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A resilient model : The French Banking Sector

Paris Europlace

Roundtable Singapore, 30 November 2011

- **French banks' resilient model**
- **Basel III implementation**
- **European council stress tests**
- **Challenges for the future**
- **Conclusion**

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French banks' resilient model

- **Due to high quality of oversight and prudential supervision, French Banks are showing a good resilience in a very challenging environment**
- **Banking landscape experiences significant changes, priority of business is to financing clients**

French banks' resilient model

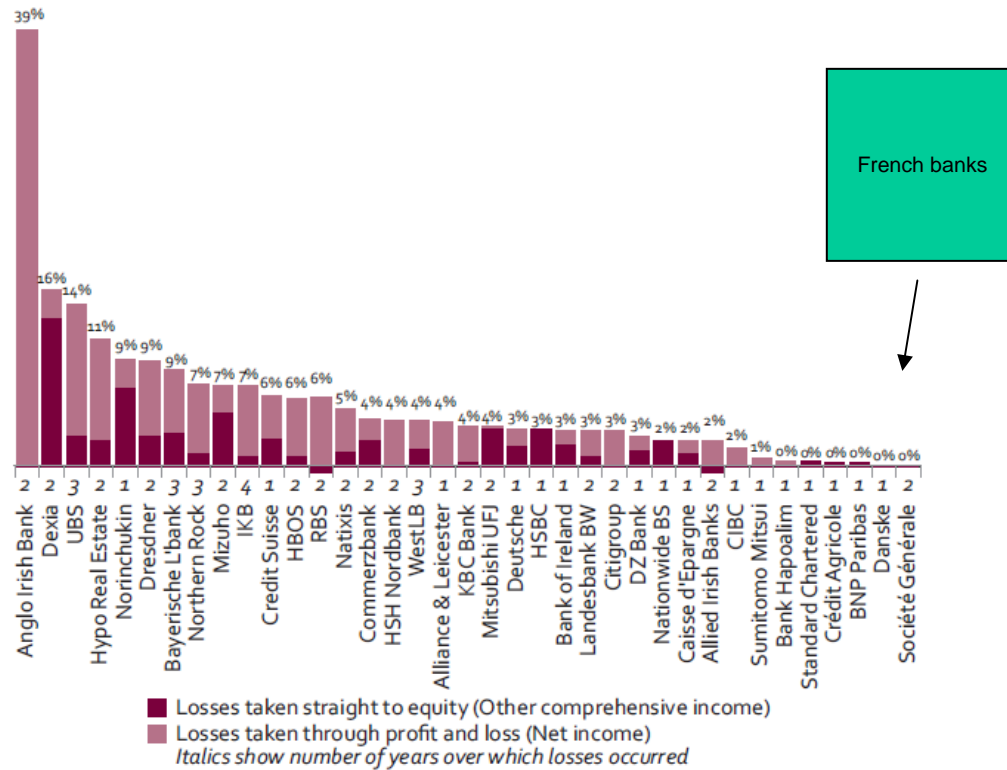
- **A comprehensive banking model**
 - Banking groups with diversified activities tailored to all customer segments
 - Retail banking, investment banking and capital markets, asset management, payment instruments
 - The system is dominated by five vertically integrated universal banks and their subsidiaries
 - BNP Paribas, Société Générale
 - Three of the five are organized on a mutual basis (Crédit Agricole, Crédit Mutuel-CIC, BPCE)
 - Two large financial institutions, La Poste and the Caisse des Dépôts et Consignations (CDC), remain in government ownership.
 - These groups control **83%** of all assets

French banks' resilient model

- **Most of French banks belong to the « universal banking » model**
- **Diversification of business lines protects a universal bank against idiosyncratic shocks that adversely impact individual lines of business**
 - Domestic retail banking (households, corporates, SMEs)
 - International retail banking
 - Specialised financial services (consumer credit, leasing, etc)
 - Corporate and investment banking
 - Asset management and conservation

French banks resilient model

Figure 4.4: Losses suffered by banks in the crisis as a percentage of RWAs (2007-2010)



Source: Bankscope, Commission calculations.⁶⁷

• Figure from the Independent Banking Commission (ICB) - Vickers report



French banks' resilient model

- **Now focusing on the core strengths of their business model and on client franchise**
- **Thanks to a strong dedication of retail banking to long term relationship with clients, loan production is still dynamic**

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Basel III implementation

- **French banks support Basel III solvency regulation principles :**
- **1/ CRD IV Project is under examination in Europe**
- **2 / What is expected :**
- **A world level coordinated implementation of the agreement**
- **Elimination of problems of competition distortion with the United States, not yet compliant with Basel II, whereas Europe is since 2008)**

Basel III implementation

- **To comply with the Basel Committee's guidelines, French Banks are reinforcing their common equity Tier 1 ratio**
- **Basel III respected June 2012, taking into account adjustment on sovereign debt;**
- **BNPP : conservatively managed trading book and deleveraging program
Positive impact on the ratio**
- **SOCIETE GENERALE : deleveraging commitment - Profit will be conservatively put in reserve and no dividend will be served in 2012**
- **CREDIT AGRICOLE GROUP : No additional capital needed according to the study carried out by regulator**
- **BPCE : Sharp decrease of the Risk Weighted Assets (RWA) - Profit will be put in reserve**

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European council decisions on stress tests

The European Banking Authority (EBA) set a Tier 1 ratio target of 9% by the end of June 2012

Requirements Directive (CRD 3) will come into force at the end of 2011; in Europe it includes the elimination, in anticipation of Basel 3, of the prudential filter on European government bonds (EEA),

This will include a special buffer calculated on the basis of outstanding exposure to sovereign debt at market prices as at 30 September 2011

European council decisions regarding stress tests

- **In this context, for the four largest French banks involved with the exercise; accounting for 80% of French banking, total requirement in equity is estimated at 6.5 billion Euros**
- **All pledged they will reach that target as of June 30, 2012 without calling upon the market and even less the Government**
 - **Estimated profit of French banks can currently be estimated at 20 billion Euros per annum**
 - **Profit retention plus balance sheet reduction will answer the question**

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Challenges for the future

- **In the five next years three challenges for French Banks :**
- **1/ Focusing on the core strengths of their business model**
- **2/ Give specific attention to liquidity**
- **3/ Continued financing of the real economy**
- **Opposition to separation of Retail Banking and Corporate and Investment Banking: no additional safety, loss of strength**

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- **French Banks**
 - **Are maintaining their profit-generation capacity despite the challenging market conditions**
 - **Have a resilient business model**
 - **Maintain solid liquidity reserves**
 - **Maintain adapted solvency thanks to a resilient business model and asset quality**

- **Manageable Sovereign Exposure to program countries***

BNPP	16
Crédit Agricole Group	9.3
Société Générale	5.9
BPCE	4.6

- * French banks net exposure to Greece, Spain, Ireland, Italy and Portugal as of 30 September 2011 (in €bn)

- **French banks financial structure : Solid financial positions**

	BPCE	Crédit Agricole Group	BNPP	Société Générale
Tier 1 Capital (in €Bn)	41,5	40,8	70,5	38,7
Tier 1 Ratio	10,2%	11,0%	11,90%	11,6%
CET 1 Ratio	8,6%	8,9%	9,60%	9,5%

Exposition au risque souverain de la Grèce, de l'Espagne, de l'Irlande, de l'Italie et du Portugal
Exposition nette des principaux établissements de crédit au 30 septembre 2011.

Exposition nette - En milliards d'euros.

	BNPP (*)	Crédit Agricole SA (**)		Société Générale (**)			BPCE (**)			Total Banques	
	total	Portefeuille bancaire	Portefeuille de négociation	total	Portefeuille bancaire	Portefeuille de négociation	total	Portefeuille bancaire	Portefeuille de négociation	total	total
Grèce	1,6	0,2	0	0,2	0,6	0,2	0,8	0,5	0	0,5	3,1
Espagne	0,5	1,4	0,1	1,5	0,9	0,8	1,7	0	0,4	0,4	4,1
Irlande	0,3	0,2	0	0,2	0,3	0,1	0,4	0,3	0	0,3	1,2
Italie	12,2	6,5	0,2	6,7	1,5	1	2,5	2,6	0,4	3	24,4
Portugal	1,4	0,6	0,1	0,7	0,2	0,3	0,5	0,2	0,2	0,4	3
	16	8,9	0,4	9,3	3,5	2,4	5,9	3,6	1	4,6	35,8

(*) sur la base des expositions souveraines au 30/09 nettes des cessions d'octobre. La distinction portefeuille bancaire book / portefeuille de négociation n'est pas disponible

(**) expositions souveraines nettes au 30/09 selon la méthodologie établie par l'ABE dans le cadre des stress tests.

Source : Résultats 3^{ème} trimestre 2011.