property damage caused by the increase in business losses observed in 2020 following the closure of businesses (-46.4% in 2021 compared with 2020), or provident insurance (-6.4%) with the increase in work stoppages and heavy resort to partial unemployment in 2020.

Non-life insurers benefited from the recovery in activity, the slight increase in bond rates and the strong performance of equity markets, and saw their overall net income increase by 23% in 2021.

As the end of 2021, own funds were on average 2.5 times higher than the minimum required level, with the Solvency Capital Requirement coverage ratio set at 253%, while insurers' high-quality liquid assets covered 25 months of non-life insurance claims at the end of 2021, compared with 24 months at the end of 2020.

In 2021, France consolidated its position as the leading insurance market in Europe with a total balance sheet of EUR 3,156 billion for French insurers.

Financial sector remained resilient to changing macroeconomic environment and the impact of war in Ukraine.

France's banking and insurance sector began 2022 with very solid solvency and liquidity levels, enabling it to cope optimally with the new macroeconomic environment affected by higher inflation and interest rates, as well as the Russian invasion of Ukraine.

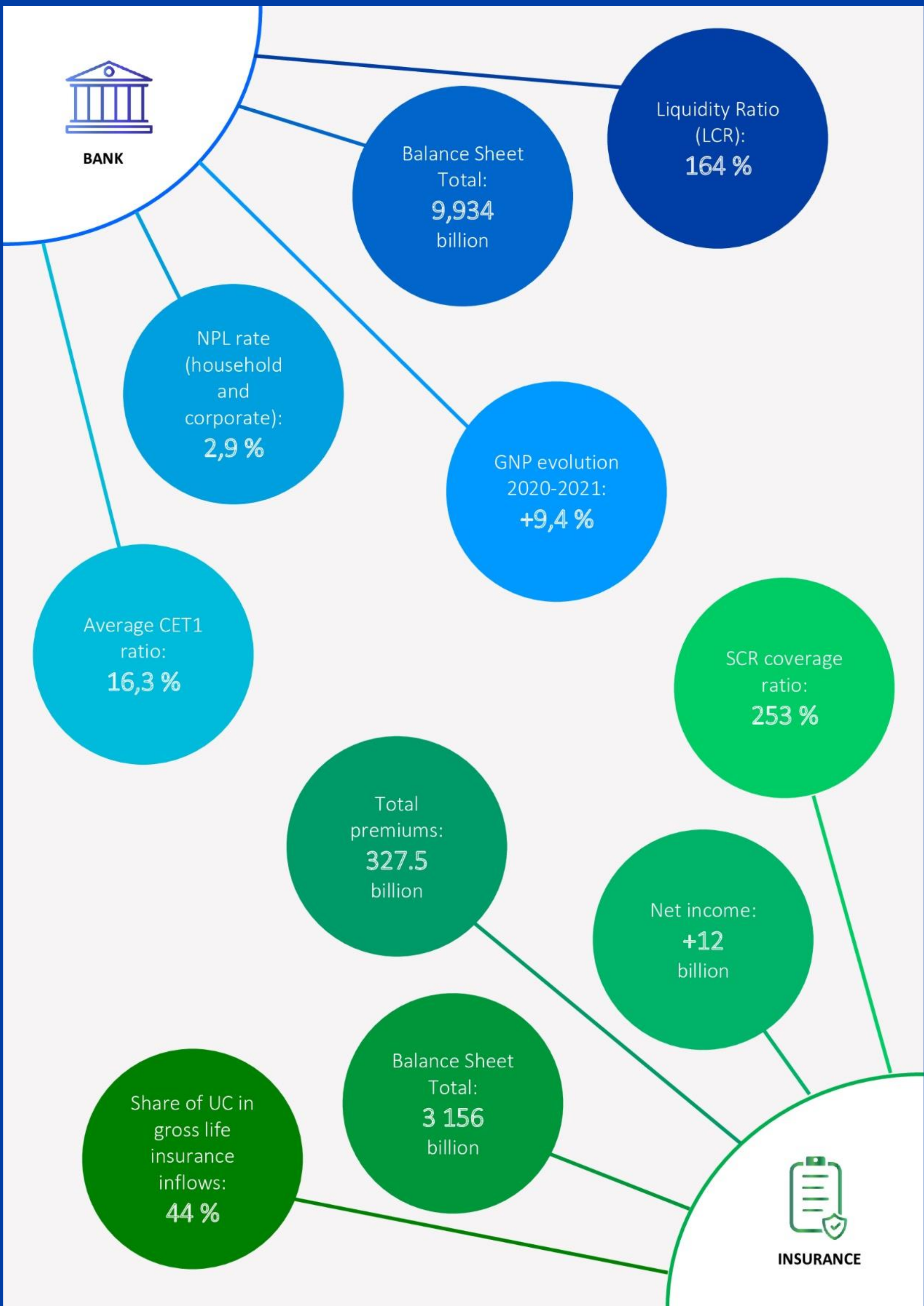
The macroeconomic and financial environment has changed considerably, as the conflict in Ukraine has added to the inflationary pressures already visible towards the end of 2021. The sustained rise in inflation over the year 2022 has led to a gradual monetary normalization with increases in the key European Central Bank interest rates of 50 basis points in July 2022, and a further 75 basis points in last September. While low interest rates could have weighed on bank and insurance profitability in recent years, an orderly, predictable and well-managed increase in rates supported the financial sector. Indeed, it supported bank's profitability by increasing their net interest margins. It also allowed insurers to shift the composition of their portfolios towards more remunerative assets, while supporting their capital by increasing the discount rate on their liabilities. However, the financial sector had to absorb potential losses resulting from financial losses or unexpected shocks to the solvency of certain borrowers.

Fallout from the war in Ukraine remained limited in terms of financial stability so far. France's direct financial sector exposures to Russian assets were contained: the latter accounted for less than 1% of total international commitments for French banks, while investments by French insurers in Russian securities amounted to less than EUR 500 million (0.02% of their total exposures after application of the look-through approach). French insurer have also limited liabilities in sectors directly affected by the conflict.

Nevertheless, the conflict is likely to have a greater impact through indirect channels, not least through the acute strains in international commodity markets. Potential risks include potentially sharp impairment of risk assets, as well as deterioration in the financial position of corporate borrowers both through higher prices and volatility commodity markets, and increased margin calls on derivatives, in particular for energy and agricultural products. The consequence of these market movements have so far had a well-controlled impact on the French financial sector. The ACPR remains fully involved in the supervision of potential emerging risk.

More than ever, the ACPR monitors the financial stability of both sectors, notably to guarantee their capacity to actively pursue the lending of the economy under any circumstances.

KEY FIGURES


BANK
Liquidity Ratio (LCR): 164 %
Balance Sheet Total: 9,934 billion
NPL rate (household and corporate): 2,9 %
GNP evolution 2020-2021: +9,4 %
Average CET1 ratio: 16,3 %
SCR coverage ratio: 253 %
Total premiums: 327.5 billion
Net income: +12 billion
Balance Sheet Total: 3 156 billion
Share of UC in gross life insurance inflows: 44 %
INSURANCE

PART 1

BANKING SECTOR

1

THE BANKING POPULATION AND THE ORGANIZATION OF ITS SUPERVISION

THE BANKING POPULATION AND THE ORGANISATION OF ITS SUPERVISION

Entities supervised by ACPR:

769

Share of French significant institutions (SI) in the Single Supervisory Mechanism (SSM):

34 %

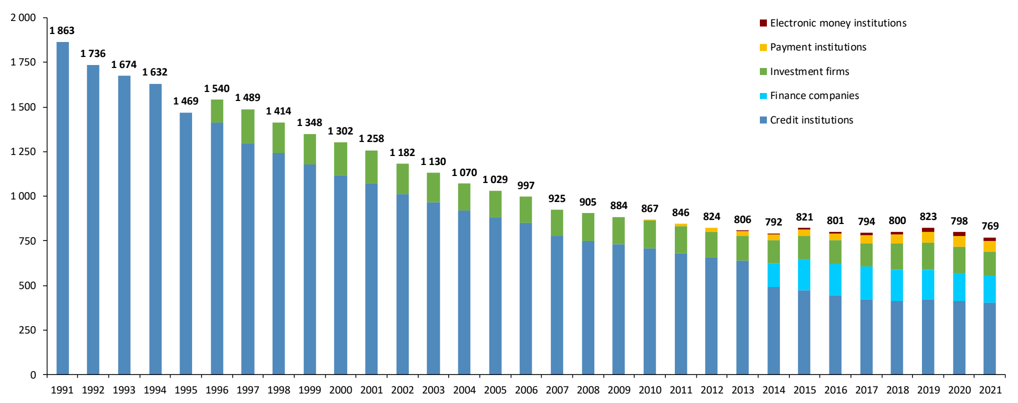
At the end of 2021, the French banking system included 769 entities within the supervisory scope of the ACPR, all categories combined. Banking entities -European Economic Area (EEA) branches included- thus gathered 403 credit institutions, 151 finance companies, 135 investment firms, 59 payment institutions, 21 electronic money institutions. The number of institutions identified as systemically important remained stable at both global (4) and domestic (7) levels.

The balance sheet of the French banking system reached EUR 9,934 billion, a slight increase from 2020 (+3 %). The top six French banking groups (BNP Paribas, BPCE, Crédit Agricole, Crédit Mutuel, Société Générale, La Banque Postale) alone account for 83 % of the sector's total balance sheet.

Different status among the supervised population

At the end of 2021, 769 authorized entities fell within the supervisory scope of the ACPR, compared with 798 at the end of 2020. They encompass credit institutions, finance companies, investment firms, payment institutions and electronic money institutions. Credit institutions represent almost half of the population. In 2014, the status of finance company replaced that of financial company, which until then had been a subcategory of credit institution under French law. The status of electronic money institutions was introduced in 2013, while that of payment institutions was introduced in 2010. This category of institutions has grown steadily in recent years, in particular as a result of the creation of companies known as “Fintech”.

Chart 1.1.1: Evolution of the number of institutions by type of authorization between 1991 and 2021



Source: ACPR

Ten of the French supervised credit institutions are considered to be significant institutions (SIs), while 197 are subsidiaries of SIs (including eight foreign SIs), both of which are under the direct supervision of the European Central Bank (ECB). The ACPR contributes to this oversight through the Single Supervisory Mechanism (SSM), while 100 are considered to be less significant institutions (LSIs). SIs account for 86 % of the total assets of the French banking system (same share as in 2020).

The ACPR also has 51 non-SSM credit institutions within its supervisory scope. These are credit institutions located in overseas authorities and Monaco, as well as branches from third countries.

In 2021, France recorded four Global Systemically Important Banks (BNP Paribas, BPCE, Crédit Agricole and Société Générale) and seven nationally systemically important "D-SIBs" (the four G-SIBs as well as Crédit Mutuel, La Banque Postale and HSBC Continental Europe). Accordingly, additional own funds requirements apply to those institutions as follows:

Table 1.1.1: Systemic entities and buffers applied starting from 1st January, 2021 until 31st December, 2021

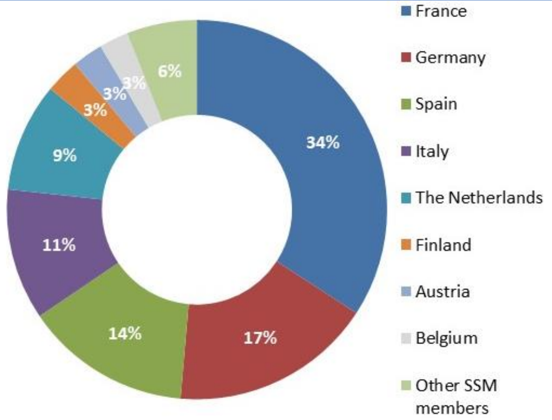
Designation	D-SIBs Buffer	G-SIBs Buffer
BNP Paribas*	1,50%	1,50%
Société Générale*	1,00%	1,00%
Crédit Agricole Group*	1,00%	1,00%
BPCE Group*	1,00%	1,00%
Crédit Mutuel	0,50%	
La Banque Postale	0,25%	
HSBC CE†	0,25%	

**Both G-SIBs and D-SIBs*
† Applicable on 1st January 2023
Source: ACPR

A significant economic weight of French institutions at domestic and European levels

The aggregate balance sheet of the French banking system amounted to EUR 9,934 billion and has been growing steadily since 2017. The French banking system is dominated by six major banking groups[1] with significant weight at both national and European levels. The top six French banking groups (BNP Paribas, BPCE, Crédit Agricole, Crédit Mutuel, La Banque Postale and Société Générale) account for 82 % of the total balance sheet value of the French banking system, while the 10 significant institutions account for 34 % of the balance sheet value of banks directly supervised by the ECB within the SSM.

Chart 1.1.2: Country share of total assets of significant institutions supervised by the ECB in 2021



Source: ACPR

[1] The population of six banks is based on two criteria: entities controlled by French interests and universal nature of their activity (credit, market, "bancassurance"). The cyclical and structural developments of these six banks reflect changes in the French banking sector and the French economy. The independent institutions of these six banking groups are more specialized and have a very heterogeneous population.

2

FINANCING AND RESSOURCES COLLECTED FROM THE FRENCH ECONOMY

FINANCING AND RESSOURCES COLLECTED FROM THE FRENCH ECONOMY

Share of the French economy financing*:

62.6 %

of granted loans

Share of collected deposits from French economy*:

72.5 %

**French economy refers to resident non-financial customers.*

In 2021, loans granted by the French banking system to non-financial customers (households, non-financial corporations and governments, residents and non-residents) reached an outstanding amount of EUR 4,369 billion on a consolidated basis. Out of this total, EUR 2,735 billion went to the financing of the French economy (loans to resident non-financial customers on a parent-company basis). In 2021, it increased by 4.2 % compared to 2020 (i.e. EUR +111 billion) and by 13.4 % compared to the end of 2019. The French economy accounts for 62.6 % of total loans granted.

The outstanding amount of State Guaranteed Loans (SGLs) granted as part of the liquidity support scheme introduced by the French government in March 2020 to mitigate the effects of the health crisis stood at EUR 128 billion at the end of 2020 and EUR 110.4 at the end of 2021.

On a consolidated basis, the French banking system also collected resources (overnight or term deposits, excluding repurchase agreements and assimilated instruments) from non-financial customers (resident and non-resident) for an outstanding amount of EUR 3,631 billion. As of December 31st 2021, the share of deposits collected from residents by resident banking entities amounted to EUR 2,663 billion. The growth of outstanding deposits showed a similar acceleration, with a 20 % increase between the end of 2019 and the end of 2021. In 2021, three factors were decisive in sustaining the growth of resources collected from non-financial customers:

- Forced and precautionary savings by households following the various lockdowns and restrictions in 2020 and 2021;
- Measures taken to support the economy, and especially State Guaranteed Loans, which have strengthened the cash position of non-financial corporations in the context of economic slowdown. A large amount of this cash has been kept as deposits on French banks' books;
- Monetary policy, which remained accommodating, enabling banks to raise additional resources. The Pandemic Emergency Purchase Program (PEPP) was extended until 2022 in addition to the third set of targeted long-term refinancing operations (TLTRO III).

Households and non-financial corporations are the main beneficiaries of the financing of the economy in 2021

By the end of 2021, households and non-financial corporations[2] were the main beneficiaries of the increase in French economy financing by French banks. On a parent-company basis, out of an increase of EUR 111 billion in loans to residents, loans to households increased by EUR 83 billion (+5.9 %) and loans to non-financial corporations by EUR 27 billion (+2.6 %). At the end of 2021, 55 % of outstanding loans to residents

[2] Note: unless otherwise indicated, the scope covers the activity of credit and similar institutions established in France (excluding their subsidiaries abroad), according to their accounts on a parent-company basis. The household category includes individuals, individual entrepreneurs and non-profit institutions serving households.

(i.e. EUR 1,490 billion) were granted to households and 38 % (i.e. EUR 1,049 billion) to non-financial corporations.

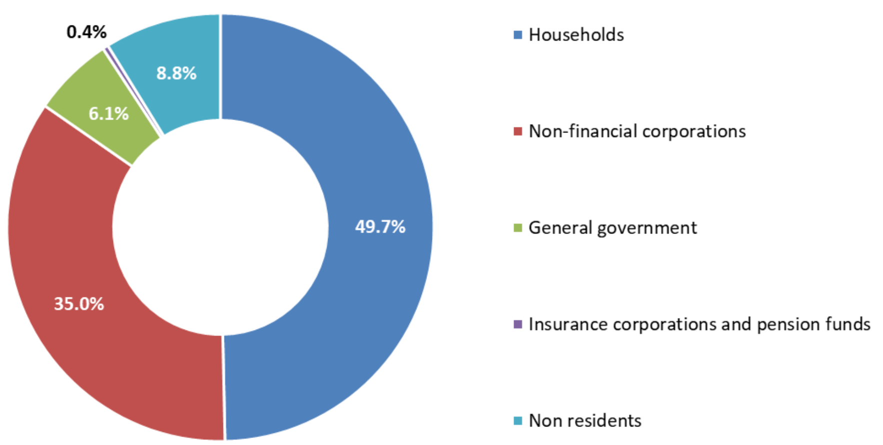
The main share of households financing was in housing loans with an outstanding amount of EUR 1,419 billion end 2021 (88.7 % of loans to households), up by more than 20 % compared with EUR 1,179 billion at the end of 2020. Consumer credit accounted for 10.5 % of outstanding loans to resident households while credit for equipment accounted for 2.6 %. Whether granted to private individuals or individual entrepreneurs, housing loans prevailed, with respectively 86.9 % and 72.7 % of total loans.

Non-financial corporations refinanced primarily through equipment loans (44.6 % of total credits granted) and via liquidity facilities (22.8 % of total amount). Housing loans (which correspond to property development transactions and to financing of social housing bodies) only came in third place with 15 % of the total.

Outstanding loans to resident non-financial customers' structure has been relatively stable since 2006. However, two developments can be noted:

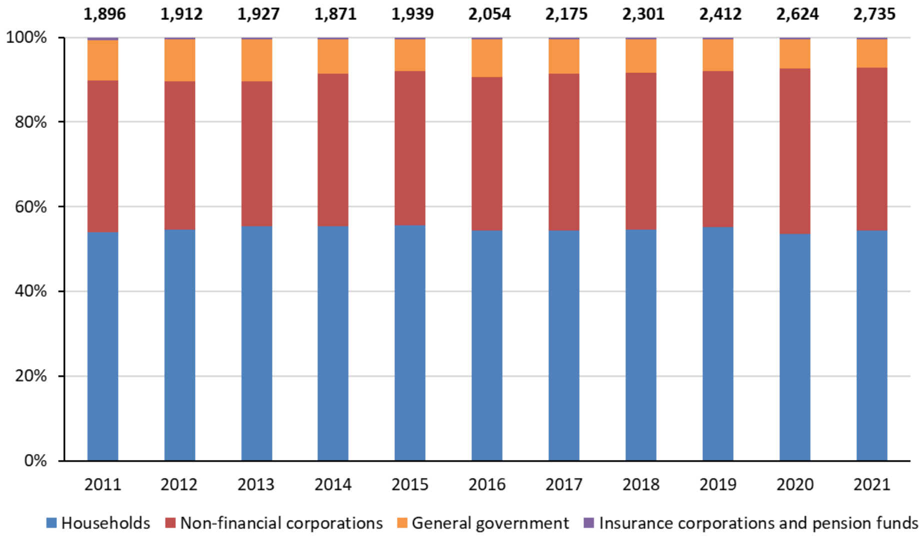
- The share of loans to general governments in total outstanding loans to non-financial customers has been steadily decreasing over the past 15 years: they accounted for 9.9 % of the total at the end of 2006 (EUR 140 billion), compared to 6.7 % at the end of 2021 (EUR 184 billion). This relative decline has been offset by households (+ 1.5 percentage points) and non-financial corporations (+1.7 percentage points).
- The breakdown of loans to non-financial corporations has shifted from 2020 onwards, reflecting the implementation of State Guaranteed Loans (SGLs). On December 31st 2019, outstanding cash credit accounted for 16.7 % (EUR 143 billion) of total loans to non-financial corporations (EUR 891 billion). End 2021, this share stood at 22.8 % with EUR 239 billion in cash credit, compared to a total of EUR 1,049 billion loans to non-financial corporations.

Chart 1.2.1: Breakdown of loans to non-financial customers by beneficiary sector in 2021 in %



Source: ACPR
Note: In the reporting nomenclature drawn up for statistical purposes, insurance corporations and pension funds are included as non-financial customers.

Chart 1.2.2: Breakdown and evolution of loans to resident non-financial customers between 2011 and 2021 and total in billions of euros

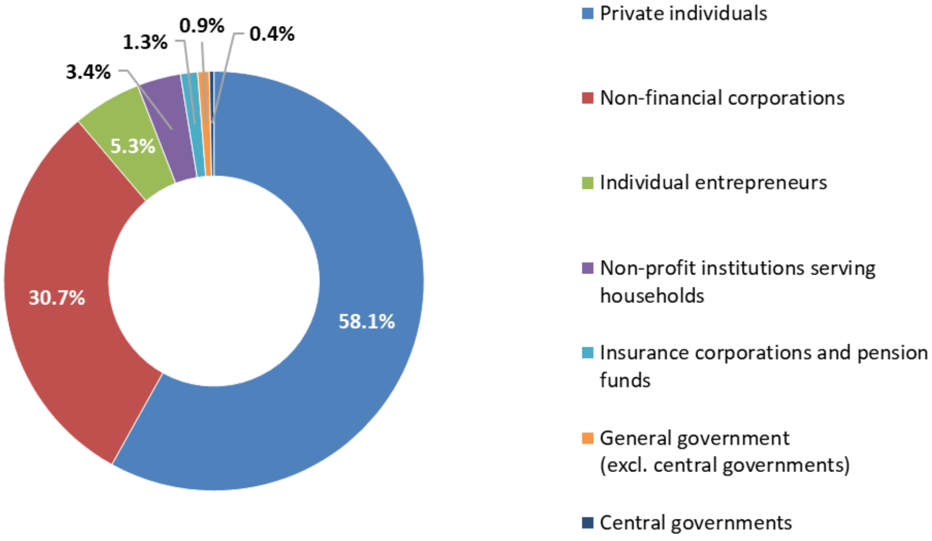


Source: ACPR

Deposits continue to grow in 2021

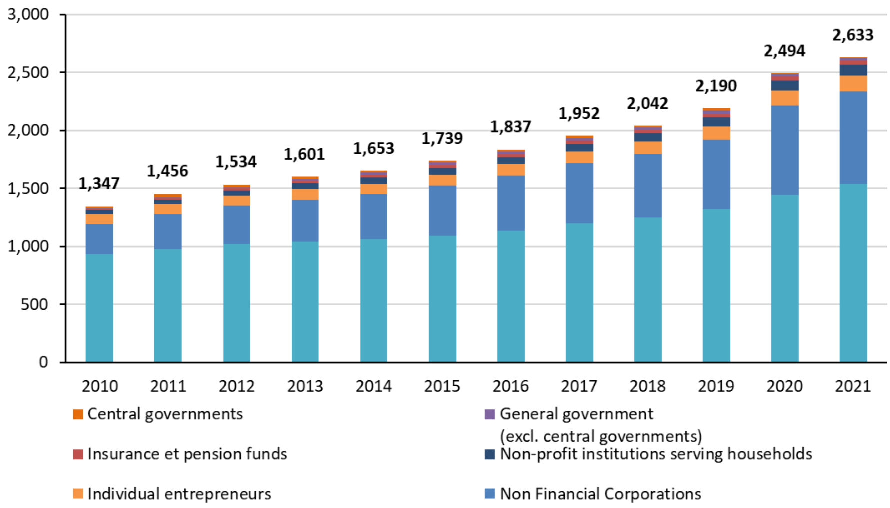
Total deposits from resident non-financial customers reached EUR 2,633 billion at the end of 2021, a 5.6 % increase compared to 2020 (EUR +139 billion), mainly due to private individuals (EUR +90 billion) and to non-financial corporations (EUR +33 billion). They accounted respectively for 58 % and 30 % of total deposits held by resident non-financial customers. Central government deposits saw the largest shift during the 2020-2021 period (+25 %), while general government deposits excluding central government deposits decreased (-7 %).

Chart 1.2.3: Share of deposits from resident non-financial customers by sector in 2021 in %



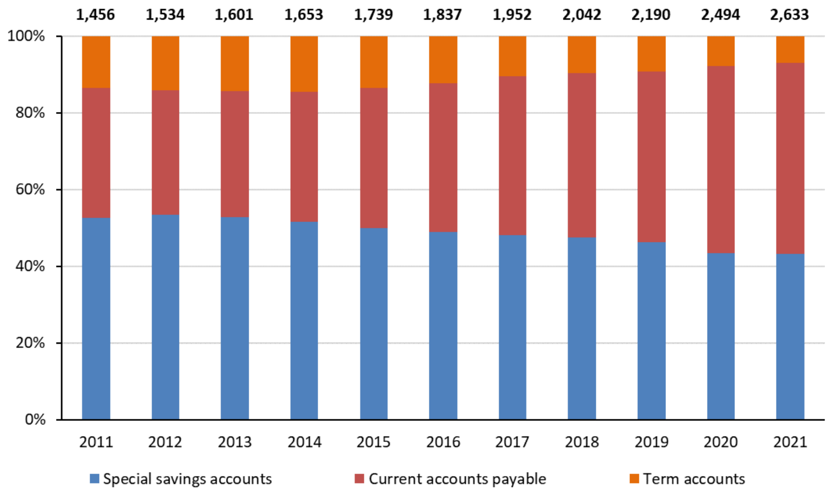
Source: ACPR

Chart 1.2.4: Evolution of deposits from resident non-financial customers by sector between 2011 and 2021 in billions of euros



Source: ACPR

Chart 1.2.5: Breakdown and evolution of deposits from resident non-financial customers between 2011 and 2021 and total in billions of euros



Source: ACPR

In general, deposits from resident customers have increased (+5.6 % in 2021) and have reached EUR 2,633 billion. After an exceptional increase between 2019 and 2020 (+24.5 %), current accounts payable continued to grow at a more moderate pace (+7.9 %) standing at EUR 1.309 billion in 2021, compared to EUR 1,213 billion in 2020. Growth in special savings accounts remained more moderate (+5.1 %), reaching EUR 1,139 billion at the end of 2021. Term accounts were diminishing, from EUR 196 billion in 2020 to EUR 184 billion in 2021. As regards the breakdown of deposits, the share of special savings accounts and of term accounts was on a declining trend (their shares standing respectively at 43 % and 7 % in 2021, at 43 % and 8 % in 2020, compared to 53 % and 14 % in 2011) while current accounts payable were increasing (their share stood at 50 % in 2021, compared to 34 % in 2011). Special savings accounts include centralized savings accounts (especially some regulated saving accounts-Livrets A) centralized at the "*Caisse des Dépôts et Consignations*". These centralized savings[3] accounted for 26.1 % of regulated savings accounts, i.e. EUR 297.7 billion in December 2021[4] (compared to EUR 285 billion in December 2020). By restating special savings accounts from centralized savings, the ratio of credit to deposits held by resident non-financial customers, which indicates banks' ability to fund their own loans, reached 113 % in 2021, compared to 115 % in 2020.

[3] These funds are not for the free use of institutions and are not, for example, used for households direct refinancing.
[4] Rapport annuel Fonds d'épargne 2021 (caissedesdepots.fr)

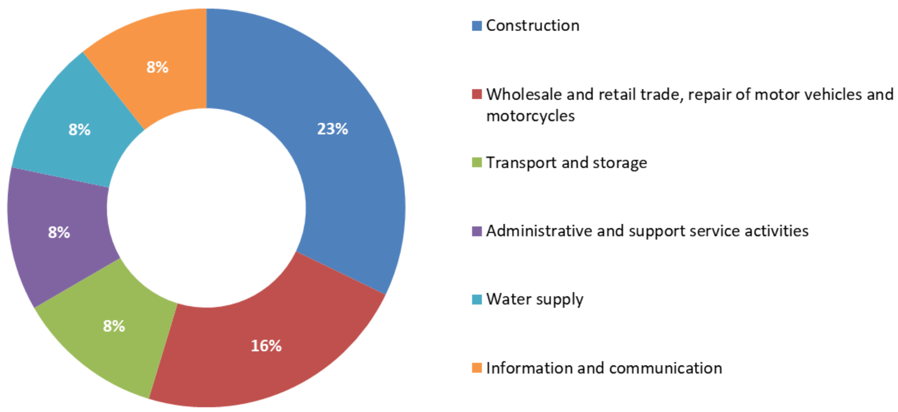
French banking institutions have largely granted State Guaranteed Loans

During the health crisis, French banks played an important role in financing the French economy through, among other things, the granting of State Guaranteed Loans (SGLs)[5]. At the end of 2021, total outstanding SGLs[6] reached EUR 110 billion compared to nearly EUR 128 billion a year earlier. The total amount of new SGLs granted over the year was EUR 42 billion, implying net outflows, mostly of net repayments, of EUR 60 billion. The main beneficiaries were the construction sector with EUR 23.5 billion (or 23 % of total outstanding, all sectors combined) and the wholesale and retail trade, repair of motor vehicles and motorcycles industries with EUR 16.4 billion (16 % of total outstanding). The breakdown of the main beneficiary sectors having remained almost unchanged compared to the end of 2020. Out of the total outstanding SGLs of EUR 110 billion, approximatively EUR 3.8 billion have been subject to a guarantee call, 1.5 % of which was actually paid. The share of called guarantees increased slightly between September 2020, when it stood at 2 %, and December 2021, when it reached 3.5 %.

Chart 1.2.6: Evolution of outstanding SGLs between September 2020 and December 2021 in billions of euros

Source: ACPR

Chart 1.2.7: Main beneficiary sectors from SGLs (across all sectors) at the end of 2021 as % of the total



Source: ACPR

[5] SLGs were set up to address the economic shock linked to the coronavirus crisis by providing support to the banking financing of companies. The State guarantee covers a percentage of the amount of the capital, interests and accessories remaining on the claim until the maturity date of its term, unless it is called before at the time of a credit event (Prêt garanti par l'État | economie.gouv.fr).

[6] The figures presented in this section include loans secured by State guarantee at the highest level of consolidation, which means both French State-Guaranteed Loans, which constitute a very large majority, and loans guaranteed by other states in which French banking groups are established and offer similar facilities (Italy, Belgium, etc.).

3

BALANCE SHEET STRUCTURE AND PROFITABILITY

BALANCE SHEET STRUCTURE AND PROFITABILITY

Evolution of the French banking sector total assets at the end of 2021 compared to the end of 2020:

+3.0 %

Evolution of the French banking sector net banking income in 2021:

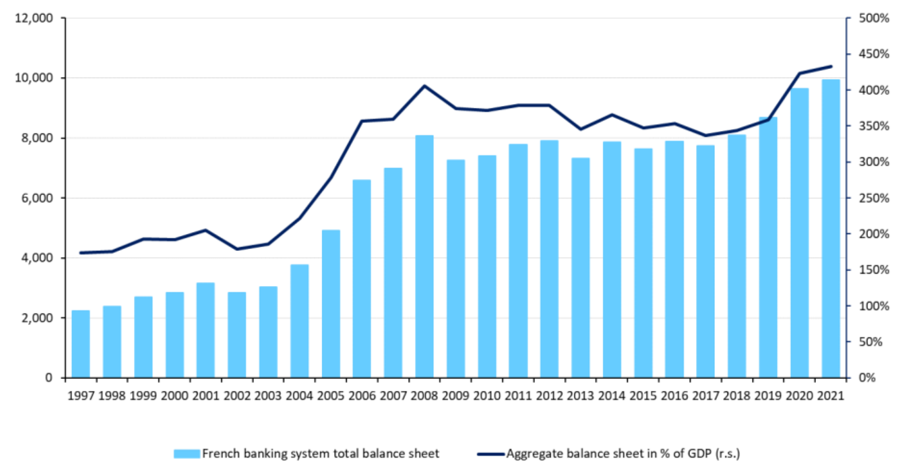
+9.4 %

The total balance sheet value of the French banking system increased by 3 % compared with 2020. Overall, profitability has improved. The Net Banking Income (NBI) of the whole French banking system increased sharply in 2021 to reach EUR 164.2 billion, up by 9.4 % compared to 2020.

Balance sheet has grown more moderately than in 2020

The total balance sheet for the whole French banking sector[7] settled at EUR 9,934 billion at the end of 2021, an increase of EUR 293 billion compared with the end of 2020 (+3.0 %), less pronounced than that of the previous year (+11.2 %). The ratio between the total balance sheet of banking institutions and GDP continued to rise, amid a strong economic recovery in 2021, to reach 433 % (+10 percentage points compared to 2020).

Chart 1.3.1: Evolution of the total assets of the French banking system between 1997 and 2021 in billions of euros

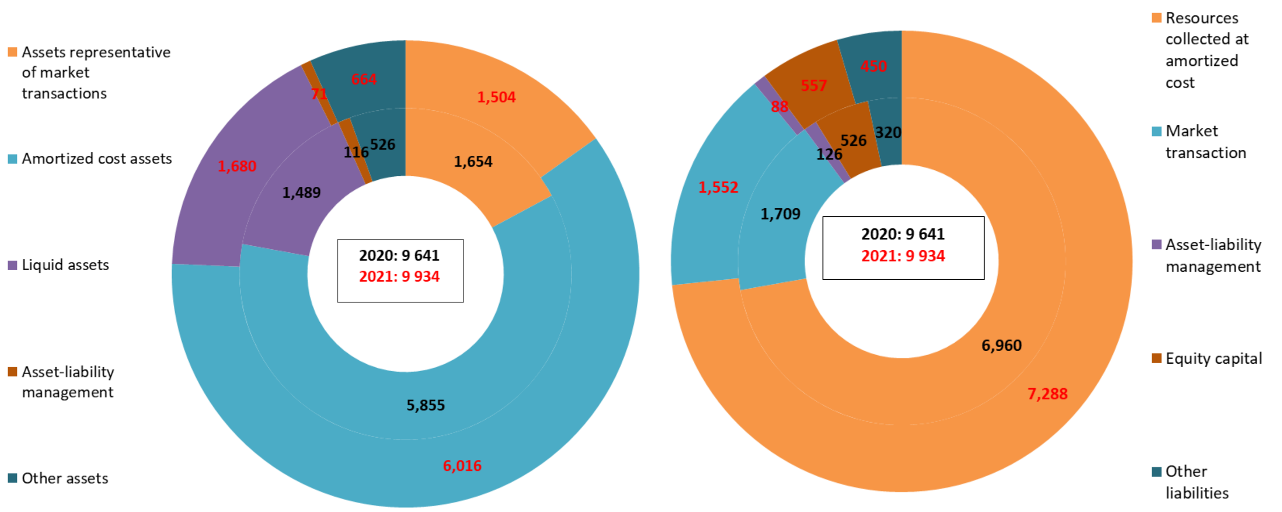


Source: ACPR

At the end of 2021, banking assets were mainly composed of granted loans (61 %), liquid assets (17 %) and operations related to market activities (15 %). At the end of 2020 these shares stood at 61 %, 15 % and 17 % respectively. On the liabilities side, deposits accounted for nearly 73 % of total liabilities, followed by transactions related to market activities (16 %) and equities (6 %) (compared with 72 %, 18 % and 5 % respectively at the end of 2020). The increase in the French banks balance sheet was reflected as follows: on the asset side, increased trading with central banks and raising of resources through TLTRO III held in deposits with the Eurosystem; on the liabilites side, deposits accumulated during the health crisis period which continued to rise, reflecting the prudent behavior of households and firms.

[7] The whole French sector includes institutions subject to IFRS standards for which data is provided on a consolidated basis (at the highest level of consolidation), and other institutions (banks and finance companies) subject to French accounting standards (on a consolidated basis or on social basis) and not subject to IFRS standards. IFRS banking groups are divided into two categories: the six most significant groups (BNP Paribas, BPCE, Crédit Agricole, Crédit Mutuel, La Banque Postale and Société Générale) and the "other groups".

Chart 1.3.2: Structure of banking assets and liabilities for the whole French banking system between 2020 and 2021 in billions of euros



Note 1: The inner ring represents data at the end of 2020 and the outer ring represents data at the end of 2021.
Note 2: "Assets-liability management" refers to hedge accounting in accordance with IFRS.
Note 3: "Other assets" and "Other liabilities" refer mainly to accruals and collateral posted and received on derivatives transactions.
Note 4: By convention, for other credit institutions (not subject to IFRS), the total balance sheet (value EUR 1,131 billion in 2021 and EUR 1,129 billion in 2020) is allocated to the asset and liabilities categories "Assets at amortized cost" and "Resources collected at amortized cost" respectively.
Source: ACPR

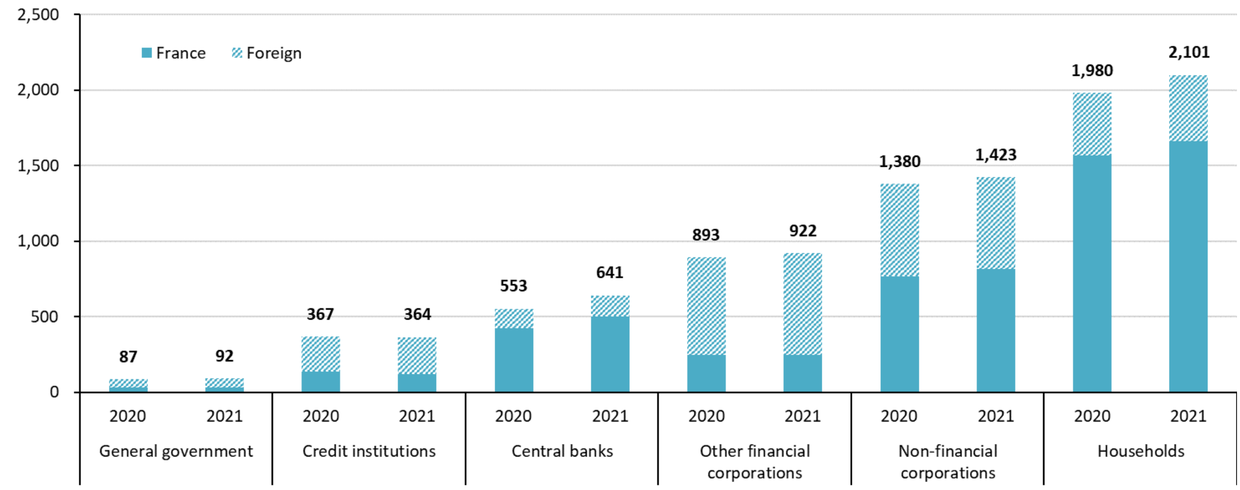
Focusing the analysis on the population of groups subject to the IFRS standards (whose statements provide more details on the various accounting items), the outstanding amount of resources collected at amortized cost amounted to EUR 6,157 billion in 2021. This amount was mainly composed of deposits and securities issued (EUR 4,974 billion and EUR 1,145 billion respectively). Total outstanding deposits[8] on the liability side (all accounting categories taken together) amounted to EUR 5,543 billion (compared with EUR 5,260 billion end 2020). After deposits, debt securities issued constituted the second most significant item of liabilities (all accounting categories combined) with an outstanding amount of EUR 1,347 billion end 2021 (EUR 1,355 billion end 2020). The structure of these outstanding debt securities did not change between 2020 and 2021: 85 % at amortized cost and 15 % at fair value on option (the amounts carried forward for securities issued held for trading being marginal). The EUR 6,119 billion in deposits and securities issued at amortized cost[9], at the end of 2021 allowed assets to be refinanced at amortized cost (EUR 4,885 billion) and the bulk of the EUR 1,680 billion in liquid assets to be built up. In this respect, deposits in central banks accounted for 73 % of liquid assets.

Assets and liabilities representing market transactions amounted to very similar amounts[10] in 2020 and 2021. The bulk of "market transactions" (Chart 2) were assets and liabilities held for trading, with outstanding amounts of EUR 1,504 billion in 2021 (compared with EUR 1,654 billion in 2020) and EUR 1,330 billion in 2021 (compared with EUR 1,483 billion in 2020).

As of 31st December 2021, 39 % of deposits were from foreign counterparties (up from 40 % as of 31st December 2020). Between the end of 2020 and the end of 2021, the structure of deposits by country and type of counterparty remained stable, with non-financial corporations (up 56 % to 57 %) and central banks (up 77 % to 78 %) slightly increasing in France.

[8] Of this total of EUR 5,543 billion, EUR 4,974 are measured at amortized cost, EUR 557 billion at fair value and held for trading, with the balance at fair value through an option.
[9] Resources collected at amortized cost comprise deposits, securities and other liabilities. The difference between EUR 6,157 and EUR 6,119 billion corresponds to these other liabilities.
[10] The outstanding amount of liabilities representing market transactions exceeded the outstanding amount of assets in the same category in 2020 and 2021, owing to a conservative choice. Fair value liabilities not held for trading have been classified as "market operations". By contrast, non-trading fair value assets - primarily fair value through equity - have been allocated to the category "Liquid assets".

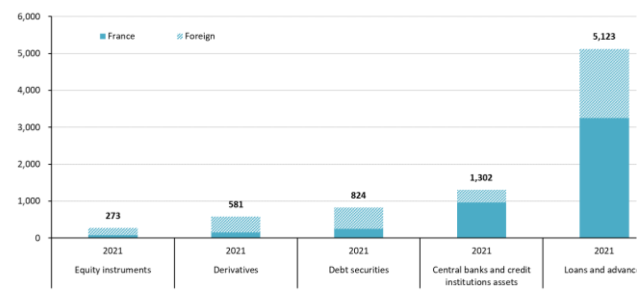
Chart 1.3.3: Amounts comparison and breakdown of deposits between France and abroad for each type of counterparty between 2020 and 2021, in billions of euros



Source: ACPR

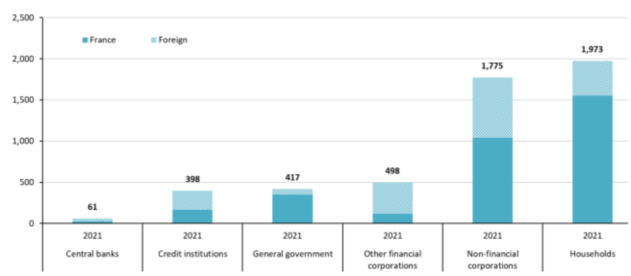
Still looking at the population of groups subject to IFRS standards, Charts 1.3.4 and 1.3.5 provide an insight into the distribution between France and abroad of (i) the outstanding amount of each financial instrument as an asset and (ii) the loans for each type of counterparty. Overall, the share of foreigners in total financial instruments[11] (derivatives, loans, central bank and credit institution[12] holdings, equity instruments and debt securities) was 42 % end 2021 (against 44 % end 2020), out of a total of EUR 8,104 billion end 2021 compared with EUR 7,900 billion end 2020. Out of the EUR 3,416 billion outstanding of financial instruments on counterparties outside France, the Banking Union represented nearly 45 %,. The smaller share of activities abroad was due to the stronger increase in loans to French households (5 % compared with 2 % for households outside France) and especially to the significant increase in demand deposits with central banks (EUR 173 billion, a 18 % rise compared to 2020) amid an accommodative monetary policy and an increase in deposits by households and corporations with banking institutions.

Chart 1.3.4: Amount of financial instruments on the asset side and breakdown between France and abroad, end December 2021, in billions of euros



Source: ACPR

Chart 1.3.5: Amount of loans and breakdown by type of counterparty between France and abroad, en d December 2021, in billions of euros



Source: ACPR

[11] The term "financial instrument" is as defined in IFRS.

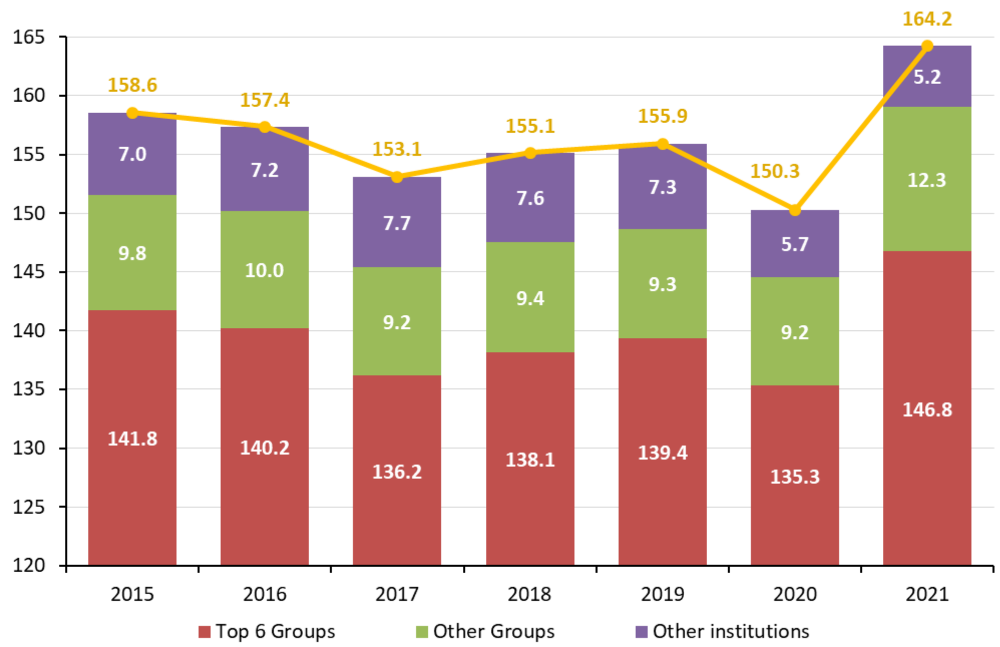
[12] This type of financial instrument refers to demand deposits in the books of central banks and credit institutions.

Profitability improves overall

Bank value added is measured by net banking income, which reflects the difference between bank operating income and expenses. Its two main components are net interest margin and net fees. Net interest margin is the balance of interest received and paid resulting from transactions in the banking book, net commissions are the balance of fee income and commissions received and paid on behalf of customers. Other income includes the impact of changes in the fair value of financial instruments (assets and liabilities).

In 2021, the Net Banking Income (NBI) of the whole French banking system increased sharply, reaching EUR 164.2 billion (9.4 % higher than in 2020).

Chart 1.3.6: Evolution of the NBI for the whole French banking system between 2015 and 2021, in billions of euros



Source: ACPR

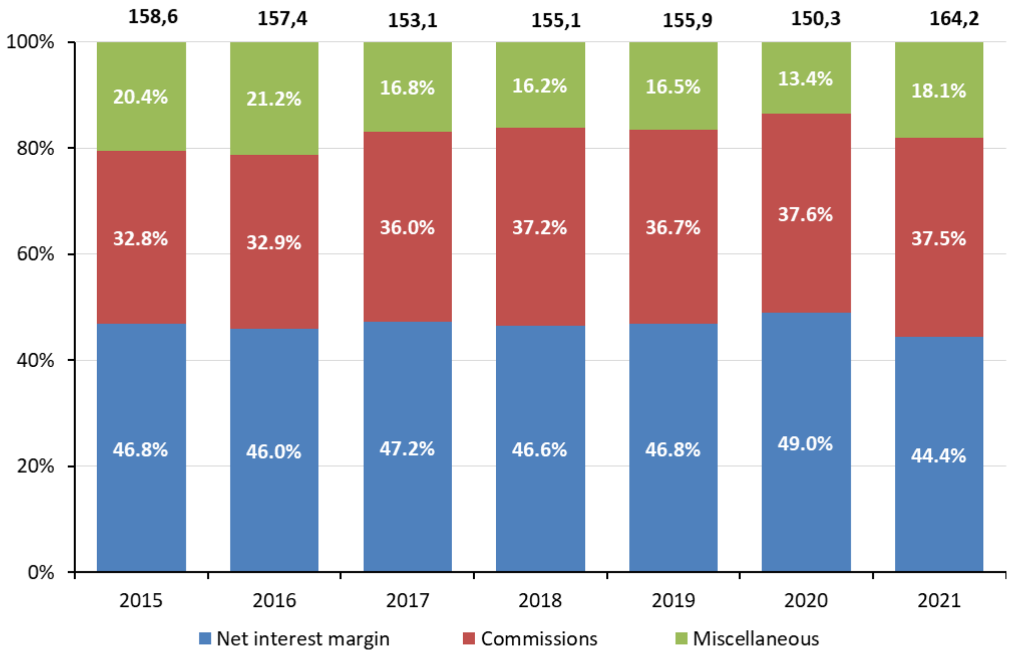
The net interest margin of groups subject to the IFRS standards decreased slightly compared to 2020 (EUR -0.2 billion), largely determined by the EUR 0.3 billion decrease recorded by the six most significant banking groups. The net interest margin of other groups increased by EUR 0.1 billion. The sector's net interest margin is expected to gradually recover in 2022, with higher interest income on the asset side offsetting the increase in the average cost of liabilities.

Fees received (net of fees paid) increased by 9.7 %. They thus amounted to EUR 53.9 billion for the six most significant banking groups (8.3 % higher than the end of 2020) and EUR 5.8 billion for the other groups (25.1 % higher).

Other net banking operating income ("miscellaneous") was also up for the 6 most significant banking groups: they thus went from EUR 18.4 billion at the end of 2020 to EUR 25.9 billion at the end of 2021, a component that is also on the rise for other groups subject to the IFRS standards, reaching EUR as 2.9 billion at the end of 2021, an increase of EUR 1.9 billion compared to the end of 2020.

Changes in fair value, which make up a large part of other income, are strongly related to non-commission market activities. Between 2020 and 2021, this impact represented 30 % of the increase, or EUR 4.2 billion. Higher interest rates are expected to adversely impact these items in 2022 on bond instruments, as they fall in market value. Other income was also due to higher "other operating income and expenses" (EUR +0.2 billion, or +5 %), plus the exchange rate difference (fair value due to exchange rate changes; EUR +0.4 billion), dividend income (EUR +2.7 billion), with gains and losses on assets and liabilities not measured at fair value slightly down by EUR 0.1 billion.

Chart 1.3.7: Evolution of NBI components in the French banking system between 2015 and 2021 in % and total NBI for the French system in billions of euros



Note: Other credit institutions (not subject to IFRS) are excluded from the scope of this chart.
Source: ACPR

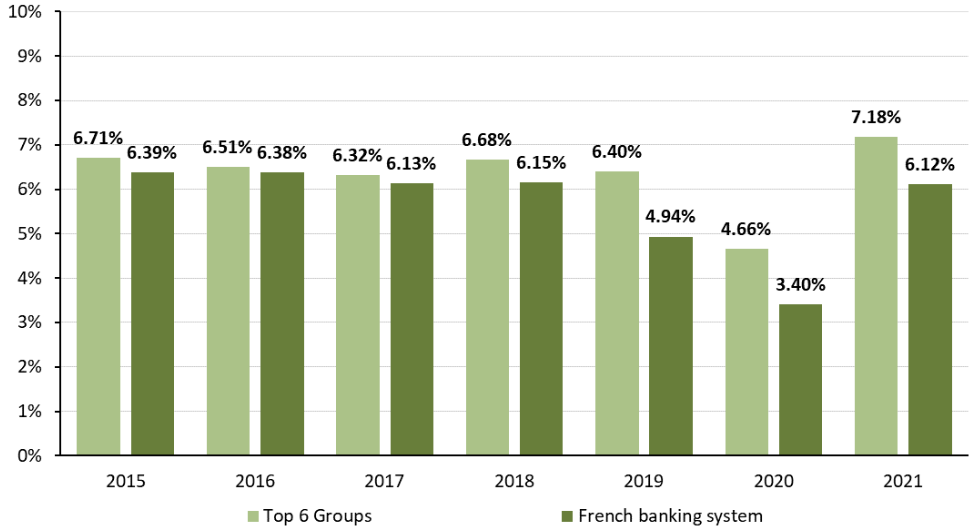
The cost-to-income ratio (the ratio of operating expenses to net banking income) of the French banking system was decreasing, reflecting improved profitability: it thus declined from 71 % in 2020 to 67 % in 2021, mainly due to net banking income growth in the six most significant groups (up 8.5 % from EUR 135.3 billion in 2020 to EUR 146.8 billion in 2021) and in the other groups (up EUR 9.2 billion in 2020 to EUR 12.3 billion in 2021, a rise that was mainly attributable to two groups). This increase was greater than the rise in overhead costs: from EUR 94.3 billion at the end of 2020 to EUR 96.3 billion at the end of 2021 (+2 %) for the 6 most significant banking groups and from EUR 7.4 billion to EUR 7.9 billion (+6.3 %) for the other groups.

Moreover, while the pandemic had significantly affected the cost of risk in 2020, after it reached historically low levels in previous years (increasing by more than 115 % between 2019 and 2020), it has now returned to its pre-crisis level and amounts to EUR 8.8 billion (compared with EUR 9 billion in 2019).

In total, the consolidated net result of the French banking sector settled at EUR 37.7 billion in 2021, a marked increase compared to 2020 (EUR 20.3 billion).

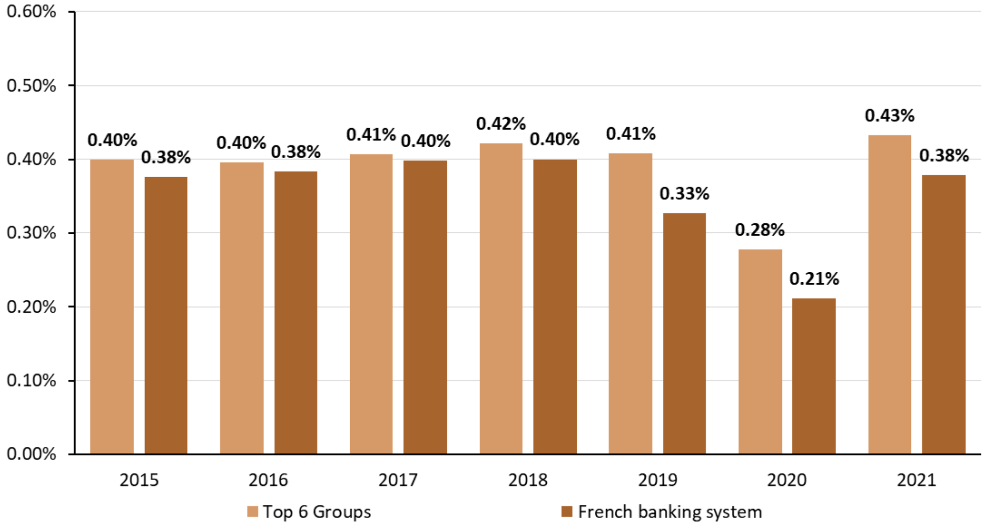
As a result, the return on assets (ROA) for the whole French banking system recovered to 0.38 %, from 0.21 % in 2020, while the return on equity (ROE) returned to its 2018 level to 6.1 %, after 3.4 % in 2020.

Chart 1.3.8: Evolution of the return on equity (ROE) for the French banking system between 2015 and 2021 in %



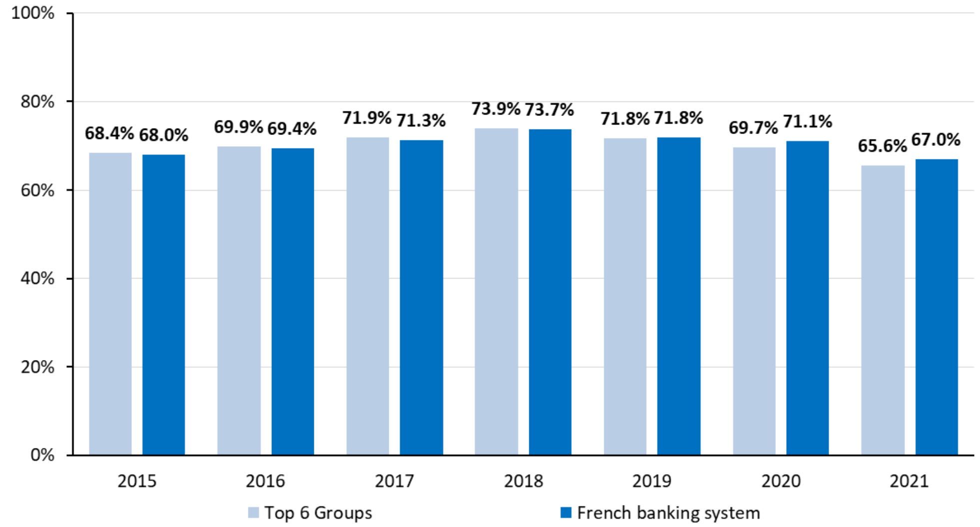
Source: ACPR

Chart 1.3.9: Evolution of the return on assets (ROA) for the French banking system between 2015 and 2021 in %



Source: ACPR

Chart 1.3.10: Evolution of the cost-to-income ratio for the French banking system between 2015 and 2021 in %



urce: ACPR

Bank

BALANCESHEET STRUCTUREAND PROFITABILITY

Insurance

4

SOLVENCY

SOLVENCY OF FRENCH BANKING INSTITUTIONS

French banking sector average solvency ratio (CET1) at the end of 2021:

16.3 %

French banking sector own funds at the highest level of consolidation at the end of 2021:

574

EUR billion

At the end of 2021, the French banking sector had a total of own funds of EUR 574 billion euros worth in equity capital (+ 4,3 % compared to the end of 2020), among which EUR 473 billion euros in *Common Equity Tier One* (CET1) capital.

The gradual implementation of Basel III's reforms had a largely positive effect on strengthening the solvency of French banking groups.

Banking institutions' solvency has continued to improve

Banking institutions' solvency refers, in the prudential sense, to the ability to absorb through equity capital potential losses arising from risks (credit, market, operational, etc.) they are exposed to. Own funds held by institutions aim to cover the minimum regulatory requirements required fixed by regulation and enforced by macro-prudential authorities and micro-prudential supervisors[13]. The two main components of a bank's solvency, which constitute its solvency ratio, are: Risk Weighted Asset (denominator) and total own funds (numerator) :

- Risk Weighted Assets (RWA) measure the propensity of an asset to be subject to a reduction of its carrying amount, measured by weighting the level of risk. The denominator of the solvency ratio is the sum of the weighted net risks of each asset, to which is added a measure of operational risks ;
- There are three categories of own funds: (i) *Common Equity Tier 1* capital (CET1) (ii) *Additional Tier 1* capital (AT1) and (iii) *Tier 2* capital (T2). Own funds quality is assessed in terms of its loss absorbing capacity and permanence. CET1 capital absorbs losses from the outset. Essentially made up of shares and reserves (accumulated profits not distributed to shareholders), it is the best quality equity. Compliance with prudential requirements is assessed mainly on the basis of CET1.

The CET1 solvency ratio measures the ratio between CET1 capital to Risk Weighted Assets. Unless otherwise specified, this chapter sets out the information on CET1 capital and CET1 solvency ratios.

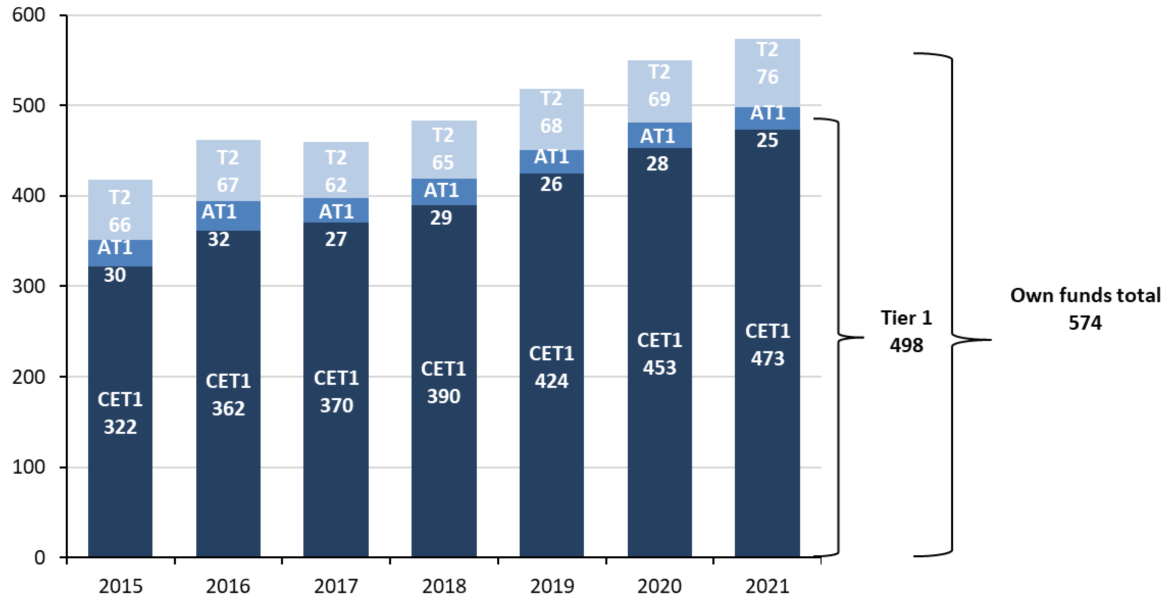
Under the "Pillar 1" solvency requirements, all banks must at all times hold at least 4.5 % of their RWA in own funds of the first category (CET1). Tier 1 capital (CET1 + AT1) must cover at least 6 % of RWAs. Lastly, the total amount of own funds (CET1 + AT1 + T2) must exceed 8 % of RWAs. These "pillar 1" requirements are supplemented by "pillar 2" requirements covering risks not captured by "pillar 1" (e.g.: concentration risk by counterparty in the credit portfolio). Macro-prudential requirements complement the mechanism. These requirements or 'buffers' are to be covered exclusively with CET1 capital.

[13] The measures from the Basel III agreements, implemented in the European Union by the "CRR2 and CRD V" bundle, have introduced a strict definition of prudential capital, which is the ability institutions have to absorb potential losses. The equity capital of highest quality is "Common Equity Tier 1" capital (CET1).

The total amount of Tier 1 capital (CET1) reached EUR 473 billion at end 2021 for the whole French banking sector at the highest level of consolidation, a 4.4 % increase compared to 2020, despite the rise in interest rates and capital losses from bond portfolios recorded net of equity. In 2021, total own funds in all categories combined (CET1, AT1 and T2) stood at EUR 574 billion (+4.3 % compared to 2020). The aggregate CET1 solvency ratio for all institutions operating in France stood at 16.3 % in 2021 (+0.2 percentage points compared to 2020).

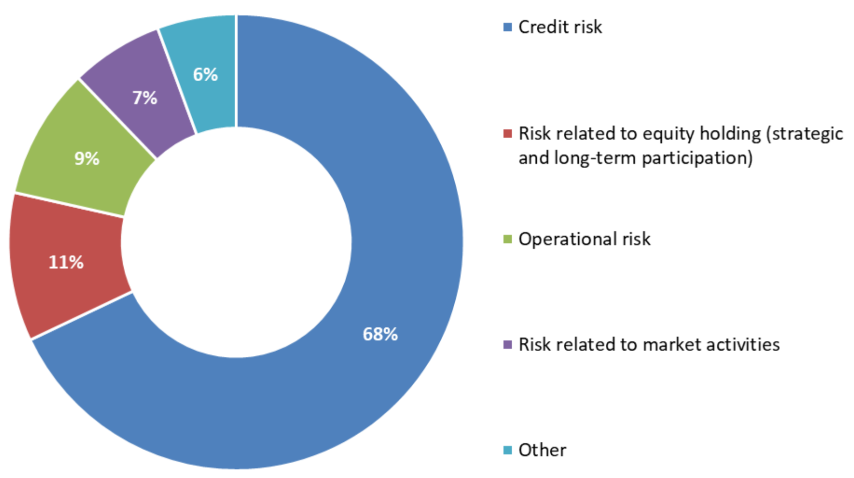
The total amount of Risk Weighted Assets (RWAs) for the whole French banking system totaled EUR 2,896 billion end-2021 (after EUR 2,804 billion euros end 2020), credit risk accounting for 69 % of that amount.

Chart 1.4.1: Evolution of "Basel III" own funds for the French banking sector between 2015 and 2021 in billions of euros



Source: ACPR

Chart 1.4.2: Breakdown of French banking system RWA in 2021 in %



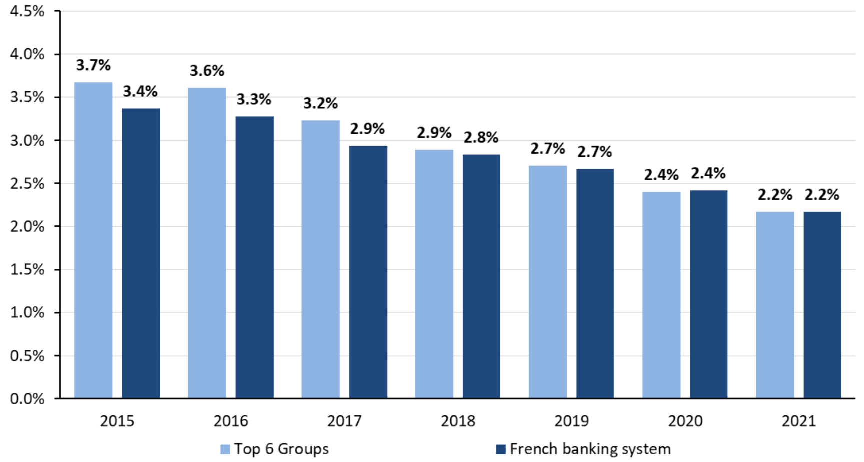
Source: ACPR

Credit default risk has continued to decline

Prudential regulation provides two methods for calculating RWAs for credit risk: the standardized approach, which relies on flat-rate weights differentiated according to various criteria (type of counterparty, nature of the transaction, ratings by external agencies,…) and the internal ratings-based (IRB) approach, which relies on banks' valuation models. This IRB approach can be applied in two ways: the foundation approach (IRBF), which allows the bank to determine the probability of default (PD) of a counterparty, while the advanced approach (IRBA) allows the bank to determine both the PD and the loss given default (LGD). It should be stressed that other parameters contribute to the calculation of RWAs: maturity of exposures, correlation of exposures defaults, etc[14].

The average probability of default of the French banking system has been continuously declining, especially for the most significant French banking groups (which account for 96 % of this average).

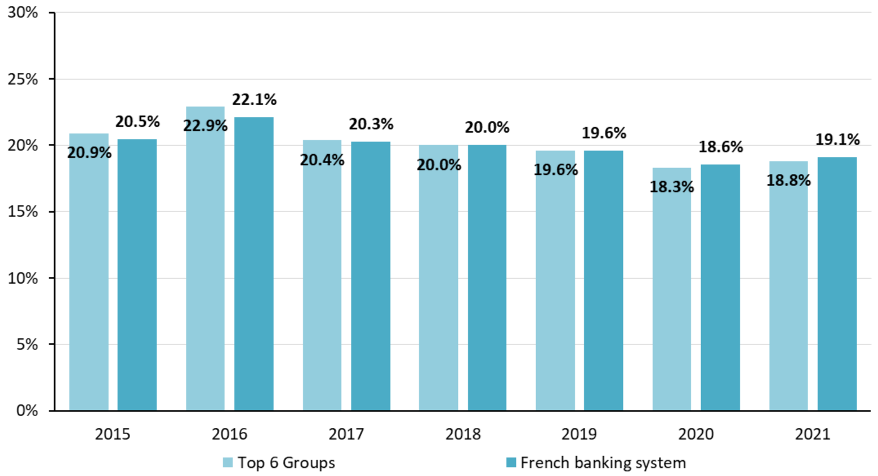
Chart 1.4.3: Evolution of the average probability of default across all French banking system exposures internally assessed between 2015 and 2021 in %



Source: ACPR

Similarly, average losses given default have been on a declining trend since 2016, interrupted in 2021 by a slight increase.

Chart 1.4.4: Average losses given default across all French banking system exposures assesses through the advanced approach between 2015 and 2021 in %



Source: ACPR

[14] Notice 2021 relative aux modalités de calcul et de publication des ratios prudentiels dans le cadre de la CRDIV et exigence de MREL (Version du 7 juillet 2021) | Banque de France (banque-france.fr)

5

LIQUIDITY RISK

LIQUIDITY RISK

Share of HQLA liquid assets over French banking system total assets in 2021:

16.7 %

Average LCR ratio in 2021:

164 %

Liquidity risk is the risk that a bank will no longer be able to meet its current, expected and unexpected cash flow and collateral needs without compromising its day-to-day operations or financial position[15]. As a result of the 2007-2008 financial crisis, liquidity risk was defined using international standards to allow enhanced monitoring based on compliance with harmonized requirements. Liquidity Coverage Ratio (LCR) and Net stable funding ratios (NSFR) are the main regulatory tools used to measure liquidity risk.

The coverage of short-term liquidity needs largely exceeds regulatory requirements

To meet the LCR requirements, banks must hold High Quality Liquid Assets (HQLA), which can be easily and quickly sold or repurchased to cope with potential unexpected large-scale outflows over a 30-day period.

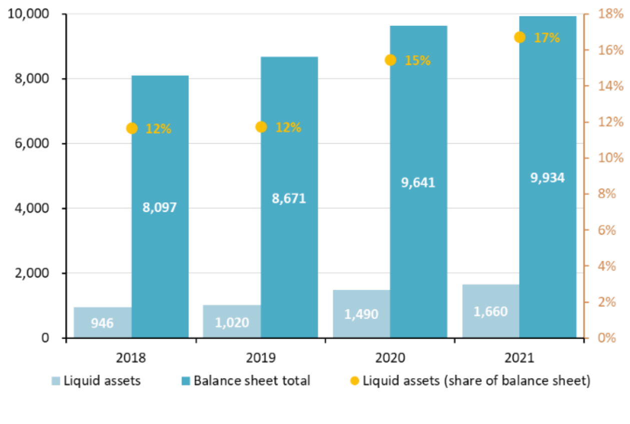
Financial institutions holdings of liquid assets fall into two tiers: the tier 1 aggregates the most liquid assets and the tier 2 includes less liquid assets or assets subject to larger market value changes. At the end of 2021, the whole French banking system[16] held, at the consolidated level, a total stock of liquid assets amounting to EUR 1,752 billion (10.6 % higher than in 2020):

- The significant increase in the stock of level 1 liquid assets observed in 2020 (EUR 470 billion) continued at a slower pace in 2021 (EUR 170 billion). This increase was driven by liquidity inflows - a result, in particular, of the measures taken by central banks to support the economy in 2020 and 2021. This additional funding collected by credit institutions was mostly reinvested in central bank deposits. As a result, the share of central bank deposits in the stock of level 1 liquid assets increased by 8 percentage points in 2021 to 79 %.
- Level 2 liquid assets represent an outstanding stock of EUR 94 billion (62 % of which are level 2B) at the end of 2020 and EUR 92 billion (71 % of which are level 2B) at the end of 2021, representing less than 6 % of the total liquid assets taken into account for the calculation of the LCR.

[15] Definition given by the Basel Committee in its "Principles for Sound Liquidity Risk Management and Supervision" of September 2008, which were subsequently supplemented by regulations governing the liquidity coverage ratio and the net stable funding ratio.

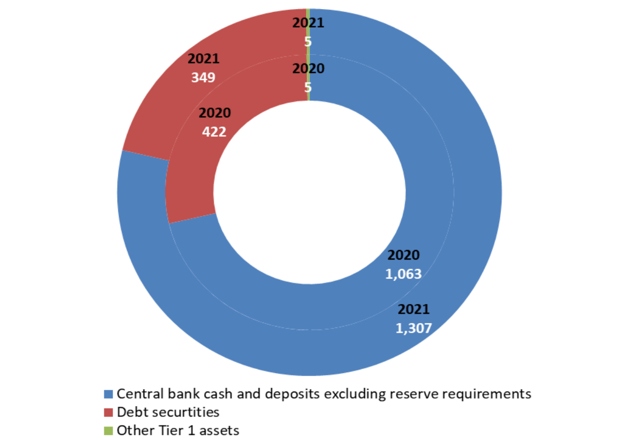
[16] The whole French sector includes institutions subject to IFRS standards for which data is provided on a consolidated basis (at the highest level of consolidation), and other institutions (banks and finance companies) subject to French accounting standards (on a consolidated basis or on social basis) and not subject to IFRS standards. IFRS banking groups are divided into two categories: the six most significant groups (BNP Paribas, BPCE, Crédit Agricole, Crédit Mutuel, La Banque Postale and Société Générale) and the "other groups".

Chart 1.5.1: Share of level 1 Liquid Assets (HQLA) in the French banking system total balance sheet between 2018 and 2021 in billions of euros



Source: ACPR

Chart 1.5.2: Composition of level 1 Liquid Assets (HQLA) in 2020 and 2021 in billions of euros

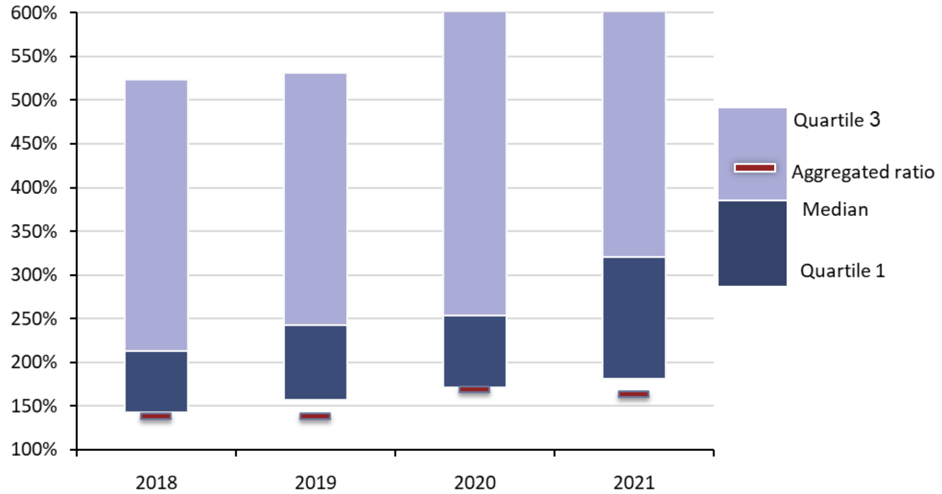


Source: ACPR

The objective of the **liquidity coverage ratio (LCR)** is to promote a bank's short-term resilience to liquidity risk. It measures the level of liquid assets that an institution must hold in normal times to meet possible imbalances between cash inflows and outflows under severe stress conditions, which can then be covered by the use of this liquidity buffer.

At the end of 2021, the aggregate LCR ratio[17] of the French banking system reached 164 %, well above its 2019 level (138 %) and the regulatory threshold of 100 % applicable outside stressed periods, but down slightly compared to 2020 (-5 percentage points)[18] ; liquidity in the banking system thus remained ample.

Chart 1.5.3: Evolution of the French banking system short-term liquidity ratio (aggregate LCR) between 2018 and 2021 in %



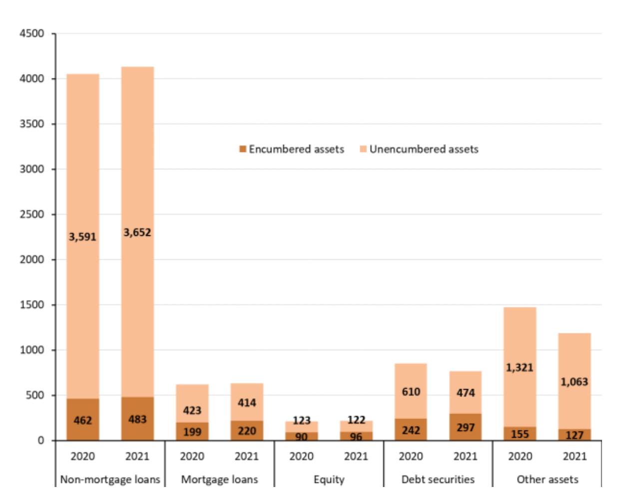
Note: The LCR ratio is mainly determined by the six major institutions, which account for more than 80 % of the total assets of the French banking system. Since their ratio is generally well below that of other institutions, this explains why the aggregate LCR ratio is below the first quartile (the 25 % of institutions with the lowest ratio).
Source: ACPR

An asset should be treated as encumbered *« if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be*

[17] The aggregate LCR ratio is the sum of the numerators of each institution that comprises the population relative to the sum of the denominators of each institution that comprises the population. This method amounts to the calculation of a weighted average based on the weight of each institution in the numerator and denominator.
[18] This decrease is attributable to three institutions and does not reflect a general trend.

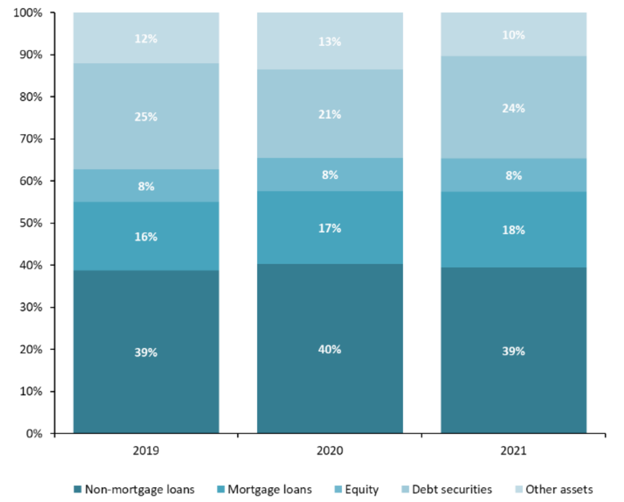
freely withdrawn»[19]. On the contrary, unencumbered assets may represent potential additional sources of liquidity. Focusing the analysis on the population of groups subject to the IFRS standards (which provide more details on the various accounting items), the share of encumbered assets represented, in 2021, 21.1 % of total assets (against 15.7 % in 2019 and 19.6 % in 2020). Most of the increase was due to an increase of EUR 388 billion in the stock of encumbered loans excluding mortgage loans, linked in particular to the Targeted Longer-Term Refinancing Operations (TLTROs), in particular the TLTRO III program in 2020, as well as to the expansion of repurchase operations[20]. The majority of the outstanding amount of encumbered assets was driven by non-mortgage loans (49.1 % of total encumbered assets), followed by debt securities (20.2 %) and mortgage loans (13.5 %).

Chart 1.5.4: Comparison of encumbered and unencumbered assets by type of instrument for all French groups subject to IFRS standards between 2020 and 2021 in billions of euros



Source: ACPR

Chart 1.5.5: Evolution of encumbered assets by type of instrument for all French groups between 2019 and 2021 as a % of total encumbered assets



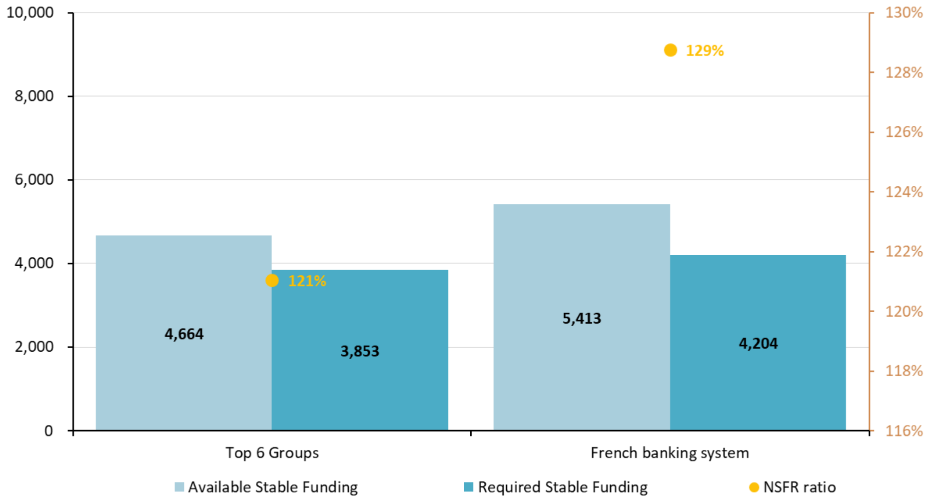
Source: ACPR

[19] EBA guidelines on disclosure of encumbered and unencumbered assets (EBA/GL/2014/03).
[20] The EUR 93 billion increase in outstanding loans (excluding real estate) was due to a variety of factors, mainly increase in outstanding mortgage loans as well as margin and initial margin payments in derivatives transactions.

Long-term liquidity coverage is broadly ensured

The net stable funding ratio (NSFR)[21] aims to ensure a sufficient level of funding of the assets through stable funding, in order to mitigate the risks of excessive reliance on short-term funding. To this end, bank's liabilities are weighted according to their stability over the one-year horizon and assets according to their liquidity. The NSFR thus provides a structural view of liquidity risk, making it possible to supplement the LCR measure, which covers a 30-day horizon. Banks must maintain an NSFR of above 100 % at all times.

Chart 1.5.6: French banking system net stable funding ratio (NSFR) end 2021 in % and breakdown between available and required stable funding in billions of euros



Source: ACPR

[21] The Net Stable Funding Ratio has been a regulatory requirement since June 2021.

6

CREDIT RISK

CREDIT RISK

Gross outstanding loans to households in 2021:

2,007

EUR billion

Gross outstanding loans to corporations in 2021:

1,770

EUR billion

Credit risk is the risk incurred by a bank in the event of default by a counterparty[22]. Overall, the coverage of this risk represents about 70 % of the capital requirements of the major groups. Two main categories of credit risk can be identified:

- The risk of non-repayment of a loan by default of the counterparty ;
- Counterparty credit risk, which concerns derivatives and repurchase agreements (and similar transactions)[23].

At the end of 2021, the total of loans and advances of the banking book (excluding the trading book) of IFRS-compliant institutions represented 66.8 % of their total balance sheet[24]. The breakdown by counterparty has remained stable since 2015. Most of the credits were thus granted to households (34 %) and non-financial corporations (NFCs) (30 %), followed by central banks (21 %). The remaining loans were divided between general government (7 %), credit institutions (5 %) and finance companies (4 %). In 2021, loans granted to households and NFCs accounted for EUR 2,007 and EUR 1,770 billion respectively. The provisioning effort on performing and non-performing loans continued in 2021, with outstanding non-performing loans decreasing by EUR 7.6 billion while non-performing loan rates decreased.

The composition of the loan portfolio has been stable since 2015, although the share of outstanding loans to SMEs has increased since 2018

At the end of 2021, total loans and advances to NFCs and households amounted to EUR 3,791 billion (gross carrying amount), of which EUR 3,777 billion (99.6 %) was at amortized cost[25]. At the end of 2021, loans granted by banking groups to households and NFCs represented 38 % of their aggregate balance sheet total. The breakdown of the EUR 3,777 billion was as follows: EUR 2,007 billion for households and EUR 1,770 billion for NFCs. In terms of amortized cost loans to NFCs, 46 % go to SMEs[26]. From 2018 to 2021, outstanding loans at amortized cost granted to SMEs rose (by 39 % compared with 20 % for all NFCs). Half of this growth took place in 2020, in connection with the launch of the State Guaranteed Loans program.

[22] In accordance with paragraph 39 of Article 4 of Regulation (EU) N°575/2013, these may be single counterparties or counterparties treated as a single group of related customers.

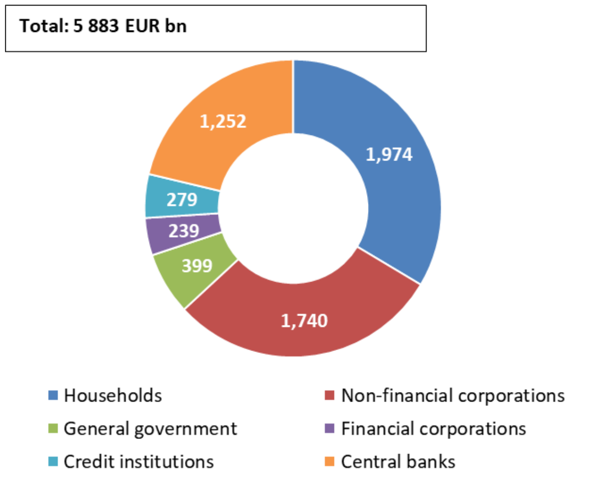
[23] This is a measure of the risk-induced loss that the counterparty of a transaction fails before the final settlement of the cash flows associated with the transaction.

[24] The whole French sector includes institutions subject to IFRS standards for which data is provided on a consolidated basis (at the highest level of consolidation), and other institutions (banks and finance companies) subject to French accounting standards (on a consolidated basis or on social basis) and not subject to IFRS standards. IFRS banking groups are divided into two categories: the six most significant groups (BNP Paribas, BPCE, Crédit Agricole, Crédit Mutuel, La Banque Postale and Société Générale) and the “other groups”. The total balance sheet of institutions subject to IFRS standards was EUR 8,804 billion in 2021, representing 89 % of the French sector's total balance sheet.

[25] Of the EUR 15 billion in loans to households and NFCs not classified as amortized cost, EUR 14 billion are at mandatory fair value through profit and loss. Total cumulative fair value adjustments for credit risk account for 0.02 % of that EUR 14 billion.

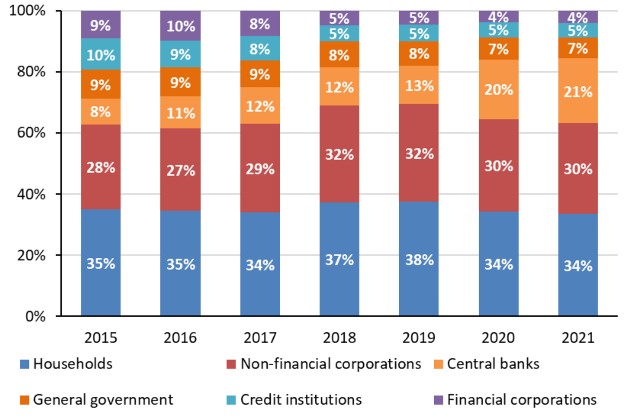
[26] Companies employing less than 250 people and with an annual turnover not exceeding EUR 50 million or an annual balance sheet total not exceeding EUR 43 million. Article 2 of Recommendation N°2003/361/EC of the European Commission of May 6th 2003 relates to the definition of micro, small and medium-sized companies: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0575&from=fr

Chart 1.6.1: Breakdown of loans granted by beneficiary sector of institutions subject to IFRS in 2021 in billions of euros (net of provisions)



Source: ACPR

Chart 1.6.2: Evolution and distribution of loans granted by beneficiary sector from 2015 to 2021 in billions of euros (net of provisions)



Source: ACPR

Chart 1.6.3: Breakdown of the loans and advances portfolio at amortized cost (gross) of households and NFCs between 2015 and 2021 and their share (households and NFCs) in %

Source: ACPR

Concentration risk by obligors remained limited

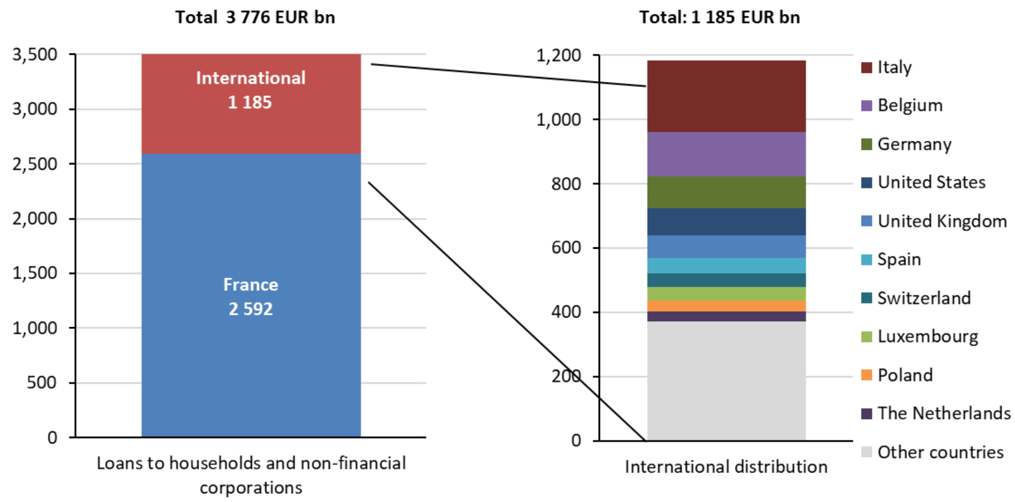
Concentration is usually analyzed in three ways: (i) obligor concentration, (ii) geographical concentration and (iii) sectoral concentration. The solvency ratio measures a capital requirement for credit risk, but ignores concentration aspects. The three components of concentration risk must therefore be measured by specific metrics[27].

The purpose of « Large Exposures » reporting is to assess concentration risk by obligors: this regulatory remittance requires credit institutions to report exposures from each group of connected customers when they exceed EUR 300 million[28]. For the 6 most significant banking groups, at the end of 2021, the total loans and debt securities to NFC counterparties reported in the « Large Exposures » disclosures amounted to EUR 424.7 billion, distributed by group over several hundred groups of distinct connected customers, for a total of outstanding loans at amortized cost granted to NFCs of EUR 1,656 billion.

The share of international exposures (32 % of outstanding loans to households and NFCs, gross carrying amount at amortized cost) was stable in 2021 compared to 2020. However, the share of activities in the European Union increased, particularly in Italy (+12.6 % in outstanding amounts), Poland (+12.9 % in outstanding amounts) and Luxembourg (+8.7 % in outstanding amounts). Loans granted to households and NFCs outside the United States and the euro area have moderately increased, by 8.5 %.

Unlike loans to households, mainly granted in France, international activity was mostly focused on granting loans to NFCs. The share of foreign counterparties thus varied depending on the sector considered: 22 % for households (23 % in 2020) and 43 % for NFCs (same as in 2020).

Chart 1.6.4: Geographical breakdown of loans to households and NFCs in 2021 in billions of euros (gross amount)

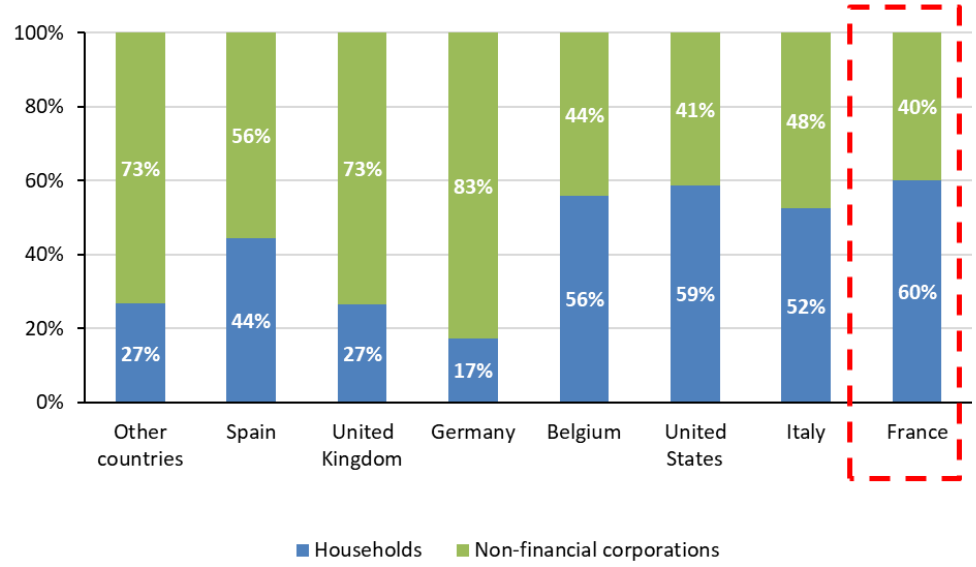


Source: ACPR

[27] The regulatory formula (e.g. Article 154 of Regulation EU 2013/36) for determining the risk-weighted exposures is based on a theoretical framework that assumes an infinitely granular loan book: all counterparties have similar characteristics and each individual exposure represents an infinitesimal part of the total portfolio exposure. In practice, these assumptions are not verified, which makes it necessary to analyze the various aspects of concentration risk using an approach other than that of the solvency ratio.

[28] More specifically, the reporting threshold for « Large Exposures » is EUR 300 million, or 10 % of Tier 1 capital (Common Equity Tier 1 and Additional Tier 1 capital).

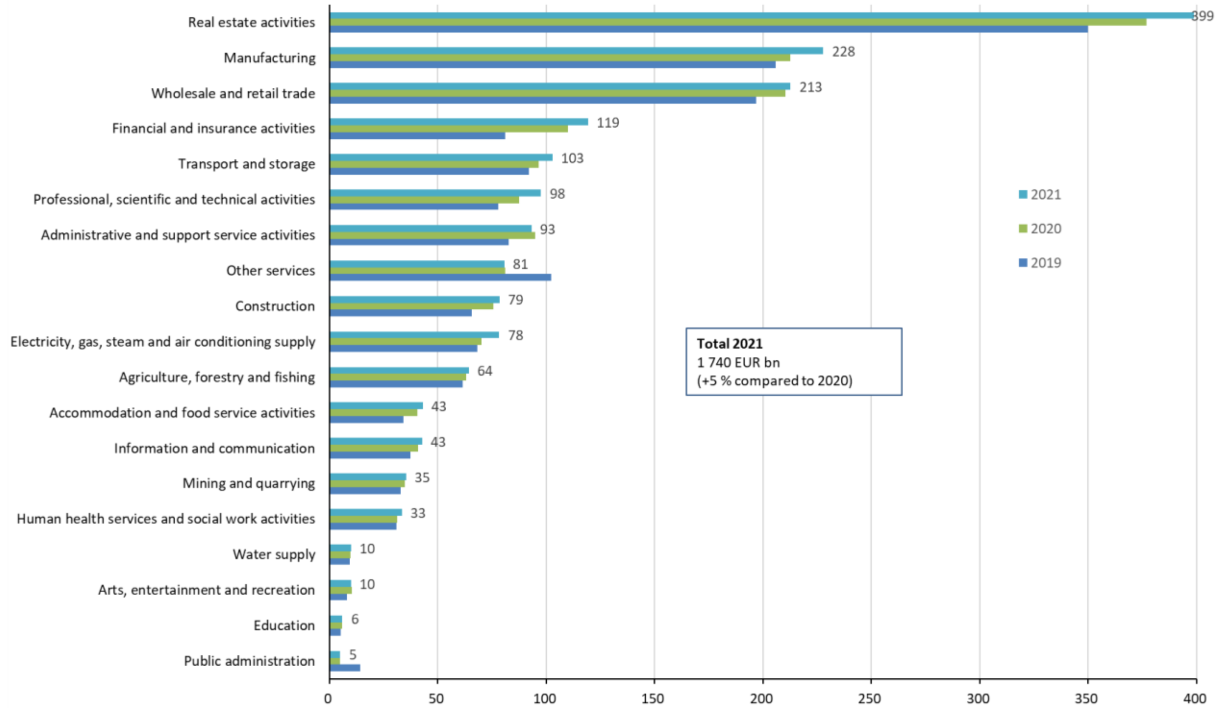
Chart 1.6.5: Geographical breakdown of loans to households and NFCs in 2021 in billions of euros



Source: ACPR

Among the loans granted to NFCs, those granted to companies in the real estate sector (real estate activities) largely predominated. As a result, they accounted for nearly 22.9 % of total loans granted at the end of 2021 (compared to 22.7 % at the end of 2020), followed by loans granted to the sectors of manufacturing (13.1 %) and trade (12.2 %). This distribution has remained essentially the same since 2018.

Chart 1.6.6: Loans to non-financial companies by sector of activity between 2019 and 2021 in billions of euros (net amount)



Source: ACPR

The rate of non-performing loans has been steadily declining since 2017

Accounting adjustment of a loan
The gross carrying amount of a loan may be subject to an accounting adjustment to reflect the counterparty default risk through either a provision or an impairment. Outstanding loans are divided into two categories: performing and non-performing loans. When they remain unpaid for an extended period of time (3 months or more) or have a material risk of non-repayment, the loans are considered as non-performing. A performing loan is defined as opposed to a non-performing loan. The bulk of these accounting adjustments relate to non-performing loans to the extent that the default risk has materialized or counterparties have experienced events that have significantly affected their financial health. Under IFRS accounting standards, a non-performing loan is referred to as stage 3 loan. The concepts of stages 1 and 2 loans under IFRS standards largely overlap with those of performing loans. In practice, stage 3 (IFRS) can be considered as non-performing and the sum of stages 1 and 2 can be considered as performing. Under IFRS 9, when the credit risk associated with a loan has not significantly deteriorated since inception, the loan is classified as a stage 1 and the impairment loss must match the expected credit losses on a 12-month horizon. When, on the other hand, the credit risk of a loan has significantly deteriorated since its origin, the loan is in stage 2 and the impairments matches the expected losses until its maturity. Stage 3 is distinguished from stage 2 by the occurrence of a credit event (e.g. a downgrade in the borrower's credit rating that calls into question its ability to repay). In this chapter the terms “impairments” or “provisions” are also used to refer to credit risk value adjustments[29].

The increase in outstanding loans (gross of provisions or impairments) to households and NFCs in 2021 (EUR +170 billion compared to the end of 2020) was combined with a EUR 7.6 billion drop in non-performing outstanding loans, driven by French banking groups, which accounted for EUR 109 billion at the end of 2021 (compared to EUR 116 billion at the end of 2020). As a result, at the end of 2021, the rate of non-performing loans for NFCs across all countries decreased to 3.5 % (from 3.9 % in 2020). This rate is 3.0 % for loans to large enterprises (down from 3.5 % in 2020) and 4.0 % for loans to SMEs (up from 4.4 % in 2020). The sectors with the highest non-performing loan rates were accommodation and catering first (9.4 %), followed by construction (7.2 %) and the arts and entertainment industry (5.7 %). Finally, the rate of non-performing loans to households was stable, at 2.6 %, as it was in 2020.

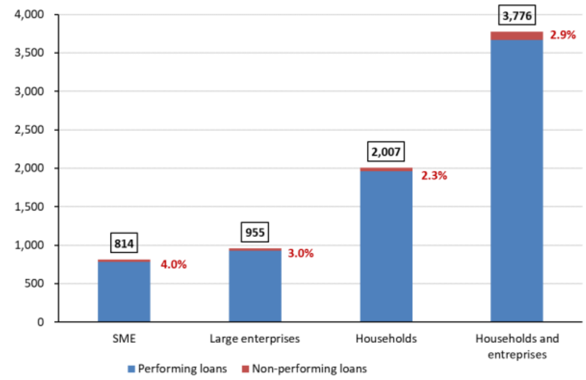
The overall provisioning on NPLs continued in 2021. The NPL provisioning rate slightly decreased for NFCs in 2021 to 48.5 % from 48.9 % the previous year. The provisioning rate for households increased from 48.9 % at the end of 2020 to 49.5 % at the end of 2021. The three main sectors of activity benefiting from loans to NFCs reported high provisioning rates at the end of 2021: 75.1 % for real estate, 69.3 % for manufacturing and 75.5 % for trade.

[29] Provisioning is a concept that is specific to French accounting standards. Under IFRS, the concept used is impairment. In practice, both concepts are very similar.

Chart 1.6.7: Non-performing loan rates in France by counterparty type between 2016 and 2021 in %

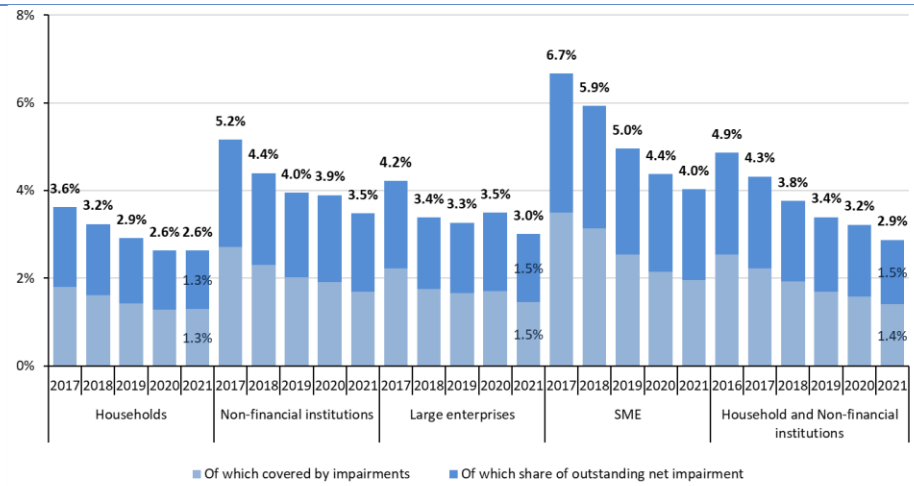
Source: ACPR

Chart 1.6.8: Share of non-performing loans in total outstanding loans in France in 2021 in %



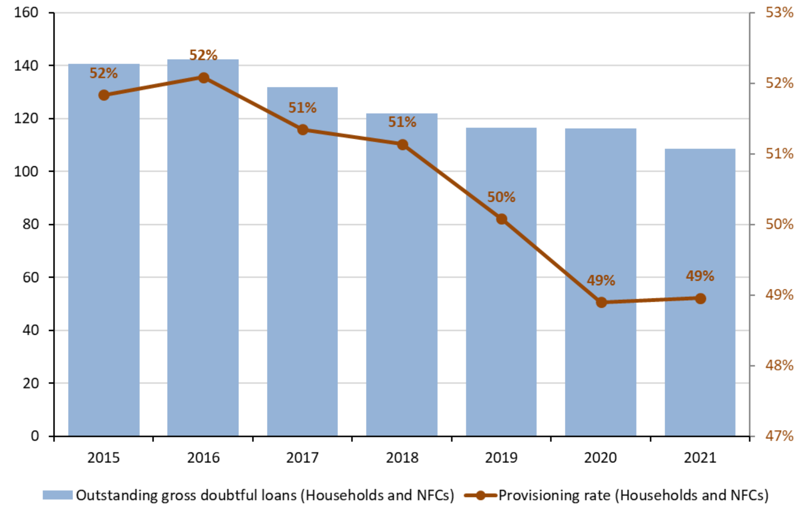
Source: ACPR

Chart 1.6.9: Rates of non-performing loans among gross outstanding amounts



Source: ACPR

Chart 1.6.10: Evolution of the provisioning rate for gross doubtful loans (as a percentage) and of outstanding gross doubtful loans to households and non-financial companies in billions of euros

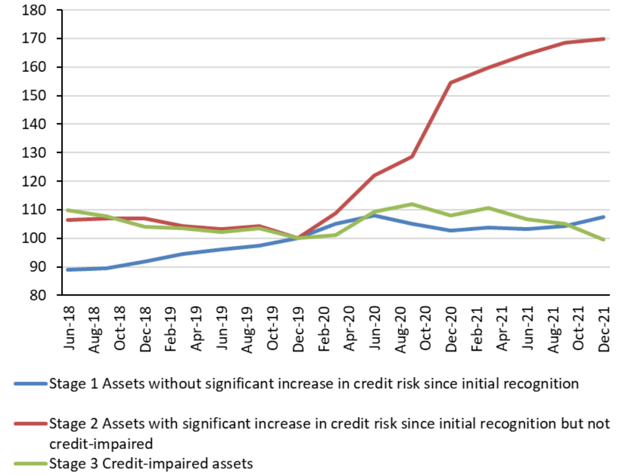


Source: ACPR

After an increase of more than 50 % in outstanding loans (gross accounting) to NFCs categorized in stage 2 in 2020, the trend stabilized in 2021, with a 10 % growth, which was indicating a minor deterioration in the quality of NFC loans. The trend for loans to households was conversely upwards, as outstanding classified as stage 2 increased by 17 % in 2021, compared with 3 % in the previous year. Those rated stage 3 are on the decline, both for NFCs (- 8 %) and households (- 3 %).

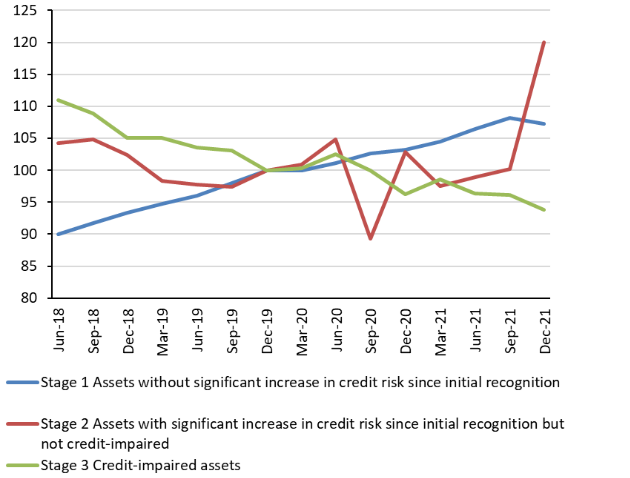
Out of the total amount of EUR 340 billion of loans to NFCs and households transferred from one stage to another in 2021, 65.1 % were transfers to a lower quality stage (from stage 1 to stage 2 or 3 or stage 2 to stage 3). The vast majority of these downgrades reflected the move from Stage 1 to Stage 2 (57.9 % of the EUR 340 billion total). The transfer to a higher quality category, on the other hand, accounted for 34.9 % of total transfers and the reclassification from Stage 2 to Stage 1 was predominant (32.6 % of total transfers). The structure of transfers was very similar for NFCs and households.

Chart 1.6.11: Evolution in the outstanding amount of loans to NFCs between 2018 and 2021 by impairment stages (index base 100 on December 31st 2019)



Note: On December 31st 2021, the gross carrying amount of loans to NFCs amounted to EUR 1,770 billion, comprising 82.4 % in stage 1, 14.2 % in stage 2 and 3.4 % in stage 3.
Source: ACPR

Chart 1.6.12: Evolution in the outstanding amount of loans to households between 2018 and 2021 by impairment stages (index base 100 on December 31st 2019)



Note: On December 31st 2021, the gross carrying amount of loans to households amounted to EUR 2,007 billion, comprising 90.7 % in stage 1, 6.9 % in stage 2 and 2.4 % in stage 3.
Nota bene: The decrease in stage 2 assets in September 2020 is due to one institution and does not reflect a trend.
Source: ACPR

7
MARKET ACTIVITY

MARKET ACTIVITY

Share of the trading book in the French sector total balance sheet:

15.1 %

on the asset side

13.4 %

on the liabilities side

Value at Risk:

185

EUR million in Q4 2021, over a 10-day period

Market risk is the risk of loss arising from changes in the price of financial instruments held in the trading book or as part of a market activity. These financial instruments are subject to interest rate risk, foreign exchange risk, equity risk and risk on common products, among other things.

The analysis focuses on institutions that are subject to IFRS accounting and submitting consolidated data. Within this population, the six main French banking groups account for 96.0 % of assets and 95.3 % of liabilities in the trading book.

At the end of 2021, the trading portfolio of all institutions subject to IFRS amounted to EUR 1,504 billion on the asset side and EUR 1,330 billion on the liability side (15.1 % and 13.4 % respectively of the French banking system total balance sheet value)[30], or a 2-percentage point decline between 2020 and 2021 (on asset and liability sides). The decrease in the fair value (under IFRS) of the trading book was mainly due to a decrease in outstanding derivatives on the assets and liabilities sides, by EUR 126 billion and EUR 140 billion respectively.

A slight decline in the trading book

The trading book consists of all positions in financial instruments and commodities held for short-term trading purposes or to hedge other items recorded in the trading book. This gives rise to capital requirements for market risks, covering all financial instruments in the trading book (financial forward contracts, interest rate or currency swaps, securities options, repos, repurchase agreements, etc.).

End December 2021, the trading portfolio of institutions subject to the IFRS standards declined and was back at close to its end of 2019 level, with EUR 1,504 billion on the asset side (compared with EUR 1,654 billion in 2020, -9.1 %) and EUR 1,330 billion on the liability side (compared with EUR 1,483 billion in 2020, -10.3 %).

The surge in major global equity markets contributed to the increase in equity instruments outstanding in the trading book.

The portfolio of debt securities on the asset side of the balance sheet decreased from EUR 221 billion in 2020 to EUR 218 billion in 2021, amid an environment of rising interest rates, driving down the market value of bonds.

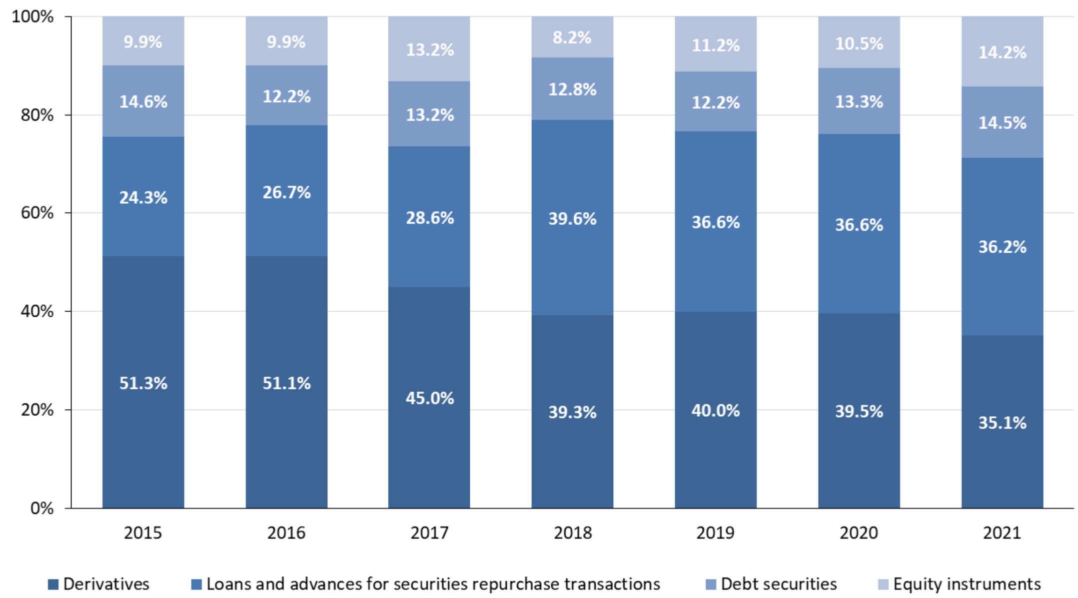
[30] The whole French sector includes institutions subject to IFRS standards for which data is provided on a consolidated basis (at the highest level of consolidation), and other institutions (banks and finance companies) subject to French accounting standards (on a consolidated basis or on social basis) and not subject to IFRS standards. The total balance sheet of institutions subject to the IFRS standards was EUR 8,804 billion in 2021, representing 89 % of the total balance sheet of the French sector (compared with EUR 8,512 billion in 2020).

In 2021, repurchase agreements on the asset side (identified as part of the "Loans and advances" component of the trading book) decreased and moved closer to their pre-health crisis level of EUR 545 billion. A similar trend could be observed for deposits on the liability side, which also include securities under repurchase agreements (repos), with an outstanding amount of EUR 557 billion. A review of the data on the gross book value of securities received under repurchase agreements before any offsetting in accordance with IAS32 showed that the outstanding amount before offsetting increased slightly by EUR 29 billion (+3 %) between the end of 2020 and the end of 2021. The EUR 61 billion and EUR 50 billion reductions in loans and advances and deposits in the trading book were therefore attributable to a higher clearing rate[31] in 2021 than in 2020.

The increase in short positions on the liability side (EUR 203 billion at the end of 2021 compared with EUR 180 billion at the end of 2020[32]) mainly came from transactions in debt securities. In addition, the increase in interest rates in 2021 was contributing to the decline in the book value of short positions.

Despite stable or slightly increasing activity in the securities and repo markets over one year, the composition of the trading book changed between 2020 and 2021. On the asset side, derivatives accounted for 35.1 % of the portfolio, while loans and advances represented 36.2 %, debt securities 14.5 % and equity instruments 14.2 % (respectively: 39.5 %; 36.6 %; 13.3 % and 10.5 % in 2020). On the liability side, derivatives accounted for 39.3 %, deposits (including repurchase agreements) for 41.9 % and short positions for 15.3 % (respectively: 44.7 %; 40.9% and 12.1 % in 2020).

Chart 1.7.1: Change in the composition of the trading book on the asset side between 2015 and 2021 in %

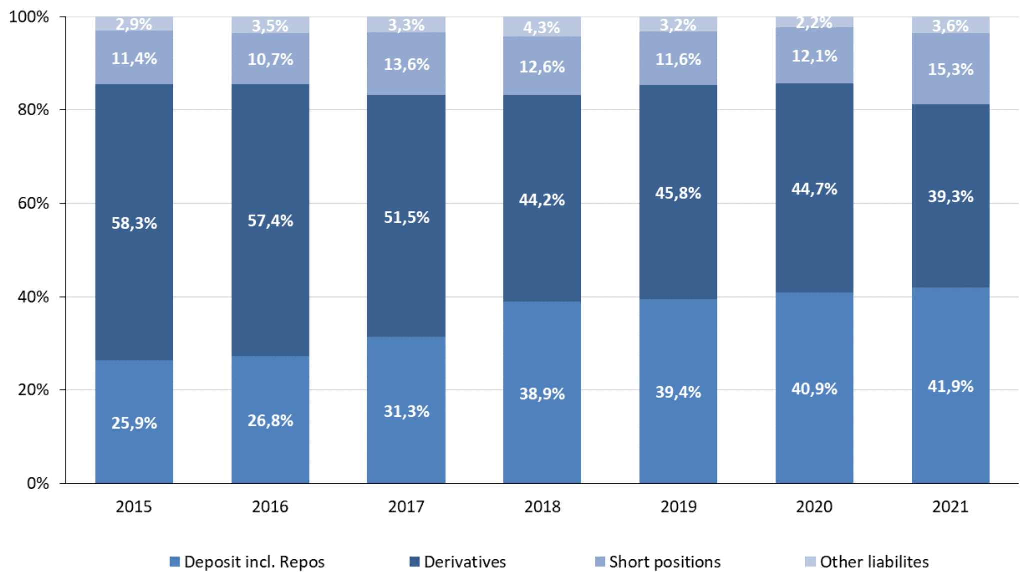


Source: ACPR.

31 This interest rate can be determined on the basis of the gross and net book value of repurchase agreements.

32 A short position refers to a short position in a financial instrument that is not yet held (e.g. a position resulting from a sale of a borrowed instrument, or transactions in options).

Chart 1.7.2: Change in the composition of the trading book on the liabilities side between 2015 and 2021 in %



Source: ACPR.

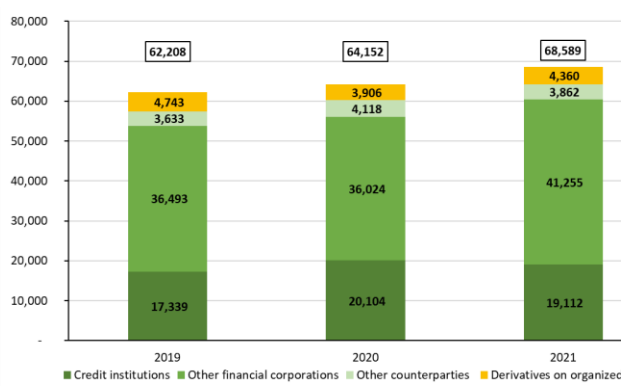
Derivatives: a major component of the trading book

At book value, derivatives held for trading purposes decreased on the asset side from EUR 654 billion at the end of 2020 to EUR 528 billion at the end of 2021. On the liability side, the outstanding book value for these same derivatives also decreased from EUR 663 billion at the end of 2020 to EUR 522 billion at the end of 2021. Notional value increased from EUR 64,152 billion at the end of 2020 to EUR 68,589 billion at the end of 2021.

Changes in carrying amounts of the book value between 2020 and 2021 depended on changes in the value of market parameters, on the IAS32 compensation rate applied and on the volume of instruments in the portfolio. The IAS32 offset rate can be measured directly by comparing gross accounting outstanding amounts before netting with net accounting outstanding amounts after netting. The volume effect of business activity can be estimated on the basis of the change in total derivatives notional between the end of 2020 and the end of 2021[33]. Between the end of 2020 and the end of 2021, the estimate showed a negligible effect. The EUR 126 billion decline in derivatives on the asset side resulted in a clearing effect of EUR 65 billion and a market effect (mainly lower interest rates) of EUR 61 billion. On the liability side, the offsetting effect was the same as on the asset side (EUR 65 billion) and the market effect to EUR 75 billion.

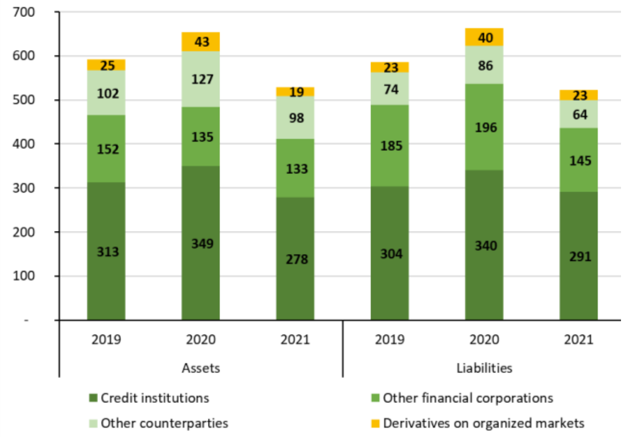
[33] The notional variation does not suffice. It must be taken into account that the majority of the notional mounts outstanding are expressed in foreign currency, which may lead to increases/decreases due to exchange rates fluctuations rather than the activity. This effect can be approximated and offset.

Chart 1.7.3: Evolution of derivatives by counterparty type and category in notional amount from 2015 to 2021 in billions of euros



Note: Over-the-counter (OTC) derivatives encompass "Credit institutions", "Other financial businesses" and "Other counterparties".
Source: ACPR.

Chart 1.7.4: Evolution of derivatives by counterparty type and category in balance sheet amounts from 2015 to 2021 in billions of euros



Note: Over-the-counter (OTC) derivatives encompass "Credit institutions", "Other financial businesses" and "Other counterparties".
Source: ACPR.

Market risk management

« Value at Risk »
General risk, relating to variations on the whole market, same as specific risk, relating to changes in the quality of issuers, must be covered by a minimum level of own funds when calculating the solvency ratio. The risk measurement of transactions recorded in the trading book can be performed according to two methods: the standardized approach and internal models[34]. Both methods rely on the determination of potential loss. The internal models allowed under the current regulation are VaR ("Value at Risk") models. VaR is a synthetic indicator that evaluates potential losses incurred on risk positions at a given time horizon and probability level based on historical data. It is used over a 10-day horizon for the calculation of market risk weighted assets (market RWAs) and also enables day-to-day monitoring of the market risk taken by the institution.

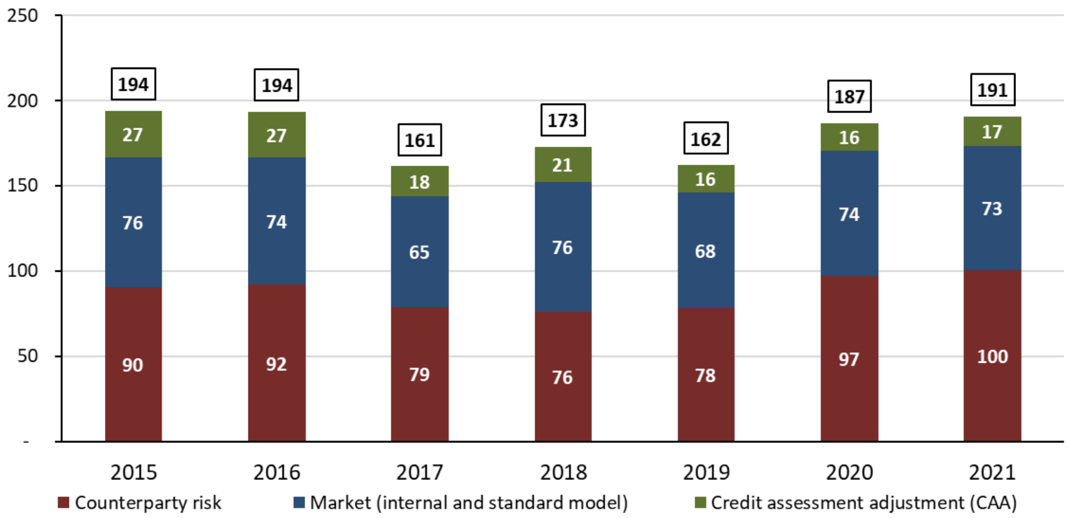
VaR continued to decline throughout the year, starting at the end of 2020, to reach historically low levels, as institutions allowed to use their internal approaches: EUR 185 million at the end of 2021 compared with EUR 323 million a year earlier. This decrease was also reflected in the calculation of market risk weighted assets. Between 2020 and 2021, RWAs for market risk decreased by EUR 1 billion to reach EUR 73 billion for the whole French sector. The six largest groups accounted for the largest share, amounting to EUR 67 billion.

[34] Method favored by large groups.

Chart 1.7.5: Change in value-at-risk (VaR) of institutions subject to IFRS (authorized to use the internal model) between 2015 and 2021 in millions of euros

Source: ACPR.

Chart 1.7.6: Evolution of risk-weighted assets (RWAs) in the trading book between 2015 and 2021 for the French banking system in billions of euros



Source: ACPR.

8

FRENCH BANKS AND THE INTERNATIONAL MARKET

CET1 solvency ratio of the euro zone at end 2021:

15.5 %

Non-performing loan (households) of the euro zone at the end of 2021:

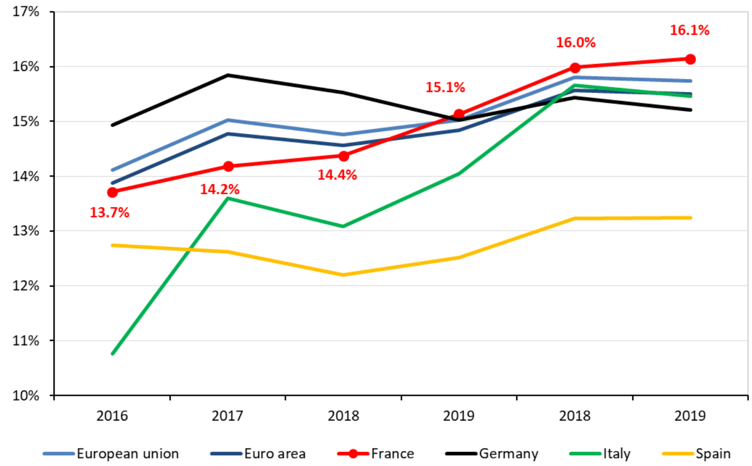
2.4 %

The CET1 ratio of French banks was above the euro area and European Union average. Their profitability (ROA and ROE) was in line with the European average, but still below that of US banks. French banks also showed slightly better non-performing loan rates than the euro area and European Union averages.

The solvency of French domestic banking groups was above European average

With a solvency ratio of 16.1 % in 2021, the CET1 solvency ratio of domestic banking groups in France was slightly higher than the aggregate average for banking groups in the euro area (15.5 %) and the European Union (15.7 %). It has been steadily increasing since 2014 and was well above minimum regulatory requirements. By comparison, the CET1 solvency ratio of US banks stood at 12.6 % over the same period. In general, the largest banks in the European Union maintained a high level of solvency that was reflecting their ability to absorb a financial shock and withstand its economic consequences.

Chart 1.8.1: Evolution and European comparison of the solvency ratio (CET1) of European banking groups between 2016 and 2021 in %



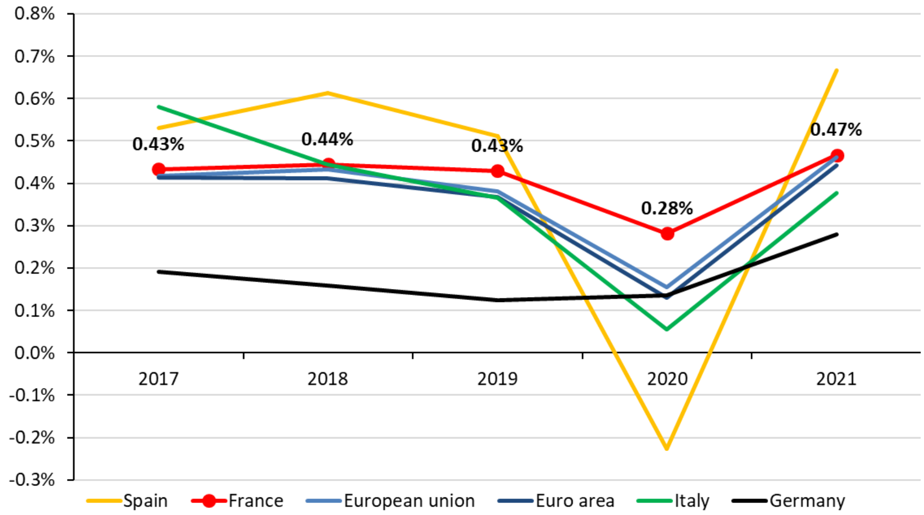
Source: ECB, Consolidated Banking Data (CBD)

Profitability at European level picked up again

After having declined in 2020, the return on assets (ROA) of French banking groups displayed an increase in 2021 (0.47 %, after 0.28 % in 2020) and stood close to the European Union and euro area averages (0.46 % and 0.44 % respectively). Since 2017, the ROA of French banking groups has been slightly above that of the European Union and euro area averages, and the gap widened in 2020, showing that French banks were more resilient during the crisis. However, their profitability was much lower than that of US banks, whose ROA reached 1.06 % at the end of 2021[35].

[35] Source: Board of Governors of the Federal Reserve System (2022): Federal Reserve Supervision and Regulation Report, May 2022.

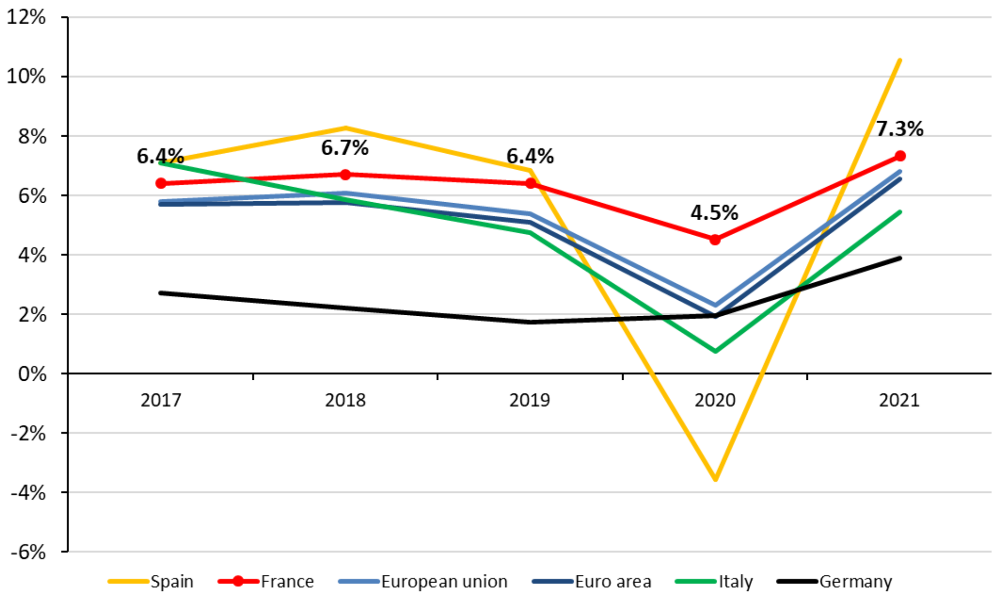
Chart 1.8.2: Evolution and European comparison of the return on assets (ROA) of European banking groups between 2016 and 2021 in %



Source: ECB, Consolidated Banking Data (CBD)

The return on equity (ROE) of French banking groups also increased in 2021 at 7.3 % (compared with 4.5 % in 2020), well above those in the European Union and the euro area (6.8 % and 6.6 % respectively). The ROE of US banks remained significantly higher (11.03 % at the end of 2021[36]) despite its decrease compared to the end of 2020 (-11.27 %).

Chart 1.8.3: Evolution and European comparison of the return on equity (ROE) of European banking groups between 2016 and 2021 in %



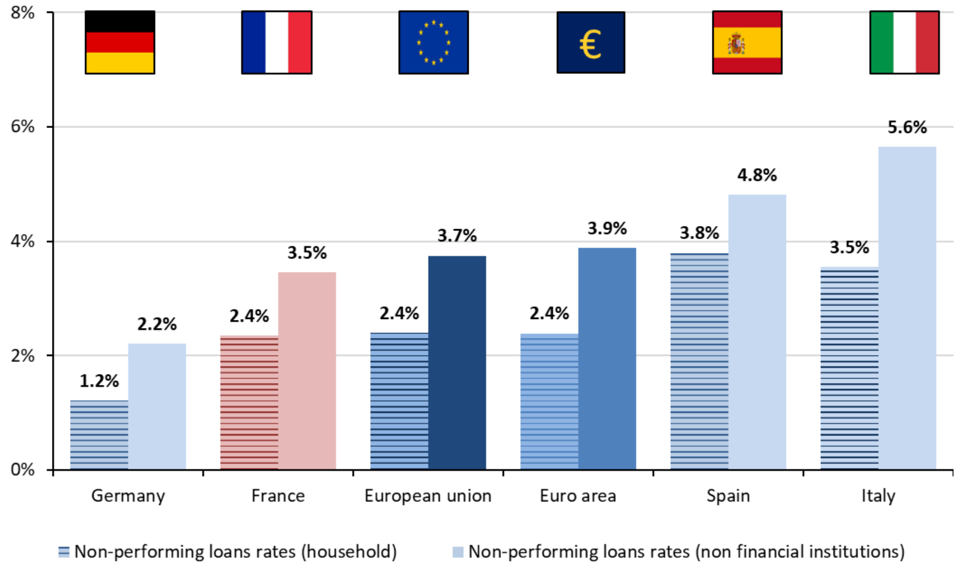
Source: ECB, Consolidated Banking Data (CBD)

[36] Source: Board of Governors of the Federal Reserve System (2022): Federal Reserve Supervision and Regulation Report, May 2022. The Fed - Supervision and Regulation Report - May 2022 - Accessible Version (federalreserve.gov)

French groups rank in the European average for non-performing loan rates

In 2021, French groups were in the European average for the **rates of non-performing loans** to households, while they showed a slightly better rate for non-financial corporations.

Chart 1.8.4: European comparison of non-performing households and non-financial institutions loans in 2021 in %



Note: These data refer to the non-performing loans rates published by domestic banks (at the highest level of consolidation) in each country. In the case of France, credit institutions primarily include banking groups controlled by French interests, excluding foreign banks' subsidiaries.
Source: ECB, Consolidated Banking Data (CBD)

PART 2

INSURANCE SECTOR

1

THE STRUCTURE OF THE INSURANCE MARKET

THE STRUCTURE OF THE INSURANCE MARKET

Number of authorized undertakings in France in 2021:

668

Number of IORPs (institutions for occupational retirement provision):

10

Part of collected premiums of undertakings under Solvency 2:

99.9 %

At the end of 2021, French insurance sector counted 668 insurance undertakings, divided into:

- 284 insurance companies governed by the *"Code des Assurances"* (French Insurance Code) ;
- 350 mutual insurance companies governed by Book II of the *"Code de la Mutualité"* (French Mutual Insurance Code) - including 82 substituted mutual insurance companies ;
- 34 provident institutions governed by the *Code de la « Sécurité Sociale »* (Social Security Code) ;

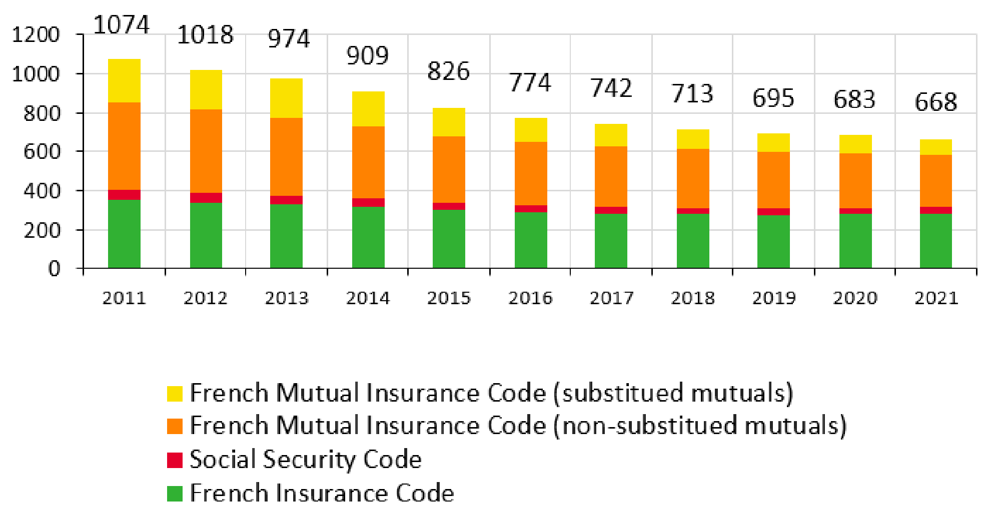
10 of these are institutions for occupational retirement provision (IORP).

Concentration of undertakings pursued in 2021

The trend towards concentration among insurance companies that began in the 1990s continued in 2021, bringing the total to 668 compared with 683 the previous year. This drop (-2.2%) was driven in particular by the grouping of mutual insurers governed by Book II (chart 2.1.1).

The number of insurance undertakings and provident institutions is stable, at 284 and 34 entities respectively (i.e. 43% and 5% of undertakings); the number of mutuals has fallen from 369 to 350 entities (including 82 substituted mutuals), i.e. 52% of approved organisations.

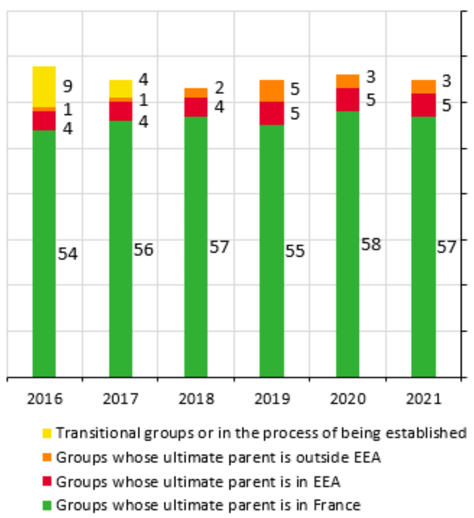
Chart 2.1.1: Evolution of the allocation of insurance undertakings



:Scope: Undertakings identified as authorized or exempted from authorization. The chart does not show entities that are still under the control of the ACPR but that are no longer authorized to issue contracts.
:Source: ACPR.

In 2021, there were 65 authorized insurance prudential groups, 57 of which had a French ultimate parent, including 11 mutual insurance group companies (SGAMs), 8 social protection insurance group companies (SGAPSs) and 4 mutualist group unions (UMGs).

Chart 2.1.2: Evolution of the allocation of groups



Scope: All licensed or authorised prudential insurance groups.
:Source: ACPR.

Prudential groups
The concept of a prudential group was introduced in 2016 with Directive 2009/138/EC ('Solvency II') in order to exercise enhanced supervision due to the links between group entities that make the analysis of their financial situation more complex. The definition of an insurance group is defined in three ways: 1. capital ties or common managers; 2. financial solidarity links coupled with coordination/centralization of financial decision-making powers; 3. the characterization of the dominant influence according to the thresholds defined in Article 212 of the Directive.

New specialized complementary occupationnal pension funds vehicles are developing

The number of institutions for occupational retirement provision (IORPs) continued to grow in 2021, reaching 10 entities at the end of 2021.

Several insurance institutions have set up supplementary occupational pension funds, primarily through the transfer of outstanding pension insurance assets. The structures created can market Retirement Savings Plans, which are intended to gradually replace the old arrangements, such as Article 83 contracts, Madelin contracts and PERPs.

The number of these organizations should continue to grow in 2022: as of 2023, it will no longer be possible to transfer existing contracts to supplementary occupational pension funds, and insurance institutions will be required to ring-fence existing pension commitments.

Institutions for Occupational retirement Provision (IORP)

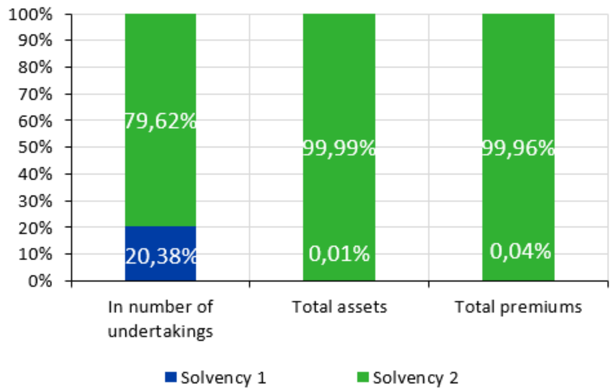
Complementary occupational pension funds result from the transposition into French law of Directive (EU) 2016/2341 ('IORP II') defining a specific regulatory regime for supplementary occupational retirement activity. The Law of 22 May 2019 (PACTE) provides the framework for the creation of bodies dedicated to this segment of activity.

IORPs are insurance undertakings that can only manage supplementary occupational pension contracts; they benefit from a specific regulatory framework and supervisory rules that take into account the duration of their liabilities.

Main undertakings fall under the Solvency 2 prudential regime

While undertakings subject to Solvency 2 account for 79.6% of entities, they accounted for more than 99.9% of the aggregate balance sheet total of the French market and of total premiums, the regulatory framework being applied on the basis of quantitative criteria linked to size and activity (gross premiums exceeding EUR 5 million and technical provisions exceeding EUR 25 million). Undertakings subject to Solvency 1 are essentially non-life undertakings, mainly mutual insurers.

Chart 2.1.3: Allocation of undertakings by regulatory framework



:Scope: Undertakings identified as authorized or exempted from authorization. Number of undertakings, total assets, total premiums
:Source: ACPR.

Table 2.1.1: Type of activity and regulatory framework of French undertakings in 2021

Legal form of undertakings	Type of activity	Regulatory framework			Total
		Solvency 1	Solvency 2	IORPS	
Insurance undertakings	Life	1	81		82
	Non life	23	153		176
Reinsurance undertakings			14		14
Institutions for occupational retirement provision (IORP)				8	8
Third country branches (outside of EEA)	Non life	3	1		4
French Insurance Code		**27**	**247**	**8**	**284**
Provident institutions	Life		32		32
	Non life		1		1
Institutions for occupational retirement provision (IORP)				1	1
Social Security Code			**33**	**1**	**34**
Mutuals (excluding substitued mutuals)	Life	9	99		108
	Non life	81	76		157
Reinsurance mutuals			2		2
Mutuals for occupational retirement provision (IORP)				1	1
French Mutual Insurance Code (non-substitued mutuals only)		**90**	**177**	**1**	**268**
Total (excluding substitued mutuals)		**117**	**457**	**10**	**586**

:Scope: Undertakings identified as authorized or exempted from authorization. Number of undertakings, total assets, total premiums
:Source: ACPR.

2

INSURANCE BALANCE SHEET

INSURANCE BALANCE SHEET

Total balance sheet in 2021 (market value):

3,156

EUR billion

Balance sheet increase compared to 2020:

+2.2 %

Share of unit-linked investments:

16 %

Share of provision for profit participation in mathematical provisions:

5.4%

In 2021, the favourable macroeconomic and financial environment led to an increase in the insurance balance sheet by 2.2%. The rising interest rates and the stock market performance weighed on the valuation of bonds and supported the value of equities, which led to an increase of investments in equities and unit-linked products, and to a decline in bond investments.

Insurers' balance sheet continued to grow in 2021

The year 2021 was marked by a gradual exit from the pandemic crisis and by an improvement in the macroeconomic environment, with a slight upturn in interest rates and inflation, and a good performance in equity markets. Therefore, the insurance sector benefited from both a recovery in activity and globally positive valuation effects. The aggregate prudential balance sheet at market value of organisations subject to the Solvency 2 regime thus amounted to EUR 3,156 billion, a 2.2 % increase compared to the EUR 3,088 billion in 2020[38].

Table 2.2.1: Summary of the prudential balance sheet

EUR billion	2020	2021
Investments excluding unit-linked contracts	2 353	2 354
Investment of unit-linked contracts	428	501
Cash and deposits	69	69
Other assets	238	232
Total assets	3 088	3 156
Net assets	375	419
Technical provisions excluding unit-linked contracts	1 987	1 937
Technical provisions for unit-linked contracts	416	488
Other liabilities	310	312
Total liabilities	3 088	3 156

Scope: All Solvency II undertakings.
:Source: ACPR.

The increase in the balance sheet in 2021 was driven in particular by an increase in unit-linked investments, the risks of which are borne by policyholders in return for a potentially higher return. Unit-linked (UC) investments thus rose by 17 % from 2020 to 2021, and accounted for 16 % of aggregate investments.

Portfolio transfers to SPROs continued in 2021

The build-up of pension insurance assets accelerated in 2021: the balance sheet of institutions for occupational retirement provision (IORPS) amounts to EUR 48.5 billion, a 48% increase compared to 2020. The aggregate balance sheet of IORPs is expected to continue to grow rapidly until December 31st 2022, the deadline for transferring existing contract portfolios to IORPs.

[38] In comparison, the aggregate balance sheet in net book value of undertakings not subject to the Solvency 2 regime amounted to EUR 29 billion in 2021 (- 3% compared to 2020).

Table 2.2.2: IORPs aggregate balance sheet

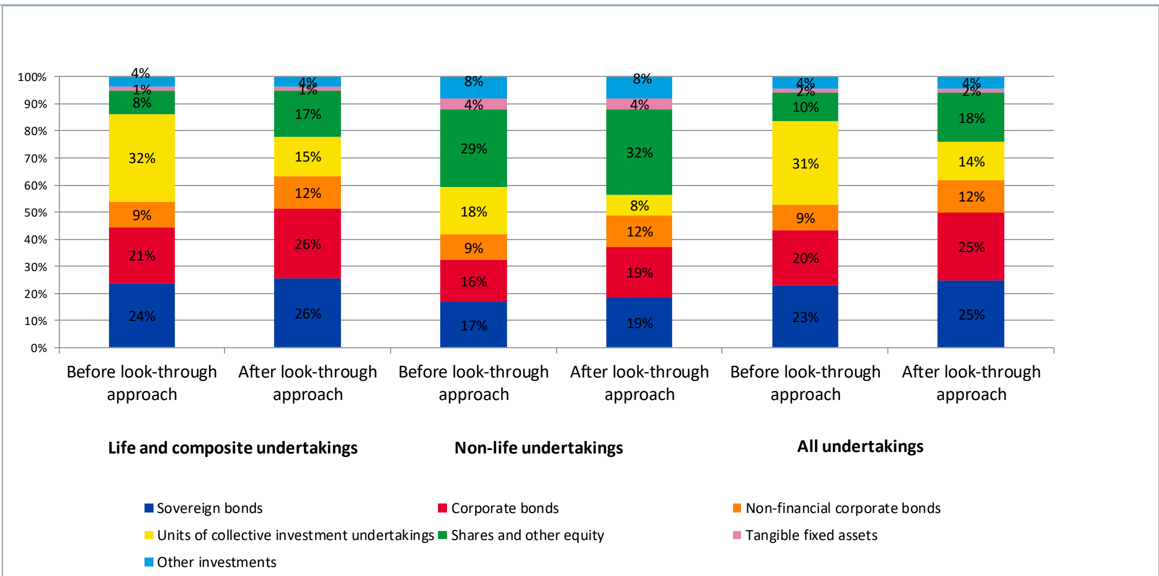
EUR billion	2021
Assets	**48.5**
Cash and deposits	3.6
Bonds and debt securitie	32.2
Shares and variable-income securities	1.9
Collective investment undertakings	10.4
- *Of which : Bonds*	1.6
- *Of which : Equities*	5.0
- *Of which : Other collective investment undertakings*	3.3
Other investments	3.6
Liabilities	**48.5**
Technical provisions	36.3
Reinsurers share	-
Other liabilities	1.4
Net assets	10.8

Scope: All IORPs.
Source ACPR.

Insurers' assets reflect asset valuation effects

Although the investment structure changed very little in 2021, it was affected by the valuation effects on certain asset classes.

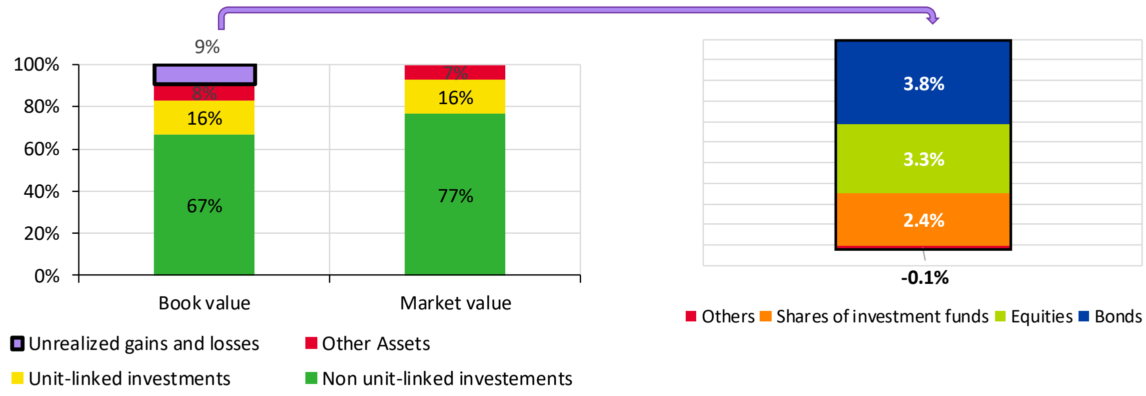
Chart 2.2.3: Asset decomposition



Scope: All Solvency II undertakings.
:Source: ACPR.

The year 2021 was marked by the very good performance of the equity markets, with strong growth in most stock market indices in Europe and around the world (CAC40, the main French stock index, rose by 29 % over the year, and Eurostoxx 600 by 22 %). The ratio of equities in insurers' financial portfolios (without look-through approach) increased from 16 % in 2020 to 18 % in 2021.

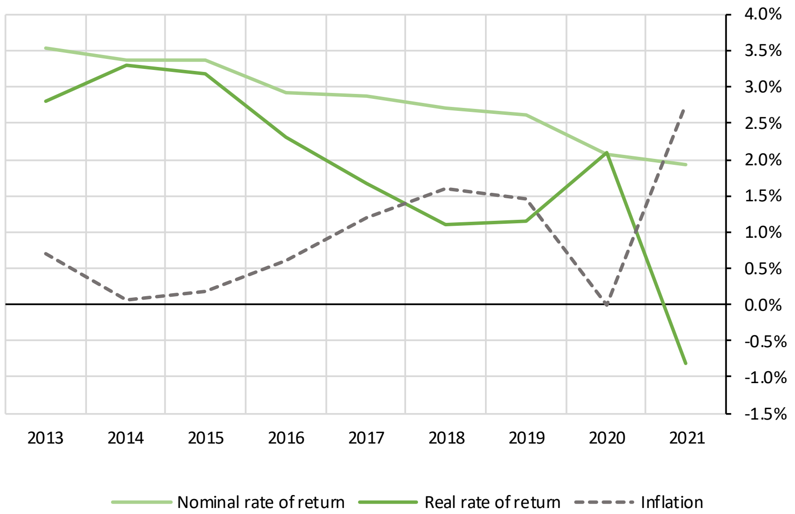
Chart 2.2.4: Unrealised gains or losses by asset class



Lecture: Unrealised gains, after unrealised loss deduction, represent 9 % of insurers' assets (in market value).
Unrealised gains on bond investments represent 3.8 % of the asset market value, the ones on stock investments 3.3 %, and the ones on collective investments undertakings 2.4 %. Unrealised losses on other investments account for 0.1 % of the asset market value.
:Scope: All Solvency II undertakings.
:Source: ACPR.

The share of bond investments has declined due to the depreciation of the bond market values caused by the rise of interest rates as well as the contraction of new investments resulting from their modest rates of return: bound investments accounted for 64 % of aggregated investments in 2021 compared to 68 % in 2020 (look-through approach).

Chart 2.2.5: Return on assets

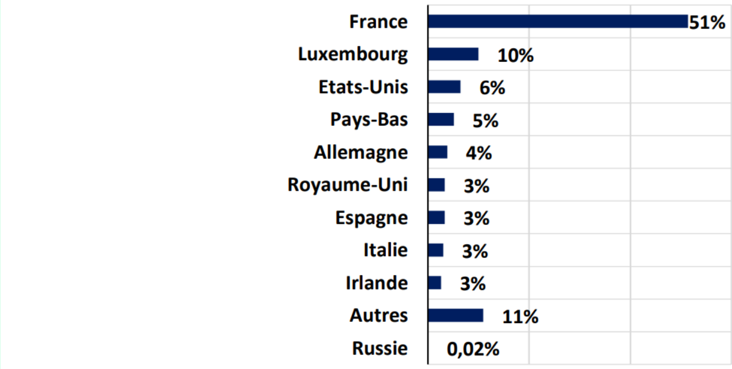


:Source: ACPR, INSEE.

French insurers have little exposure to Russian securities

On the eve of the conflict, the exposure of insurers to Russian securities amounted to approximately EUR 460 million (look-through approach), which accounted for 0.02% of the French portfolio. Of these, EUR 286 million (0.01%) were in sovereign securities.

Charte 2.2.6: Geographic exposure of French insurers' investments

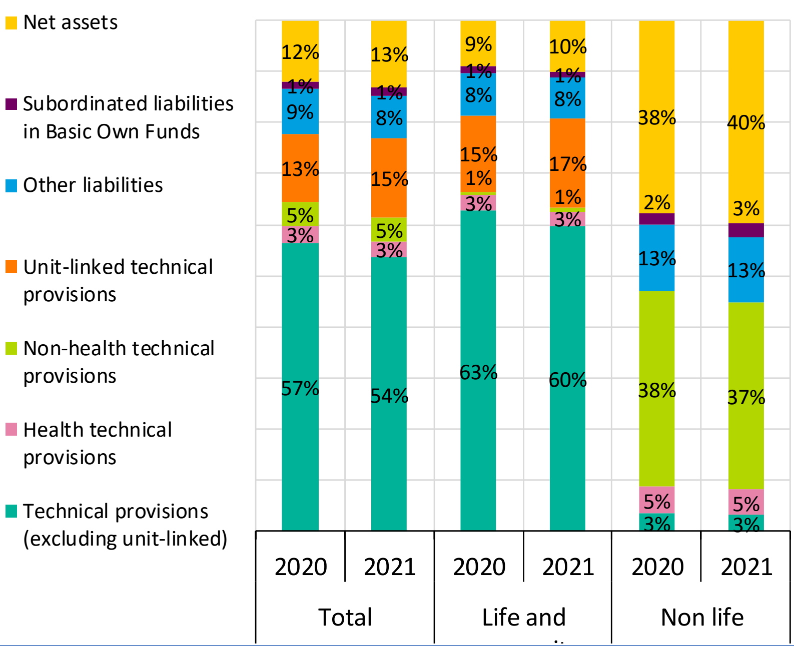


Scope: All Solvency II undertakings..
Source: ACPR.

The liabilities structure is slightly altered

The ratio of non-unit-linked technical provisions declined in 2021 with the rise of interest rates (54 % of aggregate liabilities compared to 57% in 2020). Simultaneously, unit-linked technical provisions grew, which reflected an increase in unit-linked investments on the asset side of the balance sheet (15 % of aggregate liabilities compared to 13 % in 2020).

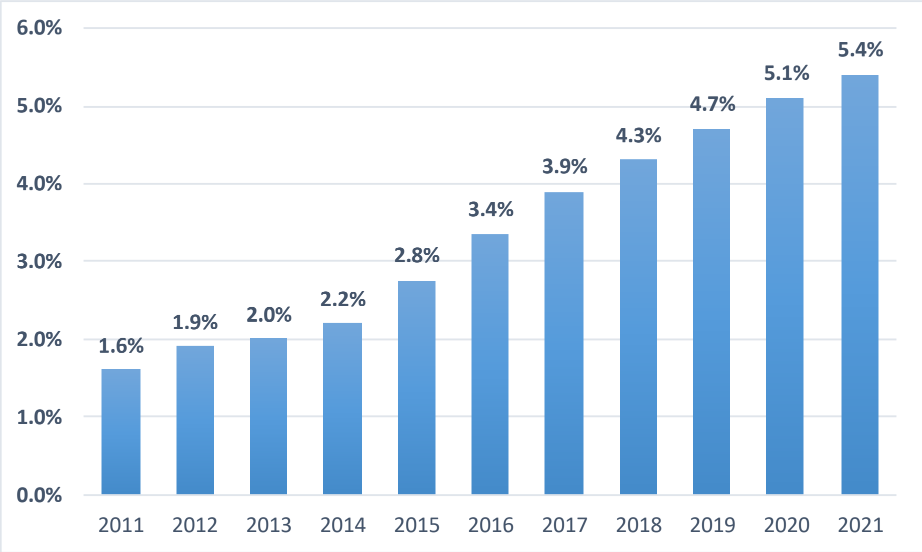
Chart 2.2.7: Decomposition of liabilities



Scope: All Solvency II underrtakings.
:Source: ACPR.

The amount of insurers' provisions for profit participation reached 5.4 % of the mathematical provisions in 2021. It allows them to have room for maneuver in order to raise the revaluation rate of life insurance policies in the next years while the interest rates rise.

Graphique 2.2.8: Share of provisions for profit participation in mathematical provisions



Scope: All life undertakings.
Source: ACPR.

3

LIFE INSURANCE

LIFE INSURANCE

LIFE INSURANCE

Net inflows (all funds):

18.3

EUR billion

Net inflows (euro funds):

-12.3

EUR billion

Net inflows (unit-linked funds):

30.6

EUR billion

Part of unit-linked funds in gross inflows:

44 %

In 2021, the life insurance[38] sector returned to growth. The recovery in gross inflows to levels above those prior to the health crisis was supported by dynamic inflows into unit-linked products. In 2021, net inflows reached a record level of EUR 30.6 billion, due in particular to the very good performance of the equity markets. The inflationary pressures and rising interest rates observed in early 2022 are shaping a new environment for life activity.

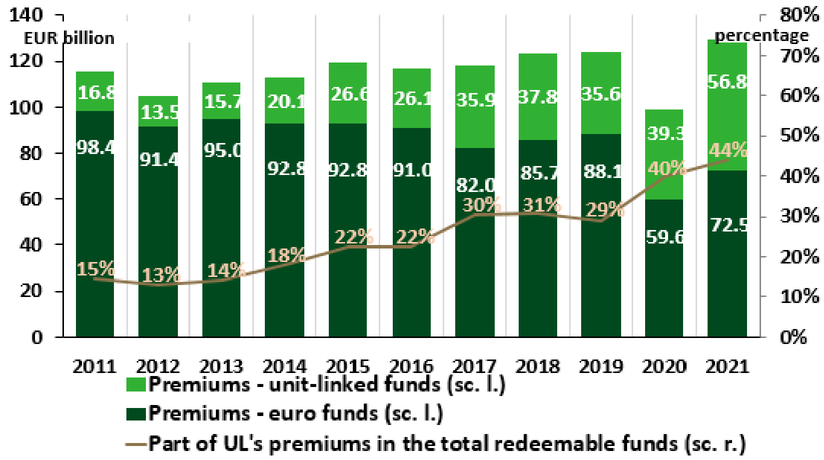
The dynamism of unit-linked products boosted inflows in 2021

The rebound in gross inflows in 2021 illustrated the resilience of life insurance market after Covid-19 crisis (EUR 129.3 billion after EUR 98.9 billion in 2020). The level reached at the end of 2021 was thus 4 % higher than before the health crisis. Life insurance benefited from excess savings in 2021.

The dynamism of gross inflows was essentially attributable to unit-linked products, driven in particular by the commercial strategies of undertakings that provided incentives for policyholders to invest in unit-linked funds.

In 2021, life insurance policies related to euro funds accounted for just over half of new life insurance payments (56 %), compared with 85 % in 2011. By contrast, unit-linked premiums have increased more than threefold since 2011.

Chart 2.3.1: Evolution and allocation of gross inflows by type of funds



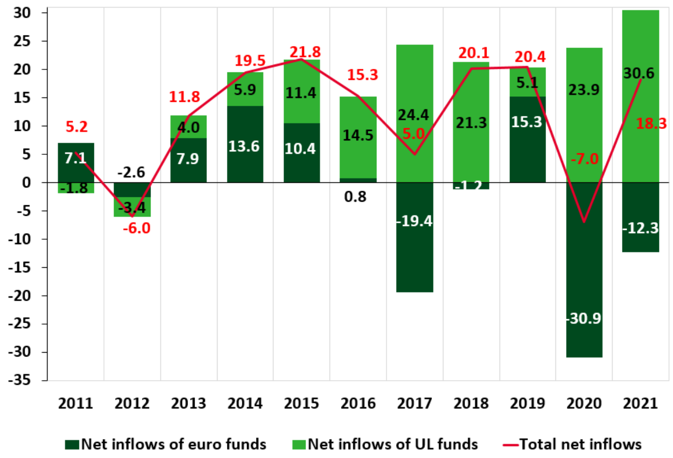
Scope: Sample of weekly inflows collect in life insurance

Source: ACPR.

[38] The statistics mentioned in this section come from the ACPR's weekly life insurance flows collection and cover categories 1, 2, 4, 5, 7, 8 and 9 of the Insurance Code. Death insurance (categories 3 and 6) and pension savings contracts (categories 10 to 14) are excluded from the analysis.

Total net inflows from life insurance increased in 2021 (EUR 18.3 billion), following outflows in 2020. Life insurance inflows were driven by unit-linked products (EUR +30.6 billion), while net outflows from euro funds in 2021 were lower in absolute terms than in 2020 (EUR -12.3 billion)

Chart 2.3.2: Evolution and allocation of net inflows by type of funds

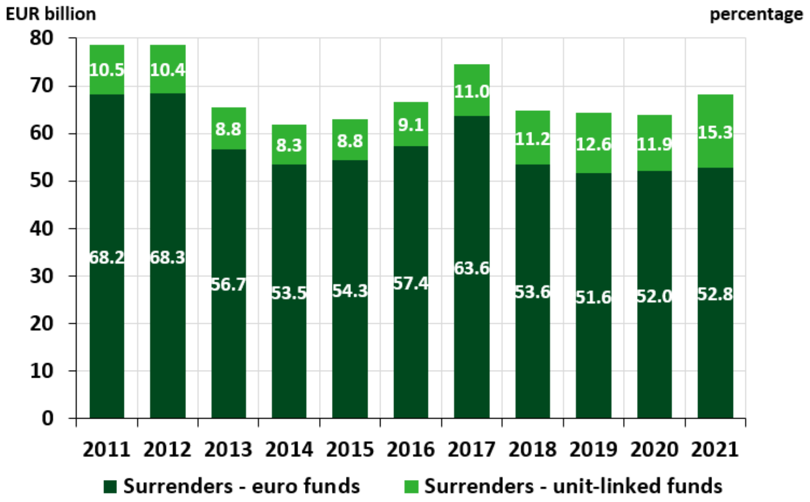


Scope: Sample of weekly data collection on life insurance inflows.
Source: ACPR.

Surrenders have been contained

Surrenders amounting to EUR 68.1 billion in 2021 remained very close to the long-term average (EUR 68.6 billion excluding 2020).

Chart2.3.3: Evolution and allocation of surrenders by type of funds



Scope: Sample of weekly inflows collect in life insurance
Source: ACPR.

Taxation in life insurance

Life insurance allows to benefit an advantageaous tax framework in case of (partial or total) surrender. There are several situations:

- The contract is less than 8 years old:

Earnings for premiums paid before September 27, 2017, may be subject to income tax or the flat-rate withholding tax (PFL).

The PFL rate is 35 % for contracts of less than 4 years and 15 % between 4 and 8 years.

Capital gains are also subject to social security contributions of 17.2 %.

For premiums paid after 27 September 2017, earnings may be subject to income tax or to the unique flat-rate (PFU). The PFU rate is 30% (12.8% tax and 17.2% social security contribution).

- Contract reaches 8 years or more:

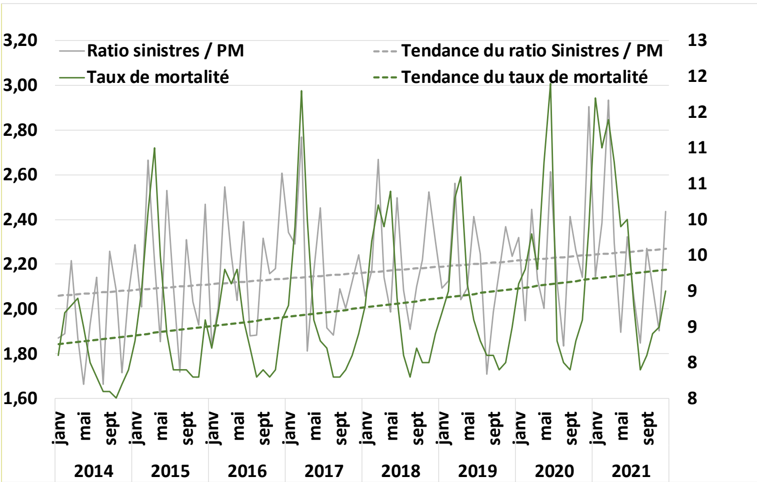
In this case, the insured person receives an annual tax allowance on all the contract products. This allowance amount is: €4,600 for a single person or €9,200 for a couple.

In the event of surrender after 8 years, for premiums paid before 27 September 2017, capital gains may be subject to income tax or to a lump-sum payment of 7.5 %. Social contributions of 17.2 % are also deducted. For premiums paid after 27 September 2017, the 7.5 % rate also applies to capital gains generated for payments of less than €150,000 (€300,000 for a couple). Beyond that, earnings are subject to the 12.8 % tax (in addition to the social security contributions of 17.2 %)

The trend increase in claims was linked to structural events

Claims, as a ratio of mathematical provisions, have trended upwards since 2015, reflecting in particular demographic trends and changes in the value of investments. Some periods of sharp increase in life insurance claims can be directly linked to major events such as the 2017 winter flu or, more recently, Covid-19 in 2020.

Graphique 2.3.4: Evolution of claims in life insurance and deaths



Scope: Sample of weekly inflows collect in life insurance
Source: ACPR, INSEE

4

NON-LIFE INSURANCE

NON-LIFE INSURANCE

Gross earned premiums:

155.3

EUR billion

Increase in gross earned premiums between 2020 and 2021:

+ 6.9 %

Claims-to-premiums average ratio:

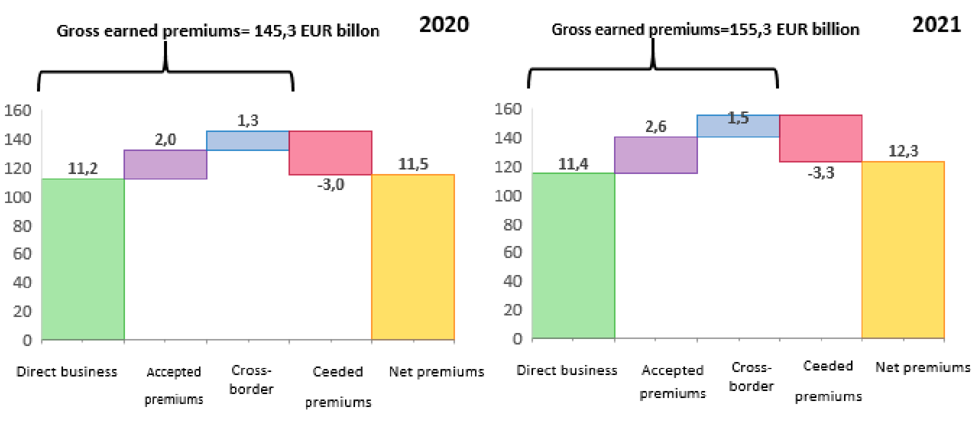
76.3 %

Non-life insurance sector recorded sustained growth in 2021: gross earned premiums increased by 6.9 % in 2021, after +0.9 % in 2020. Claims in direct business saw overall little change between 2020 and 2021 (+0.1 %). They increased in motor insurance, construction and transport activities, but decreased in property and casualty insurance and miscellaneous financial losses.

Growth in the sector was supported by the economic recovery

Gross earned premiums of non-life insurance sector reached 155.3 billion in 2021, a 6.9% rise compared to 2020 (+0.9% in 2020). In direct business, earned non-life insurance premiums also increased by 2.3% to reach EUR 114.4 billion in 2021 (+1.3% in 2020).

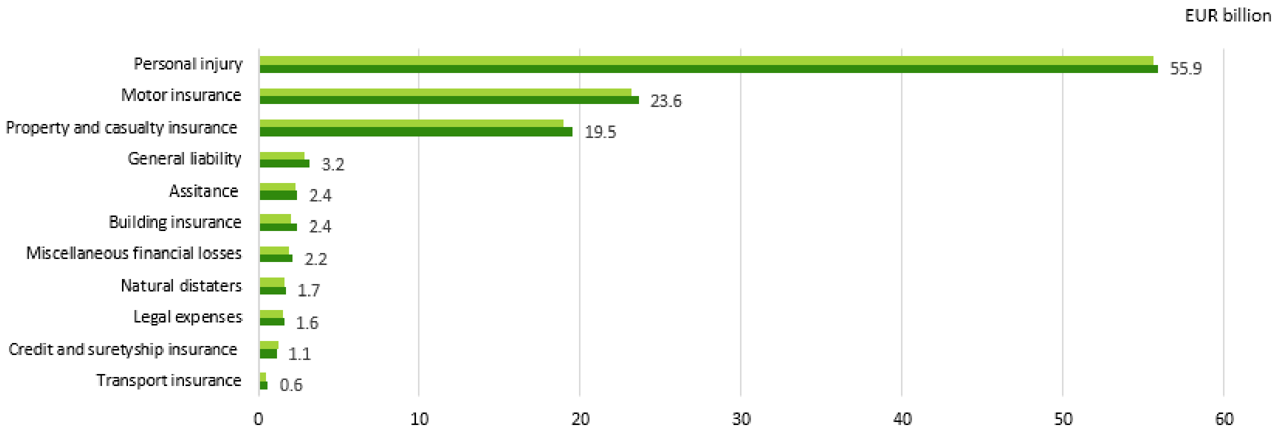
Chart 2.4.1: Evolution of non-life insurance premiums



Scope: all undertakings.
Source: ACPR.

This increase was observed for almost all non-life insurance business lines in direct business, except for the credit and suretyship insurance business line, which decreased by EUR 98 million between 2020 and 2021.

Chart 2.4.2: Allocation by category of direct non life business premiums

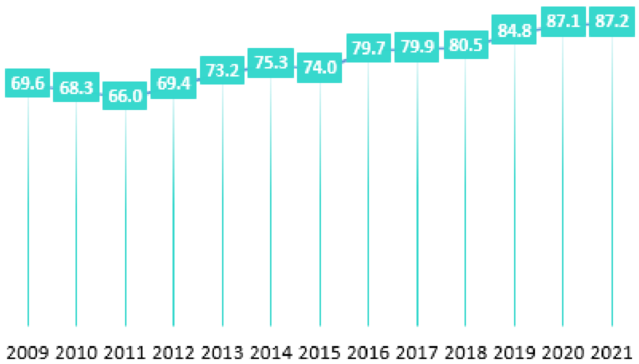


Scope: All undertakings.
Source: ACPR.

The level of claims in direct business was stable

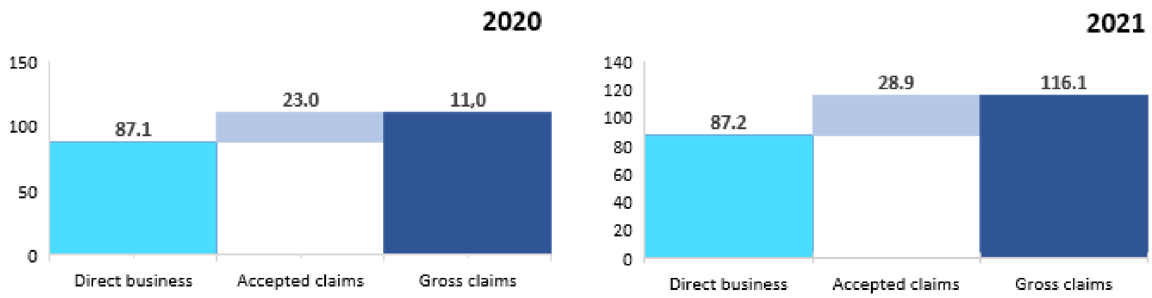
Non-life insurance's claims reached EUR 87.2 billion in 2021 (EUR 87.1 billion in 2020). Direct business claims remained steady (+0.1% compared to 2020) while accepted reinsurance claims showed a more notable evolution (+26% compared to 2020, when they went from EUR 23 billion to EUR 28.9 billion in 2021).

Chart 2.4.3: Evolution of non-life claims



Scope: All undertakings.
Source: ACPR.

Chart 2.4.4: Decomposition of claims



Scope: All undertakings.
Source: ACPR.

This favorable trend for the sector as a whole, on average, masked, however, differentiated situations depending on the segment of activity with a deterioration for some of them in terms of technical balances.

Impacts of inflation on non-life insurance

Although claims remained broadly flat in 2021, the outlook for the economy and rising inflation are likely to weigh on its evolution in the future. The level of claims is the result, on the one hand, of the frequency of claims, which has decreased due in particular to the end of the health crisis (normalization of claims declarations in property and casualty insurance, miscellaneous financial losses and personal injury); and on the other hand, of the cost of claims.

The evolution of this last indicator is correlated to the evolution of prices: for instance, higher inflation in the automotive sector leads to higher vehicle restoration costs, higher expert costs, higher spare parts costs, etc... In addition to this increase in the cost of claims, there is also an increase in internal operating expenses and fixed costs for insurers, which are affected by the evolution of general price (and wage).

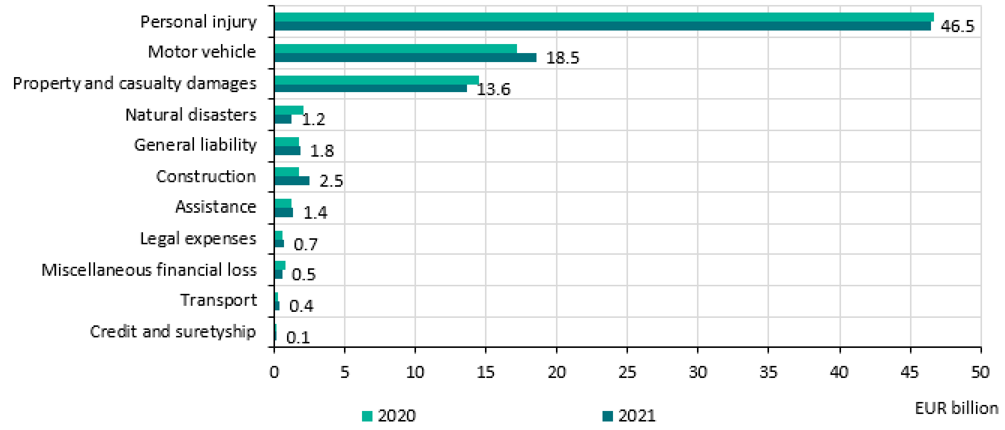
Non-life insurance claims evolved differently between lines of business

Claims on personal injury, property damage, natural disasters, miscellaneous financial loss and credit & suretyship business lines decreased between 2020 and 2021. Indeed, 2020 had recorded exceptionally high amounts of claims on these lines of business, fuelled in particular by operating losses.

In personal injury insurance, the gradual resolution of the health crisis has also taken place: in health care, the deferral of medical procedures appeared to have been fully absorbed in 2020 with no impact on claims in 2021; in provident insurance, claims were constrained by the end of the massive recourse to partial unemployment schemes as well as the decrease in work stoppages.

For other non-life business, claims in direct business increased between 2020 and 2021. For motor insurance and construction in particular, claims reached respectively EUR 18.5 billion and EUR 2.5 billion in 2021 (compared to respectively EUR 17.2 billion and EUR 1.8 billion in 2020). Motor vehicle damage declined mainly in 2020 owing to government restrictions (lock-down, curfews, etc.), which explained the amount of claims exceptionally low that year. In 2021, the increase in claims was also explained by the increase in the cost of claims due to inflation (such as the cost and supply of spare parts fo example).

Chart 2.4.5: Allocation by category of non-life direct business claims



Scope: All undertakings.
Source: ACPR.

For motor vehicle insurance, construction and personal property damage, claims tended to develop faster than premiums collected. As a result, the performance indicators for these business segments deteriorated compared to last year. This was especially the case for motor vehicle insurance, with a +4.1 % change in the claims-to-premium ratio in 2021, as well as for construction insurance specifically owing to difficulties in the supply of raw materials. Construction insurance was the only business segment for which the amount of premiums is lower than the amount of claims in 2021

By contrast, the loss-to-premium ratio improved in professional property insurance as operating losses declined. In natural disaster insurance, the improvement in the claims to premium ratio was due to the decline in claims (EUR 1.2 billion in 2021 compared with EUR 2.1 billion in 2020). Furthermore, this decrease in the ratio can also be explained by the greater recourse to reinsurance for these segments characterized by large risks. The claim ratio for the natural disaster business line improved in 2021 (71 %), compared with more than 100 % in 2019 and 2020.

Chart 2.4.6: Claim-to-premium ratio in 2020 and 2021 by line of business

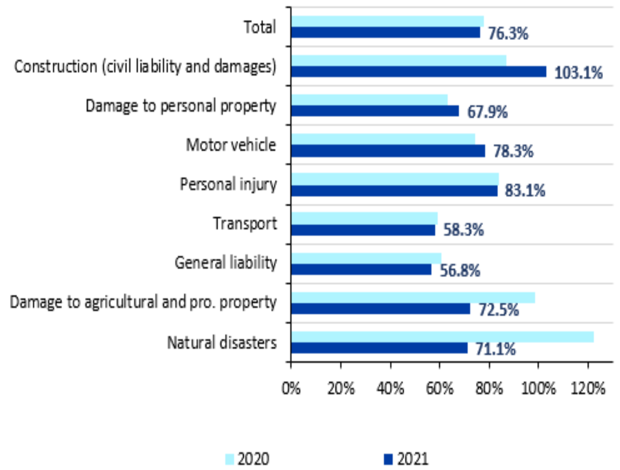
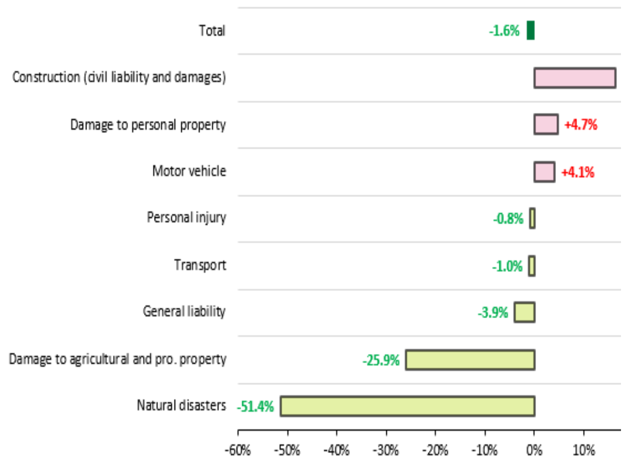


Chart 2.4.7: Evolution of loss-to-ratio between 2020 and 2021 by line of business



Scope: All undertakings.
Source: ACPR.

5

SOLVENCY

Bank

Insurance

SOLVENCY

SOLVENCY

SCR coverage ratio for the sector:

253 %

Improvement of the SCR coverage ratio compared to 2020:

+ 11 percentage points

SCR coverage ratio for bank-insurers:

245 %

Non-life institutions coverage ratio:

264%

2021 saw an overall improvement in the solvency of insurance undertakings amid an economic recovery and favorable market conditions.

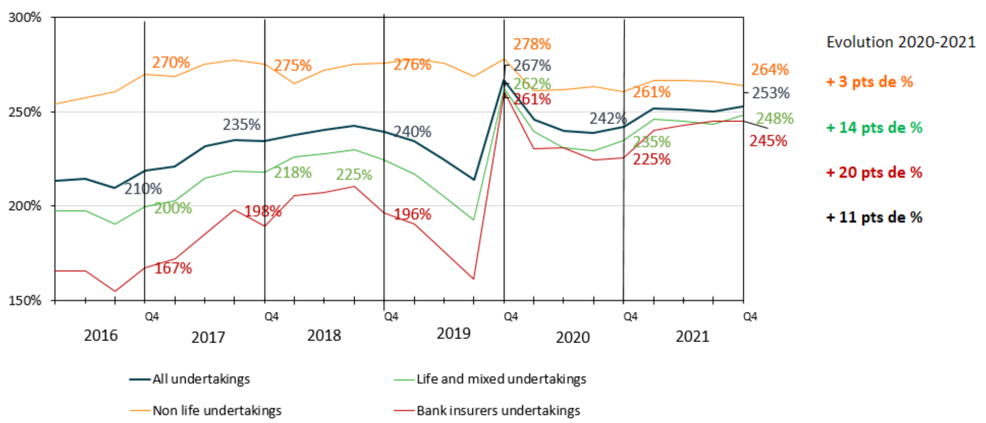
The average Solvency Capital Requirement (SCR) coverage ratio for the sector increased sharply in the first quarter of 2021 and stabilized thereafter. However, the majority of (small) French insurance companies saw their solvency coverage ratio fall between 2020 and 2021.

Among the various risk modules included in the SCR calculation, market risk was the most capital-intensive, particularly in 2021.

Solvency coverage ratio improved in 2021

The SCR average coverage ratio for the sector stood at 253 % at the end of 2021, up by 11 percentage points compared to the end of 2020. Regardless of the type of undertakings, the ratio registered an average increase in 2021, reaching levels well above regulatory thresholds.

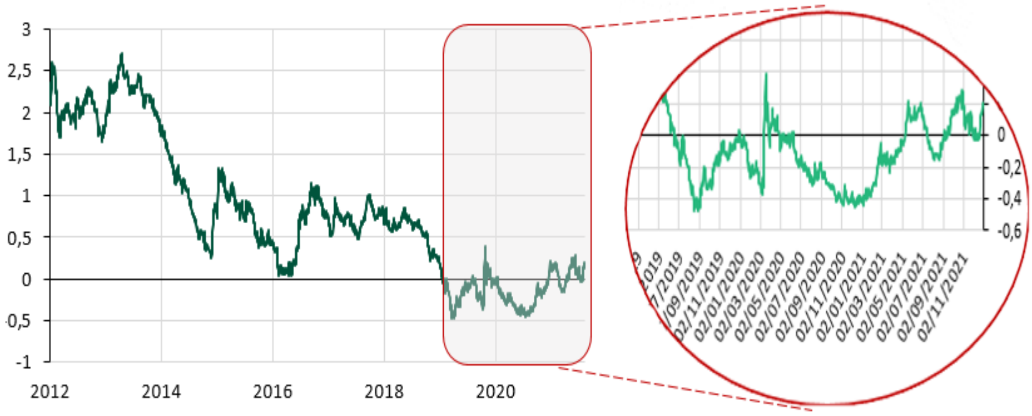
Chart 2.5.1: Evolution of solvency coverage ratio by type of undertaking



Scope: All undertakings under Solvency 2.
Source: ACPR.

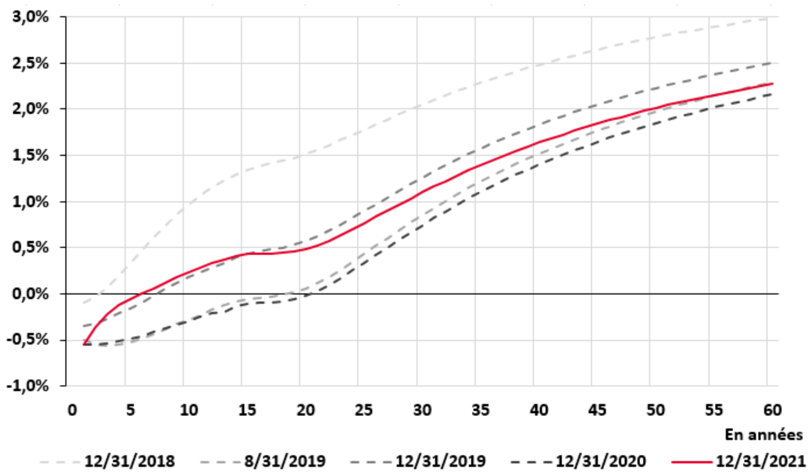
Insurance undertakings benefited from the solid performance of equity markets in 2021, particularly in France, supported by the economic recovery (+6.8 % in 2021), corporate earnings and economic support measures. Stock market valuation reached record levels, as did the CAC 40, which surpassed 7,000 points at the end of 2021 (+29 % compared with the end of 2020). On the other hand, after two years mostly in negative territory, the increase in yields was weighing on the valuation of insurers' bond portfolios. Since this negative valuation has been more than offset by the decline in the value of liabilities discounted at the liability-free rate, the effect was positive on insurers' net assets overall.

Chart 2.5.2: Evolution of French 10-year government bond yield



Scope: OAT 10 years France.
Source: Banque de France.

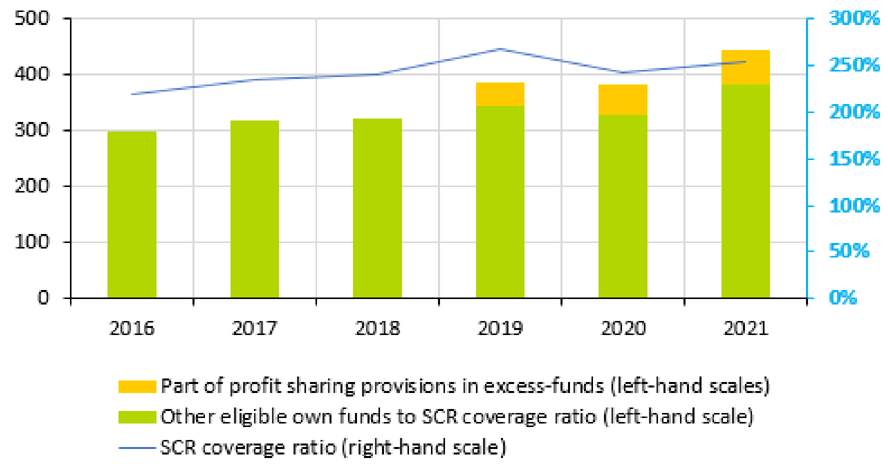
Chart 2.5.3: EIOPA risk-free yield curves



Lecture: La courbe des taux sans risque EIOPA au 31 décembre 2021 est représentée par la courbe rouge.
Source: EIOPA.

The solvency ratio of insurers has been supported by the transitional measure on technical provisions and, since 2019, by the implementation of the Excess Funds Regulatory Decision. In 2021, the part of profit-sharing reserves in excess own funds reached 14%.

Chart 2.5.4: Breakdown of eligible own funds to SCR coverage



Scope: All undertakings under Solvency 2.
Source: ACPR.

Main flexibility measures in the calculation of SCR coverage

- **Transitional measure on technical provisions**

The transitional measure on technical provisions set out in Articles L. 351-5 and R. 351-17 of the *Code des assurances* and Article 308d of Directive 2009/138/EC, known as "Solvency 2", is one of the transitional measures referred to as the "long branches package", making it possible to smooth over a period of 16 years the impact of the transition from the calculation of the accounting technical provisions under Solvency 1 to a calculation under Solvency 2 standards. This measure applies a coefficient that decreases linearly over time at the difference between the two calculations and makes it possible to subtract this transitional deduction from the commitments assessed in accordance with the Solvency 2 prudential framework. This measure can be applied to a limited part of liabilities and the ACPR is authorized to set a ceiling on the effect of the transitional measure so that the results are at least equal to those under Solvency2.
The use of this measure is the subject of an application for approval to the ACPR, as defined in Instruction 2015-I-06.

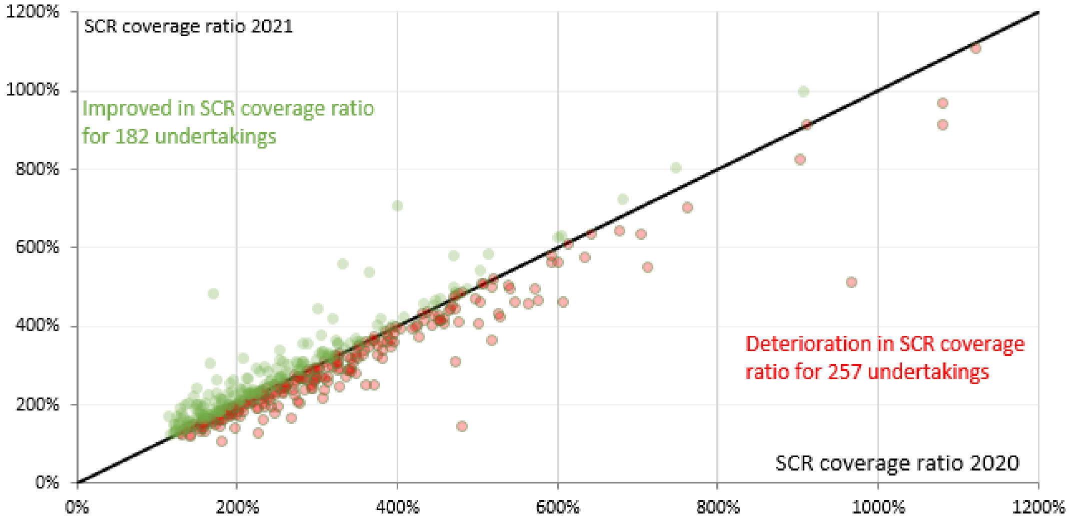
- **Decree of 24 December 2019 on surplus funds**

The implementation of the decree of the 24 December 2019 on surplus funds allows for the inclusion, via excess own funds, of a part of the provisions for profit sharing (PPB) in the eligible own funds covering the SCR (Solvency Capital Requirement) and the Minimum Capital Requirement (MCR). The amount of eligible excess funds to cover capital requirements should be subject to an economic valuation after excluding the amounts of profit-sharing provisions to be distributed with a horizon shorter than one year. This removes the profit-sharing amounts decided at year-end that have not yet been distributed as at 31 December, the amounts of PPBs accumulated 7 years previously, and the amounts related to the actual use of the envelope provided for in Article A132-3 of the *Code des assurances* (under the application of an annual guaranteed minimum rate, to which institutions may commit for a maximum period of two years).

Insurance sector presented some discrepancies

While the average SCR coverage ratio improved, it deteriorated for 257 companies compared to last year, representing 59% of all undertakings. Among these 257 institutions, 122 are life and mixed entities and 135 are non-life entities. The deterioration in solvency ratios between 2020 and 2021 affected 62% of mutual insurers governed by the *Code des mutuelles* and specifically positioned in the health and provident insurance segments.

Chart 2.5.5: Evolution of the allocation of the insurance institutions

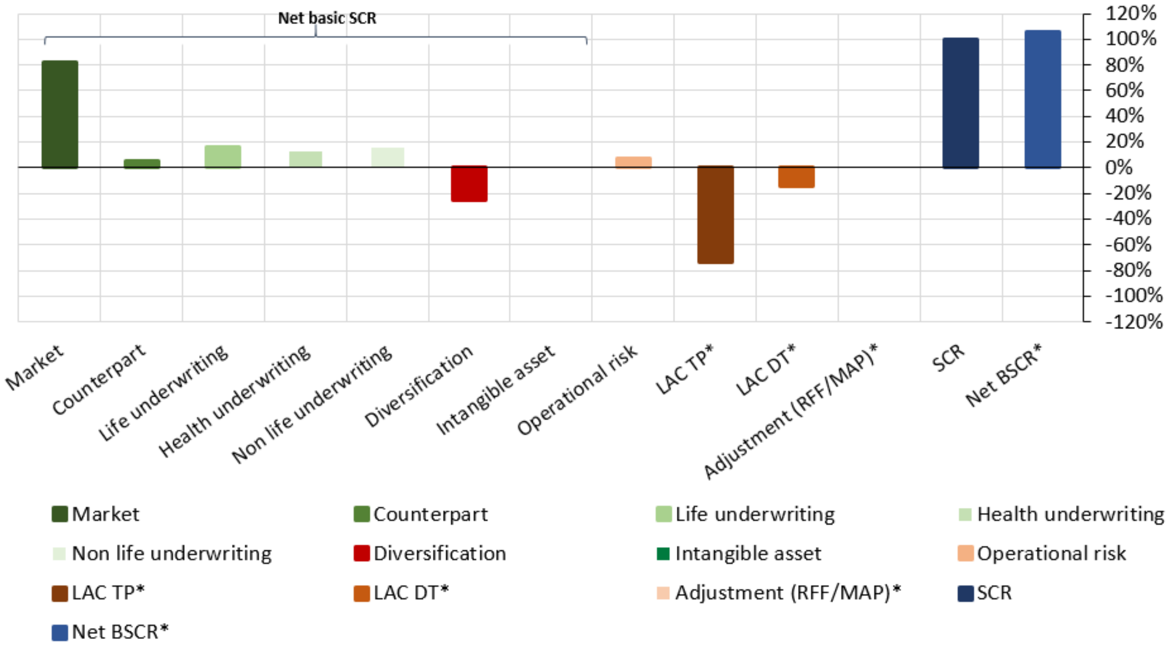


Scope: All undertakings under Solvency 2.
Source: ACPR.

Despite the recovery from the crisis and the economic upturn in 2021, the market risk was rising

Among the various risk modules that make up the SCR, market risk is predominant. Regarding the scope of insurance undertakings using the standard SCR calculation formula (96% of institutions subject to Solvency 2), the market risk module explained 82% of the SCR in 2021.

Chart 2.5.6: Contribution of risk modules expressed as a % of the SCR, for the undertakings using the standard formula



Scope: All undertakings under Solvency 2 using standard formula for calculation of SCR.
Notes: TP: Technical provisions, DT: Deferred tax, RFF/MAP: Ring-fenced fund/ Madtchig Adjustment Portfolio, BSCR: Basic Solvency Capital Requirement.
Source: ACPR.

Across all insurance undertakings using the standard formula, the contribution of the market risk increased from 79 % of the SCR in 2020 to 82 % in 2021, mainly driven by life and mixed insurance undertakings; reinsurers saw their market risk contribution decrease from 71 % of the SCR in 2020 to 66% in 2021.

Table 2.5.1: Contribution of the SCR modules by type of undertakings

SCR modules in %	2020 Non life	2020 Life and mixed (excluding reinsurance)	2020 Reinsurers	2020 Total	2021 Non life	2021 Life and mixed (excluding reinsurance)	2021 Reinsurers	2021 Total
Market (net)	66%	85%	71%	79%	70%	89%	66%	82%
Counterpart (net)	7%	5%	2%	5%	7%	5%	2%	5%
Life underwriting (net)	1%	24%	1%	17%	1%	23%	17%	16%
Health underwriting (net)	16%	13%	4%	13%	14%	13%	4%	13%
Non life underwriting (net)	50%	0%	42%	16%	46%	0%	40%	16%
Diversification	-32%	-25%	-12%	-26%	-30%	-24%	-22%	-26%
Intangible asset	0%	0%	0%	0%	0%	0%	0%	0%
BSCR Net	109%	103%	108%	105%	108%	105%	107%	106%
Adjustment (RFF/MAP)	0%	0%	0%	0%	0%	0%	0%	0%
Operational risk	7%	9%	2%	8%	6%	9%	2%	8%
LAC DT	-16%	-12%	-9%	-13%	-14%	-14%	-9%	-14%
SCR	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
BSCR Gross	109%	189%	108%	163%	108%	217%	107%	179%
Operational risk	7%	9%	2%	8%	6%	9%	2%	8%
LAC DT	0%	-86%	0%	-58%	0%	-112%	0%	-73%
LAC TP	-16%	-12%	-9%	-13%	-14%	-14%	-9%	-14%
SCR	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Scope: All undertakings under Solvency 2 using standard formula for calculation of SCR.
Notes: TP: Technical provisions, DT: Deferred tax, RFF/MAP: Ring-fenced fund/ Madtchig Adjustment Portfolio, BSCR: Basic Solvency Capital Requirement.
Source: ACPR.

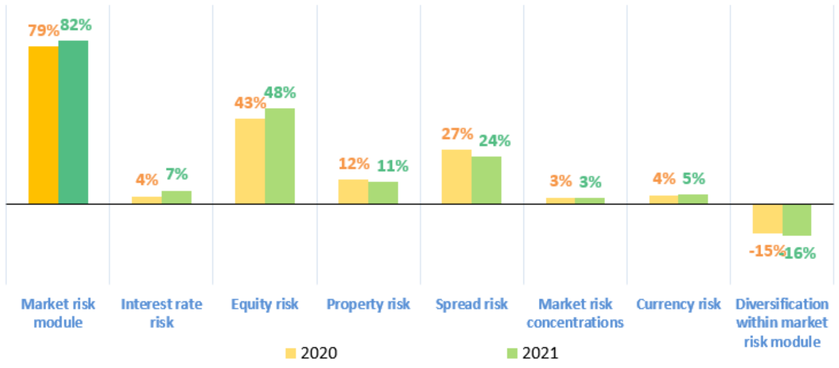
SOLVENCY

Insurance

The “equity risk” SCR, which corresponds to the own funds loss resulting from a sudden decrease in equity prices, increased from 43 % to 48 % in 2021 (chart 2.5.7). This increase resulted from the growing share of equities in insurers’ investments, sustained by strong market performance in 2021.

The “interest rate risk” SCR, which quantifies the capital loss resulting from a sudden increase or decrease in interest risk-free yield, increased from 4 % to 7 %.

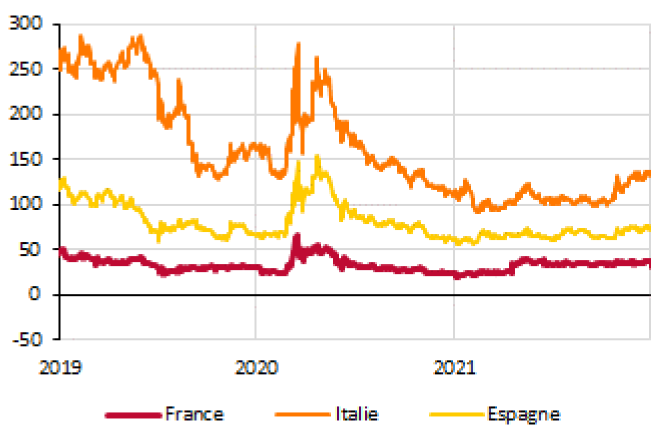
Chart 2.5.7: Decomposition of the market risk



Scope: All undertakings under Solvency 2 using standard formula for calculation of SCR.
Source: ACPR.

In contrast, the "spread risk" SCR, which represents the sensitivity of assets, liabilities and financial investments to the level or volatility of credit spreads relative to the risk-free yield curve, decreased compared to 2020, when an episode of volatility occurred during the first three months of the year, reflecting the consequence of default risk to return on bond yields.

Chart 2.5.8: Evolution of 10-years sovereign spreads against the Bund since 2000



Source: Banque de France.

"Underwriting risk SCRs", reflecting the risk of a sharp increase in claims, was decreasing in 2021. The health crisis had increased the risk for insurers, particularly in the non-life segment. For non-life insurance undertakings, the non-life underwriting risk went from 50 % of the SCR in 2020 to 46 % in 2021.

6

PROFITABILITY

PROFITABILITY

Net income:

12

EUR billion

Return on Equity (ROE):

6 %

Increase of technical result:

21 %

Increase of collected premiums:

16 %

In 2021, insurers reported an increase in earnings and profitability linked to the recovery in activity, the slight increase in bond rates and the strong performance on equity markets. The sector's net income thus rose by 23 % in 2021 and is back close to its pre-crisis level (EUR 12 billion compared with EUR 12.9 billion in 2019).

Improved results driven by increased on business and financial income

Premiums collected on the sector have increased by 16 % compared to 2020, reaching EUR 328 billion, while claims expenses and provisions posted a smaller increase. In addition, the dynamism on financial markets allowed for a strong increase in net financial income: they amounted to EUR 88.5 billion in 2021 (EUR 48.1 billion in 2020). This increase could be attributed to capital gains, particularly on equities and unit-linked products, and was reflected in the sharp increase in the net variable capital insurance ("ACAV") adjustment. The underwriting income for all undertakings thus reached EUR 13.7 billion, a 21 % increase compared to last year.

Chart 2.6.1: Agregated profit and loss account

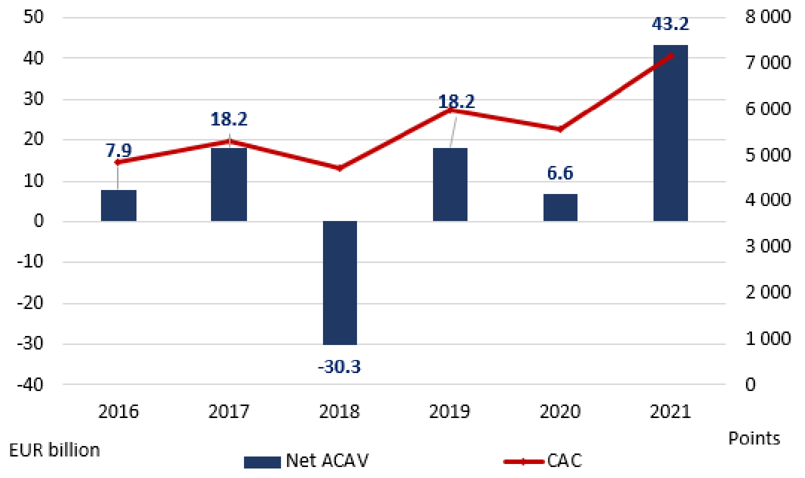
EUR billion	Type of activity		Total
	Life	Non-	
Earned premiums (a)	172.2	155.4	327.5
- of wich ceeded premiums	11.0	32.9	43.8
Claims expenses and provisions (-) (b)	127.6	112.7	240.3
- Claims and expenses paid	135.5	87.4	222.9
- Provisions	54.4	1.0	55.4
- Ceeded claims and provisions	9.9	24.6	34.6
Proft sharing (c)	30.2	0.7	30.9
Net financial products (d)	83.5	5.0	88.5
- of wich investment income	58.1		58.1
- of wich net variable capital adjustment	43.2		43.2
Acquisition and administrative costs (-) (e)	18.1	37.4	55.5
Calculated reinsurance balance (f)	4.7	3.9	8.6
Technical results (g) = (a) - (b) - (c) + (d) - (e) + (f)	8.0	5.8	13.7
Net financial products of non-technical results			3.9
Other non-technical items			-2.1
Net income			**12.0**
Profitability (net income / capital)			**6.0%**

Scope: All undertakings.
Source: ACPR.

Net income in the sector has returned to pre-crisis levels: it went from EUR 9.7 billion in 2020 to EUR 12 billion in 2021 (after EUR 12.9 billion in 2019), a 23 % increase over the year.

Life and composite insurance undertakings saw their net income increase by 8 % compared to 2020, benefiting from strong inflows and equity markets. Net variable capital insurance ("ACAV") adjustment, reflecting the difference between gains and losses, reached EUR 43.2 billion in 2021, an amount that has been multiplied by five compared to 2020.

Chart 2.6.2: Evolution of net variable capital insurance and of CAC 40

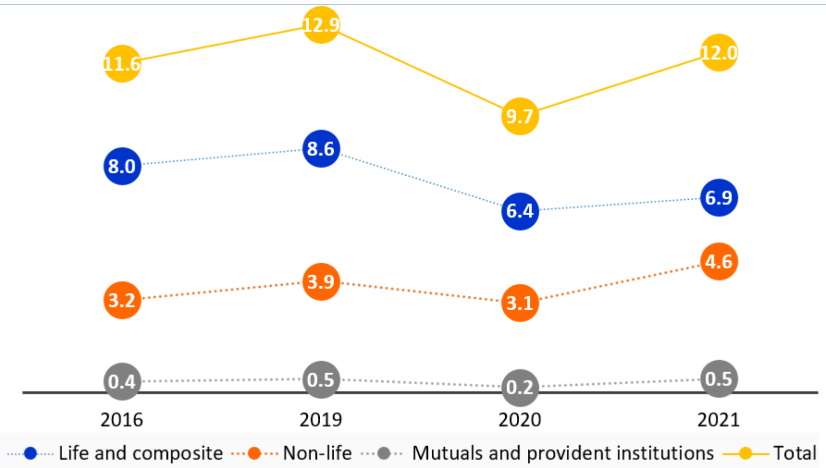


Scope: All undertakings.
:Source: ACPR.

The overall profitability of the sector has been improving but not back to pre-crisis levels

Non-life insurance undertakings posted significant gains (+46 %) supported by the economic recovery. Mutual insurers and provident institutions posted a slight increase in earnings to levels similar to those prior to the health crisis.

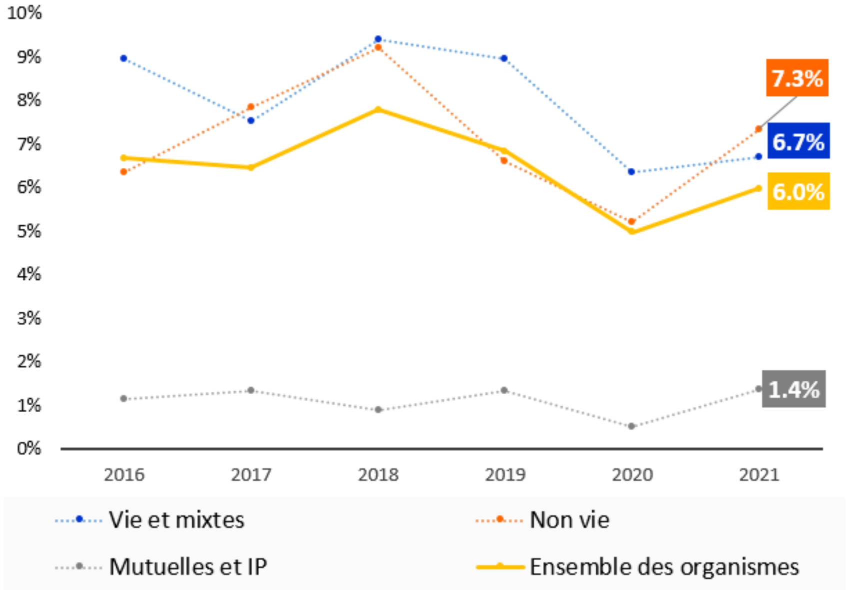
Chart 2.6.3: Evolution of net income of the sector



Scope: All undertakings.
Source: ACPR.

In 2021, the increase in the sector's RoE to 6 % (+1 percentage point) was driven by non-life undertakings (+2 percentage points compared to 2020). Despite the stronger results, the sector's RoE remains lower than before 2020 owing to a strengthening of capital.

Chart 2.6.4: Evolution of RoE's sector



Scope: All undertakings.
Source: ACPR.

7

BODILY INJURY AND PROVIDENT ACTIVITY

BODILY INJURY ACTIVITY

Bodily injury insurance premiums

55.9

EUR billion

Improvement of the bodily injury insurance combined ratio

- 0.6 point

Increase in the health combined ratio

+ 2.2 points

Decrease in the provident insurance combined ratio

- 7.5 points

With a total premium of EUR 55.9 billion, bodily injury insurance, which covers some of medical expenses and provident insurance, is the most substantial non-life risk (64 % of non-life premiums). Overall, its combined ratio decreased by 0.6 percentage point to 98.9 % in 2021. In regards to medical expenses insurance, the combined ratio rose by 2.2 points due to the claim increase while in provident insurance, the progressive return to normality (decrease of sick leaves) improved the combined ratio by 7.5 points.

Most undertakings in individual bodily injury insurance are governed by the French Mutual Code

The bodily injury insurance market is shared among undertakings governed by the French Insurance Code, Social Security Code (provident insurers) and Mutual Insurance Code (mutual insurers). The first two categories cover 92 % of the market, with 239 and 174 entities respectively.

Table 2.7.1: Number of undertakings supervised by the ACPR running a bodily injury activity in 2021

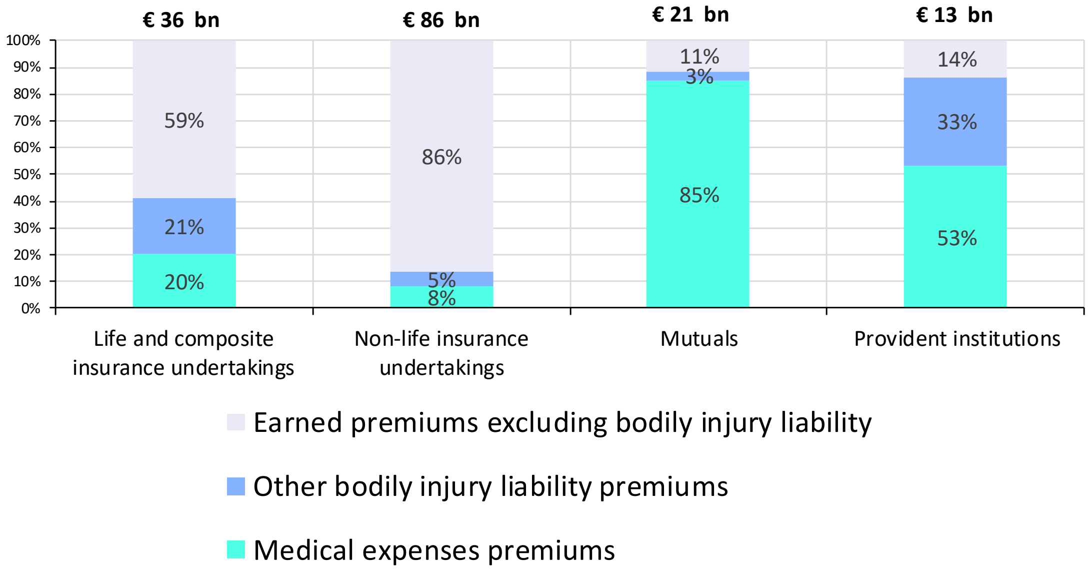
Number of undertakings	*Covering medical expenses*	*Covering bodily injury liabilities*
Insurance undertakings	*147*	*239*
Mutuals	*159*	*174*
Provident institutions	*28*	*33*

Scope: All undertakings supervised by the ACPR covering bodily injury activity.
Source: ACPR.

Bodily injury insurance is the main activity ran by mutuals and provident institutions: 89 % of the premiums for the former and 86 % for the latter. Bodily injury premiums account for 41 % of the life and composite undertakings and 14 % of the non-life undertakings (whose activities are more diversified). With collected premiums reaching EUR 18 billion, mutual undertakings remained the first category covering bodily injury liabilities in 2021. They were followed by life and composite insurers (15 billion euros), non-life insurers (EUR 12 billion) and provident institutions (EUR 11 billion).

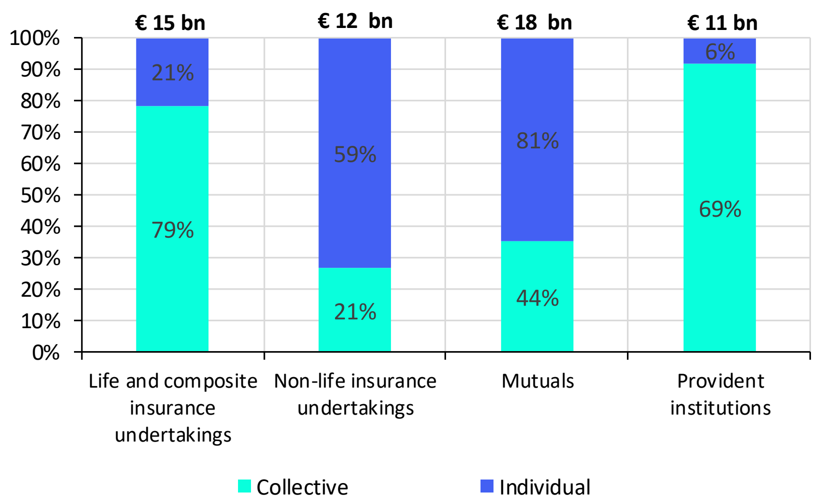
The largest share of the bodily injury premiums comes from group contracts for life and composite undertakings (79 %) and for provident institutions. Conversely, most of the premiums come from individual contracts for non-life (73 %) and mutual (65 %) insurers.

Chart 2.7.1: Bodily injury premiums by type of undertakings



Scope: All undertakings supervised by the ACPR covering bodily injury activity.
Source: ACPR

Chart 2.7.2: Individual and group bodily injury insurance premiums by type of undertakings



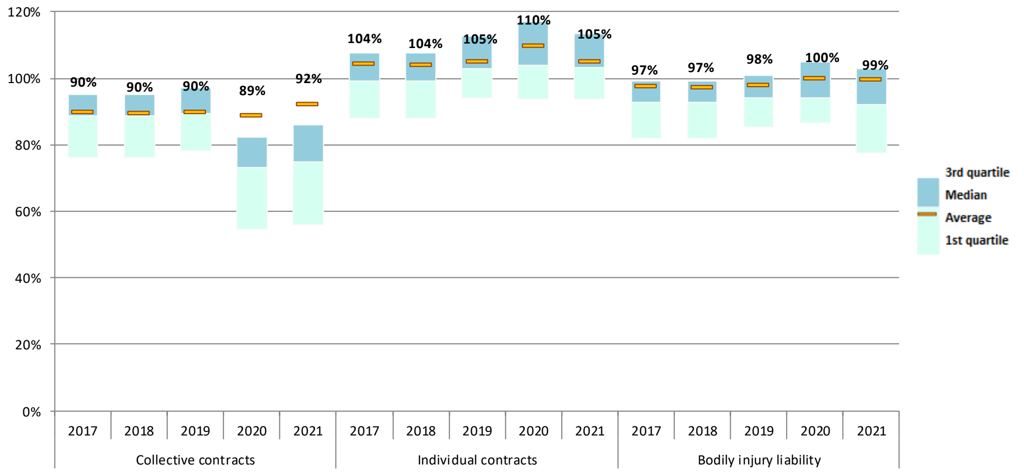
Scope: All undertakings supervised by the ACPR covering bodily injury activity.
Source: ACPR.

The bodily injury activity combined ratio decreased

The bodily injury activity combined ratio decreased by 0.6 points to 98.9 % in 2021. Outstanding claims provisions remained at a high level for complementary health care undertakings due to the reserves held for the payment of the exceptional contribution ("Covid Tax"): 1.3 % of medical expenses premiums had to be held as outstanding claims provisions for the year 2021.

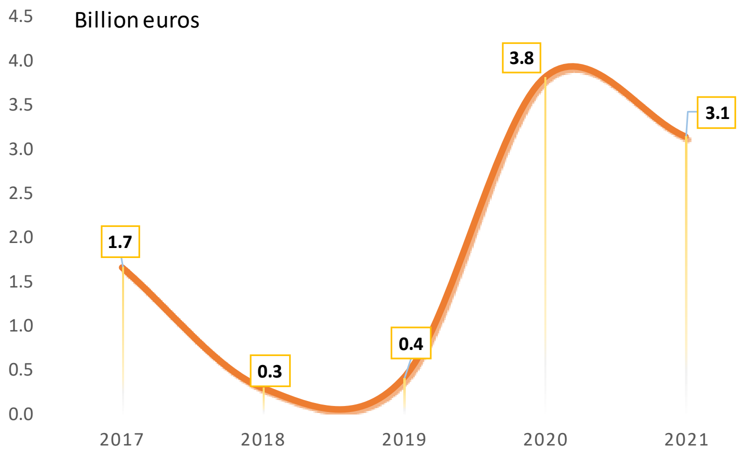
Medical expenses outstanding claims provisions amounted to EUR 3.1 billion in 2021, compared with EUR 3.8 billion in 2020 while they fluctuated between EUR 1.7 billion and EUR 0.4 billion prior to the pandemic crisis.

Chart 2.7.3: Bodily injury combined ratio by type of contracts



Scope: All undertakings supervised by the ACPR covering bodily injury activity.
Source: ACPR.

Chart 2.7.4: Evolution of outstanding claims of bodily injury insurance



Scope: All undertakings supervised by the ACPR covering bodily injury activity.
Source: ACPR.

The exceptional contribution on complementary health insurance premiums.

The exceptional contribution on health insurance premiums was introduced to help reduce the deficit of the *Caisse Nationale d'Assurance Maladie* (National Health Insurance Fund) in view of the contraction of claims relating to medical consumption during the pandemic crisis.

Spread over two years, it was set at 2.6% of all complementary health insurance premiums in 2020 and 1.3% of premiums in 2021[39].

Following the decision of the Autorité des Normes Comptables (the French Accounting Standards Authority), it has been recognized as outstanding claims provision and paid the following year.

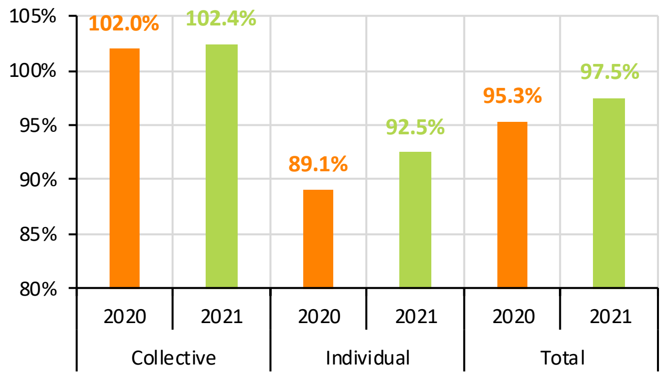
The combined ratio for medical expenses activity declined by 2.2 percentage points to reach 97.5 %. It rose 0.4 percentage points to 102.4 % for group contracts and 3.4 points to 92.5 % for individual contracts.

While it is difficult to quantify the possible postponement of claims not incurred during lockdown periods, medical claims actually increased 2.3 % in 2021. The distribution of procedures has also changed. The proportion of hospital

[39] Law n° 2020-1576 of 14 Decembre 2020 on Social Security Finance for 2021.

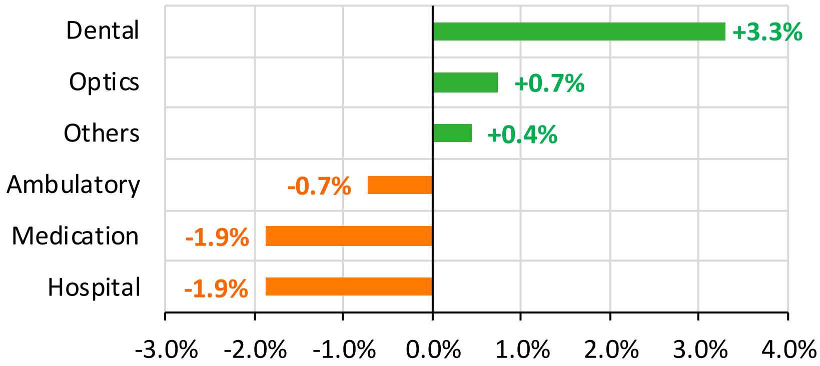
procedures (-1.9 %), ambulatory procedures (-0.7 %) and medication procedures (-1.9 %) decreased, while dental procedures (+3.3 %), optics (+0.7 %) and other procedures (+0.4 %) — three items which cover all procedures affected by the 100 % health reform — increased.

Chart 2.7.5: Medical expenses combined ratio



Scope: All undertakings supervised by the ACPR covering medical expenses.
Source: ACPR.

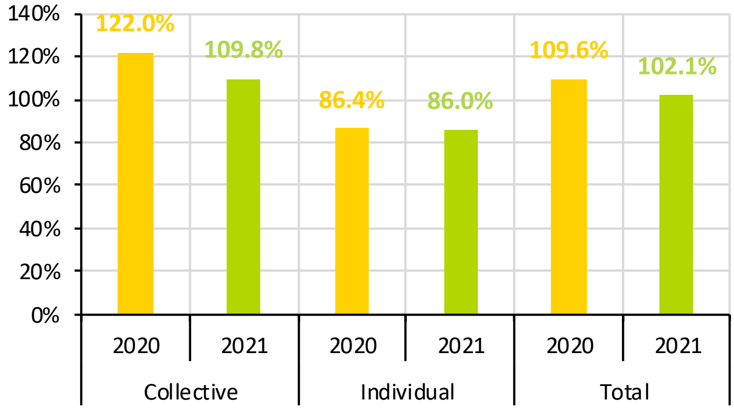
Chart 2.7.6: Evolution of the structure of health procedures



Scope: All undertakings supervised by the ACPR covering medical expenses.
Source: ACPR.

In the provident insurance sector, the combined ratio improved by 7.5 percentage points to reach 102.1 %. It stood at 109.8 % for group contracts (-12.3 points) and 86.0 % for individual contracts (-0.4 points).

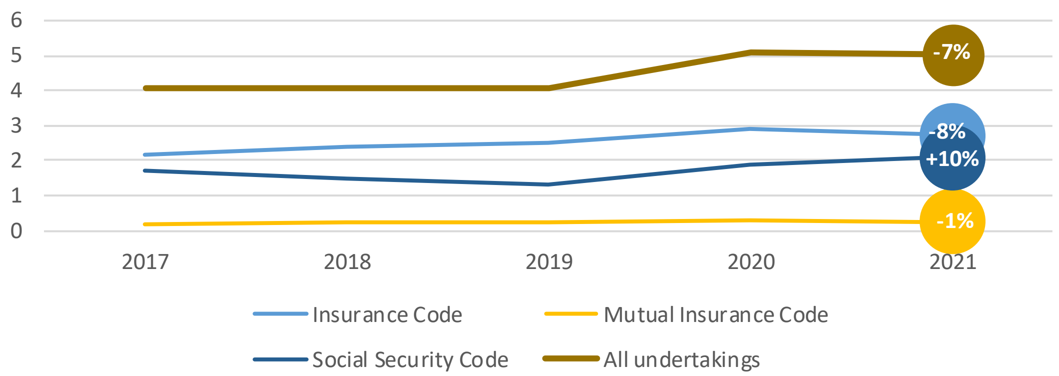
Chart 2.7.7: Provident insurance combined ratios



Scope: All undertakings supervised by the ACPR covering bodily injury activity.
Source: ACPR.

In 2021, additional daily subsistence allowance decreased by 7 % following a particularly distressed 2020, but remained high owing to Covid-related sick leave.

Chart 2.7.8: Evolution of additional daily subsistence allowance resulting from sick leave depending on the legal form



Scope: All undertakings supervised by the ACPR covering bodily injury activity. (except medical expenses insurance).
Source: ACPR.

8

EUROPEAN BUSINESS

EUROPEAN BUSINESS

European ranking of French insurers in terms of balance sheet and activity:

1st

Market share of cross-border activity in France in 2020:

8,7 %

Increase in cross-border activity in French premiums:

+ 1,1 point

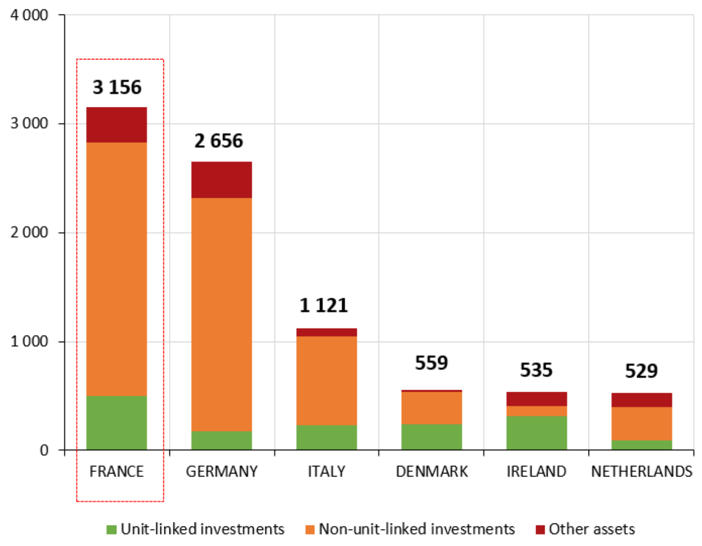
In 2021, the French insurance sector was the first market in the European Union in terms of total assets and premiums, with respectively EUR 3,156 billion in assets, EUR 184 billion in life premiums and EUR 113 billion in non-life premiums.

Foreign undertakings operating cross-border activities in France have changed since Brexit: British insurers are less established in France, but German, Luxembourg and Belgian insurers are increasing their establishement.

France was the first market in the EU in terms of balance sheet and premiums

In 2021, France was the largest insurance market in the European Union by its balance sheet size (EUR 3,156 billion) ahead of Germany (EUR 2,656 billion). It was also the largest EU country in terms of unit-linked investments (EUR 501 billion).

Chart 2.8.1: Assets of insurers in the main EU countries as of 31/12/2021

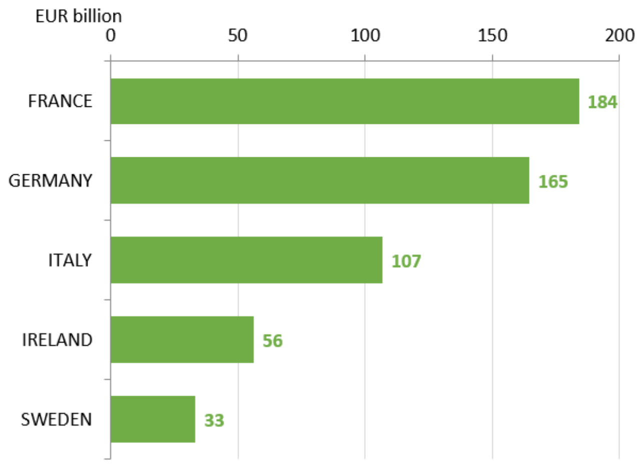


Scope: All undertakings under Solvency II
Source: EIOPA, ACPR.

The French life insurance market ranked first in terms of premiums, ahead of Germany. French insurers collected EUR 184 billion in life insurance premiums in 2021, up 23 % from 149 the previous year.

The EU market was concentrated in: France and Germany, two countries with the largest population which benefit from high savings rates and strong financial centers, alone accounted for 50 % of life insurance premiums.
In France, given the weight of the pay-as-you-go scheme, pension savings are relatively low and managed by life insurers (and more recently by IORPSs) while pension savings are managed by pension funds in countries that have a funded system, such as the Netherlands or Ireland.

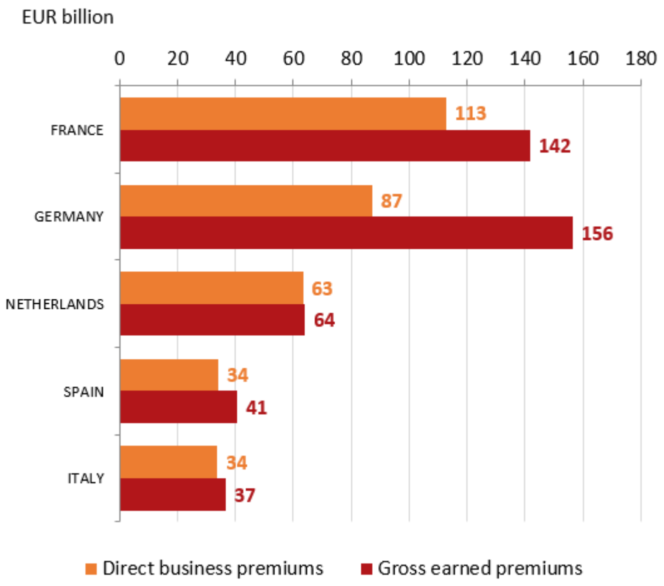
Chart 2.8.2: Life premiums in the main EU countries as of 31/12/2021



Scope: All undertakings under Solvency II
Source: EIOPA, ACPR.

France was the main country in the European Union in terms of non-life insurance premiums in direct business. They amounted to EUR 113 billion, compared with EUR 108 billion in 2020. German insurers raised EUR 87 billion in 2021, compared with EUR 84 billion the year before. However, the French market ranked second, behind Germany, with taking into account accepted reinsurance.

Chart 2.8.3: Non-life premiums in the main European countries at 31/12/2021

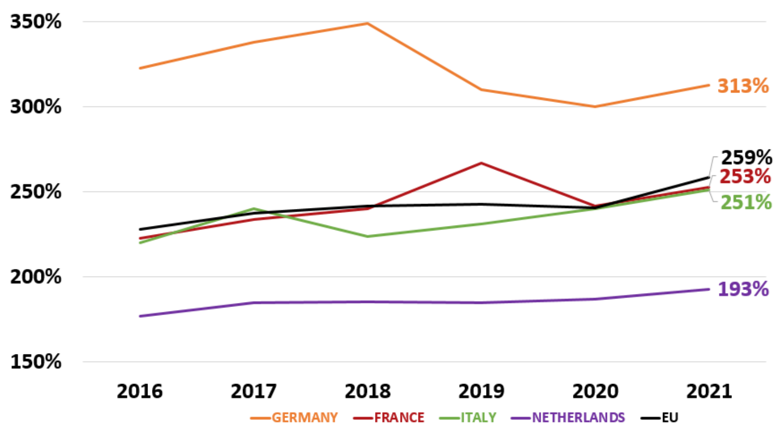


Scope: All undertakings under Solvency II
Source: EIOPA, ACPR.

Insurer solvency ratio rose in the European Union

The solvency ratio of EU insurers increased by 19 percentage points in 2021 to reach 259 %. However, this change was mainly explained by the exit of British insurers, with the average solvency ratio standing at 156% in 2020, well below the European average. The average solvency ratio for the Union excluding the United Kingdom thus stood at 254 % in 2020. The average solvency ratio of French insurers went from 242 % to 253 % over the same period, an increase close to that of German insurers (+13 points), and higher than in the Netherlands (+6 points).

Chart 2.8.4: Solvency ratio in the main European countries at 31/12/2021



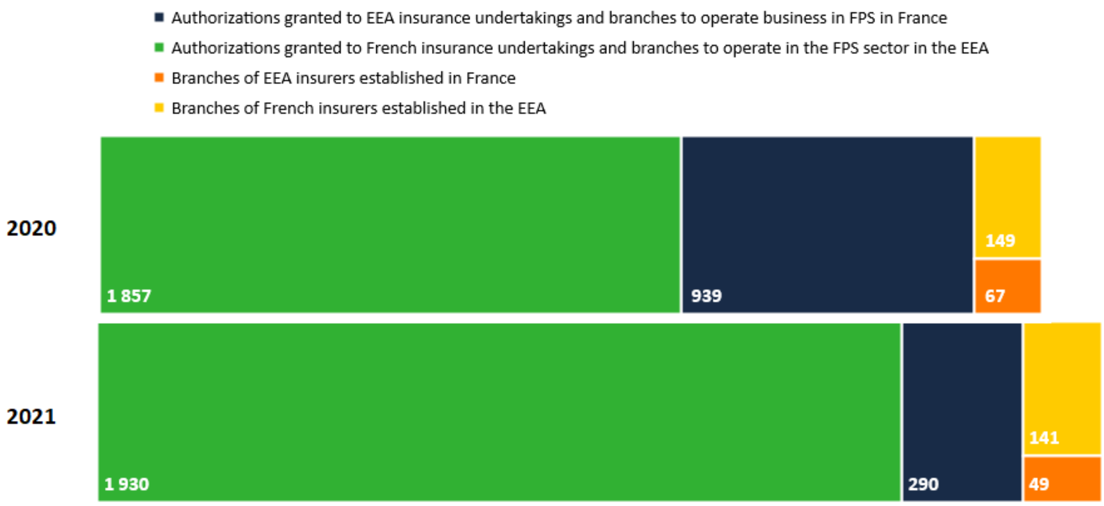
Scope: All undertakings under Solvency II
Source: EIOPA, ACPR.

European Passport usage declined following Brexit

Since 2021, European law was no longer applied to the United Kingdom, and British insurance undertakings were no longer allowed to conduct freedom of establishment nor freedom to provide services business in France. Symmetrically, French insurance undertakings or branches operating in the United Kingdom were no longer subject to the European rules applicable to insurance.

In this context, authorisations granted to EEA (European Economic Area) insurance undertakings and branches to conduct business in freedom of establishment in France significantly decreased between 2020 and 2021. UK insurance undertakings accounting for a significant share of non-life business carried out with a european passport (13% of premiums) in 2020, particularly in property and casualty insurance.

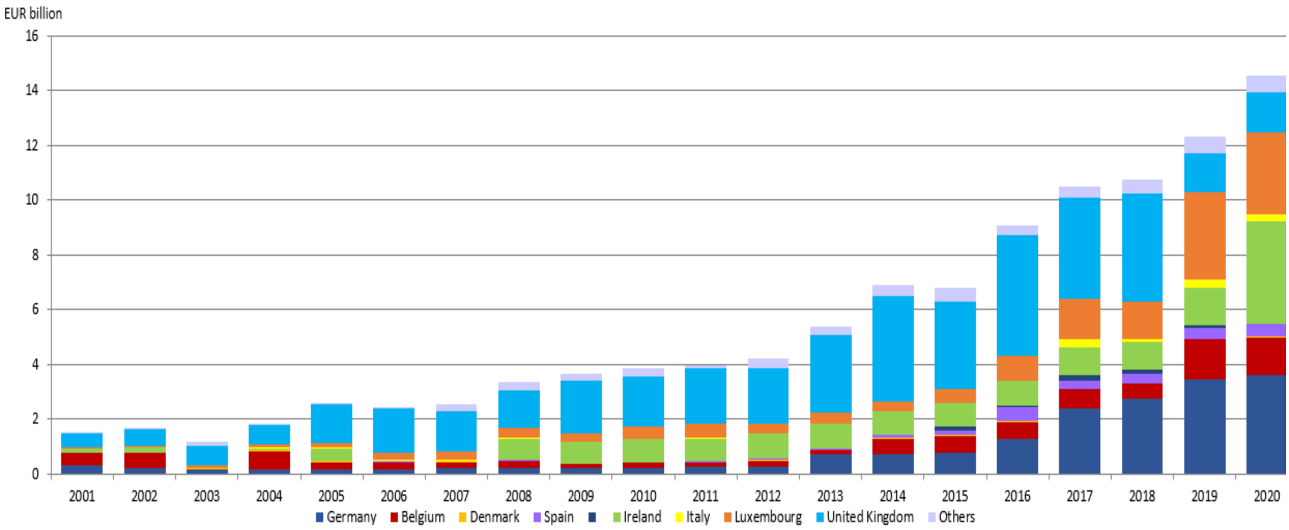
Chart 2.8.5: Type of activity and submission regulatory for insurance undertakings authorized in France at the end of 2021



Scope: All undertakings under Solvency II
Source: EIOPA, ACPR.

The geographical origin of undertakings collecting non-life premiums in France has changed significantly over the past five years. Since 2016, Irish companies (+319 %), Luxembourg (+231 %) and Belgium (+123 %) - three countries that have hosted head offices of companies based in the United Kingdom - have made significant progress. German insurers have also made headway in the French market: they were the second most active of the EU countries (with EUR 3.6 billion in premiums) after the Irish (with EUR 3.7 billion).

Chart 2.8.6: Non-life premiums collected via European passport (LPS-LE) since 2001 by country of origin of the insurer



Scope: All undertakings under Solvency II
Note: European passport data is updated one year later.
Source: EIOPA, ACPR.

The European Passport
Undertakings from EU Member States can conduct insurance business in another Member State in two ways: - Freedom to provide services business (FPS) is the ability of an undertaking the headquarters or branch of which is located in a Member State of the European Economic Area to offer its services in the territory of another Member State. It is therefore a question of an undertaking being able to guarantee a risk situated in another Member State from the Member State in which it is established. - Freedom of establishment (FE) is the ability for an insurer from a Member State of the European Economic Area (EEA) to offer its services in the territory of another Member State from a branch (within that territory). Since the implementation of the Payment Services Directive and the E-money Directive, this branch passport modality has developed through the use of mandated agents (payment services provision) and to distributors (e - money distribution).

Activity of EEA undertakings has grown in France

In France, premiums collected by foreign companies through the European passport amounted to EUR 25.3 billion in 2020 (+1.2 EUR billion compared to 2019). They accounted for 8.7 % of the domestic premiums collected by entities authorized in France (+1.1 points).

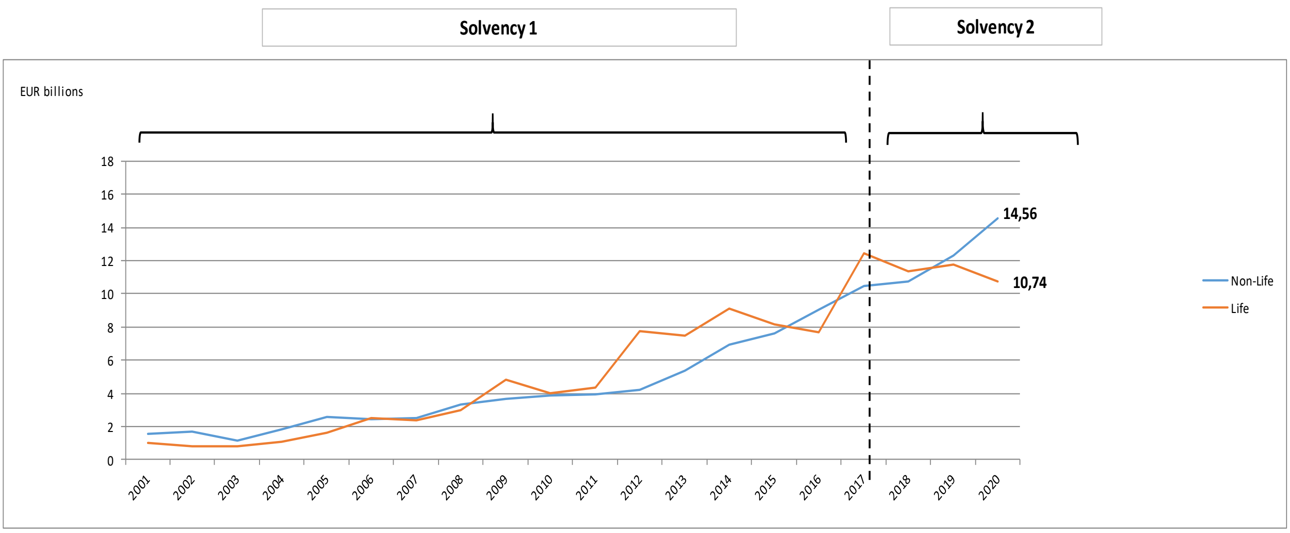
Chart 2.8.1 Share of premiums collected by European companies via the European passport in the total premiums collected in France in 2020

EUR billion	Total	Total	Life	Non-life
Gross premiums collected in France by undertakings authorized in France	313.3	281.2	147.9	133.3
Premiums collected in France by foreign undertakings via European Passport	24.1	25.3	10.7	14.6
Total premiums collected in France	**337.5**	**306.5**	**158.6**	**147.9**
Share of foreign European Passport activity in French domestic activity	**7.6%**	**8.7%**	**7.0%**	**10.6%**

Scope: All undertakings under Solvency II
Note: European passport data is updated one year later.
Source: EIOPA, ACPR.

In life insurance, premiums collected have decreased from EUR 11.8 billion to EUR 10.8 billion between 2019 and 2020, owing to branch closures and lockdowns, so that the market share of foreign European passports increased by 1.7 percentage point, reaching 7 % in 2020. Premiums collected by foreign entities on non-life business reached EUR 2.3 billion, a rise of EUR 14.6 billion. Relative to the domestic premiums of authorized undertakings in France, they increased by 1.2 percentage points to reach 10.6 %.

Chart 2.8.7: Gross earned premiums collected in France via the European passport in 2020



Scope: All undertakings under Solvency II
Note: European passport data is updated one year later.
Source: EIOPA, ACPR.

Foreign undertakings are particularly active in reinsurance activities. Premiums collected by foreign undertakings accounted for 96% of French non-life health reinsurance business, while accident and property casualty reinsurance business accounts for 34 %. 59 % of premiums for maritime, aviation and transport insurance and nearly half of credit and guarantee insurance were collected by undertakings from other EU countries.

Chart 2.8.2: Share of premiums collected by European companies via the European passport in total activity carried out in France in 2020, by business line

EUR billion	Premiums collected on the French market				Share of incoming via European Passport activity in French domestic
		Via European Passport			
Ligne of Business	by undertakings authorized in France	by EEA undertakings exluding United Kingdom	by United Kingdom undertakings	Total premiums collected in France	
All life business lines	**142.24**	**10.74**	**0.00**	**152.98**	**7.0%**
All non-life business lines	**122.29**	**13.09**	**1.47**	**136.85**	**10.6%**
Non-life business line detail					
Health reinsurance similar to non-life	0.02	0.59	0.00	0.61	96%
Credit and suretyship insurance	1.24	1.18	0.02	2.44	49%
Marine, aviation and transport insurance	0.89	1.17	0.09	2.15	59%
Damage, pecuniary loss insurance	2.54	0.68	0.02	3.24	22%
Casualty reinsurance	0.62	0.32	0.00	0.95	34%
Damage to property reinsurance	2.05	0.91	0.14	3.10	34%
General liability insurance	6.97	2.38	0.38	9.73	28%
Fire and other damage to property insurance	22.23	3.00	0.34	25.57	13%
Motor vehicle liability insurance	9.82	0.71	0.11	10.63	8%
Workers' compensation insurance	0.16	0.00	0.00	0.17	2%
Assistance	3.37	0.14	0.00	3.52	4%
Other motor insurance	14.23	0.59	0.19	15.01	5%
Legal expenses insurance	2.23	0.00	0.03	2.27	2%
Income protection insurance	13.26	0.17	0.02	13.45	1%
Medical expense insurance	42.65	1.25	0.12	44.02	3%

Scope: All undertakings under Solvency II

Note: European passport data is updated one year later.

Source: EIOPA, ACPR.