



Large French banking groups are increasingly concentrating their international activities in the euro area

The large banking groups studied in this *Bulletin* (BNP Paribas, BPCE Group, Crédit Agricole Group, Crédit Mutuel Group, Société Générale and HSBC Continental Europe) had total consolidated assets of EUR 8,073 billion at the end of 2021, accounting for 86% of France's total banking sector.

Their footprint extends well beyond national borders: in Europe they are classified as "significant institutions" and have been directly supervised by the European Central Bank since 2014. Four of them (BNP Paribas, BPCE, Crédit Agricole and Société Générale) also qualify as "global systemically important banks".

The successive crises that have unfolded since 2008 – the financial crisis, the sovereign debt crisis, the public health crisis and then the war in Ukraine – have had knock-on effects on French banks' foreign activities. The latter have become increasingly concentrated in the euro area in recent years, at a time when the growing integration of the Banking Union is making cross-border operations in the region less risky.

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EUR **8,073** billion
total consolidated assets of the six large French banking groups* at end-2021

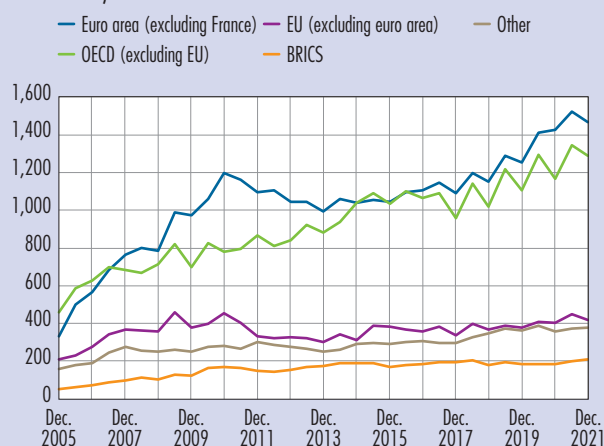
EUR **3,764** billion
total foreign claims of the six large French banking groups at end-2021

39%
share of euro area countries in large French banking groups' foreign claims

* "Large French banking groups" here refers to the five principal banking groups controlled by French interests, and HSBC Continental Europe, which is the French subsidiary of HSBC. These six entities have the largest foreign claims in the French banking sector.

The foreign claims of the six large French banking groups, by geographical area

(EUR billions)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).
Notes: Half-yearly data (30 June and 31 December).
BRICS, Brazil, Russia, India, China, South Africa.
OECD, Organisation for Economic Co-operation and Development.
EU, European Union.

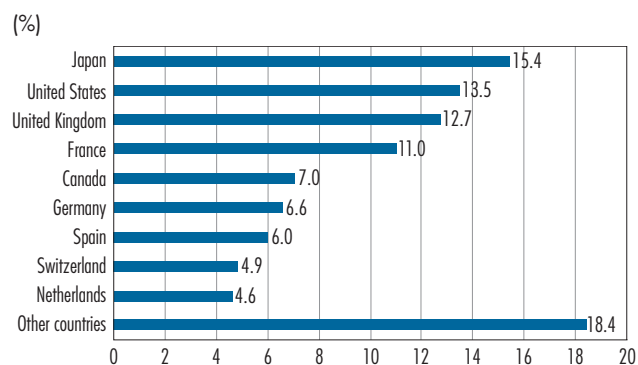


1 French banking groups have significant international exposure which is concentrated in a core of developed countries

The French banking system is one of the most internationalised in the world

At the end of September 2021, French banks' foreign claims accounted for 11% of the total foreign exposures of global banks¹ (see Chart 1). This figure, which exceeds their global market share of bank assets,² illustrates the extent to which they have become internationalised. The French banking system ranks fourth worldwide in terms of the size of its foreign claims. Its internationalisation rate, which measures its foreign exposures as a share of total exposures, stands at 39% compared to 21% for Japan, 24% for the United States and 25% for Germany. Based on this indicator, however, the French banking sector is less internationalised than those of the United Kingdom (56%), Spain (49%), the Netherlands (49%) Switzerland (47%) and Canada (46%) (see table). Foreign claims have risen particularly sharply since the end of 2017 (see Box 1), reaching EUR 3,764 billion for French banks at the end of 2021. The respective shares of claims within France and outside France have remained largely stable, indicating that both domestic and foreign exposures have risen at a similar pace. However, the six large French banking groups have all increased their foreign claims in the last decade (see Box 2).

C1 Foreign claims of banks in countries reporting to the Bank for International Settlements



Source: Bank for International Settlements (BIS).

Scope: National banking systems (all groups).

Note: Data for the third quarter of 2021.

Banking systems' international activities

(%)

Ranking of banking systems by the amount of foreign claims reported to the Bank for International Settlements (BIS)	Internationalisation rate
1 Japan	21
2 United States	24
3 United Kingdom	56
4 France	39
5 Canada	46
6 Germany	25
7 Spain	49
8 Switzerland	47
9 Netherlands	49
Total for all reporting countries	31

Source: Bank for International Settlements (BIS).

Scope: National banking systems (all groups).

Interpretation: French banks rank fourth in terms of total international banking assets reported to the BIS; these international assets account for 39% of their total balance sheet.

Note: Data for the third quarter of 2021.

BOX 1

Geographical diversification: a strategy for increasing profitability

Over the past few decades, the banking sector has become increasingly reliant on new products linked to commissions and trading activities, and reduced the share of revenues it derives from traditional intermediation activities. Bank revenues have been diversified across several business lines: fees and commissions from the sale of products linked to other financial instruments, capital and forex market activities, off-balance sheet transactions. This diversification has been particularly marked in the French banking sector.

At the same time, intensifying competition has led banks to expand into new geographical markets, with the aim of increasing their market share and diversifying their revenue sources. There are two strategies for achieving this: the first is to develop their activities in their own name and open branches in host countries; the second is to expand their size and scope of activities by acquiring or developing subsidiaries.

1 The terms "exposures" and "claims" are used synonymously in this article.

2 The total claims of the French banking system via-à-vis all geographical areas combined account for 9% of global bank claims.



BOX 2

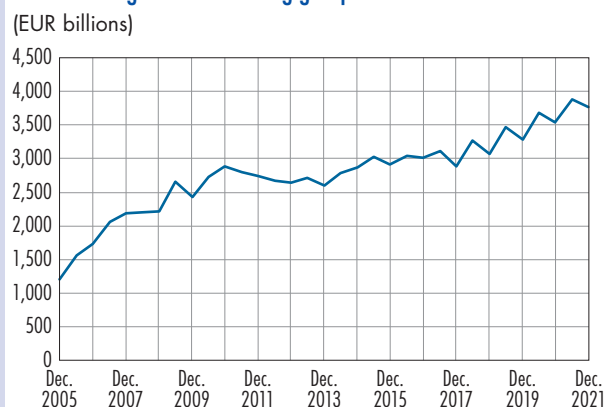
A timeline of French banks' internationalisation

At the end of 2021, the foreign exposures of the six large French banking groups totalled over EUR 3,700 billion, which is just under half the amount of their total claims, including those vis-à-vis France.

France's large banking groups have gone through **three main phases of development** since the start of the 2000s:

- **The first phase, from 2000 to the 2008 financial crisis**, was marked by a sharp expansion of their foreign claims, notably with the acquisition of major foreign subsidiaries. Growth in foreign claims was also driven by the expansion of investment banking activities with major foreign clients, either from France or via foreign branches. From 2005 to 2008, large French banking groups' foreign exposures rose by 83%, from EUR 1,208 billion to EUR 2,209 billion.
- **The second phase, from 2008 to 2014**, was a period of consolidation against a backdrop of the 2008 global financial crisis and the crisis affecting the sovereign debt of certain euro area countries. During this phase, the large French banking groups adjusted their international growth strategies according to the macroeconomic and financial context in the countries where they were operating. They notably pulled out of certain countries (such as Greece) by selling off assets, and made targeted acquisitions in others (such as Belgium) to consolidate their position in the euro area.
- **In the last phase, since 2014**, French groups have started to expand their foreign claims again, with a focus on the euro area, in an environment marked by tighter regulations, especially for global systemically important banks.

Size of the foreign claims of the six large French banking groups (EUR billions)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

Note: Half-yearly data (30 June and 31 December).

This internationalisation is being driven by French banks' local presence

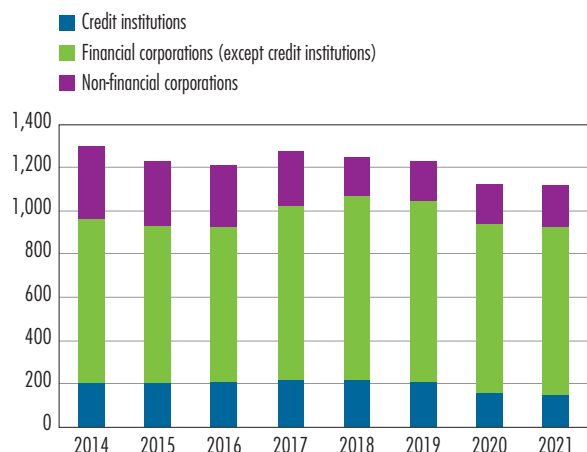
The internationalisation of the large French banking groups is being facilitated by their local presence in host countries in the form of

subsidiaries (around 1,100 at the end of 2021). The majority of these subsidiaries are financial corporations³ (see Chart 2). More than half of foreign banking activities are carried out via subsidiaries of credit institutions, although their number has declined significantly since 2018.

³ Financial corporations (except credit institutions): all financial corporations and quasi-financial corporations other than credit institutions, including investment firms, investment funds, insurance corporations, pension funds, collective investment undertakings and central clearing counterparties, as well as other financial intermediaries, financial auxiliaries, captive financial institutions and money lenders.



C2 Number of foreign subsidiaries of French credit institutions by sector since 2014



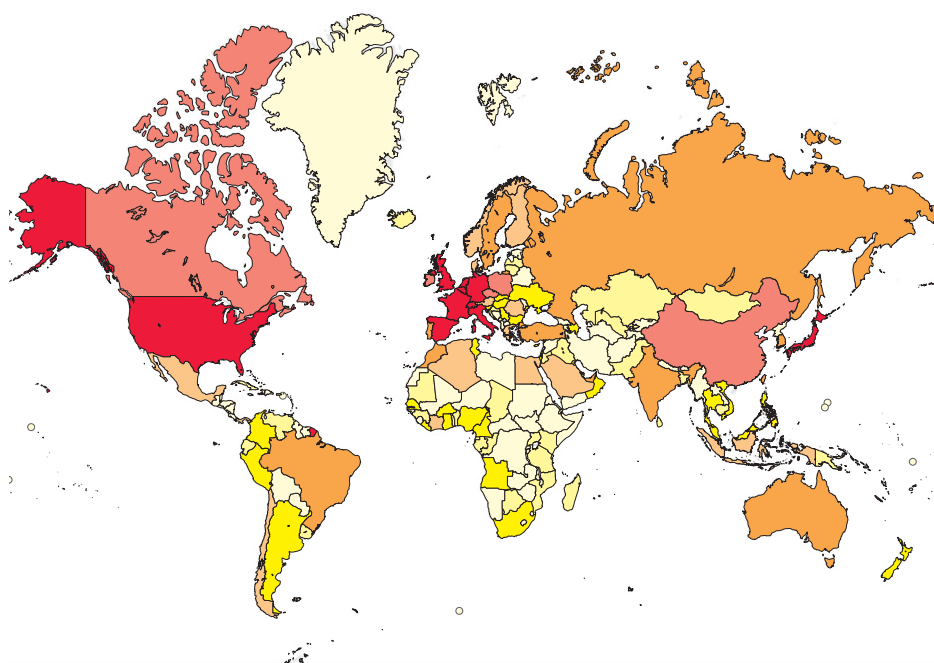
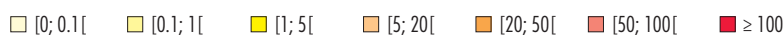
Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).
Scope: The six large French banking groups.
Note: Data as at 31 December.

Activity is concentrated in a core of developed countries

French banks are present on all continents (see Chart 3), but have a particularly strong footprint in Europe and North America. Excluding Brazil and Mexico, their claims vis-à-vis Latin American countries remain fairly modest; the same applies to Africa, where only a few countries exceed the threshold of EUR 5 billion of total exposures. Large French banks' foreign counterparties are primarily located in Europe (53%), followed by the Americas (26%) and Asia (16%). The major emerging economies or BRICS⁴ account for 6% of total foreign counterparties. However, in some cases, changes in exposures are also affected by variations in exchange rates and so need to be viewed with caution.

C3 Claims of the six large French banking groups at end-2021

(EUR billions)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

⁴ BRICS: Brazil, Russia, India, China, South Africa.



2 The euro area accounts for a rising share of large French banks' activities

A sharp rise in volumes, especially in the volume of claims vis-à-vis the euro area

The euro area accounts for 39% of large French banks' foreign claims, followed closely by the other countries in the Organisation for Economic Co-operation and Development (OECD) excluding the European Union (EU), and then by non-euro area EU countries⁵ (see Chart 4). The share of euro area exposures increased rapidly between 2005 and 2010, illustrating the significant expansion of large French banks into the European market over the period. This notably resulted

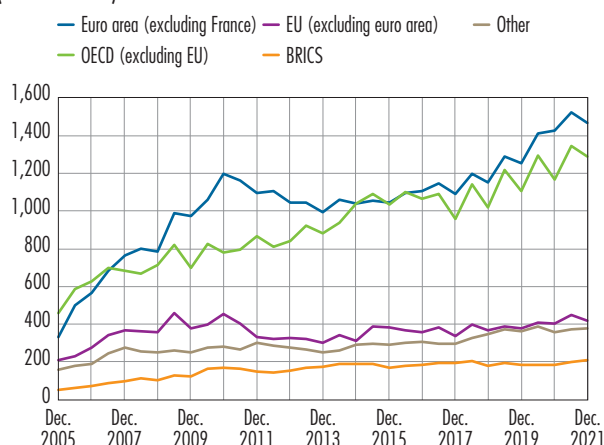
in the acquisition of major subsidiaries in neighbouring countries. The share of the euro area in total foreign claims then declined slightly up to the end of 2014 amidst the sovereign debt crisis. Over this period, claims vis-à-vis non-EU OECD countries grew more strongly. However, since the implementation of the Single Supervisory Mechanism (SSM)⁶ and then the Single Resolution Mechanism (SRM)⁷, the share of euro area claims has again risen very sharply.

This integration is all the more remarkable given that the EU's share of the global economy is shrinking

The euro area accounts for the biggest share of large French banks' foreign claims. These banks have thus taken advantage of the process of European integration that began 20 years ago with the creation of the single currency. Whereas in 2005, the euro area (excluding France) accounted for just 27% of large French banks' foreign claims, only slightly exceeding its share of global GDP (17%), at the end of 2020 it accounted for close to 40%, despite the fall in the region's GDP share to 12% (see Chart 5). The process of integration continued with the implementation of the SSM in 2014 and then the creation of the SRM in 2015. This strengthening of the institutional framework, aimed at harmonising and centralising bank supervision, is helping to foster the emergence of a more unified European banking market.

C4 Claims of the six large French banking groups, by geographical area

(EUR billions)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

Notes: Half-yearly data (30 June and 31 December).

BRICS, Brazil, Russia, India, China, South Africa.

OECD, Organisation for Economic Co-operation and Development.

EU, European Union.

In recognition of this major progress, the intra-Banking Union risks carried by banks can, under certain regulations, be partially recognised as domestic risks. As of 2022, the “parallel scores” established to evaluate the risks carried by global systemically important banks treat 66% of intra-Banking Union exposures as domestic (see Appendix 2).

⁵ A table showing the composition of the geographical areas defined in the study can be found in Appendix 1.

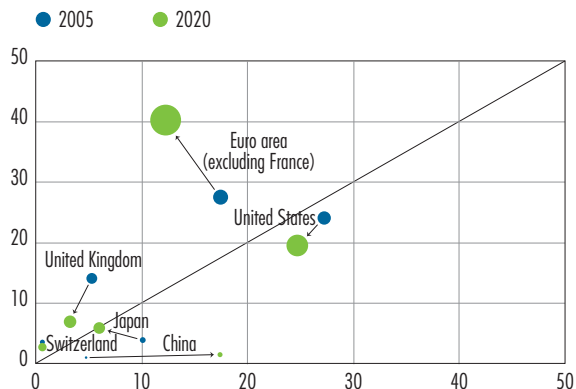
⁶ A definition of the Single Supervisory Mechanism (SSM) is available on the ECB website at <https://www.bankingsupervision.europa.eu/>

⁷ The institutional framework for resolution (SRM and SSM) is described on the Banque de France website at <https://acpr.banque-france.fr/en/resolution/institutional-framework-resolution>



C5 Share of the main economic areas in the foreign claims of the six large French banking groups compared to their share of global GDP in 2005 and 2020

(%; x-axis: share of global GDP; y-axis: share of foreign claims)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

Interpretation: Whereas the euro area excluding France was “overrepresented” in large French banking groups’ foreign claims in 2005 (with a share of 27%) compared to its share of global GDP (17%), its weight increased even further to 40% of foreign claims at end-2020 despite a decline in its share of global GDP (12%).

Note: The size of the circles indicates the size of the commitments.

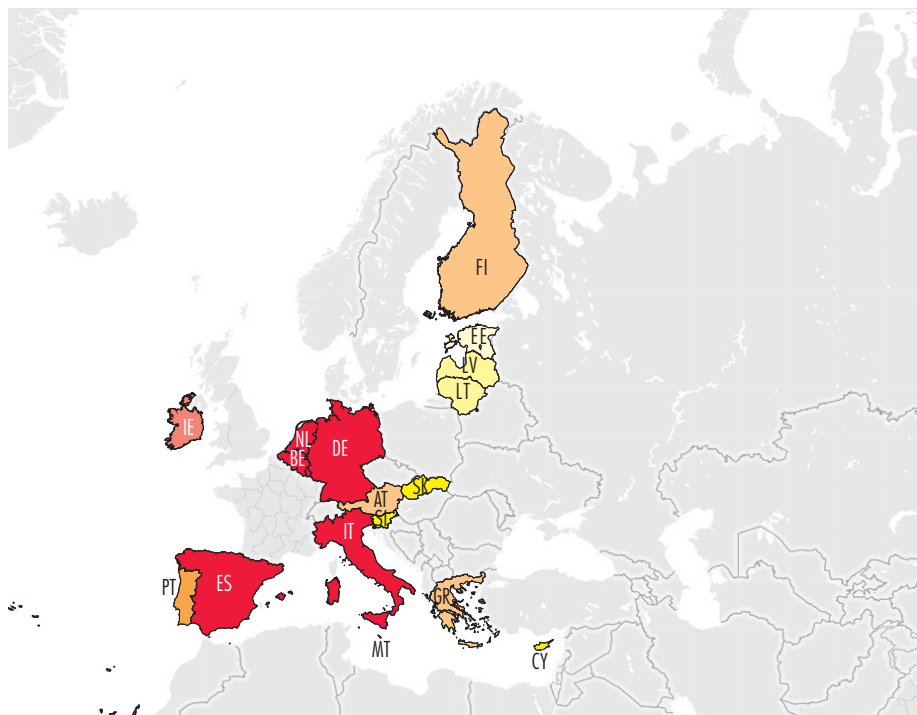
Within the euro area, the main exposures are in neighbouring countries

The main countries to which large French bank groups are exposed are those that are geographically closest and those where they have their largest subsidiaries: these are Italy in first place, followed by Belgium and Germany, and then Luxembourg, Spain, the Netherlands, Ireland and Portugal (see Chart 6). In each of these countries, French banks’ total exposures have increased since the end of 2017, and in some cases at a very steep rate.⁸ A trend seems to be emerging whereby, in addition to playing a central role in their domestic economy, French groups are becoming fully-fledged European players and participating actively in the financing of the euro area.

C6 Claims of the six large French banking groups vis-à-vis euro area countries (excluding France)

(EUR billions)

[0; 0.1[
 [0.1; 1[
 [1; 5[
 [5; 20[
 [20; 50[
 [50; 100[
 ≥ 100



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

⁸ International activities are predominantly carried out by subsidiaries; the proportion varies from year to year but on average is always over 75%.



3 Large groups' international activities carry no significant risk

The counterparty risk on international exposures is slightly higher but has decreased markedly

Large French banking groups' strong internationalisation exposes them to an increased risk of default by foreign

counterparties. However, the broad geographical scope of their claims means that their counterparty risk is diversified, thereby limiting their vulnerability to external shocks. This geographical diversification in fact improves their overall risk profile by making them less dependent on the economic environment in a particular country or geographical area (see Box 3).

BOX 3

Large French banking groups' claims vis-à-vis Russia and Ukraine

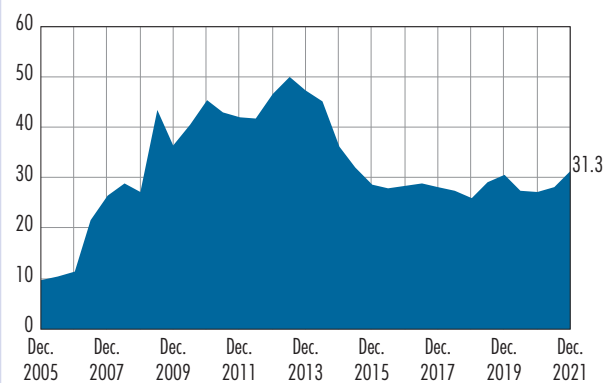
Russia's invasion of Ukraine and the subsequent imposition of economic sanctions have prompted scrutiny of French banks' exposures in both countries.

At the end of 2021, the six large French banking groups had total claims of EUR 31.3 billion vis-à-vis Russia (0.8% of their total foreign claims) and EUR 3.7 billion vis-à-vis Ukraine (0.1% of total foreign claims).

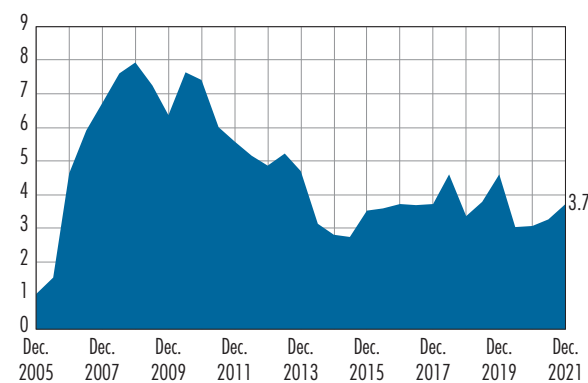
Ca The foreign claims of the six large French banking groups

(EUR billions)

a) Vis-à-vis Russia



b) Vis-à-vis Ukraine



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

Note: Half-yearly data (30 June and 31 December).

The direct exposure of large French banking groups to Russia and Ukraine remains very limited, with the exception of that of one bank which has since sold its subsidiary. This transaction has had very little impact on its solvency.¹

Large French banking groups' claims vis-à-vis Russia and Ukraine are primarily denominated in a currency other than the euro or US dollar.

¹ The bank in question is Société Générale which announced the sale of its Russian subsidiary Rosbank on 11 April 2022.

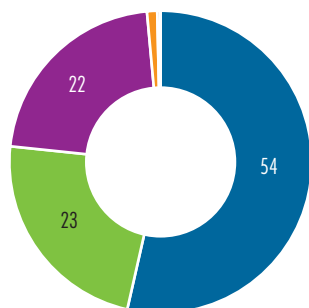
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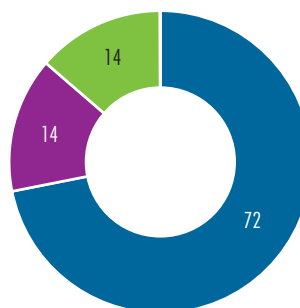
Cb Breakdown by currency of the foreign claims of the six large French banking groups at end-2021

(%)

a) Vis-à-vis Russia



b) Vis-à-vis Ukraine



Legend: Euro (purple), US dollar (green), Yen (blue), Pound sterling (brown), Swiss franc (orange), Other currencies (dark blue).

Source: Autorité de contrôle prudentiel et de résolution (ACPR – Prudential Supervision and Resolution Authority).

Large French banking groups have mainly financed large corporations in Russia (53% of total exposures to Russia) and in Ukraine (47% of total exposures to Ukraine).

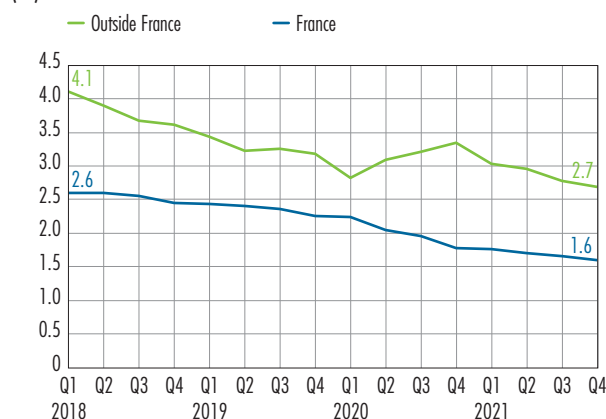
The economic sanctions against Russia could have an impact on the number of payment defaults by these large corporations. At end-December 2021, large French banking groups' non performing loan ratio in Russia remained limited (1.7% in Russia compared with an average of 2.7% on all international exposures) but this is no indication of how this credit risk might evolve in the future.

At the end of 2021, their credit risk, measured in this study by their non-performing loan (NPL) ratio, was significantly higher on foreign exposures (2.7%) than on domestic exposures (1.6%). However, the NPL ratio for foreign loans has decreased from 4.1% at the start of 2018 to 2.7% at the end of 2021, reflecting an improvement in the quality of large French banking groups' loan books. The gap between the NPL ratios for domestic and foreign loans has also narrowed from 1.5 percentage points to 1.1 percentage points, despite the increase in NPLs in 2020 following the public health crisis, and the remarkably low NPL ratio for domestic activity (see Chart 7).

Aside from a few exceptions, the highest NPL ratios are generally found in countries where French banks have relatively limited exposure (see Chart 8).

C7 Ratio of non-performing loans and advances for the six large French banking groups since 2018, for both French and foreign activities

(%)

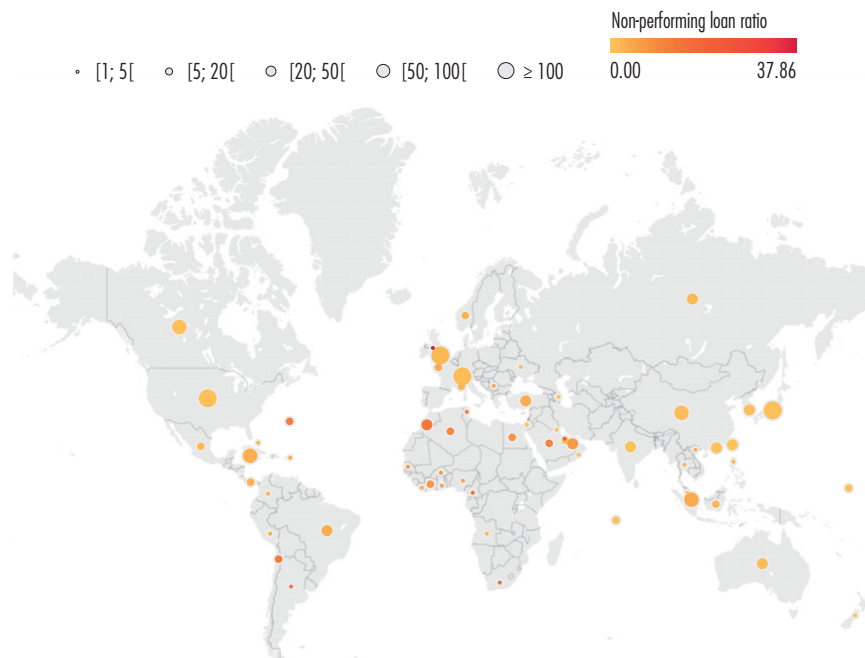


Source: Autorité de contrôle prudentiel et de résolution (ACPR – Prudential Supervision and Resolution Authority).



C8 Non-performing loan ratios for the main countries and size of claims (excluding the European Union)

(amounts in EUR billions, rate in %)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

Scope: The six large French banking groups.

Interpretation: The chart shows the non-performing loan ratio for each country compared to the total amount of claims vis-à-vis counterparties in that country. The size of the circles reflects the size of the exposure; the colour indicates the proportion of non-performing loans.

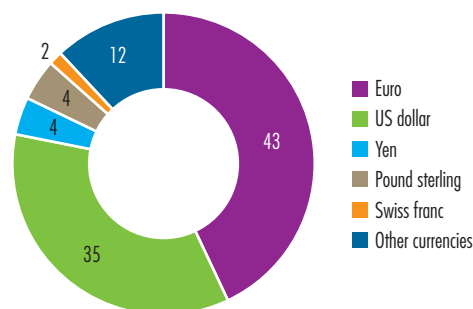
Foreign claims are mainly denominated in euro

A total of 43% of large French banking groups' foreign exposures were denominated in euro at the end of 2021 (see Chart 9), slightly exceeding the share of their foreign claims vis-à-vis the euro area (39%). The use of the euro limits (in volume terms) the exchange rate risk that the banks carry on their foreign exposures. The second biggest currency to which they are exposed is the US dollar, which accounts for 35% of their claims. The next most important currencies (yen, pound sterling and Swiss franc) account for less than 10% of their foreign exposures.

Chart 10 shows the "exchange rate" effect between end-2019 and end-2021, during which time the four main currencies all depreciated against the euro,

C9 Breakdown by currency of the foreign claims of the six large French banking groups at end-2021

(%)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

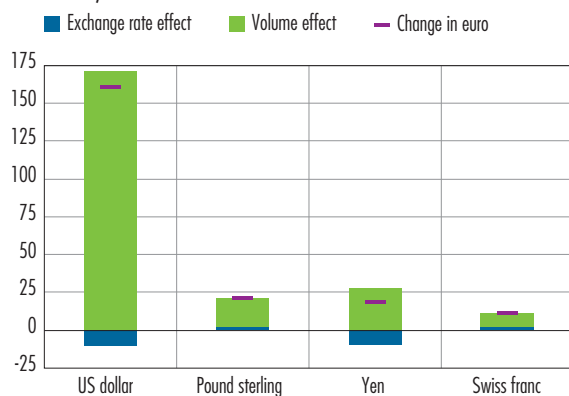
especially the US dollar. The exchange rate effect has therefore had a slightly negative impact on the size of the large French banking groups' foreign claims.



C10 Contributions to the change in the foreign claims of the six large French banking groups between 2019 and 2021

“Volume” effect and “exchange rate” effect for the main currencies

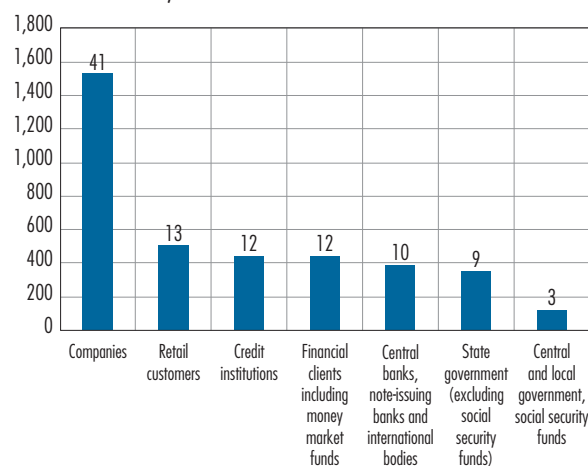
(EUR billions)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

C11 Breakdown by counterparty of the foreign claims of the six large French banking groups at end-2021

(EUR billions and %)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

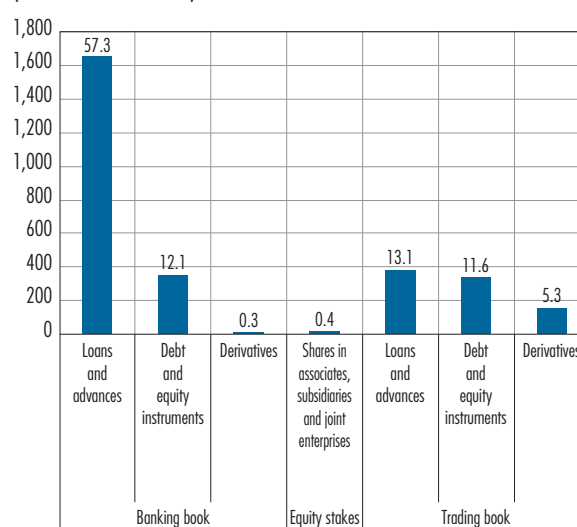
Exposures are primarily to non-financial corporations

At the end of 2021, large French banking groups’ foreign exposures were mainly to non-financial corporations (41% of total foreign claims). The next biggest share of exposures was to retail customers (13%). Foreign exposures to the general government sector (state government, central banks, central and local government) and to credit institutions remained significant at 22% and 12% respectively (see Chart 11).

Nearly 70% of large French banking groups’ foreign claims are carried in the banking book⁹ and are thus subject to a capital requirement for credit risk. Nearly 30% are carried in the trading book¹⁰ and are subject to a capital requirement for market risk, while only 0.4% are equity holdings (see Chart 12).

C12 Breakdown by balance sheet item of the foreign claims of the six large French banking groups at end-2021

(EUR billions and %)



Source: *Autorité de contrôle prudentiel et de résolution* (ACPR – Prudential Supervision and Resolution Authority).

⁹ The banking book records medium and long-term exposures giving rise to a capital requirement for credit risk.

¹⁰ The trading book records all positions in financial instruments and commodities held by an institution with trading intent or to hedge positions held with trading intent and giving rise to a capital requirement for market risk. The prudential definition of the trading book differs from the accounting definition (point 86 of Article 4(1) of Regulation EU 575/2013).



In conclusion, outside France, the euro area is the main location for large French banks' claims, accounting for 39% of their foreign exposures and nearly half of their subsidiaries at end-2021. The share of their claims vis-à-vis the euro area rose very sharply after the creation of the single currency in 1999 and up to 2010, and then again after 2014, following a slight decline linked to the sovereign debt crisis.

The factors behind this strong rise include solid global and European growth and the continuous progress made on the single banking market, both on a legislative and regulatory level, and on an institutional level. The implementation of the Single Rulebook in 2014 introduced a single set of harmonised prudential rules for the EU in the form of the Capital Requirements Regulation (CRR). Moreover, the creation of new institutions within the euro area – the Single Supervisory Mechanism (SSM) which is attached to

the European Central Bank, and the Single Resolution Mechanism (SRM) – has harmonised the system of supervision and consolidated the different frameworks for managing bank failures. These changes have strengthened the solidity of the European banking sector while also fostering closer integration of the euro area financial system.

The fact that banks' euro area claims continued to rise during the public health crisis in 2020 and then in 2021, demonstrates that the European Banking Union has made intra-euro area financing more resilient, even during economic downturns. The large French banks have thus clearly established themselves as pan-European players. In order to complete the Banking Union, the next steps will be to facilitate the centralised management of groups' capital and liquidity within the euro area, and to remove obstacles to the cross-border consolidation of the European banking sector.



Appendix 1

Table of geographical areas

Country	Euro area	European Union (excluding euro area)	OECD ^{b)} (excluding European Union)	BRICS ^{c)}
AT: Austria	X			
AU: Australia			X	
BE: Belgium	X			
BG: Bulgaria		X		
BR: Brazil				X
CA: Canada			X	
CH: Switzerland			X	
CL: Chile			X	
CN: China				X
CY: Cyprus	X			
CZ: Czech Republic		X		
DE: Germany	X			
DK: Denmark		X		
EE: Estonia	X			
ES: Spain	X			
FI: Finland	X			
FR: France	X			
GB: United Kingdom		X ^{a)}		
GR: Greece	X			
HR: Croatia		X		
HU: Hungary		X		
IE: Ireland	X			
IL: Israel			X	
IN: India				X
IS: Iceland			X	
IT: Italy	X			
JP: Japan			X	
KR: South Korea			X	
LT: Lithuania	X			
LU: Luxembourg	X			
LV: Latvia	X			
MT: Malta	X			
MX: Mexico			X	
NL: Netherlands	X			
NO: Norway			X	
NZ: New Zealand			X	
PL: Poland		X		
PT: Portugal	X			
RO: Romania		X		
RU: Russia				X
SE: Sweden		X		
SI: Slovenia	X			
SK: Slovakia	X			
TR: Turkey			X	
US: United States			X	
ZA: South Africa				X

a) To ensure consistency over time and despite the implementation of Brexit in 2020, the United Kingdom is included under the European Union (excluding euro area) in charts showing historical data.

b) OECD, Organisation for Economic Co-operation and Development.

c) BRICS, Brazil, Russia, India, China, South Africa.



Appendix 2

The treatment of the Banking Union in the assessment of global systemically important banks

At the end of 2021, the Basel Committee was mandated by the Financial Stability Board (FSB) to review the implications of developments related to the European Banking Union (EBU) for the assessment methodology for global systemically important banks (G-SIBs).¹

This ambitious project was carried out in the first half of 2022 and has led to major advances that were set out in a press release by the Basel Committee on 31 May 2022.²

In the release, the Committee acknowledged the progress made in the development of the EBU,³ and agreed to recognise this in the G-SIB framework through the existing methodology, which allows for adjustments to be made to bucket allocations according to supervisory judgement.

Under the agreement, a “parallel” set of G-SIB scores will be calculated for EBU-headquartered G-SIBs

and used to adjust their bucket allocations. The parallel scores will recognise 66% of the score reduction that would result from treating intra-EBU exposures as domestic exposures under the G-SIB scoring methodology. The Committee’s agreement will not affect the classification of any banks as G-SIBs or the scores or bucket allocations of banks outside the EBU.

The decision fully recognises the extent of the progress made on EBU integration, thanks to the Single Rulebook, the Single Supervisory Mechanism (SSM), the creation of the Single Resolution Fund (SRF), and the harmonisation of deposit guarantee schemes and their potential backing by the European Stability Mechanism.

This institutional framework considerably reinforces financial stability.

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¹ <https://www.fsb.org/2021/>

² <https://www.bis.org/press/>

³ The Banking Union comprises the 19 euro area countries along with Croatia and Bulgaria.

