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Analysis and synthesis

The situation of major French banking groups as at end-2021

ACPR
BANQUE DE FRANCE

Summary

France's six leading banking groups have benefited from the sharp improvement in economic conditions in 2021 following the shock of the Covid-19 pandemic: they recorded record results, owing in particular to a sharp increase in revenues, the quality of their credit portfolios continued to improve and their prudential position strengthened, increasing their resilience.

Despite solid results in the first quarter of 2022, French banks face many challenges in an environment of renewed uncertainty fueled by the war in Ukraine and China's response to the resurgence of the pandemic.

Although their direct exposures to Russia and Ukraine are limited, French banks are now operating in a degraded macroeconomic environment characterised by heightened inflation, rising interest rates and declining growth prospects. The 2021 stress test conducted by the European Banking Authority on the basis of very severe scenarios nevertheless underlined the resilience of European and French banks in particular, given their high capital levels.

The worsening economic climate must not obscure other areas of attention, such as the resilience of IT infrastructures to cyber risk and the integration of climate change risks into banks' management systems.

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Key figures

Bank balance sheets reflect continued credit to the economy

	2019	2020	2021		
Balance sheet (bn EUR)					
Total Assets (bn EUR)	7 011,2	7 864,1	8 178,2	↗	+4%
- ow Central Banks Reserves (bn EUR)	528,3	945,2	1 149,3	↗	+21,6%
- ow NFC Loans & Advances (bn EUR)	1 474,8	1 579,7	1 663,3	↗	+5,3%
- ow Households Loans & Advances (bn EUR)	1 753,1	1 810,1	1 895,9	↗	+4,7%
Net non performing loans (bn EUR)	56,2	57,4	52,7	↘	-8,2%
-ow NFC Deposits (bn EUR)	1 063,8	1 322,0	1 363,3	↗	+3,1%
- ow Households Deposits (bn EUR)	1 786,3	1 921,2	2 035,4	↗	+5,9%
Moratoria (bn EUR)		234,2	182,9	↘	-21,9%
- ow not expired (bn EUR)		35,3	0,6	↘	-98,2%
State Guaranteed Loans (bn EUR)		121,0	105,0	↘	-13,3%

Improved credit portfolios

	2019	2020	2021		
Credit risk					
NPL ratio	2,54%	2,22%	1,91%	↘	-31 bps
- ow Households	2,93%	2,63%	2,33%	↘	-30 bps
- ow NFCs	3,96%	3,88%	3,43%	↘	-45 bps
NPL Provisionning Rate	51,2%	49,8%	50,2%	↗	+41 bps
- ow NFC	52,4%	50,2%	49,7%	↘	-50 bps
- ow Households	48,9%	48,8%	49,6%	↗	+83 bps

Strong performance, operational efficiency and profitability

	2019	2020	2021		
Profitability					
Net Result (bn EUR)	28,6	22,3	35,9	↗	60,5%
- ow Net Banking Income	150,6	147,8	162,4	↗	9,9%
- Cost/Income ratio	69,6%	69,3%	66,3%	↘	-3,0 pts
- Cost of risk (bn EUR)	9,0	19,0	8,8	↘	-53,8%

A solid and strengthened prudential situation over the past two years

	2019	2020	2021		
Solvency					
CET1 ratio	14,8%	15,5%	15,7%	↗	+23 bps
- CET1 Capital (bn EUR)	348,8	375,1	389,6	↗	+3,8%
- RWA (bn EUR)	2 359,6	2 424,6	2 507,2	↗	+3,4%
Leverage Ratio	5,3%	5,6%	5,4%	↘	-22 bps
Distance to Maximum Distributable Amount (M	4,35 pts	5,61 pts	5,65 pts	↗	+4 bps
Liquidity					
LCR ratio	131,8%	149,6%	153,8%	↗	4,2 pts

The situation of France's six main banking groups as at end-2021

1. Balance sheets have continued to grow at a more moderate pace than in 2020

At the end of 2021 the total prudential[1] balance sheet of France's six largest banking groups stood at €8,178.2 billion, compared with €7,864.1 billion a year earlier, 4% growth, three times less than in 2020 (Table 1). At the same time, the accounting[2] balance sheet grew by 4.5%, a pace comparable to that of Nordic banks (+4.6%) and Japanese banks (+4.9%), and faster than those of UK banks (+0.8%), the United States (+2.2%) and European banks (-0.7%). Over a long period (2005-2021), however, the six largest French banking groups together with the Japanese banks posted the largest increase in their accounting assets, compared with the major banks in the other countries in our comparison sample (Chart 4).

On the liabilities side, the increase of the prudential balance sheet of French banks was fuelled mainly by a further increase in deposits held by private non-financial agents (households +5.9%, non-financial corporations (NFC) +3.1%) and by resources obtained via the exceptional refinancing operations conducted by the European Central Bank (ECB) from March to December 2021 (TLTRO III 7 to 10). As a result, funds from Eurosystem central banks and beyond, recorded in the balance sheets of French banks, rose by €80.1 billion (+7.4%).

The bulk of these excess deposits were deposited with the Eurosystem: cash balances with central banks grew by 204.1 billion (+21.6%), accounting for two-thirds of total assets growth. Banks also continued to finance the economy: lending to households and non-financial corporations grew by €85.8 billion (+4.7%) and €83.6 billion (+5.3%), respectively. In particular, home lending remained buoyant in France in 2021, with the outstanding rising 6.4% compared with end-2020, after growing by 5.5% in 2020. On the NFC side, "traditional" bank lending has taken over from state-guaranteed loans (PGE[3]), the outstanding of which, after peaking in March 2021 in France, has since declined steadily; against this background, although credit to resident enterprises contracted in 2021 (-2.3% compared with +37.7% in 2020), investment credit remained dynamic (+5.6% after +6.1%).

As a result, the loan to deposit ratio of French banks remains moderate (104.7%) compared with pre-crisis levels (-8.5 percentage points (pt) compared with end-2019) and below the aggregate ratio of European banks (108.6%); Chart 3).

Finally, French banks have gradually reduced their holding of financial assets recognised at fair value, which at end-2021 reached the lowest level since 2014 (Chart 5). Similarly, the proportion of the most complex assets and liabilities (levels 2 and 3 under IFRS 13) decreased in 2021 (Chart 6).

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[1] The prudential balance sheet is limited to the banking entities; it excludes in particular insurance and asset management activities.

[2] Unlike the SII balance sheet, the accounting balance sheet includes all the activities of a group within the meaning of accounting consolidation, whether banking or other activities.

[3] Prêt garanti par l'État

2. Credit risk that remains to be monitored

In 2021, French banks recorded declines in non-performing loans (NPLs) on their balance sheets, both in absolute terms (-7.5%, to €105.7 billion Chart 7) and as a share of loans (-0.3 pt to1.9% at end-2021; Chart 8).

Against a background of a robust[4] labour market, the NPL ratio of loans to households from the six main banking groups fell 0.3 pt to 2.3%.

On the NFC side, the end of the six-month payment holiday granted under the collective moratoria from March 2020 in most cases did not lead to an increase in defaults in 2021. Indeed, the NPL ratio for corporates fell from 3.9% to 3.4%. Moreover, the trend was fuelled by sales of NPL portfolios prior to the COVID crisis, which also affected in particular Italian banks and accounted for the sharp decline in the European average NPL (Chart 9) rate.

However, in the context of the war in Ukraine and the significant resurgence of macroeconomic uncertainties, several indicators call for caution with regard to short-term developments in the quality of French banks' credit portfolios:

- First, the overall decline in NPL ratios across NFCs masks significant divergences across different sectors of activity, with situations also heterogeneous within sectors. For example, the volume of NPLs in accommodation and catering, which suffered greatly from the COVID crisis, has increased by 60% since end-2019 (Chart 11). The conflict in Ukraine is similarly inducing divergences between sectors that are heavily dependent on energy prices or oil and gas derivatives (heavy industry, transport, agriculture) and others.
- Subsequently, the volume of loans that had to be restructured due to borrowers' difficulties (restructured loans, or "*forbearance*") rose for the second consecutive year at an annual rate of more than 28%, and accounted for 1.13% of all loans. More than half of these loans are, however, regarded as performing by banks at end-2021, a proportion that has also risen since 2019 (Chart 14).
- Finally, the share of loans with a significant increase in credit risk (i.e. loans that were reclassified to IFRS9[5] stage 2) continued to increase in 2021 to 8% compared with 7.3% at end-2020 and 6.1% at end-2019 (Chart 13). The share of loans in stage 2 is lower for households (7.1%) than for NFCs (13.6%); for banks, the share of state guaranteed loans (PGE) classified in stage 2 increased sharply to 32.3%. (Chart 17) as repayments have occurred and residual outstanding amounts have become more concentrated in the sectors and the most vulnerable counterparties and/or those that have opted for the two-year depreciation delay and therefore have not yet started to repay the capital of their state guaranteed loan (PGE).

For the time being, however, French banks seem prepared to cope with the consequences of the expected deterioration in the macroeconomic environment on the quality of their loan portfolios: while the cost of risk fell to a level close to its pre-crisis level (see below), the stocks of provisions for stages 1 and 2 (i.e. performing loans) increased by 35% between end-2019 and end-2021 to reach €24.6 billion. At the same time, French banks' level of provisioning for stage 3 loans (loans in default) remained close to 50%, a comparatively high level, being equivalent to the 3rd quartile of European banks (Chart 22). Finally, the slight decline in the coverage ratio of non-performing loans to NFCs is mainly due to the recognition of the guarantee provided under the state guaranteed loan scheme (PGE), which significantly reduces the need for provisions (Chart 21).

3. Record results

French banks increased their net banking income (NBI) in 2021 by 9.9% compared with 2020 (7.8% compared with 2019), to €162.4 billion (Table 2); NBI thus reached its highest level of the decade. Compared with foreign banks, French banks posted the strongest increase in their NBI, compared with banks in Japan (+7.6%) and the United States (+7.4%).

Net interest income, at 45% of NBI, rose 3.5% on the back of the still dynamic credit growth (see above), and capital market income more than doubled in 2021; similarly, net fee and commission income rose by 10.7%.

[4] Employment statistics for the fourth quarter of 2021 INSEE. https://www.insee.fr/fr/statistiques/6051733

[5] See Analyses and Summaries No. 104, Box 1 for a brief description of IFRS9.

All business lines registered an increase in revenues compared with 2020 (as well as compared with 2019, with the exception of international retail banking); the increase in NBI is, however, mainly attributable to retail banking in France (+€4.5 billion), which benefits in aggregate from an increase in lending volumes and in fee income, and to corporate and investment banking (CIB); +4 billion).

Nonetheless, French banks' NBI, as measured by their balance sheet total, remains relatively small, close to British and Nordic banks and above Japanese banks, but significantly smaller than other European banks and their US competitors (Chart 30).

The rate of increase in management expenses (+5.1% compared with 2020, to €107.6 billion), which partly reflected the dynamism of banking and variable remuneration, remains lower than NBI. As a result, the cost-to-income ratio has been reduced by 3 bps to 66.3%, which is now comparable to the top foreign banks (64% in the United States and 63% in the rest of Europe) but above the Nordic banks (47.8%) (**Erreur ! Source du renvoi introuvable.**).

As a result, gross operating income (RBE[6]) rose by €9.3 billion and rose across all business lines except for international retail banking (Chart 26).

The cost of risk is less than half the level of 2020, i.e. a €10.2 billion reduction to €8.8 billion and reaches its pre-COVID level of €9 billion. The decline was particularly pronounced for retail banking in France (-4.0 billion) and CIB (-4.1 billion; Chart 27). All business lines also show a significant decline in their cost of risk relative to NBI (Chart 28). Risk-related costs fell across all geographical areas, with significant reversals of provisions by UK and US banks.

In sum, French banks' current operating income rose by 74% to €46 billion (Chart 29). The same applies to pre-tax income and net income, which rose by 55.6% and 60.5% respectively, compared with 2020.

Against this background, the return on equity of French banks *(*RoE*)* improved by 4.7 pt to 7.2% (Chart 38), a level slightly higher than that of Japanese banks and the rest of Europe, but lower than that of US and Nordic banks. RoE growth was driven almost exclusively by return on assets - RoA, which rose by 24 bps to 0.37% for French banks (Chart 37). RoA increases are driven mainly by the decrease in the cost of risk, with the exception of French and Japanese banks, whose main driver (Chart 39) is higher revenues.

4. Prudential situation strengthened

The *common equity tier* 1 (CET1) solvency ratio of the six main French banking groups reached 15.5% at end-2021, almost unchanged from end-2020 (+6 bps) but up 76 bps compared with end-2019 (14.8%; Chart 41), the increase in *risk weighted assets* (RWA; +3.4% between 2020 and 2021) being comparable to the increase in CET1 capital (+3.9% over the same period). French banks also continued to increase their total capital,with notabloey an increase in Tier 2 capital of €7.3 billion (Chart 47). French banks still have a relatively high CET1 ratio compared to their competitors, with only the Nordic banks showing significantly higher solvency levels (Chart 44).

While the easing measures taken by supervisors in response to the crisis continued to apply in 2021[7], the prudential framework has since been in the process of being standardised: several *countercyclical capital buffers* were raised (CCyB; including in France, where the requirement will increase to 0.5% from 7 April 2023), freezing of P2R requirements, which are further revised upwards for some of the French groups from 2022, and ending the authorisation of the P2G waiver on 1 January 2023. However, French banks have the necessary room for manoeuvre in CET1 capital to absorb these changes (Chart 46).

RWAs continued to rise in 2021 to €2,507.2 billion, an increase of €82.6 billion compared with 2020 (Chart 48). This increase in RWA, which was larger than in 2020 (+65 billion), was due solely to credit risk (+87 billion), which still accounts for the bulk of total RWAs (86.8%); on the contrary, RWAs for operational risks and market risks declined during the period (-5.7 billion and -1.6 billion respectively):

- RWAs rose by 4.2% on credit risk and continued to be driven by sustained balance sheet growth ("volume" effect; (Chart 50);

- The decrease in market risk RWAs was driven mainly by a 45% decrease in RWAs related to *Value at Risk* (VaR; -6.8 billion) against the background of the gradual normalisation of financial markets in 2021 and the curtailment of activities by some banks; conversely, RWAs

[6] Difference between NBI and management costs.

[7] Reduction of the CCyB to 0% in France and many countries, notwithstanding *Pillar 2 guidance* - P2G, capital coverage rules of the *Pillar 2* - P2R requirements (as per Pillar 1 requirements, Pillar 2 requirements must now be covered by CET1 capital up to 56.25%, by AT1 up to 18,75 % and Tier 2 up to 25 %

related to stressed VaR and RWAs calculated using the standard method increased by €3.4 billion and €2.1 billion respectively (Chart 52). An analysis of the evolution of market RWA by risk factors shows that, while the situation changed little compared with end-2020, interest rate risk, which is the largest component[8], fell by 8% between 2020 and 2021, while commodity risk more than doubled (Chart 53); the latter increase was mainly driven by the stressed VaR component and an increase in bank positions.

The RWAs on market[9] activities increased by €3 billion from €176 billion to €179 billion, while the decline in volumes did not fully offset the increase in the average weighting (Chart 55).

- Operational risk RWAs decreased slightly in 2021 (-2.3%; Chart 57) as well as operating losses (-2.9% to €1.9 billion; Chart 58); despite the increasing use of digitalisation by customers and the expansion of teleworking, losses due to business disruptions and system failures have remained limited, also down on 2020.

The leverage ratio of the six main French banking groups decreased slightly in 2021 from 5.6% to 5.4% (Chart 60), *Tier* 1 (T1) own funds (+2.8%), rose significantly less than requirements (+10.6%); however, the leverage ratio remains well above the existing minimum requirement of 3%. Excluding the interim exemption of deposits held with the Eurosystem, which ended on 1 April 2022, the leverage ratio is estimated to have been 5% at the end of 2021.

Moreover, the gap between solvency and leverage T1 capital requirements narrowed further in 2021 (Chart 61), although solvency requirements remain the most stringent. Nevertheless, with constant balance sheets and RWAs, the projected 2022-2023 levels of requirements suggest that leverage constraints may become the most significant (Chart 62).

French banks also comply with the ratios on *total loss absorbing capacity (*TLAC), which is applicable at international level to all four systemically important banks (GSIB[10] Chart 63), and with minimum requirements for own funds and eligible liabilities (MREL).

Finally, the *liquidity coverage ratios* (LCR) of the six main French banking groups increased by more than 4.2 pt in 2021 to 153.8% on the back of an increase in *high quality liquid assets* (HQLA; +18%), which, although moderating compared with the previous year, remains above the increase in net cash outflows (+15%; Chart 64). This development particularly reflected the increase in deposits held with central banks, which are included in the numerator of the ratio (see above and Chart 65).

At the same time, the *net stable funding ratio* – (NSFR) continues to increase in 2021 to 121.1%, i.e. 6.6 pt over one year (Chart 67). This is almost exclusively due to the growth in *available stable funding* (ASF; +15.7%) on the back of increased *deposits on the liabilities side with required stable funding* (RSF), which remains almost unchanged at 1%.

5. Many uncertainties

The financial results published for the first quarter of 2022 at the time of writing this paper[11] provide an insight into the latest trends in some of the French groups under review, in the light of recent developments in financial and commodity markets, as well as the macroeconomic outlook relating in particular to the war in Ukraine, the net results are broadly stable compared with the first quarter of 2021 at a high level:

- incomes continued to grow at a robust pace, with all business lines performing well; in particular, retail banking in France benefits from increasing interest rates, while corporate and investment banking has benefited from market volatility, which increased the demand for hedging products from clients;
- however, management costs increased sharply, slightly lowering the cost/income ratio; in particular, some banks cite the increase in contributions to the single resolution fund as an explanation for this trend;
- the cost of risk is rising, but remains contained.

[8] Interest rate risk alone accounted for nearly 38% of market risk at end-2021.

[9] *Sum of market, counterparty, credit value adjustment* (CVA) and settlement *risks*.

[10] BNPP, Société Générale, Crédit Agricole Group and BPCE Group.

[11] Only three banking groups published their results in Q1 2022 as of the date of the study.

This relatively strong performance by French banks in the first quarter of 2022 should not obscure the fact that they remain exposed to several significant risks that may materialise in the coming months:

- Russia's invasion of Ukraine, as well as the impact of measures taken in China in the face of the resurgence of the pandemic, have significant adverse effects on the evolution of the macroeconomic environment in the short to medium term. Rising energy, commodity and agricultural prices, supply difficulties in many sectors, rising inflation implying tighter monetary policies and higher interest rates are various factors that could affect borrowers' positions and financial market volatility.

  However, the stress test conducted by the European Banking Authority in 2021, which envisaged a severe deterioration in the macroeconomic environment, highlighted the resilience of European and French banks in particular, given the higher capital levels achieved since the implementation of Basel III.

- The increasing digitalisation of banking activities linked to the pandemic and the conflict in Ukraine were not accompanied by an increase in losses from cyber security incidents in the years 2020 and 2021; however, the frequency of cyber attacks, which affect all types of actors, and their increasing sophistication call for greater vigilance.

- Finally, the growing risks of climate change need to be addressed by banks; integrating this dimension into risk management strategies and arrangements is a key focus of supervisory attention. In this regard, the ECB is conducting an exercise to assess euro area banks' management arrangements and risk exposures, which will be finalised in July 2022; the ACPR is also continuing its work with other leading financial institutions as a follow-up to the 2020-2021 pilot exercise to improve the understanding of risks that are still under-hedged (in particular physical risk) and to prepare a further exercise in 2023-2024, following procedures that have yet to be defined.

CONTENTS

METHODOLOGY 10
CREDIT RISK UNDER CONTROL IN A CONTEXT MARKED BY GREAT UNCERTAINTY 11
1. Continued balance sheet growth 11
2. French banks' fair value balance sheet share declined in 2021 14
3. Credit risk remains contained but the trend may reverse with the increase in loans in stage 2 of IFRS 9 and the worsening macroeconomic outlook 15
3.1 Non-performing loan ratios decreasing 15
3.2 Performing assets with deteriorating quality 17
3.3 The share of forborne non-performing exposures in forborne loans has stabilised since June 2021 18
3.4 The average credit quality of state-guaranteed loans deteriorates as repayments and residual outstanding amounts are concentrated in the sectors most affected by the COVID crisis 19
4. Maintenance of provisions built up during the COVID-19 crisis 20
RESULTS STRONGLY INCREASING 23
1. Record revenue and a normalising cost of risk 23
2. Improvements in profitability led in particular by Retail Banking in France and Corporate and Investment Banking 24
3. An improvement in the profitability of French banks comparable to that of their European, American and Japanese peers 28
A STRENGTHENING OF THE PRUDENTIAL SITUATION 34
1. Higher own funds as well as solvency ratios 34
2. Increase of RWAs fed by credit risk 39
2.1 RWAs for credit risk arising from increased balance sheets 39
2.2 A slight decline in market risk RWAs 41
2.3 RWAs for operational risks stabilising 44
3. A slight decline in leverage ratios in a context of a continued increase in exposures 45
4. TLAC and MREL ratios exceeding requirements 47
5. Liquidity ratios continued to rise 47

METHODOLOGY

This analysis covers all operations of the six main French[12] banking groups operating in different geographical areas, including those carried out by subsidiaries established in foreign countries, provided that they are included in their accounting scope of consolidation (information stemming from the financial reporting of the groups) and prudential consolidation (data stemming from regulatory reports).

Two types of regulatory[13] reporting are used:

- FINREP data, which present the consolidated accounting vision for the prudential scope;
- - COREP data which provide the necessary elements for monitoring regulatory requirements in solvency, leverage and liquidity.

For some risk indicators, the situation of the six main groups is compared with the European situation through risk indicators (key risk indicators - KRI), collected and consolidated quarterly by the European Banking Authority (EBA) on a sample of EU banks. Comparisons are also made with major banks on the European continent (within and also outside the European Union) and the United States on an international[14] scale. Finally, in the case of US banks, derivatives whose national accounting rules allow for netting were included in the balance sheet total in order to obtain a comparable basis with their competitors.

[12] BNP Paribas, Société Générale, Crédit Agricole Group, BPCE Group, Crédit Mutuel Group and Banque Postale

[13] For more information, see E-surfi.

[14] The analysis is based on the following samples of foreign banks:

- UK banks: Barclays, Lloyds Banking Group, NatWest (ex RBS), Standard Chartered, HSBC;
- Nordic banks: Nordea (FI), Danske Bank (DK), SEB (SE), Handelsbanken (SE), Swedbank (SE), DNB (NO);
- Other European banks (EU): Deutsche Bank (DE), Commerzbank (DE), ING (NL), UBS (CH), Credit Suisse (CH), Unicredit (IT), Intesa San Paolo (IT), Santander (ES), BBVA (ES);
- North American banks (US): Goldman Sachs, Morgan Stanley, JP Morgan, Bank of America, Citigroup, Wells Fargo, State Street, BNY Mellon;
- Japanese banks (JPs): Mitsubishi UFJ financial group, Mizuho financial group, Sumitomo Mitsui financial group.

CREDIT RISK UNDER CONTROL IN A CONTEXT MARKED BY GREAT UNCERTAINTY

1. Continued balance sheet growth

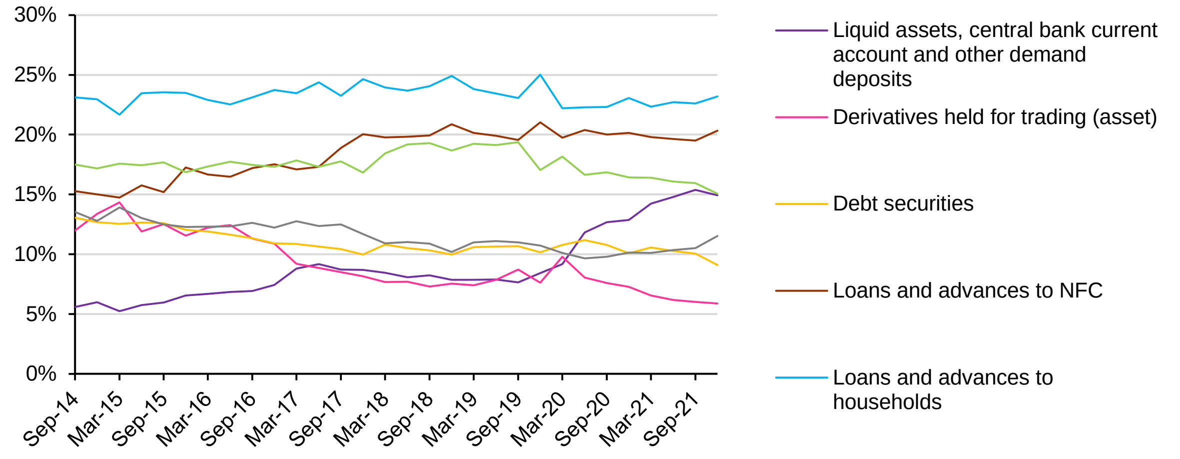
Table 1 Aggregate balance sheet developments of the six main French banking groups

Prudential balance sheet Top 6 (Bn€)	31/12/2021	31/12/2020	Structure 31/12/2021	Var° Dec 2021/Dec 2020	Contrib° to var° Dec 2021/Dec 2021
TOTAL ASSETS	**8 178,2**	**7 864,1**	**100,0%**	**+4,0%**	**+4,0%**
Liquid assets, central bank current account and other demand deposits	1 221,2	1 010,2	14,9%	+20,9%	+2,7%
Central bank current account	1 149,3	945,2	14,1%	+21,6%	+2,6%
Derivatives held for trading (asset)	481,1	458,7	5,9%	-18,1%	-1,4%
Debt securities held	743,1	790,7	9,1%	-6,0%	-0,6%
Debt securities: Central banks	16,8	18,2	0,2%	-7,8%	+0,0%
Debt securities: Central governments	473,7	503,7	5,8%	-5,9%	-0,4%
Debt securities: Credit institutions	100,3	116,4	1,2%	-13,8%	-0,2%
Debt securities: Other financial undertakings	83,5	83,6	1,0%	-0,0%	+0,0%
Debt securities: NFCs	68,7	68,8	0,8%	-0,2%	+0,0%
Loans and advances	4 790,5	4 679,5	58,6%	+2,4%	+1,4%
Loans and advances: Central banks	55,1	79,7	0,7%	-30,9%	-0,3%
Loans and advances: Central governments	337,2	337,3	4,0%	-0,0%	+0,0%
Loans and advances: Credit institutions	361,6	373,7	4,4%	-3,2%	-0,2%
Loans and advances: Other financial undertakings	477,4	499,0	5,8%	-4,3%	-0,3%
Loans and advances: NFCs	1 663,3	1 579,7	20,3%	+5,3%	+1,1%
Loans and advances: Households	1 895,9	1 810,1	23,2%	+4,7%	+1,1%
Derivatives - hedge accoutning	48,1	72,8	0,6%	-3366,3%	-0,3%
Other assets	894,2	723,2	10,9%	-1979,8%	+2,2%
TOTAL LIABILITIES	**8 178,2**	**7 864,1**	**100,0%**	**+5,3%**	**+4,0%**
Derivatives held for trading (liability)	476,0	593,5	5,8%	+15,3%	-1,5%
Debt securities issued	1 135,0	1 132,7	13,9%	+5,8%	+0,0%
Deposits	5 319,9	5 053,5	65,1%	+1,7%	+3,4%
Deposits: Central banks	602,0	521,9	7,4%	+2,3%	+1,0%
Deposits: Central governments	90,3	85,4	1,1%	+3,1%	+0,1%
Deposits: Credit institutions	334,7	329,0	4,1%	+5,9%	+0,1%
Deposits: Other financial undertakings	894,4	874,0	10,9%	-23,0%	+0,3%
Deposits: NFCs	1 363,3	1 322,0	16,7%	+5,2%	+0,5%
Deposits: Households	2 035,4	1 921,2	24,9%	+28,2%	+1,5%
Derivatives - hedge accounting	53,0	68,9	0,6%	+32,3%	-0,2%
Own funds	492,9	468,6	6,0%	+0,1%	+0,3%
Other liabilities	701,3	547,0	8,6%	+14,5%	+2,0%

Source: FINREP statements and ACPR calculations in EUR billions;

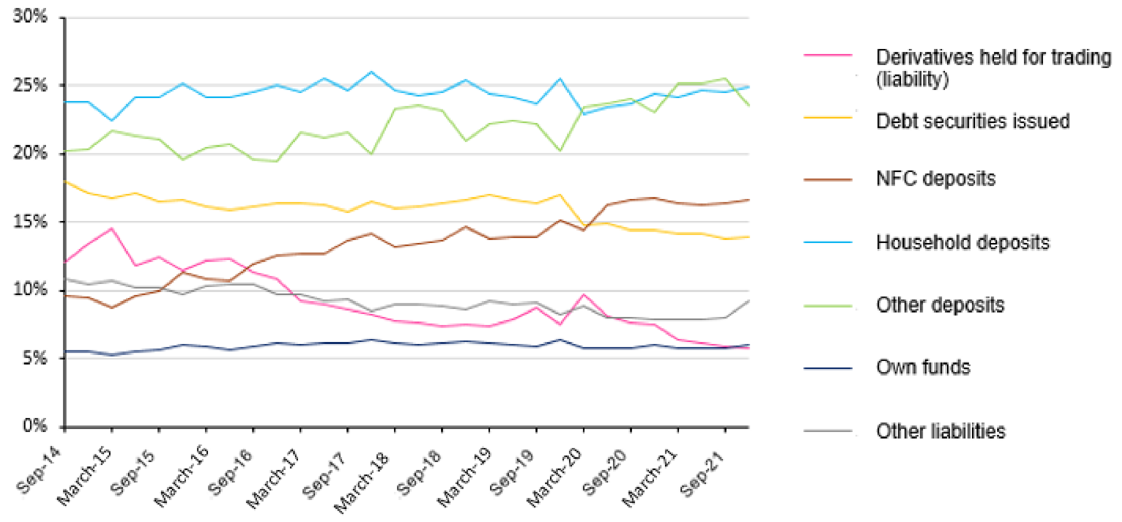
Contribution to change: change in the item in relation to the balance sheet total 2020

Chart 1 Changes in the asset structure of France's six main banking groups



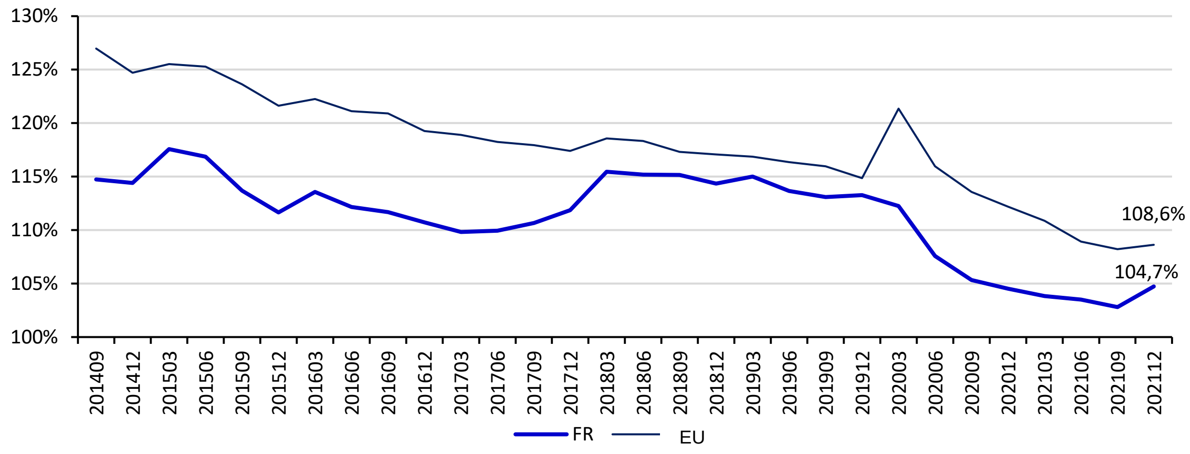
Source: FINREP statements, ACPR calculations

Chart 2 Changes in the liability structure of France's six main banking groups



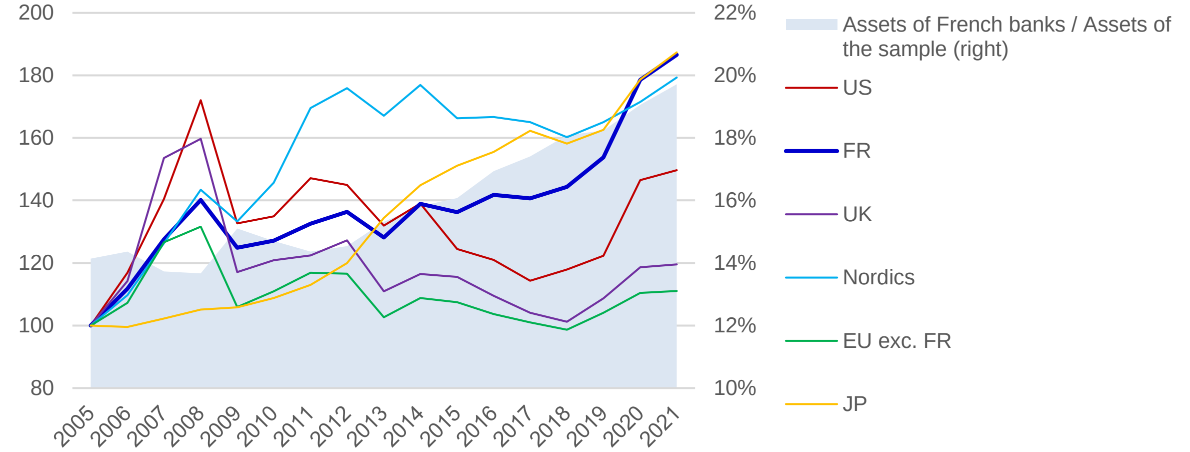
Source: FINREP statements, ACPR calculations

Chart 3 Loan - to - deposit ratios (households and NFCs) for French and European banks



Source: KRI EBA Q4 2021, ACPR calculations

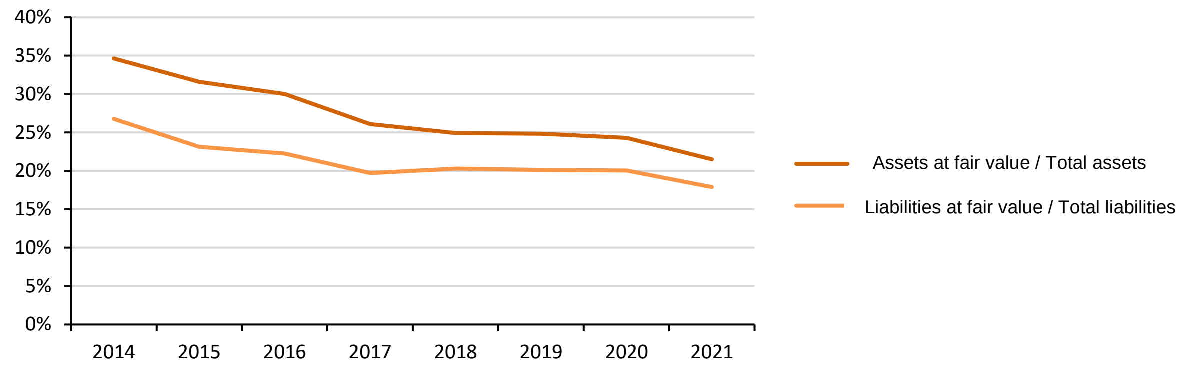
Chart 4 Bank balance sheet developments since 2005 - international comparison



Source: financial reporting, ACPR calculations; base 100 in 2005

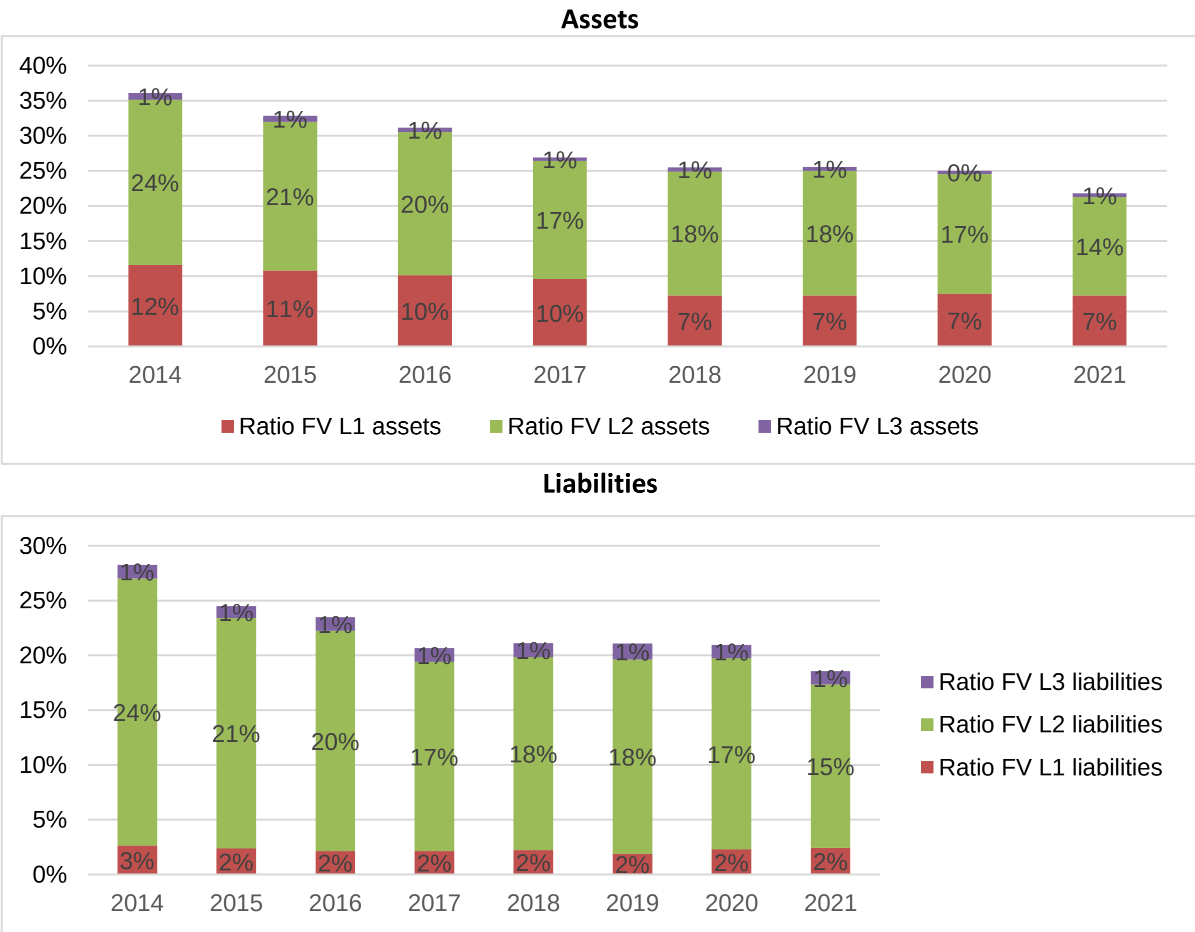
2. French banks' fair value balance sheet share declined in 2021

Chart 5 Share of fair value items by profit or equity in the balance sheet total of the six main French banking groups



Source: COREP reports, ACPR calculations

Chart 6 Share of assets and liabilities recognized at fair value of the six main French banking groups by stage under IFRS 13

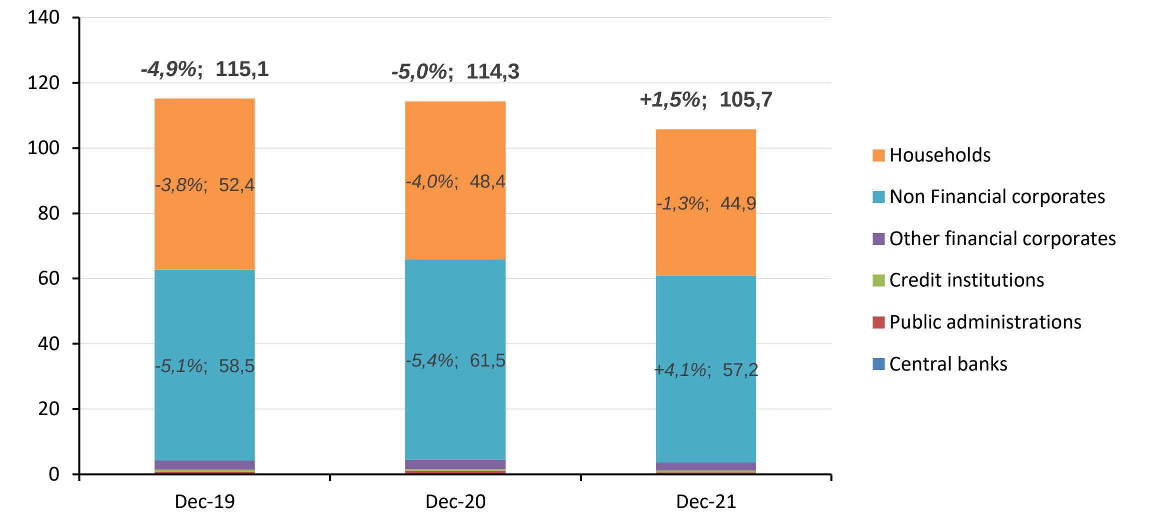


Source: COREP reports, ACPR calculations

3. Credit risk remains contained but the trend may reverse with the increase in loans in stage 2 of IFRS 9 and the worsening macroeconomic outlook

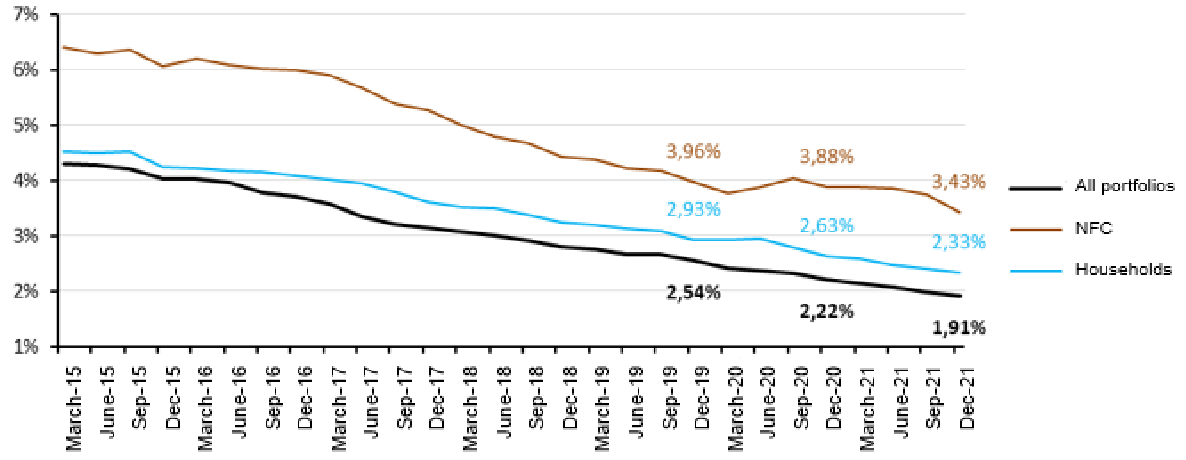
3.1 Non-performing loan ratios decreasing

Chart 7 Evolution of the stock of non-performing loans *(Non-performing Loans* - NPLs) of France's six main banking groups



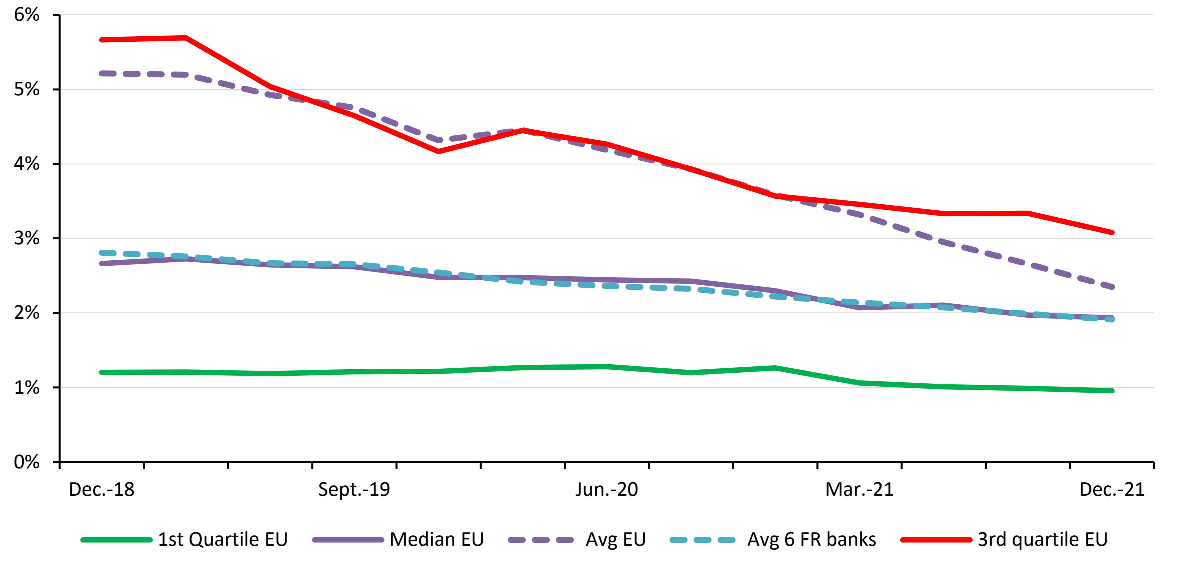
Source: FINREP statements, ACPR calculations; [+0.0%; 0.0]: [one-year change; NPL in EUR billions]

Chart 8 NPL ratios of the six largest French banking groups by counterparty



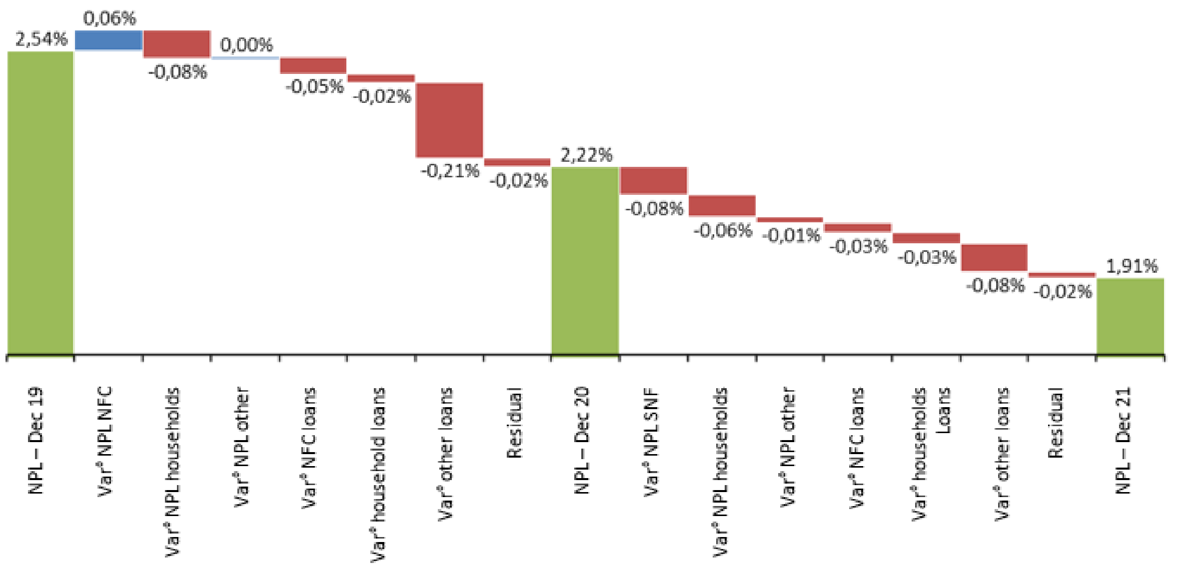
Source: FINREP statements, ACPR calculations

Chart 9 **Evolution of the NPL ratio of major European banks**



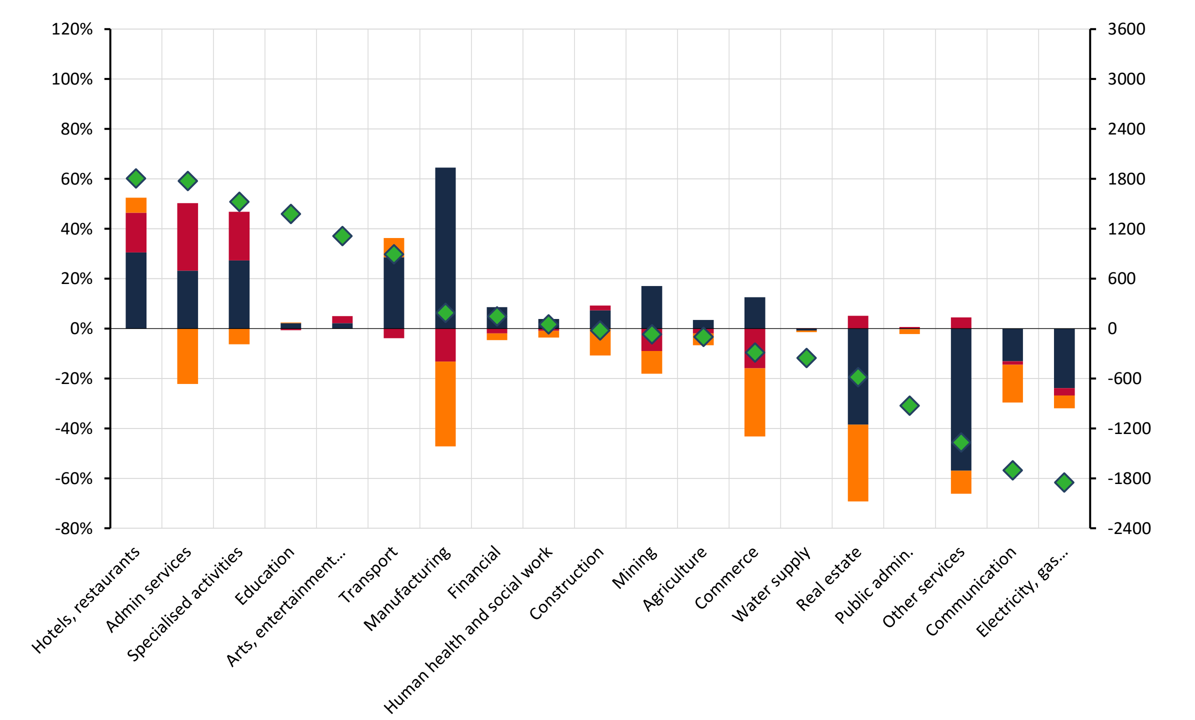
Source: Key Risk Indicators EBA (AQT 3.2), ACPR calculations

Chart 10 **Explanatory factors for the change in the non-performing loan rate of the six major French banking groups between 2020 and 2021**



Source: FINREP statements, ACPR calculations

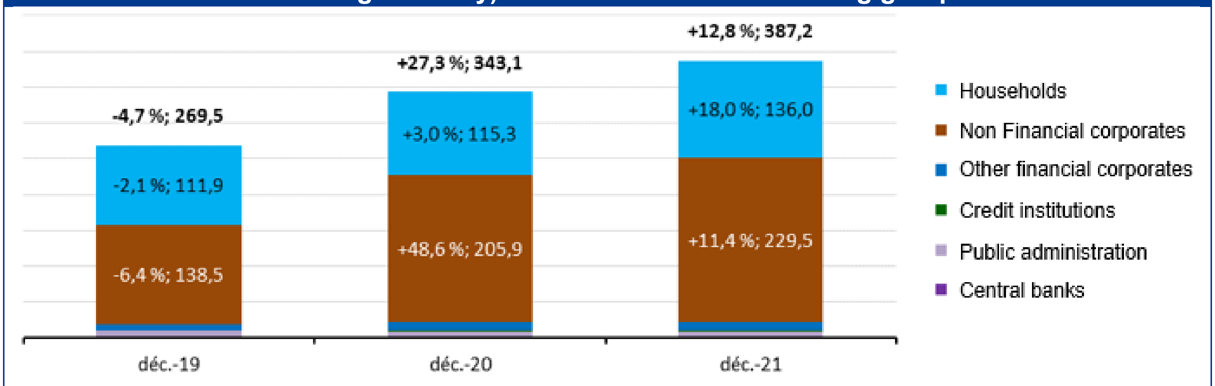
Chart 11 Evolution of the NPL stock of the six largest French banking groups, by sector of NACE



Source: FINREP statements, ACPR calculations

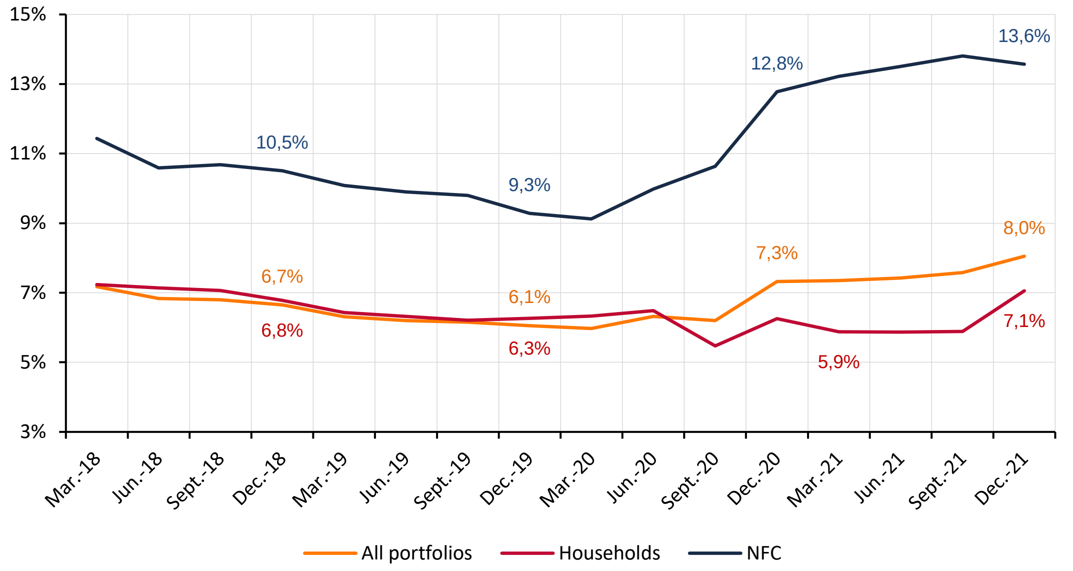
3.2 Performing assets with deteriorating quality

Chart 12 Evolution of the stock of assets in stage 2 IFRS9 (i.e. where credit quality deteriorated significantly) of France's six main banking groups



Source: FINREP statements, ACPR calculations; [+0.0%; 00.0]: [one-year change; EUR trillions]

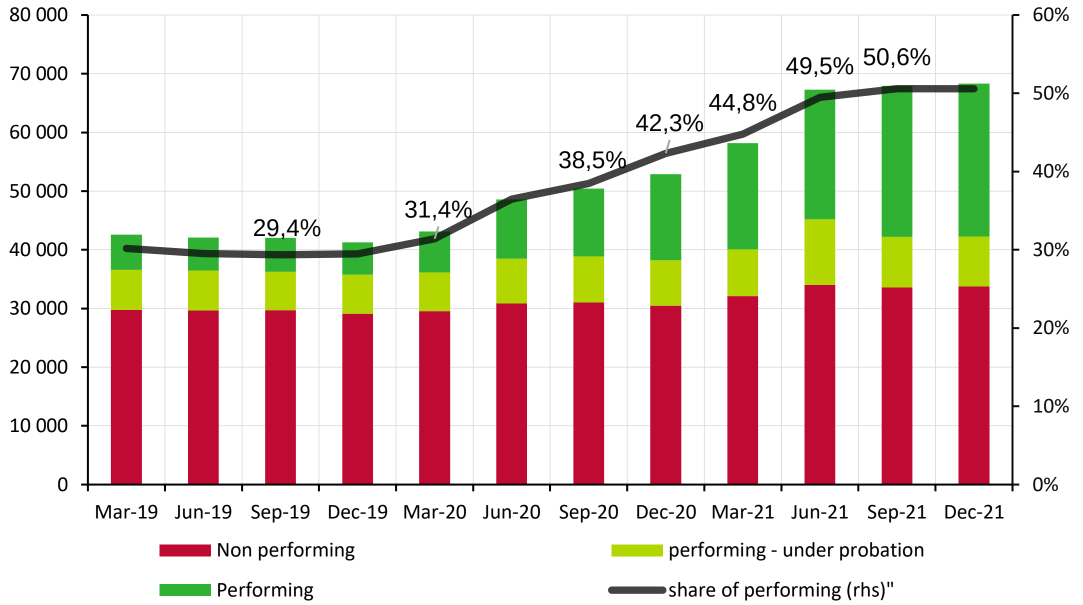
Chart 13 Evolution of the share of IFRS9 stage 2 assets of France's six main banking groups by counterparty



Source: FINREP statements, ACPR calculations

3.3 The share of forborne non-performing exposures in forborne loans has stabilised since June 2021

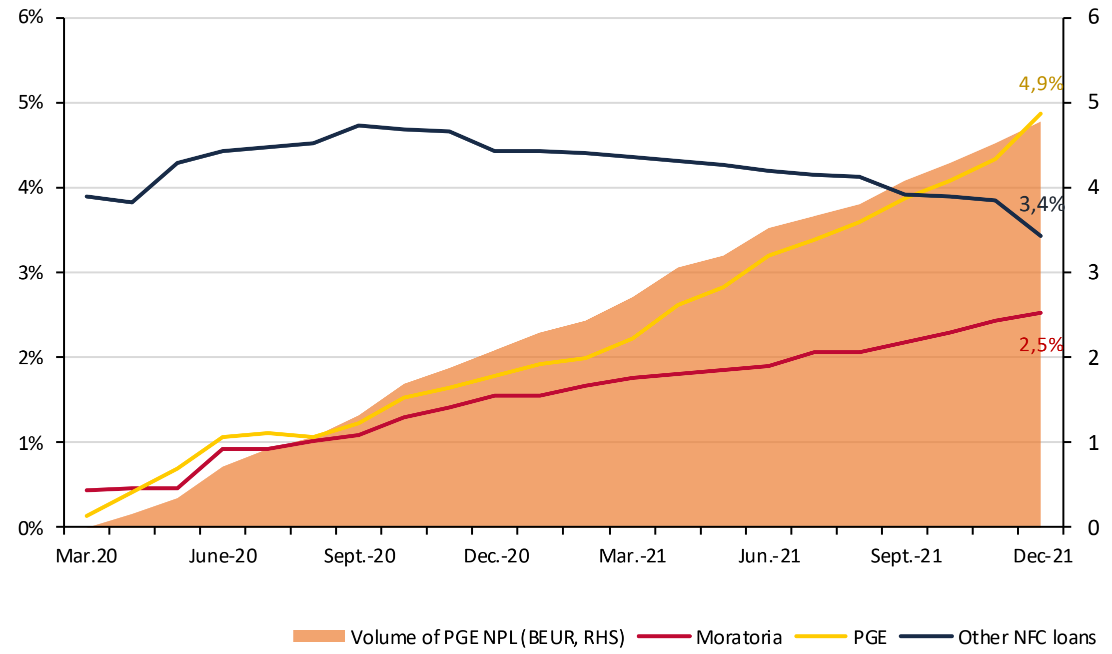
Chart 14 ***Evolution of forborne exposures*** **of the six main French banking groups in EUR millions.**



Source: FINREP statements, ACPR calculations.

3.4 The average credit quality of state-guaranteed loans deteriorates as repayments and residual outstanding amounts are concentrated in the sectors most affected by the COVID crisis

Chart 15 Evolution of NFC NPL ratios by type of loan, including state-guaranteed loans

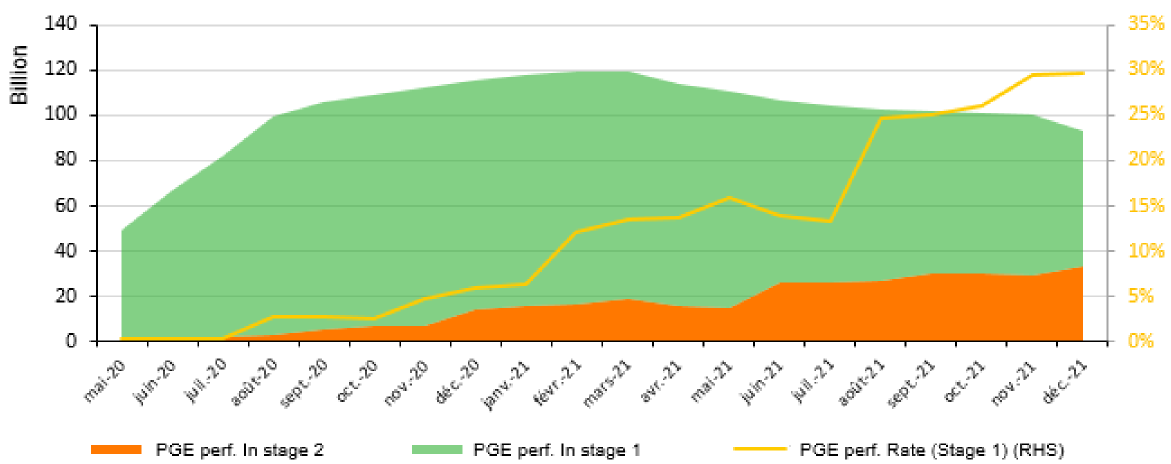


Source: FINREP statements, ACPR calculations

Notes:

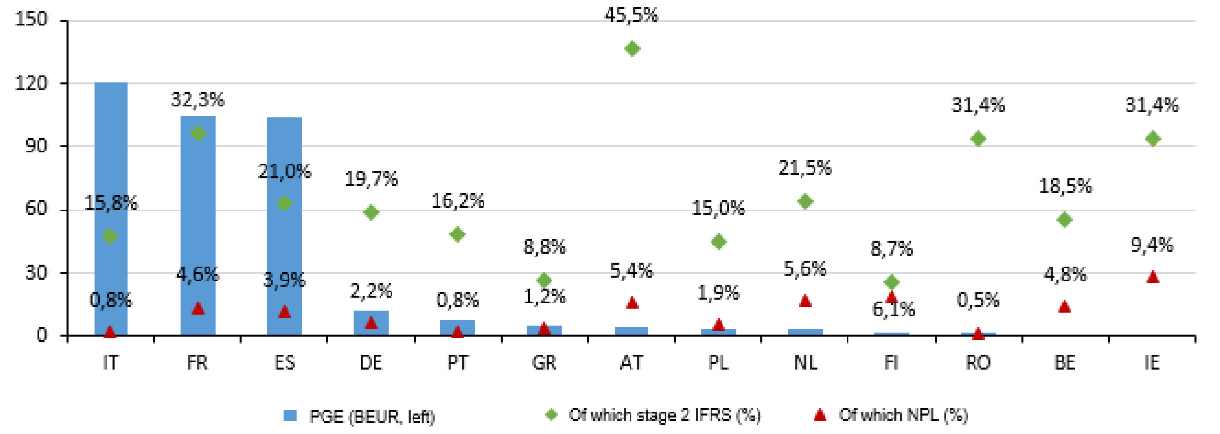
- *Moratoriums are defined as the temporary suspension of repayment maturities of loans collectively set up by banks in accordance with the guidelines of the European Banking Authority. Most of these moratoriums ended as early as the fourth quarter of 2020.*
- *The NPL ratio of state-guaranteed loans is calculated on the basis of the PGE outstanding at each maturity*

Chart 16 Evolution of PGE to NFCs in stage 2 IFRS9



Source: FINREP statements, ACPR calculations

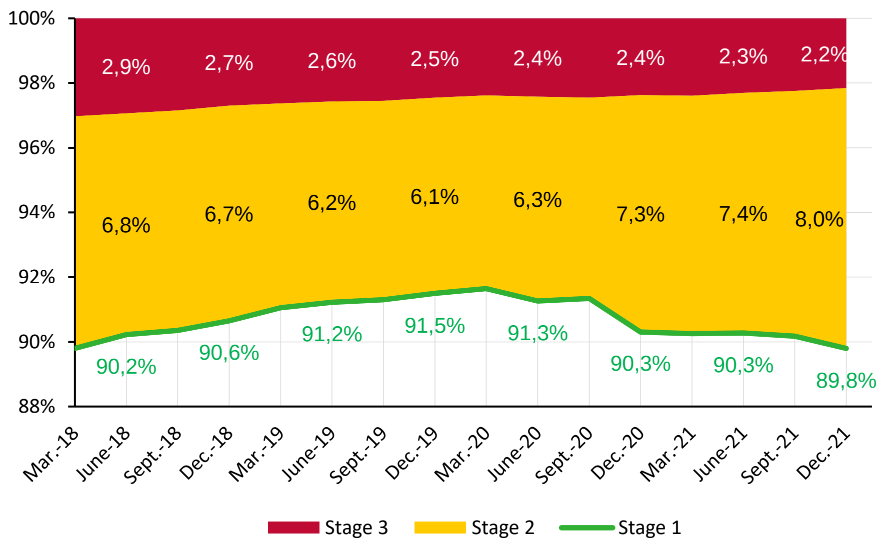
Chart 17 **Comparison of European banks' PGE outstanding (by head banking group country of residence) at end-2021 - in terms of volume (EUR billions) and quality (NPL and IFRS 9 stage 2)**



Source: EBA KRI, ACPR calculations

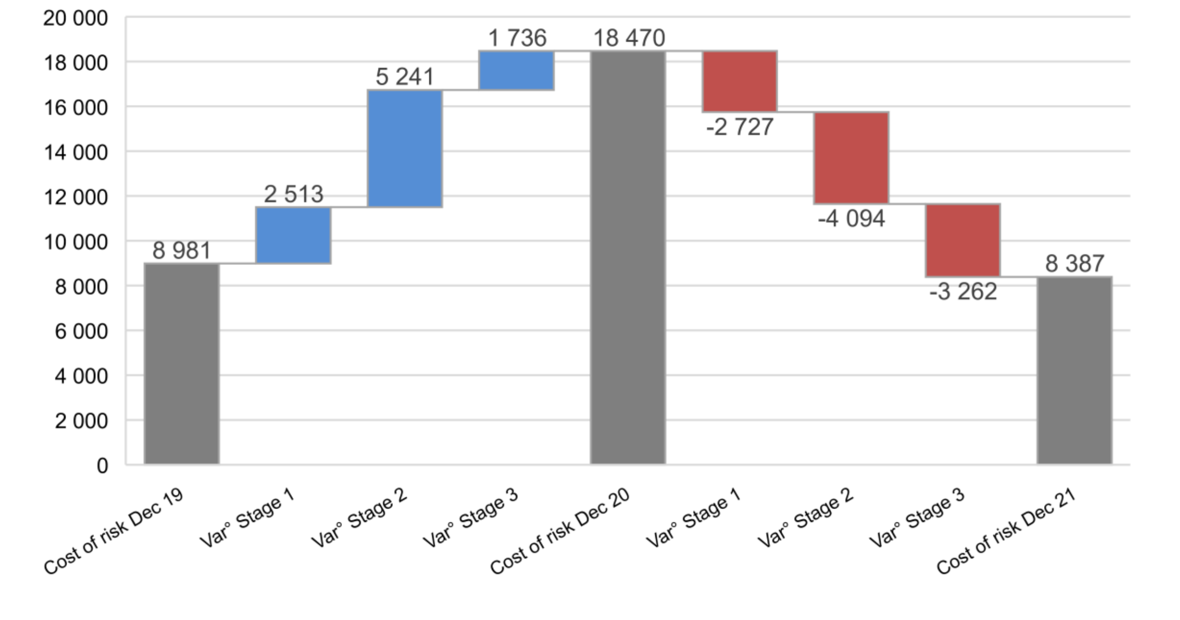
4. Maintenance of provisions built up during the COVID-19 crisis

Chart 18 **Breakdown of assets of the six main French banking groups by IFRS9 stage**



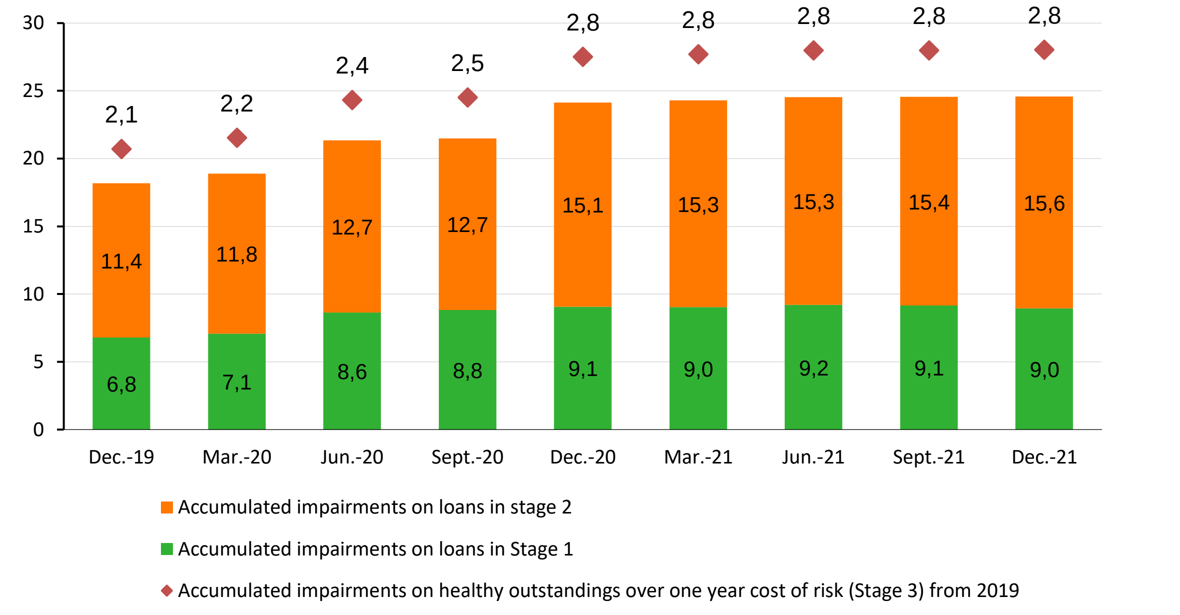
Source: FINREP statements, ACPR calculations

Chart 19 **Decline in the cost of risk in 2021 covering all IFRS9 stages**



Source: FINREP, ACPR calculations; euro million data

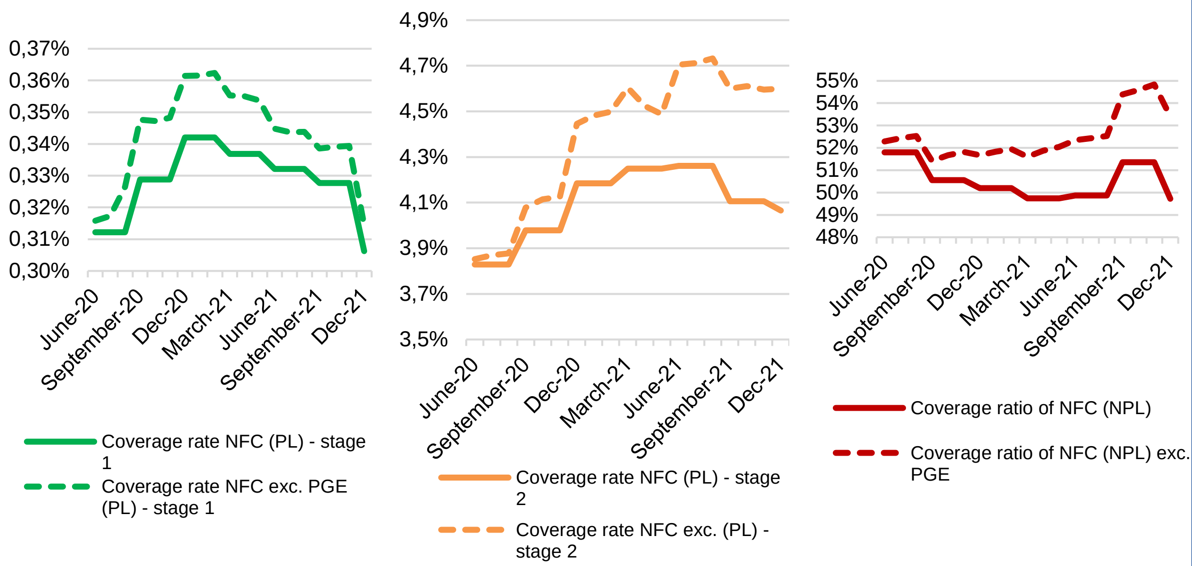
Chart 20 **Stock of provisions in stages 1 and 2 IFRS 9**



Source: FINREP statements, ACPR calculations; euro billions data

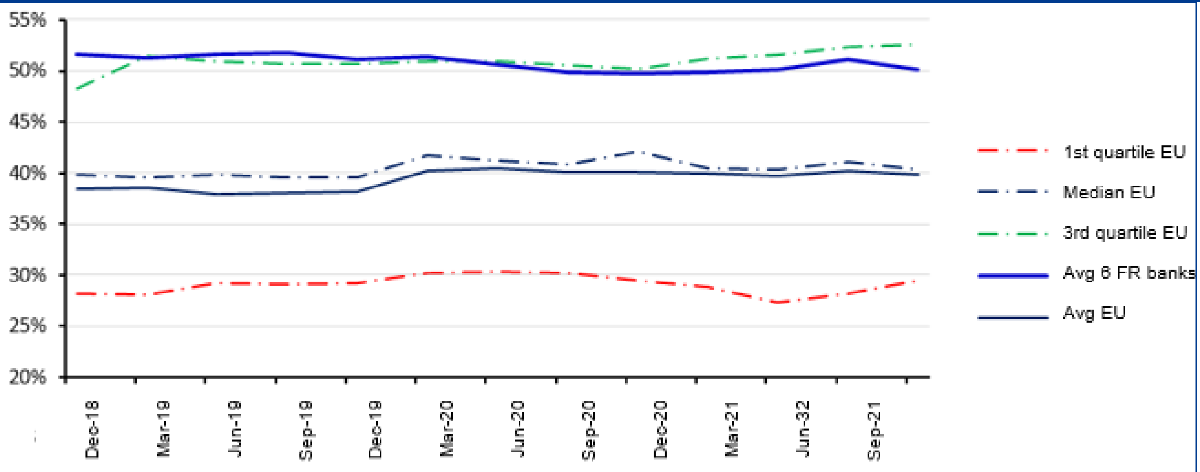
Read: At the end of 2021, the stock of impairments on healthy outstandings was equivalent to 2.8 years of credit default losses (in stage 3) on the basis of 2019 as the reference year.

Chart 21 Evolution of the coverage ratio on loans to NFCs, including the impact of PGE, by IFRS9 stage



Source: FINREP statements, ACPR calculations; PL = performing loans

Chart 22 Evolution of the NPL provisioning rate of major European banks



Source: EBA Risk dashboard (AQT 41.2)

RESULTS STRONGLY INCREASING

1. Record revenue and a normalising cost of risk

Table 2 Growth in earnings of the six largest French banking groups

	TOTAL		
	2021	2020	Var° / 2020
Net banking income	**162,4**	**147,8**	***+9,9%***
- of which net interest margin	73,2	70,7	*+3,5%*
- of which net commissions	41,0	37,0	*+10,7%*
- of which net market income	45,1	19,4	*x2,3*
- of which other banking income	3,1	20,7	*-85,2%*
Management costs	107,6	102,4	*+5,1%*
Cost-to-income ratio	**66,3%**	**69,3%**	***-3 pts***
Gross operating profit	**54,7**	**45,4**	***+20,5%***
Cost of risk	**8,8**	**19,0**	***-53,8%***
Current operating income	**46,0**	**26,4**	***+74,0%***
Other income and expenses	2,3	4,6	*-49,7%*
Earnings before tax	**48,3**	**31,0**	***+55,6%***
Taxes	11,5	8,5	*+34,4%*
Net result of discontinued operations	-0,9	-0,1	*-527,5%*
Net income	**35,9**	**22,3**	***+60,5%***
Minority interest	2,7	2,0	*+36,3%*
Group net income	**33,1**	**20,3**	***+63,0%***

Source: Financial reporting, ACPR calculations; euro billions data

Table 3 Growth in the earnings of the six main French banking groups - detail by business line

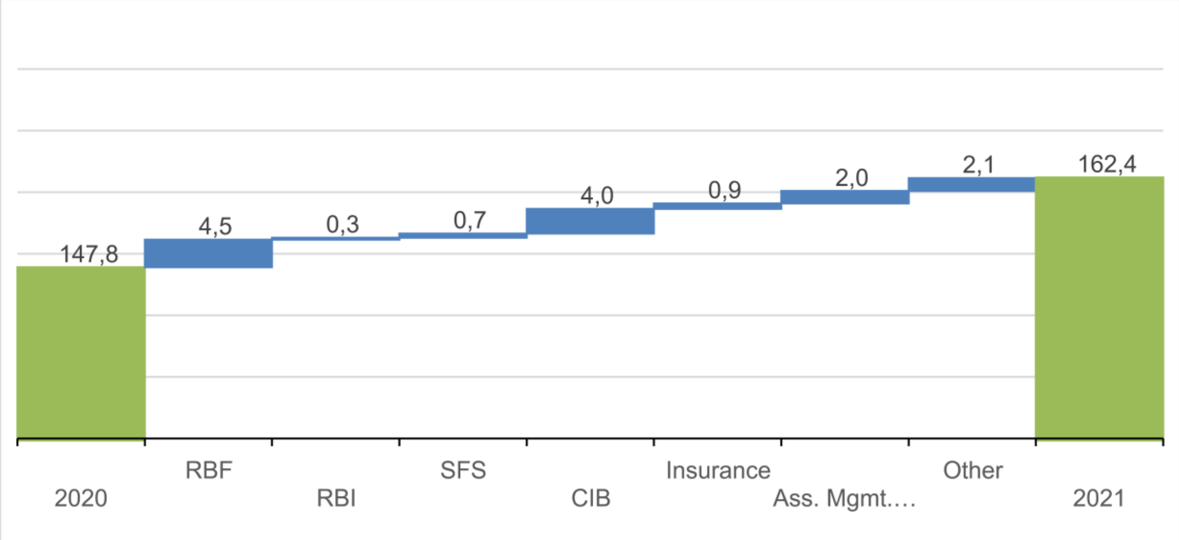
	BDDF		BDDI		SFS		BFI		Ass. & Gest. Act.		Hors métiers	
	2021	Var° /	2021	Var° /	2021	Var° /	2021	Var° /	2021	Var° /	2021	Var° /
Net banking income	**66,5**	***+7,3%***	**19,5**	***+1,4%***	**15,6**	***+5,0%***	**33,2**	***+13,9%***	**25,6***	***+12,9%***	**1,9**	***n.s.***
Management costs	44,8	*+3,3%*	12,9	*+5,0%*	8,3	*+4,7%*	21,1	*+5,3%*	15,2	*-0,1%*	5,3	*+51,1%*
Cost-to-income ratio	**67,4%**	*-2,6 pts*	**66,0%**	*-7,2 pts*	**53,0%**	*-3,7 pts*	**63,7%**	*-5,2 pts*	**59,5%**	*-7,7 pts*	**N/A**	**N/A**
Gross operating profit	**21,7**	*+16,7%*	**6,6**	*-5,0%*	**7,3**	*+5,3%*	**12,1**	***+32,8%***	**10,4**	***+39,3%***	**-3,3**	*+8,2%*
Cost of risk	**3,9**	*-51,1%*	**1,9**	*-39,5%*	**2,2**	*-32,6%*	**0,5**	***-88,9%***	**0,2**	***-16,8%***	**0,1**	***n.s.***
Current operating income	**17,8**	*+66,5%*	**4,7**	*+23,2%*	**5,1**	*+38,2%*	**11,5**	***x2,6***	**0,4**	***+41,2%***	**-3,5**	***+0,4%***
Other income and expenses	**-0,2**	*n.s.*	**0,2**	*-10,1%*	**-0,2**	*n.s.*	**-0,6**	*n.s.*	**1,0**	*-86,6%*	**2,8**	*x3,6*
Earnings before tax	17,7	***+60,8%***	4,9	***+21,4%***	4,9	***+26,2%***	10,9	***x2,3***	10,5	***+4,9%***	-0,7	***+74,0%***

*of which insurance 9,6 billion euros and asset management 15,9 billion euros

Source: financial reporting, ACPR calculations; euro billions data

2. Improvements in profitability led in particular by Retail Banking in France and Corporate and Investment Banking

Chart 23 Contribution of business lines to NBI growth



Source: financial reporting, ACPR calculations; euro billions data

Box 1: Description of the different business lines

RBF: Retail banking in France

RBI: International Retail Banking

SFS: Specialised Financial Services

CIB: Corporate and Investment Banking

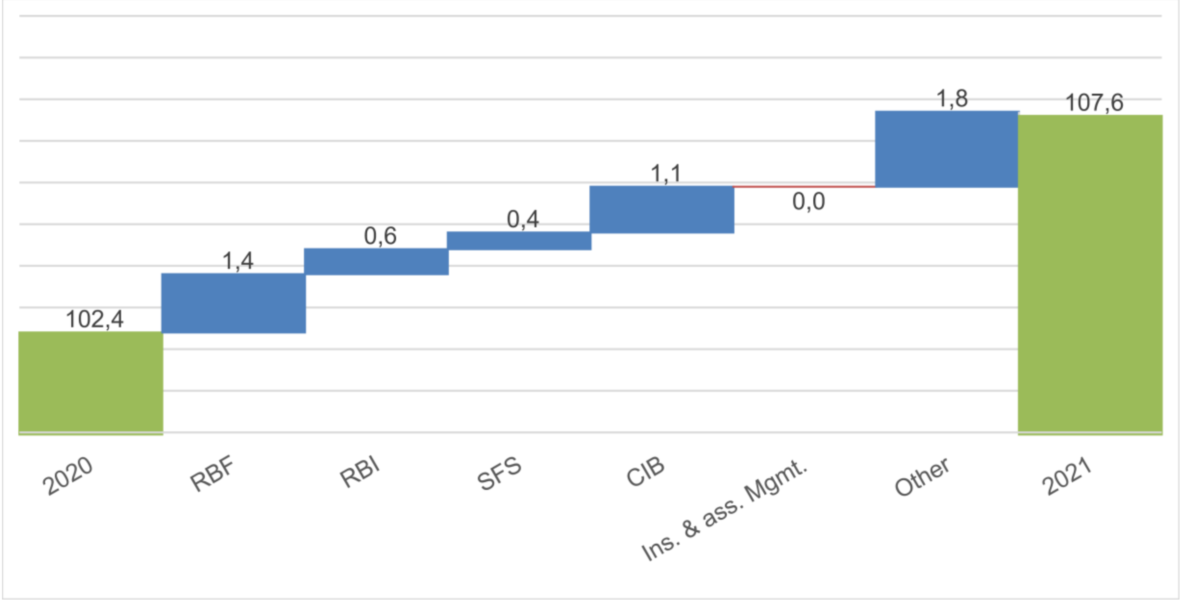
Ass. Mgmt. & Priv. banking: Asset management and private banking

Ins. & ass. Mgmt.: Insurance and asset management

Other / Non-core business activities: residual part of income statement items not linked to a business line for reasons (i) of the nature of the items concerned (central functions shared and recharged to the business line - examples: finance, support functions) or (ii) individualisation by the bank of exceptional items or activities in run-off.

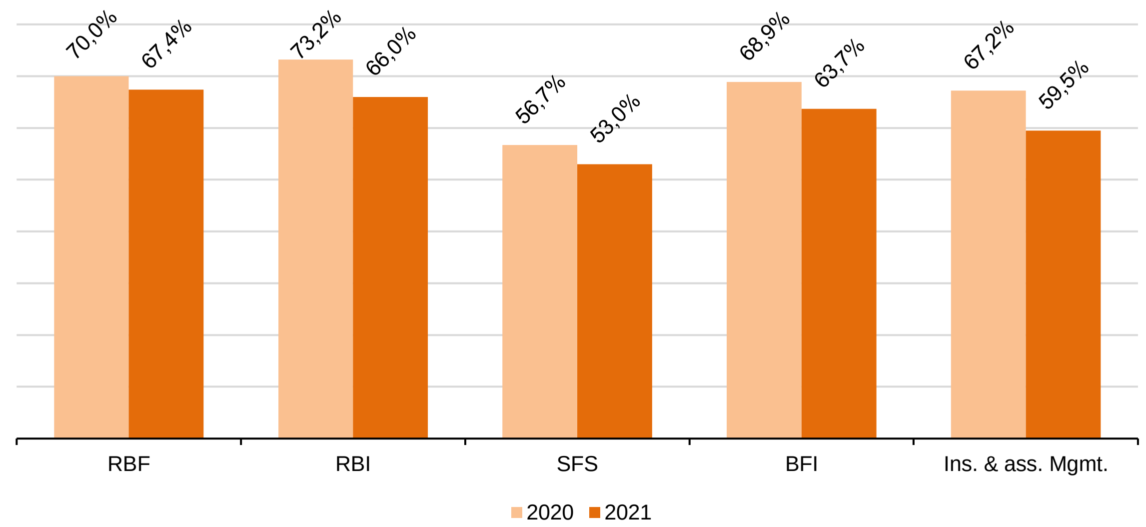
Note: the data for Insurance / Asset Management and Private Banking is only available for NBI; subsequently, the two business lines are grouped under "Insurance and Asset Management".

Chart 24 Contribution of business lines to changing management costs



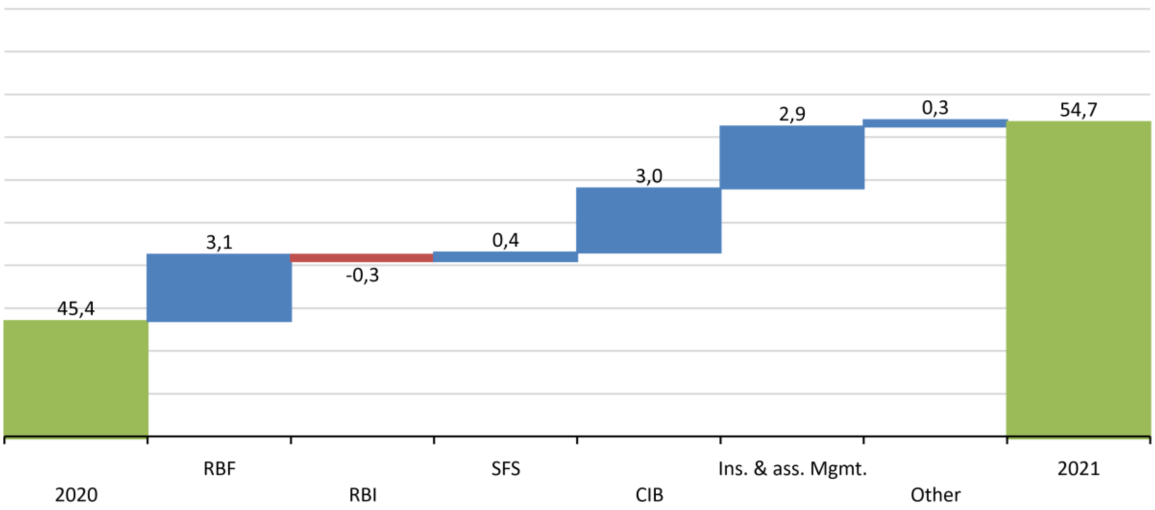
Source: financial reporting, ACPR calculations; euro billions data

Chart 25 Business line cost-to-income ratios



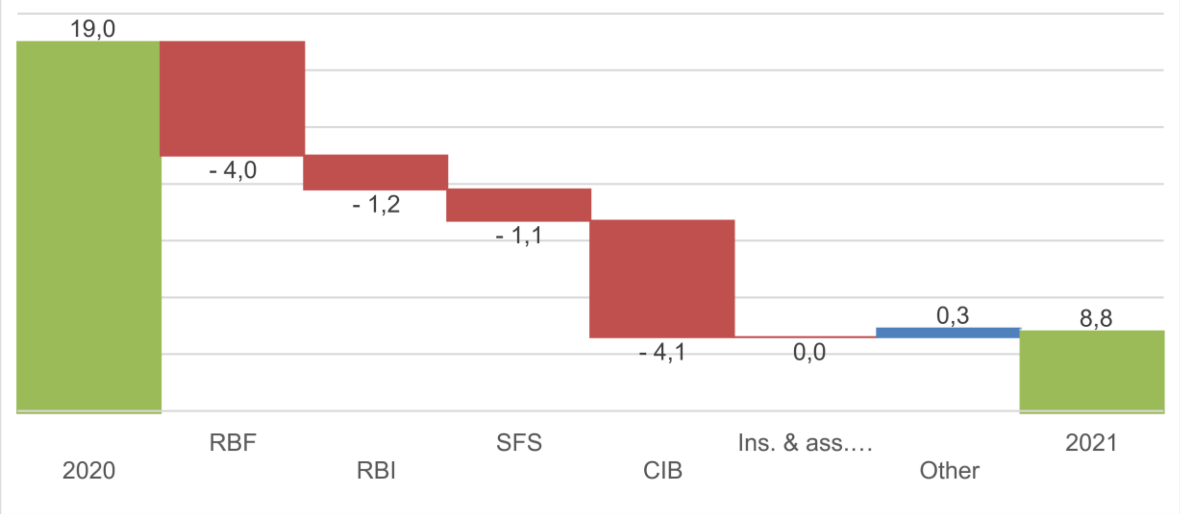
Source: financial reporting, ACPR calculations; 'Hors métiers' immaterial

Chart 26 Contribution of business lines to the evolution of the gross operating profit



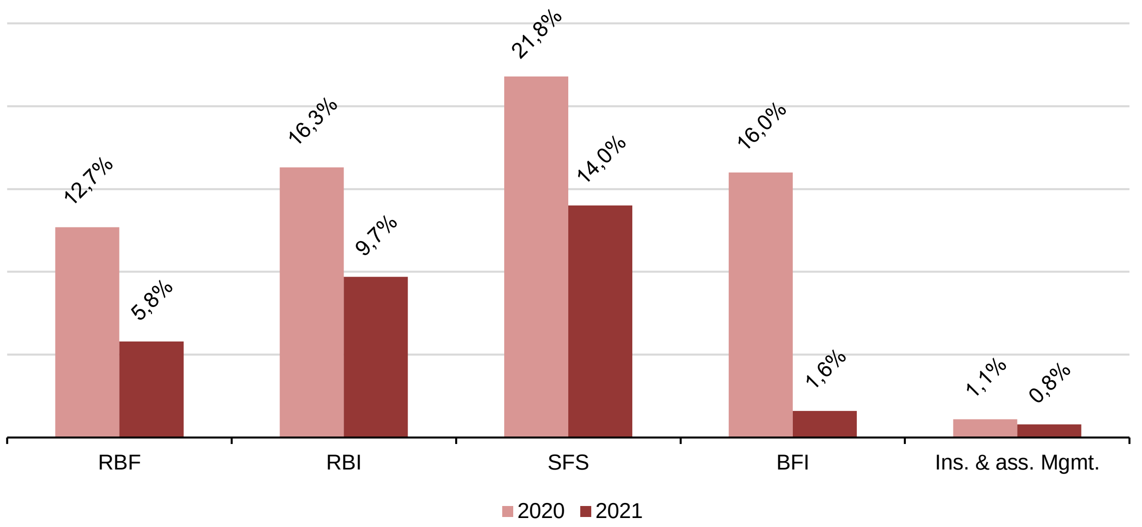
Source: financial reporting, ACPR calculations; euro billions data

Chart 27 Contribution of business lines to the evolution of the cost of risk



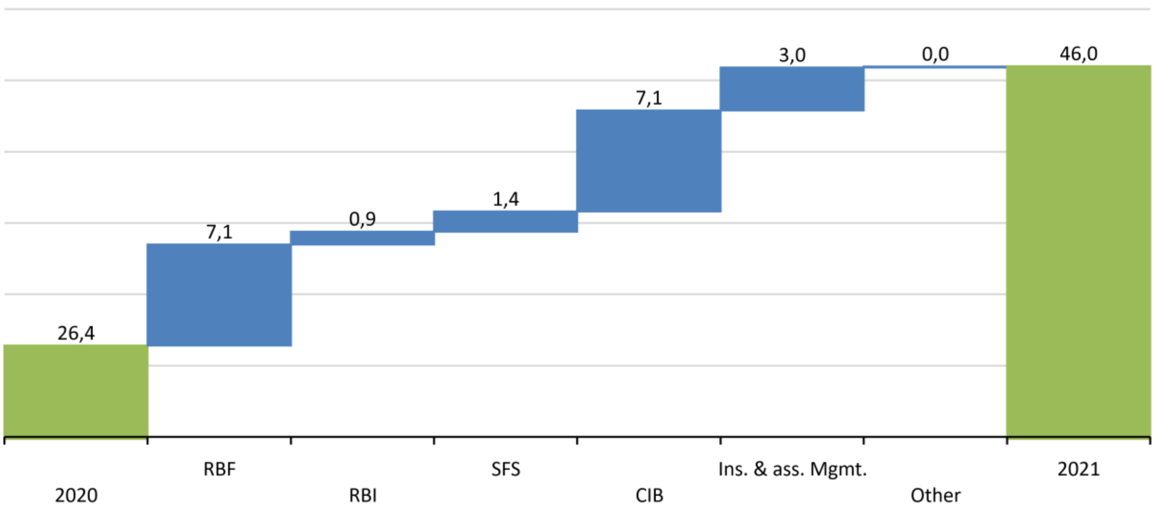
Source: financial reporting, ACPR calculations; euro billions data

Chart 28 Cost of risk in relation to the NBI of the business lines



Source: financial reporting, ACPR calculations; non-material data for non-business users

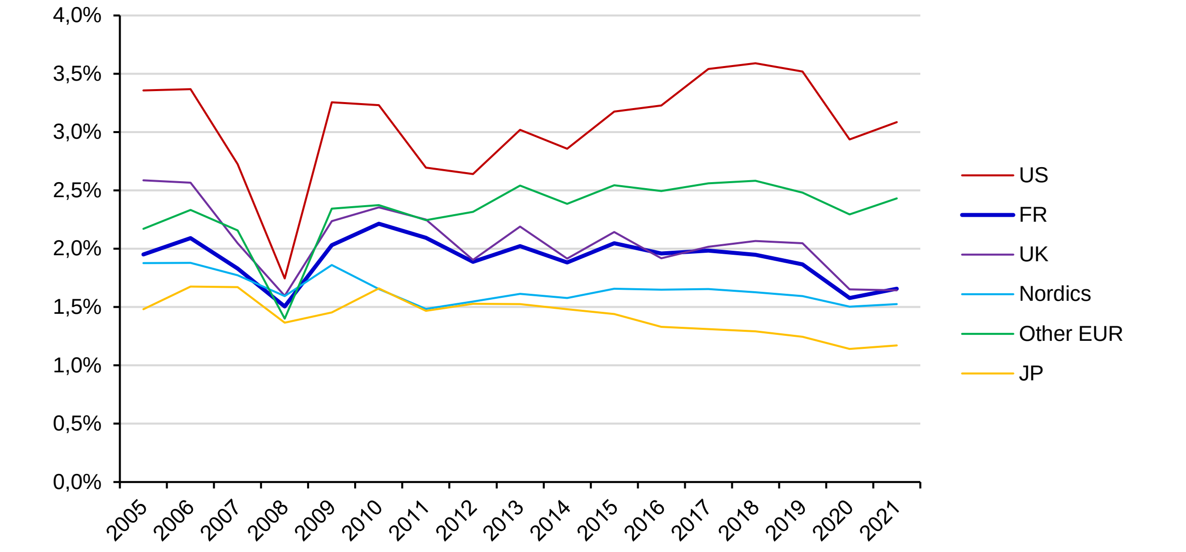
Chart 29 Contributions of business lines to operating income



Source: financial reporting, ACPR calculations; euro billions data

3. An improvement in the profitability of French banks comparable to that of their European, American and Japanese peers

Chart 30 NBI compared to total balance sheet



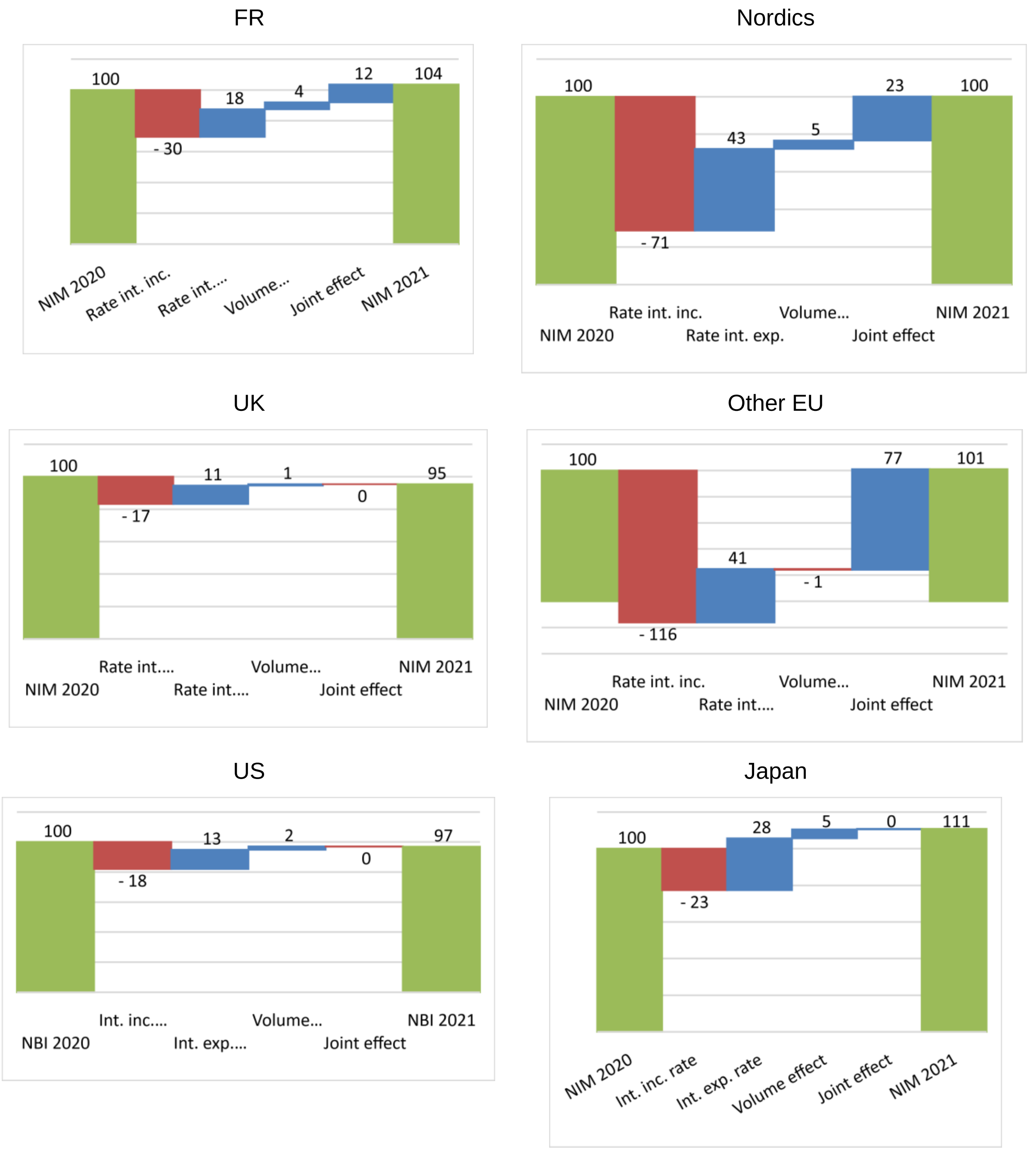
Source: financial reporting, ACPR calculations

Box 2: Explanatory factors for the evolution of net interest margin

The NIM can be written as the product of the balance sheet total (TA) by an NIM (t) rate, the same rate can be written as the difference between the average rate of assets (t_A) and the average rate of liabilities (t_P); therefore, the NIM for a given year N is written $NIM_N = (t_{A,N} - t_{P,N}) \times TA_N$.

This formula calculates the impact of changes in the asset rate (Tx prod. Int. = $(t_{A,N} - t_{A,N-1}) \times TA_{N-1}$) the impact of the change in the rate of liabilities (Tx int charges. = $(t_{P,N-1} - t_{P,N}) \times TA_{N-1}$) and the volume effect ($(t_{A,N-1} - t_{P,N-1}) \times (TA_N - TA_{N-1})$), the joint effects reflecting the evolution of the NIM not explained by the three previous effects.

Chart 31 Explanatory factors for the evolution of the NIM between 2020 and 2021 - international comparisons



Source: financial reporting, ACPR calculations; base 100 in 2020

Chart 32 Management costs compared to balance sheet total

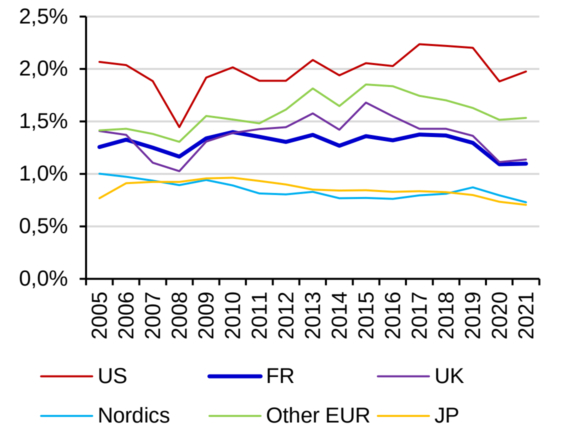
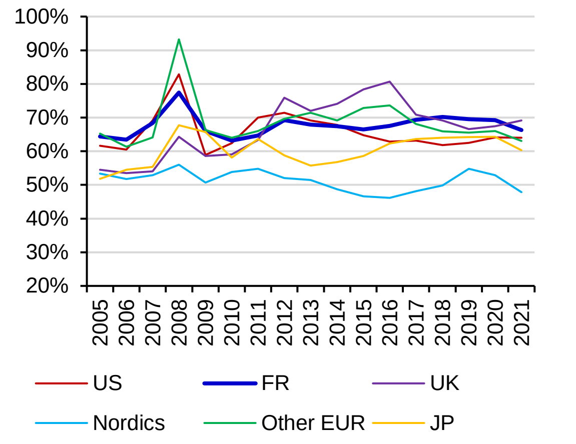
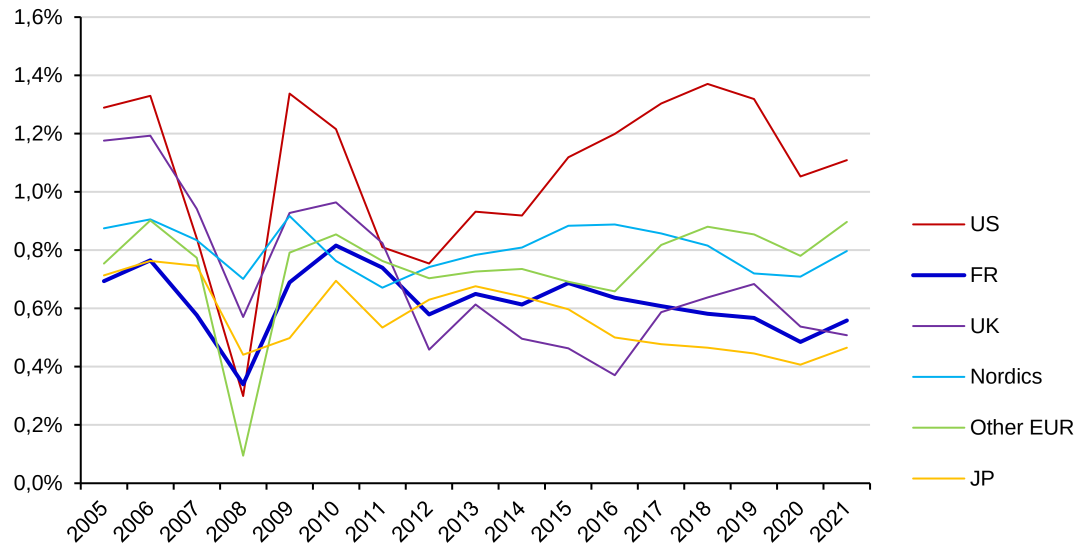


Chart 33 Cost-to-income ratio



Source: financial reporting, ACPR calculations

Chart 34 Gross operating income as a proportion of total assets



Source: financial reporting, ACPR calculations

Chart 35 Cost of risk/total balance sheet

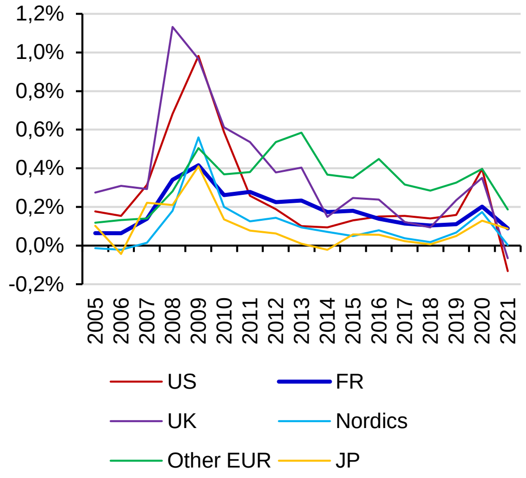
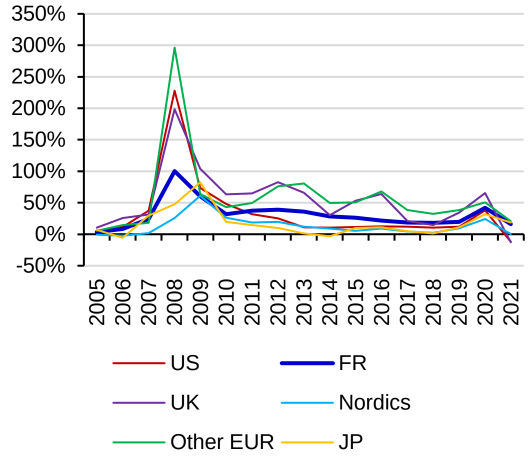


Chart 36 Cost of risk/NBI



Source: financial reporting, ACPR calculations

Chart 37 RoA evolution

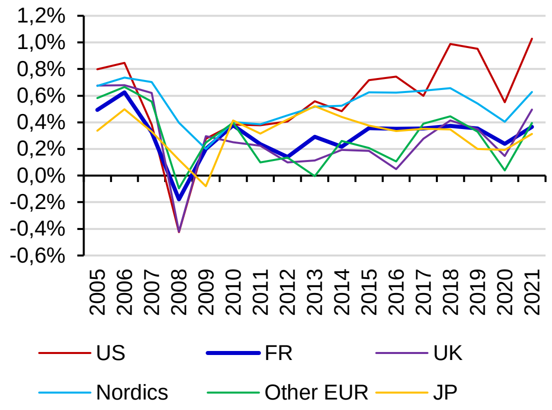
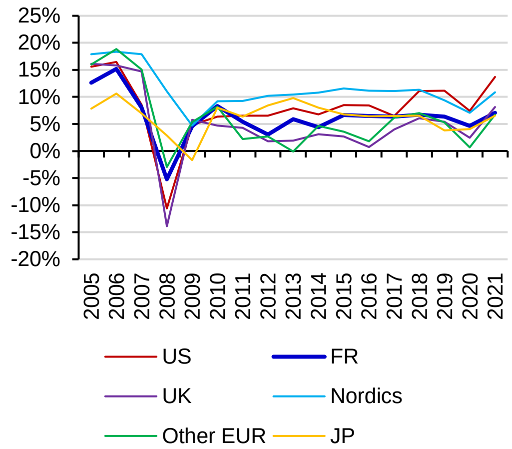
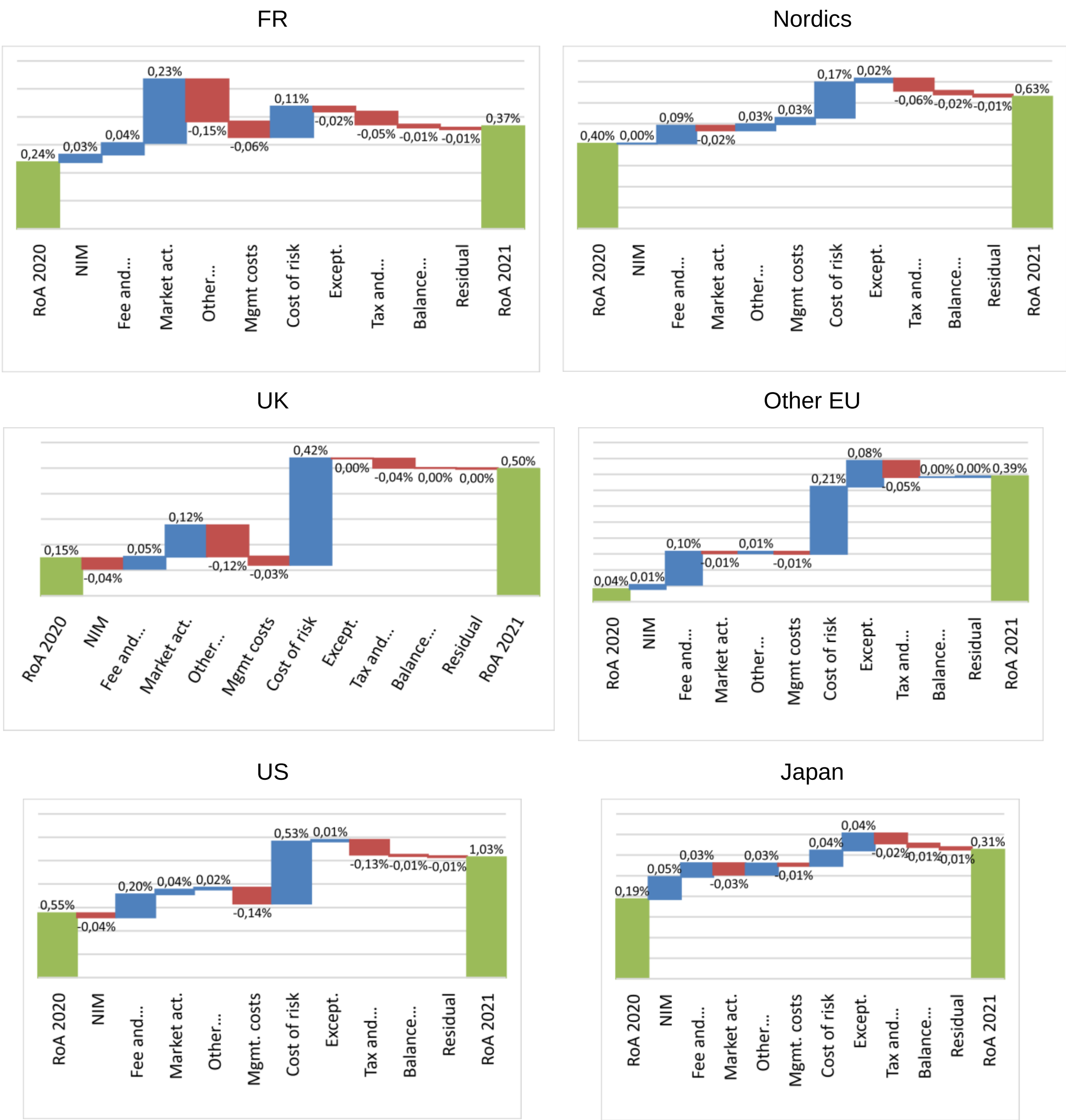


Chart 38 RoE evolution



Source: financial reporting, ACPR calculations

Chart 39 Explanatory factors for the evolution of the RoA between 2020 and 2021



Source: financial reporting, ACPR calculations

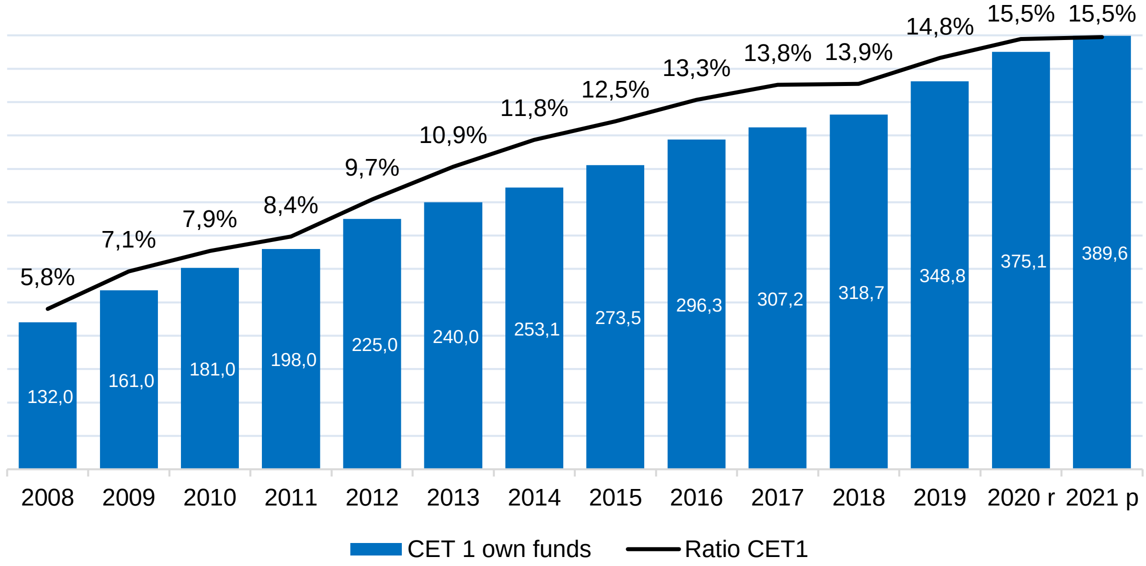
Chart 40 Explanatory factors for the evolution of the RoE between 2020 and 2021

Source: financial reporting, ACPR calculations

A STRENGTHENING OF THE PRUDENTIAL SITUATION

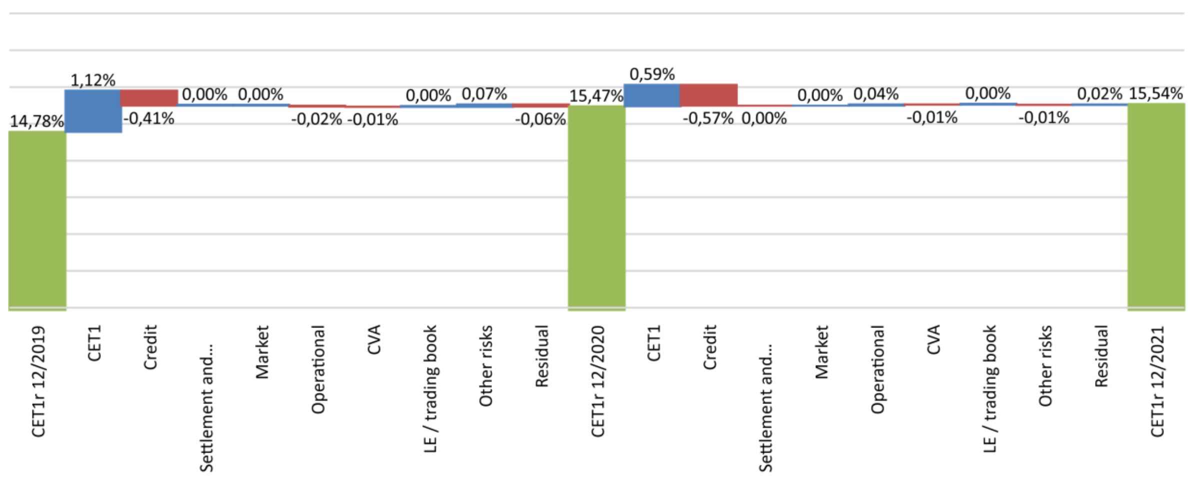
1. Higher own funds as well as solvency ratios

Chart 41 Evolution of the CET1 ratio of the six main French banking groups



Source: Bafi/Surfi and COREP states, r: revised, p: interim; CET1 capital in EUR billions

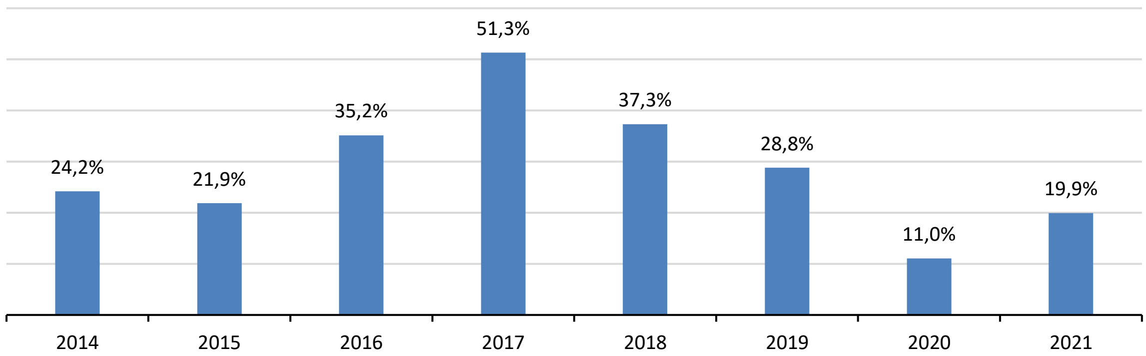
Chart 42 Explanatory factors for the development of the CET1 ratio of the six main French banking groups



Source: COREP Reports

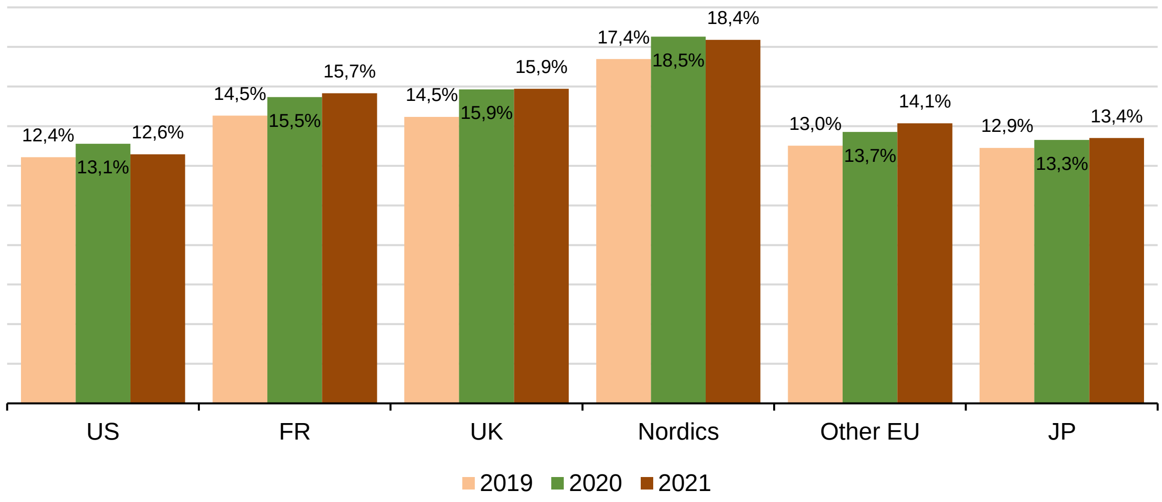
Note: "Credit", "Settlement and Delivery", "Market", "Operational", "CVA", "LE / trading book" = RWAs for credit risk, settlement and delivery risk, market risk, operational risk, credit valuation adjustment risk and large exposures in the trading book

Chart 43 Evolution of the dividend distribution rate of France's six main banking groups



Source: FINREP statements, ACPR calculations

Chart 44 Evolution of the CET1 ratio - international comparison

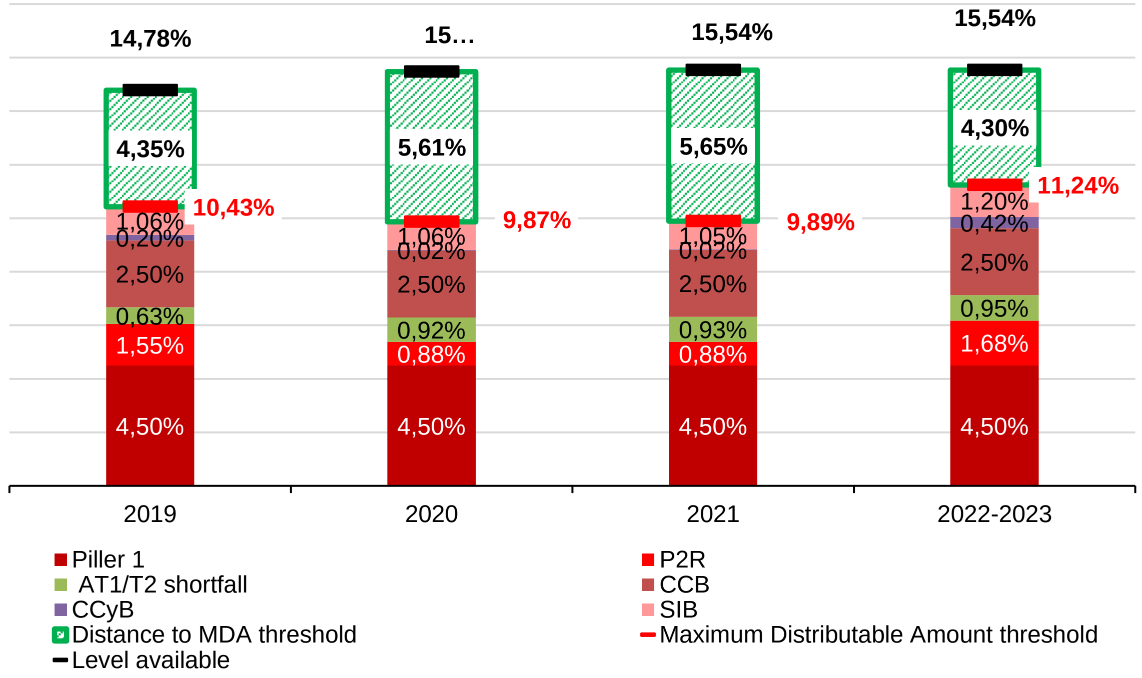


Source: Financial reporting, ACPR calculations

Chart 45 Explanatory factors for the development of the CET1 ratio

Source: financial reporting, ACPR calculations; RW = asset density (RWA / balance sheet total)

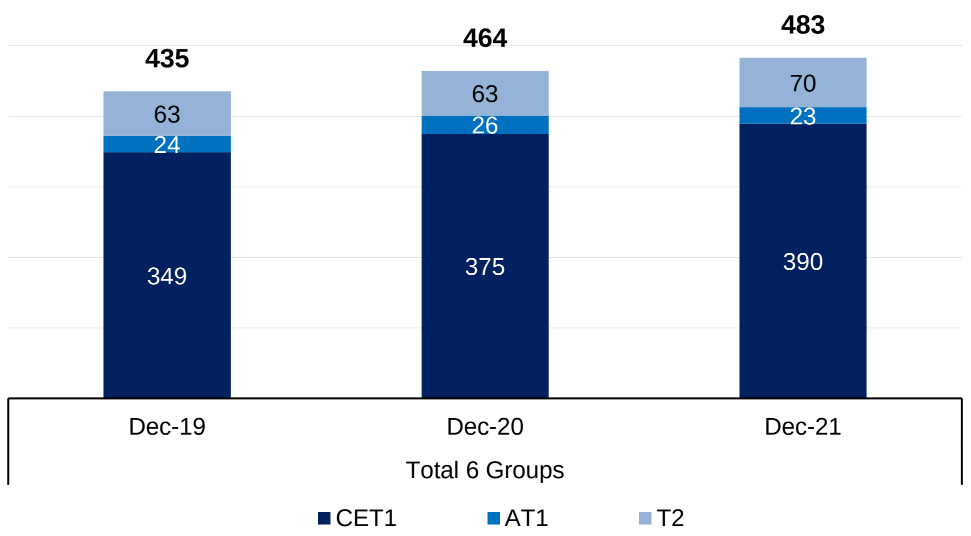
Chart 46 Capital requirements and CET1 capital buffers of the six main French banking groups



Source: COREP reports, ACPR calculations

The projection for 2022-2023 is made at the capital and RWA levels set at the end of 2021 taking into account the P2R increases announced in 2022, the increase in France's CCyB to 0.5% as of 7 April 2023, combined with the increases in CCyB announced by the other countries to which the French banks have exposures, as well as changes in GSIB buffers as at 1 January 2023.

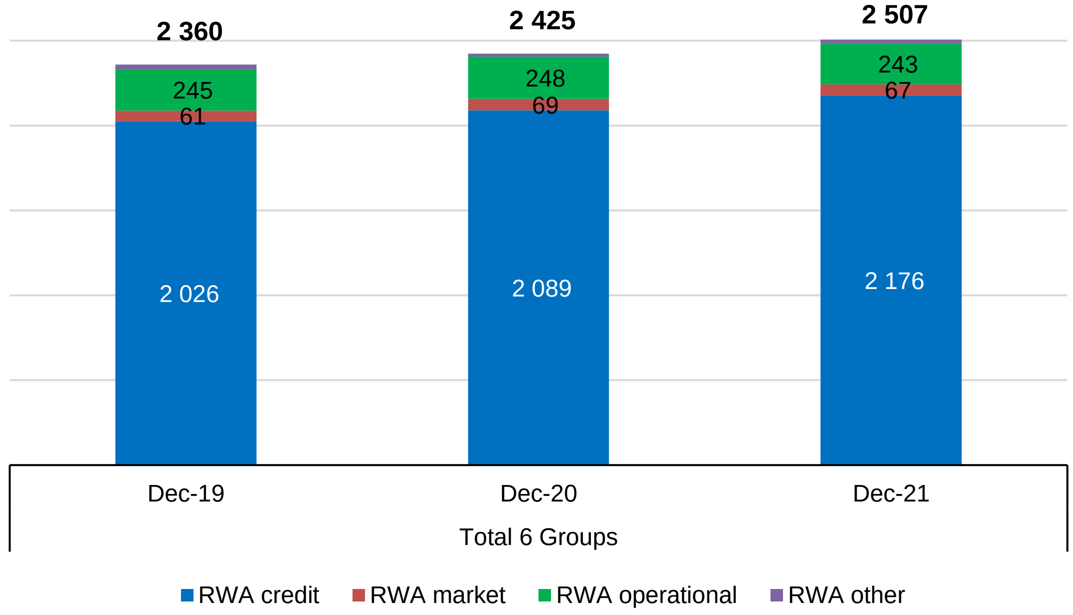
Chart 47 Own funds evolution of the six largest French banking groups



Source: COREP statements, ACPR calculations; euro billions data

2. Increase of RWAs fed by credit risk

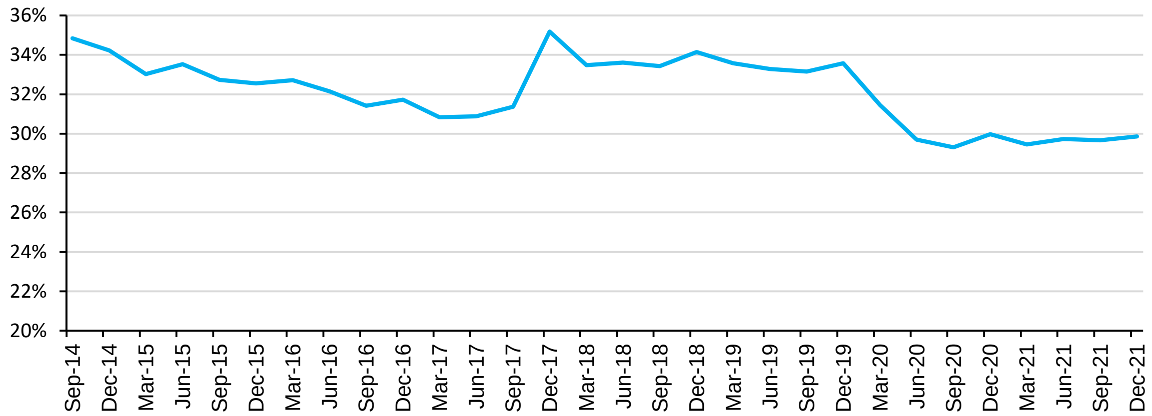
Chart 48 Evolution of RWAs of the six main French banking groups between 2019 and 2021



Source: COREP reports, ACPR calculations; euro billions data

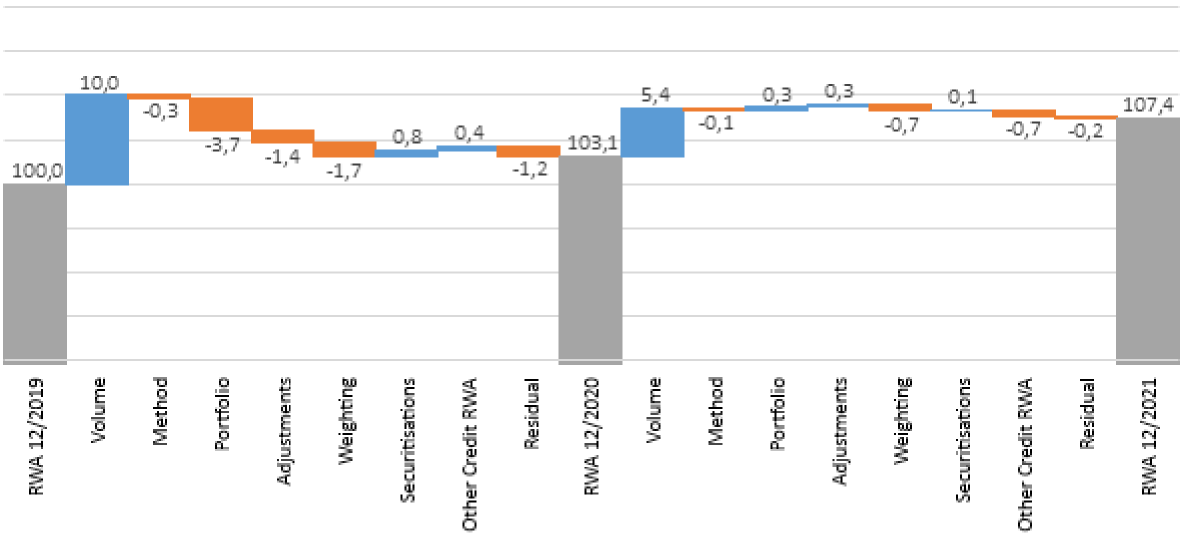
2.1 RWAs for credit risk arising from increased balance sheets

Chart 49 Evolution of the average risk weight of lending exposures



Source: COREP reports, ACPR calculations

Chart 50 Explanatory factors for the evolution of RWAs for credit risk between 2020 and 2021

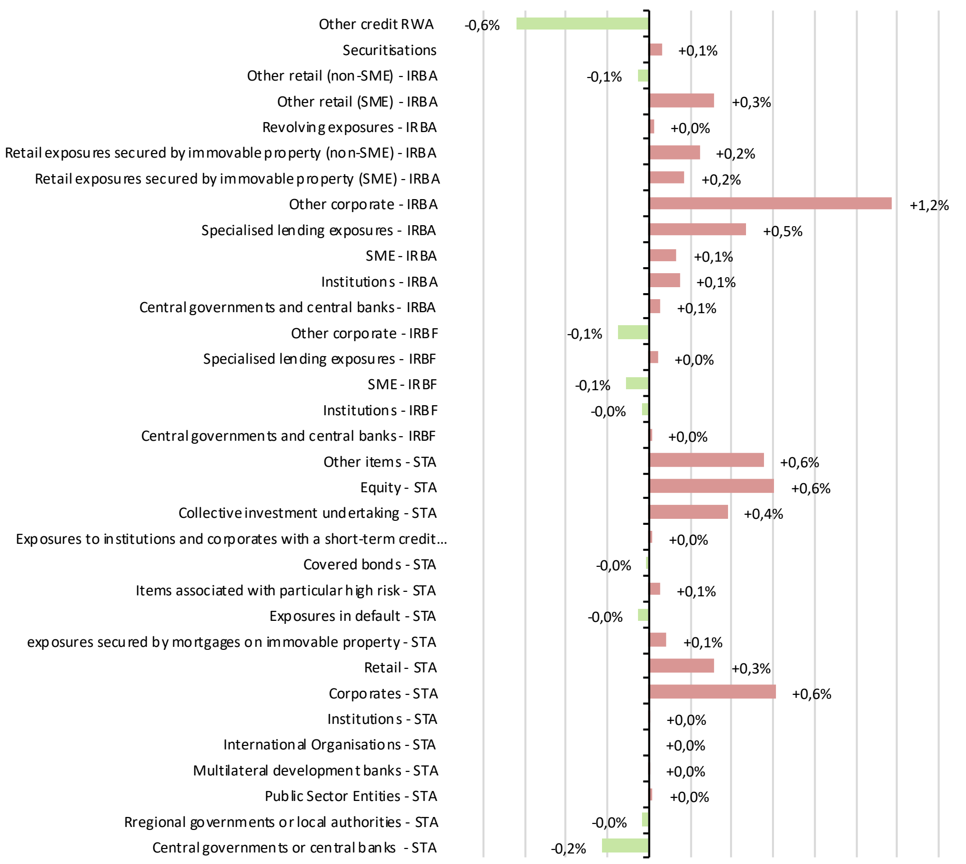


Source: COREP reports, ACPR calculations; base 100 in 2019

Notes:

- *"Volume" = impact of changes in the amount of lending exposures on the amount of RWAs for credit risk;*
- *"Method" = impact of changes in the method of treating lending exposures (standardised vs foundation vs advanced) on the amount of RWAs for credit risk;*
- *"Portfolio" = impact of changes in the structure of lending exposures (corporate vs retail vs institutions, etc.) on RWAs for credit risk;*
- *"Adjustments" = impact of changes in the ratio of defaulted exposures to original exposures (in particular reflecting the credit conversion factor of off-balance sheet exposures) on the amount of RWAs for credit risk;*
- *"Weighting" = impact of changes in the risk weighting of lending exposures on the amount of credit risk RWAs.*

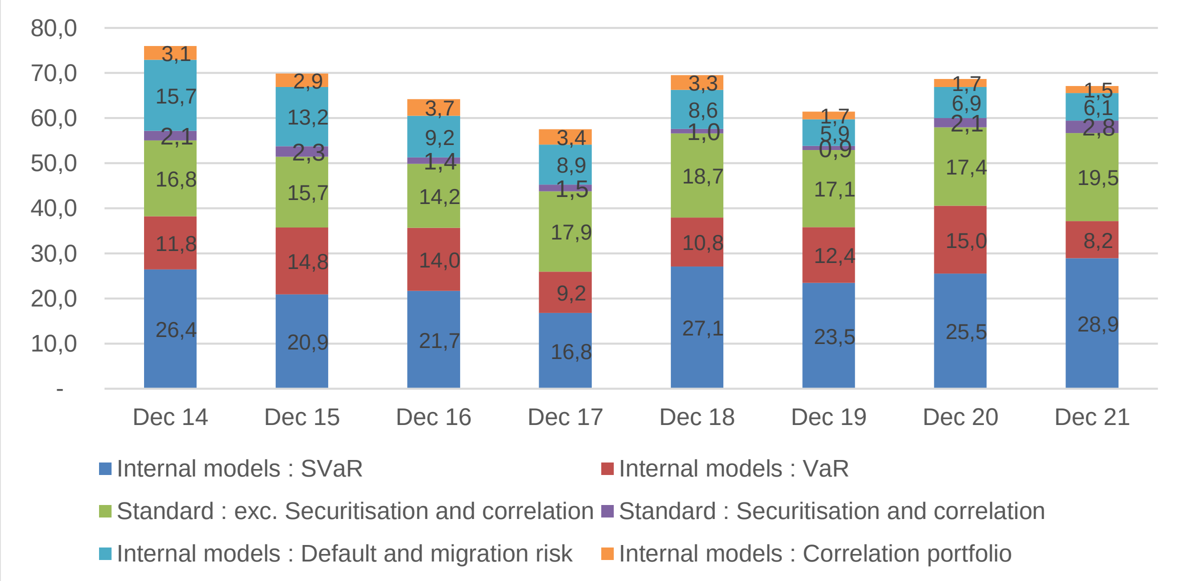
Chart 51 Credit risk RWA developments between 2020 and 2021 - contributions from different portfolios



Source: COREP reports, ACPR calculations

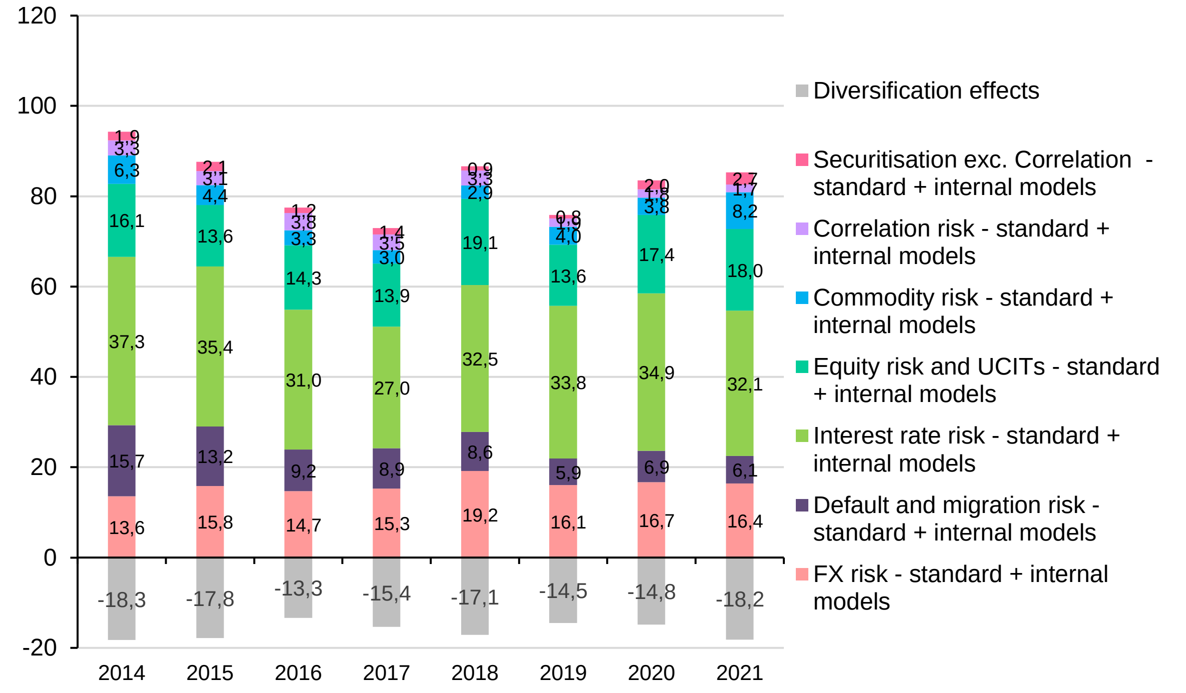
2.2 A slight decline in market risk RWAs

Chart 52 Market risk RWA decomposition by calculation method



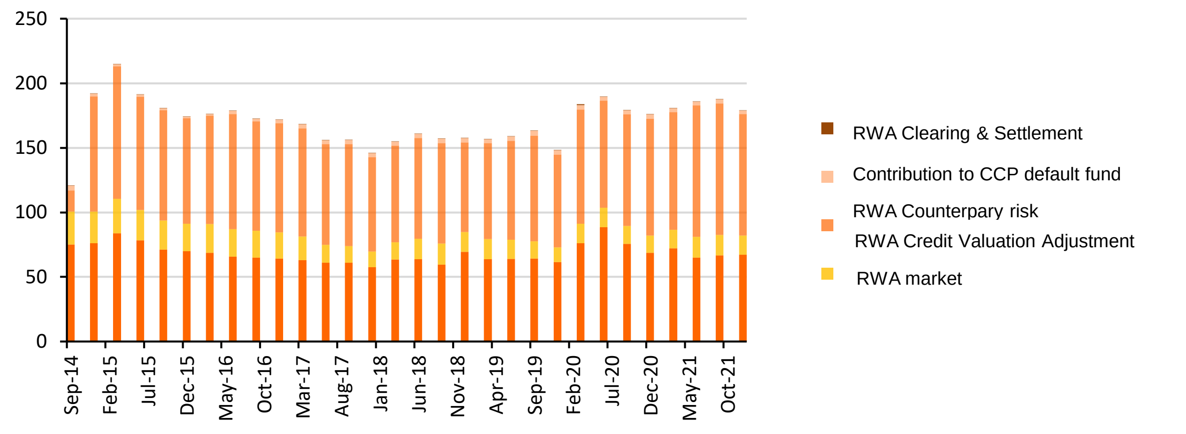
Source: COREP statements, ACPR calculations; euro billions data

Chart 53 Breakdown of RWAs for market risk by risk type



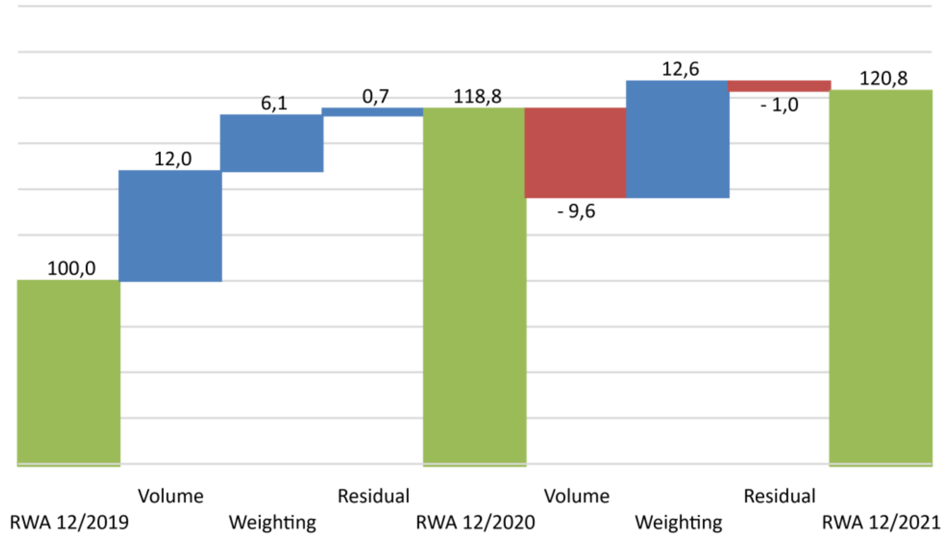
Source: COREP statements, ACPR calculations; euro billions data

Chart 54 Evolution of RWAs of the six main French banking groups in respect of market activities



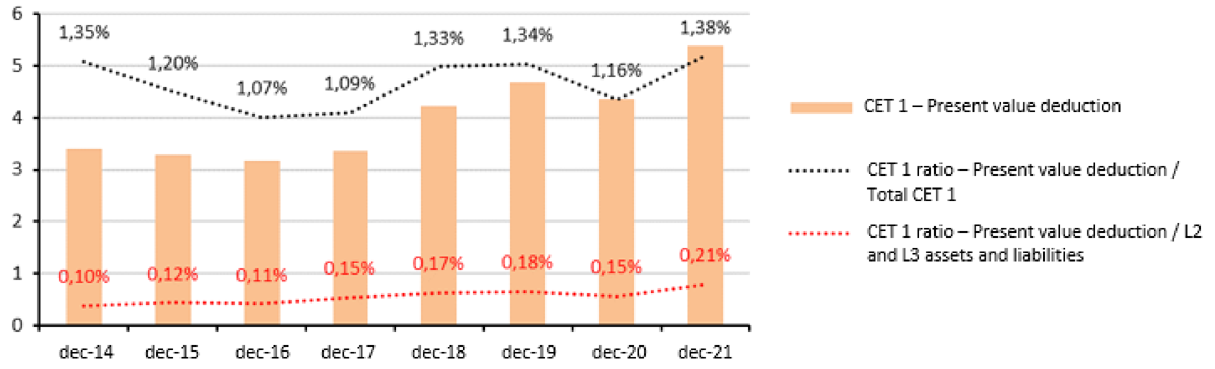
Source: COREP statements, ACPR calculations; euro billions data

Chart 55 Explanatory factors for the development of RWAs for market activities



Source: COREP statements, ACPR calculations; base 100 in 2019

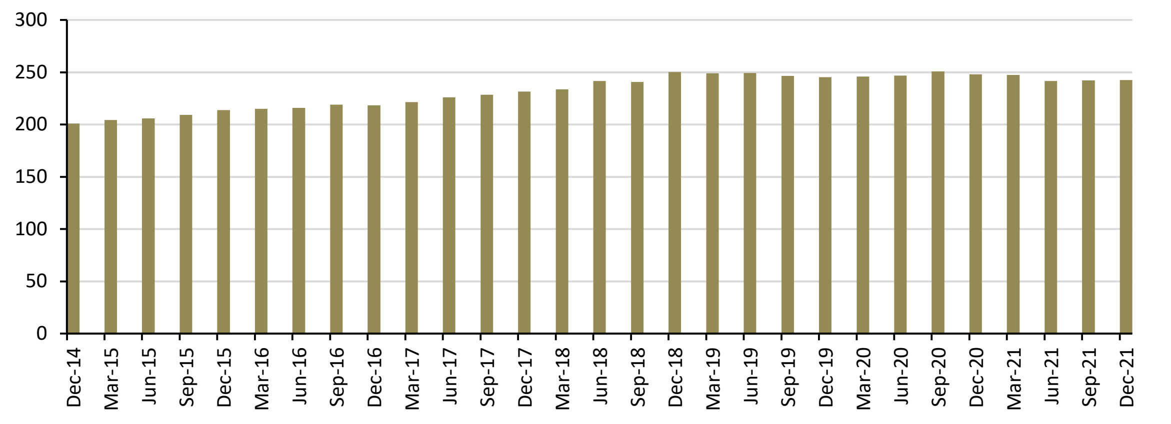
Chart 56 Deduction of CET1 due to conservative valuation adjustments



Source: COREP statements, ACPR calculations; euro billions data

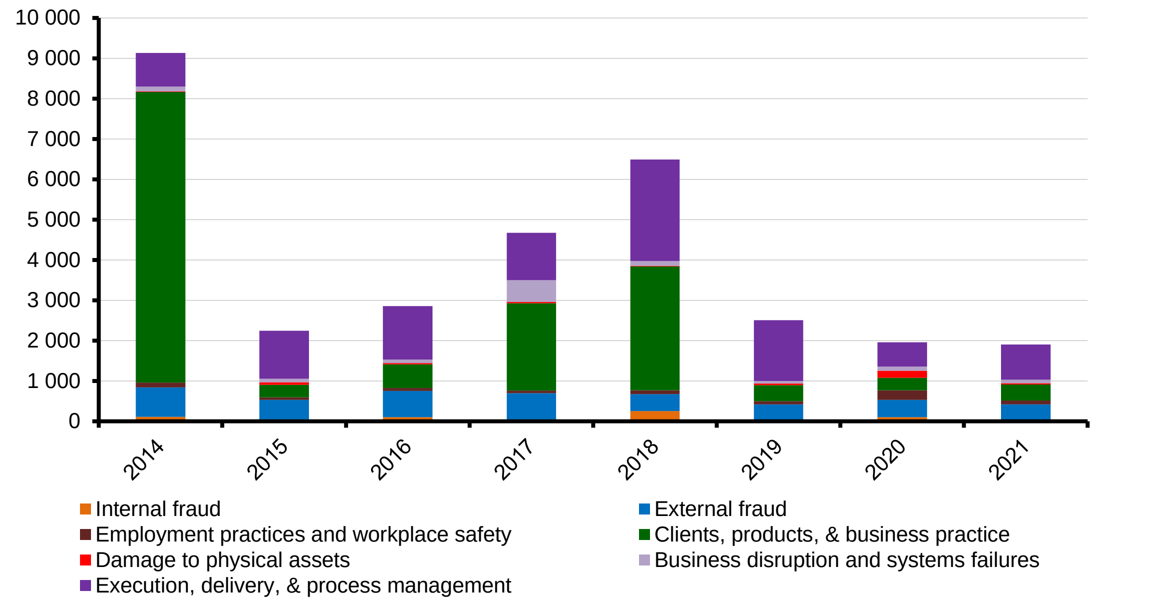
2.3 RWAs for operational risks stabilising

Chart 57 RWAs of the six main French banking groups for operational risks



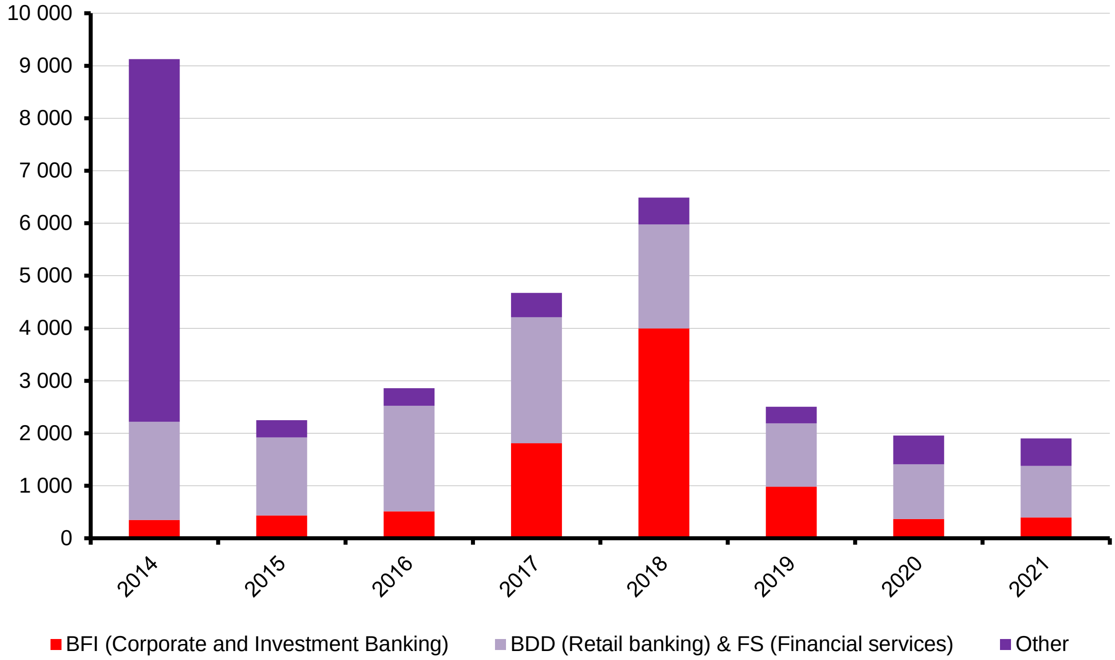
Source: COREP statements, ACPR calculations; euro billions data

Chart 58 Operational losses by event type



Source: COREP statements, ACPR calculations; euro million data

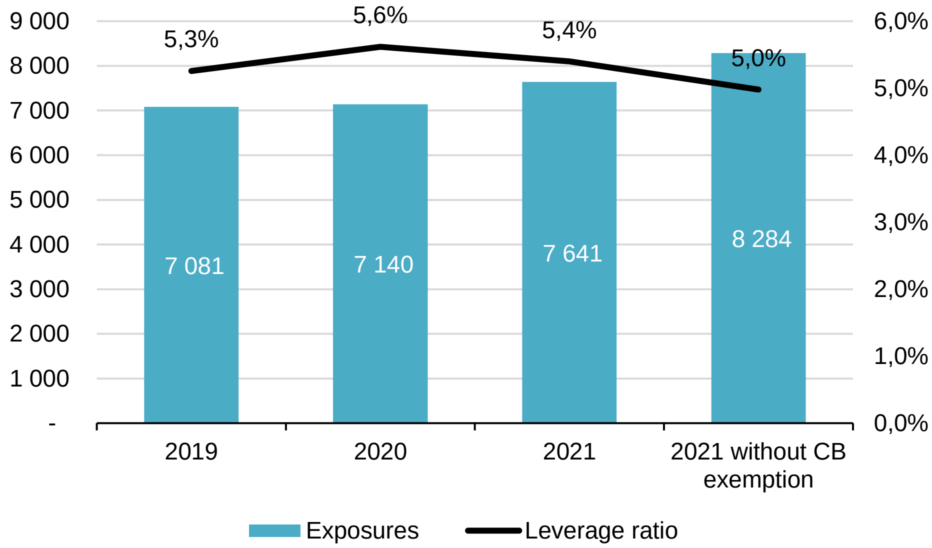
Chart 59 Operational risk losses by business line



Source: COREP reports, ACPR calculations; euro million data

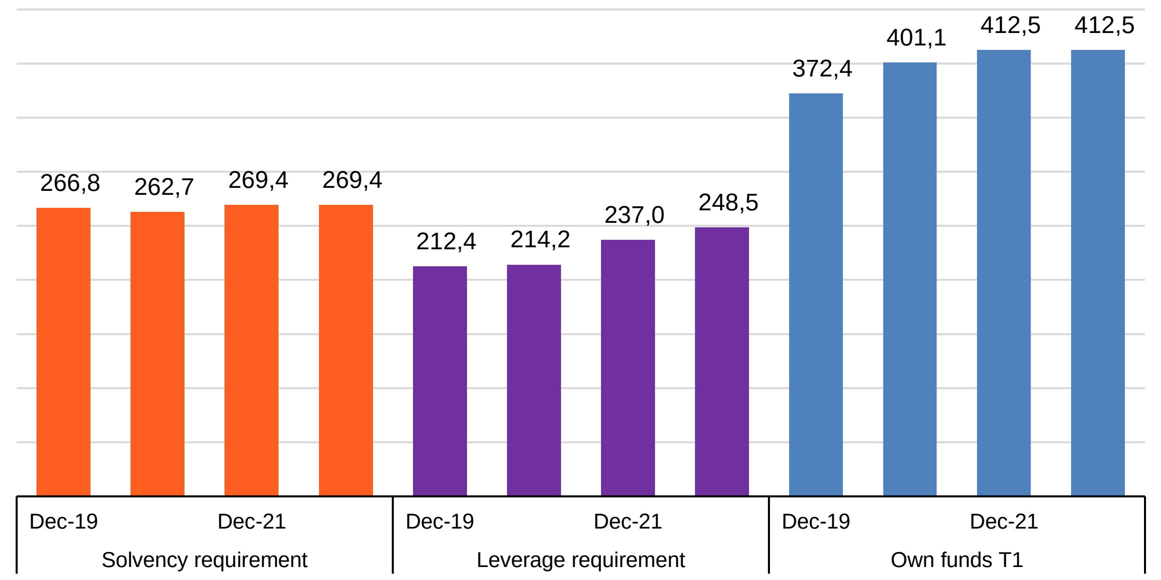
3. A slight decline in leverage ratios in a context of a continued increase in exposures

Chart 60 Leverage ratios of the six largest French banking groups



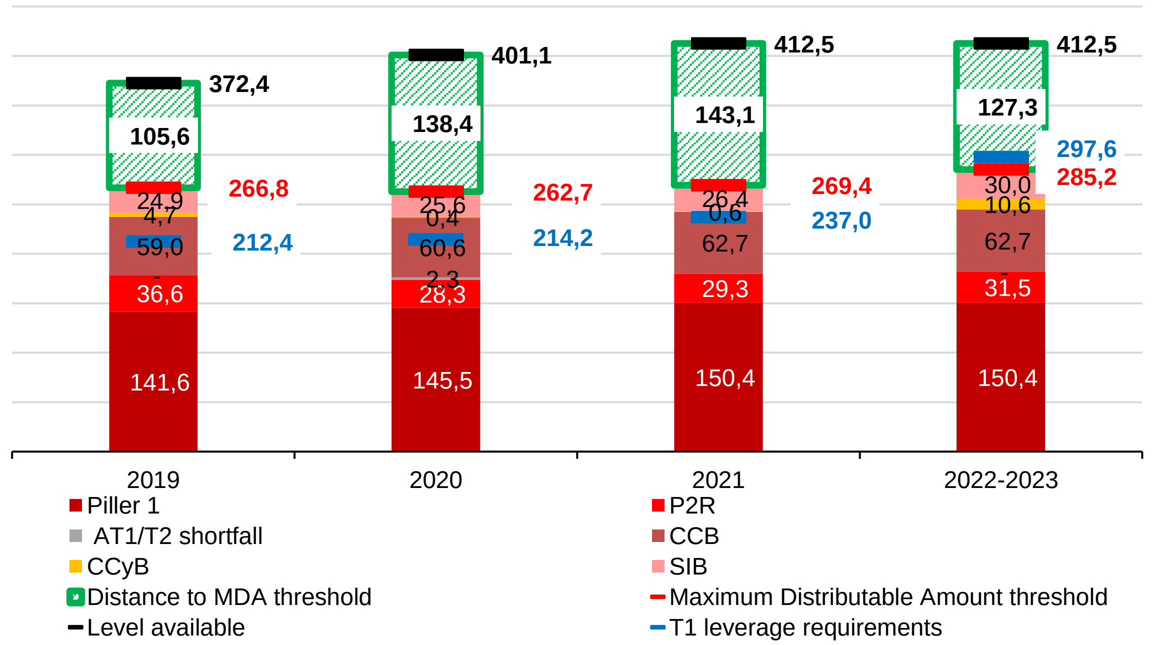
Source: COREP statements, ACPR calculations; euro billions data

Chart 61 Comparison of solvency and leverage requirements and T1 capital of the six main French banking groups



Source: COREP statements, ACPR calculations; euro billions data

Chart 62 Comparison of solvency, leverage requirements and T1 capital of the six main French banking groups

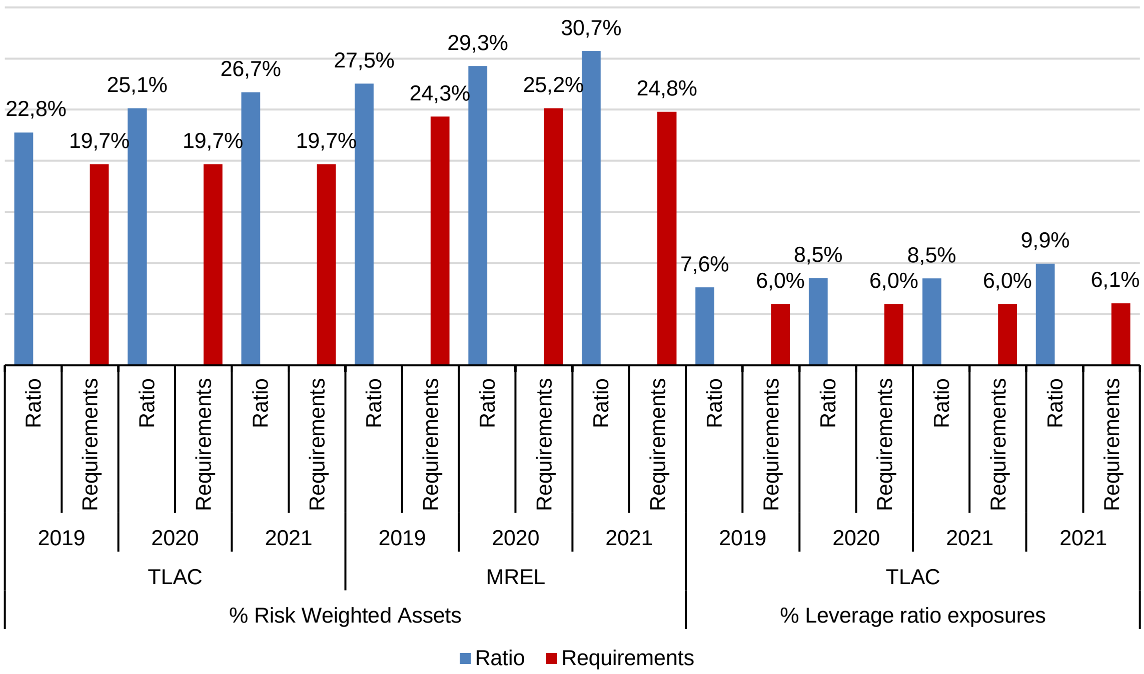


Source: COREP statements, ACPR calculations; euro billions data

The projection for 2022-2023 is made at the capital and RWA levels set at the end of 2021; it takes into account the announced increase in P2R for 3 French banking groups in 2022 (BNPP, SG, BPCE), the increase of the CCyB in France to 0.5% as of 7 April 2023, together with the increases in the CCyB announced by other countries to which French banks have exposures, The increase of BNPP's buffer GSIB as of [1] January 2023, the end of the exemption of central bank reserves for the calculation of leverage exposures and of the leverage GSIB buffer requirements introduced from 1 January 2023.

4. TLAC and MREL ratios exceeding requirements

Chart 63 TLAC and MREL ratios of the main French banking groups

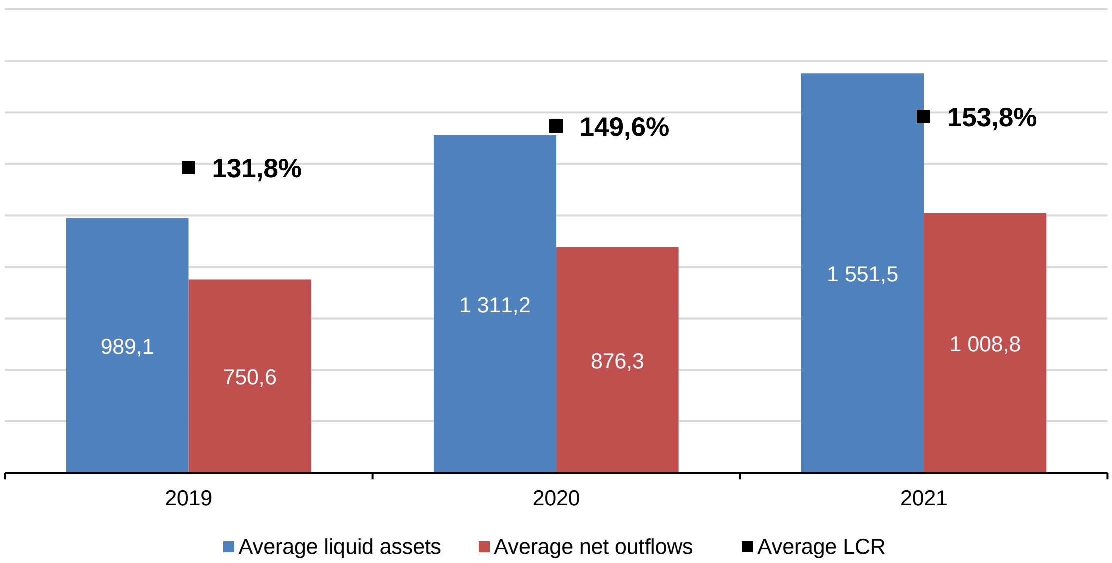


Source: LDR reports, ACPR calculations

TLAC requirements apply to GSIB institutions only (BNPP, SG, GCA, BPCE), while MREL requirements apply to all reporting institutions. Note that the MREL requirements as a percentage of LREs only enters into force from 2021.

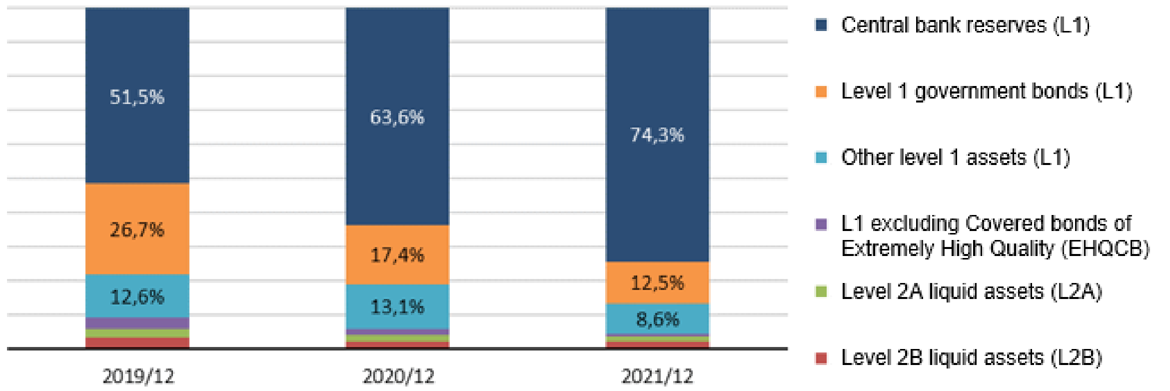
5. Liquidity ratios continued to rise

Chart 64 Average LCR for the six largest French banking groups between 2019 and 2021



Source: COREP reports, ACPR calculations; liquid assets and net cash outflows in EUR billions

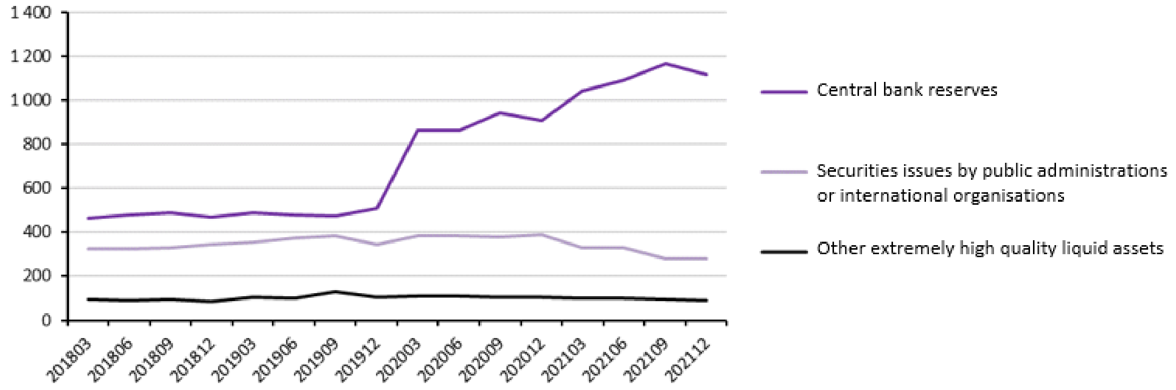
Chart 65 Coverage of LCR requirements by level of liquid assets (L1, L2A and L2B) for the six main French banking groups



Source: COREP reports, ACPR calculations

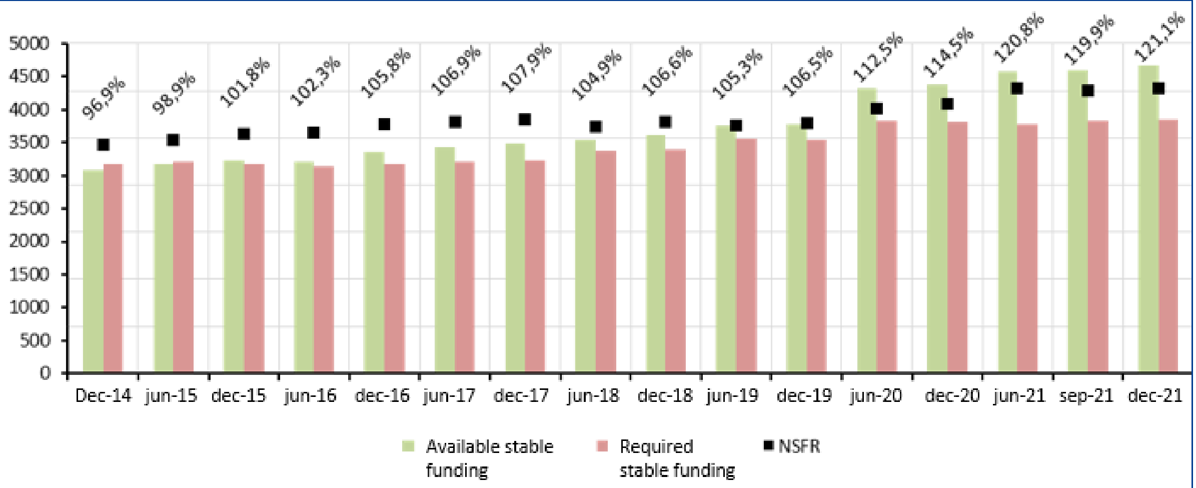
Note: Level 2 assets cover assets of a diverse nature (government bonds, corporate bonds, securitisation units) the liquidity quality of which does not allow them to be classified as level 1 according to the criteria of Delegated Regulation (EU) 2015/61 of 10 October 2014 on the liquidity of credit institutions

Chart 66 Evolution of HQLA components by category



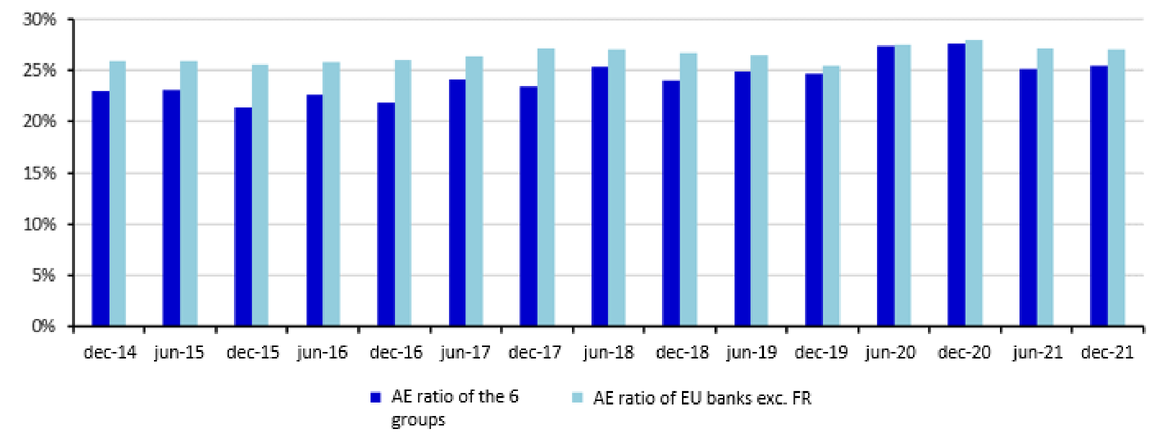
Source: COREP reports, ACPR calculations; euro billions data

Chart 67 History of the NSFR of the six main groups and their components in EUR billions



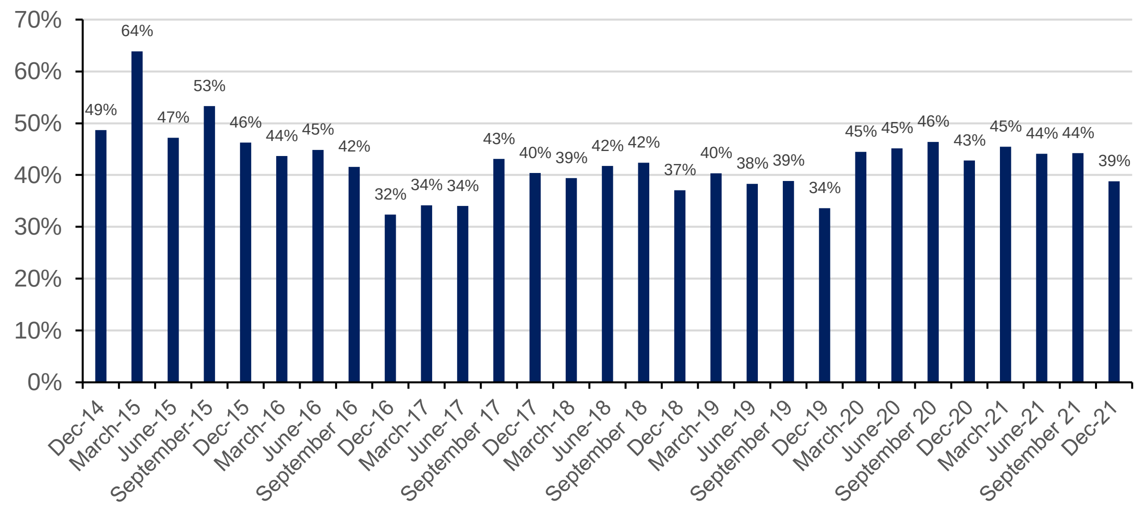
Source: COREP and STE reports before June 2021, ACPR calculations

Chart 68 History of the encumbered asset ratios of the six largest groups compared to the European average



Source: AE statements, ACPR calculations, Risk indicators EBA

Chart 69 Share of encumbered central bank eligible assets of the six main French banking groups



Source: AE statements, ACPR calculations;