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
• **French banks resilient model**
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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
- French banks resilient model
- **Basel III implementation**
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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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Conclusion

- 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
Annexe 1

- Manageable Sovereign Exposure to program countries:

<table>
<thead>
<tr>
<th>Bank</th>
<th>Exposure (€bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNPP</td>
<td>16</td>
</tr>
<tr>
<td>Crédit Agricole Group</td>
<td>9.3</td>
</tr>
<tr>
<td>Société Générale</td>
<td>5.9</td>
</tr>
<tr>
<td>BPCE</td>
<td>4.6</td>
</tr>
</tbody>
</table>

* 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

<table>
<thead>
<tr>
<th></th>
<th>BPCE</th>
<th>Crédit Agricole Group</th>
<th>BNPP</th>
<th>Société Générale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Capital (in €Bn)</td>
<td>41.5</td>
<td>40.8</td>
<td>70.5</td>
<td>38.7</td>
</tr>
<tr>
<td>Tier 1 Ratio</td>
<td>10.2%</td>
<td>11.0%</td>
<td>11.90%</td>
<td>11.6%</td>
</tr>
<tr>
<td>CET 1 Ratio</td>
<td>8.6%</td>
<td>8.9%</td>
<td>9.60%</td>
<td>9.5%</td>
</tr>
</tbody>
</table>
Annexe 3

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.

<table>
<thead>
<tr>
<th></th>
<th>BNPP (*)</th>
<th>Crédit Agricole SA (**)</th>
<th>Société Générale (**)</th>
<th>BPCE (**)</th>
<th>Total Banques</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>total</td>
<td>Portefeuille bancaire</td>
<td>Portefeuille</td>
<td>Portefeuille bancaire</td>
<td>Portefeuille de négociation</td>
</tr>
<tr>
<td>Grèce</td>
<td>1,8</td>
<td>0,2</td>
<td>0,2</td>
<td>0,6</td>
<td>0,2</td>
</tr>
<tr>
<td>Espagne</td>
<td>0,5</td>
<td>1,4</td>
<td>0,1</td>
<td>0,6</td>
<td>0,8</td>
</tr>
<tr>
<td>Irlande</td>
<td>0,3</td>
<td>0,2</td>
<td>0,2</td>
<td>0,3</td>
<td>0,1</td>
</tr>
<tr>
<td>Italie</td>
<td>12,2</td>
<td>6,6</td>
<td>0,2</td>
<td>1,5</td>
<td>1</td>
</tr>
<tr>
<td>Portugal</td>
<td>1,4</td>
<td>0,6</td>
<td>0,1</td>
<td>0,2</td>
<td>0,3</td>
</tr>
<tr>
<td></td>
<td>16</td>
<td>8,9</td>
<td>0,4</td>
<td>3,5</td>
<td>2,4</td>
</tr>
</tbody>
</table>

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

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

Source : Résultats 5ème trimestre 2011.