Press conference

Paris, 7 June 2012

FRENCH BANKS

Unlock value by spinning off the traders

Non-Conflicted
Equity Research
Study

ALPHAVALUE
independent equity research

Executive Summary

The French president has committed himself to separate the casino banking operations from the utility banking activities during his campaign.

3 options

There are basically three options, offering varying structural modifications and implying a wide range of consequences:

- Vickers (the Independent Commission on Banking): ring fencing the deposit-taking bank
- Volcker: forbidding prop trading
- Glass-Steagall: full and complete « spin-off » (like JP Morgan/Morgan Stanley in 1933)

Glass-Steagall was not on the table until last month, but the JP Morgan London Whale episode has brought it back into contention.

We have reviewed the three options establishing the pros ans cons for each of the various bank stakeholders.

Results

We have come to the conclusion that the Glass-Steagall option would produce the best outcome for everybody, except bank managers and traders (less than 2% of total bank staff).

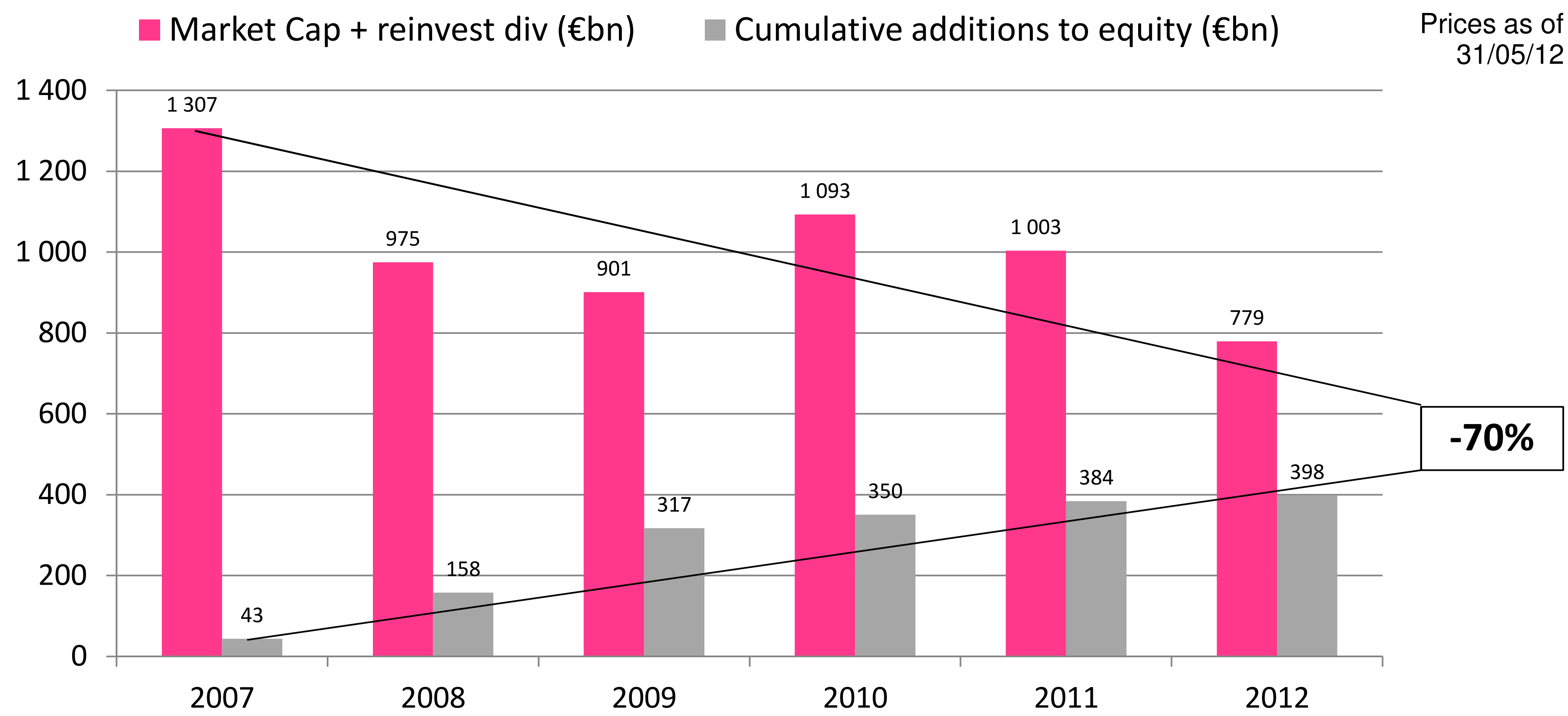
Last but not least, ruined bank shareholders might in the process recoup a portion of their losses while keeping an option for a return to better fortune.

The myth: the Universal Banking Model as being safer

In December 2011, a poll done by *L'Agéfi Hebdo* indicated that 63% of French finance professionals were in favor of a public debate on a separation between casino banking and utility banking

The top 10 largest annual losses by European banks (2008-2011)				
Rank	Name	Net loss (€bn)	Year	Type of bank
1	**Fortis**	**28.0**	**2008**	**Universal**
2	**RBS**	**27.0**	**2008**	**Universal**
3	*Anglo Irish*	*17.7*	*2010*	*Regional*
4	**UBS**	**13.0**	**2008**	**Universal**
5	**Dexia**	**11.6**	**2011**	**Universal/specialised**
6	*Allied Irish*	*10.4*	*2010*	*Regional*
7	**Intesa SanPaolo**	**8.2**	**2011**	**Universal**
8	**Lloyds**	**7.0**	**2009**	**Universal**
9	**Commerzbank**	**6.6**	**2008**	**Universal**
10	*Hypo Real Estate*	*5.5*	*2008*	*Specialised*
	Total	**135.0**		
		o/w 101.4	**75% universal**	

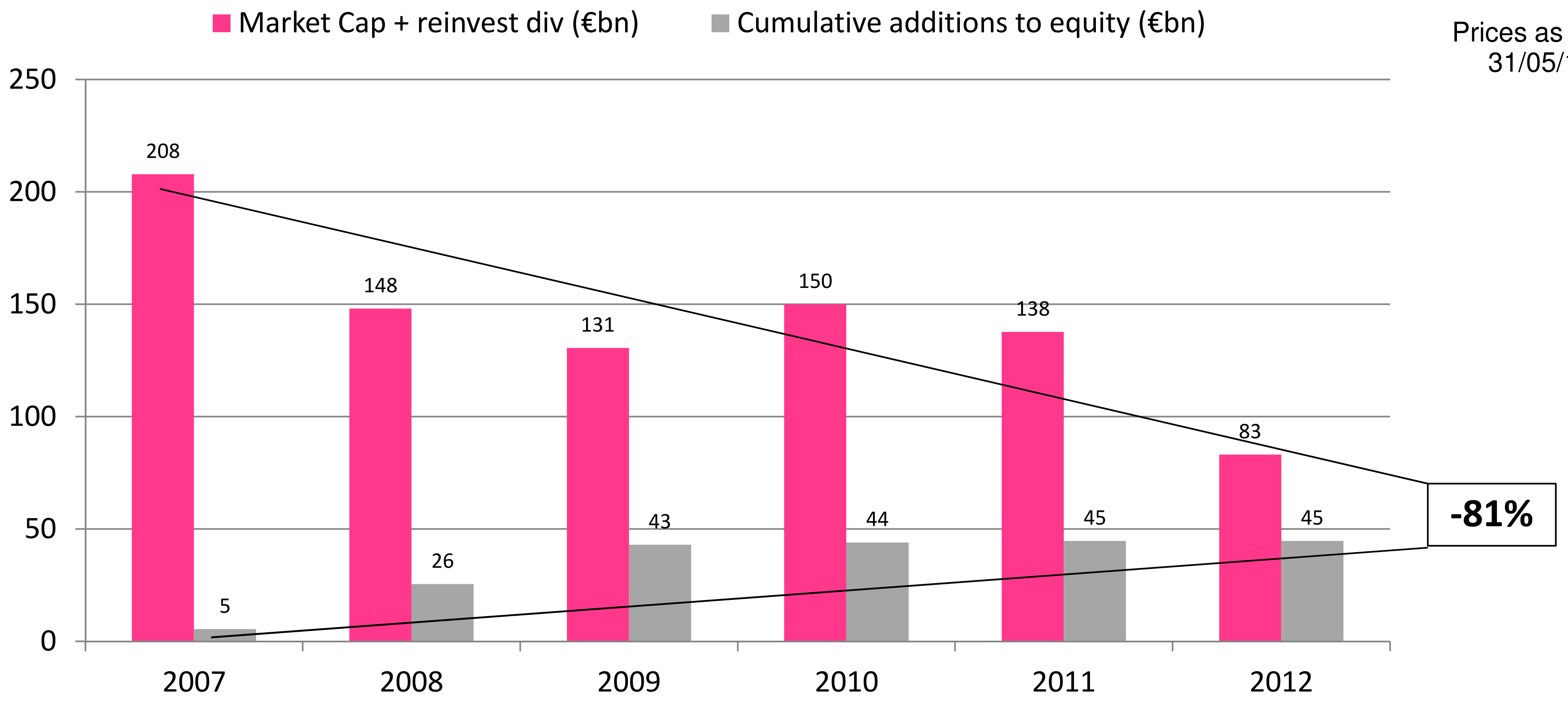
EU Banks: Massive Value Destruction



Alphavalue 38 banks universe
(current perimeter – ex Dexia)

Value destruction of €882bn
(dividends and recap' included)
equates to -70% since 2007!

French Banks: Value destruction is even greater

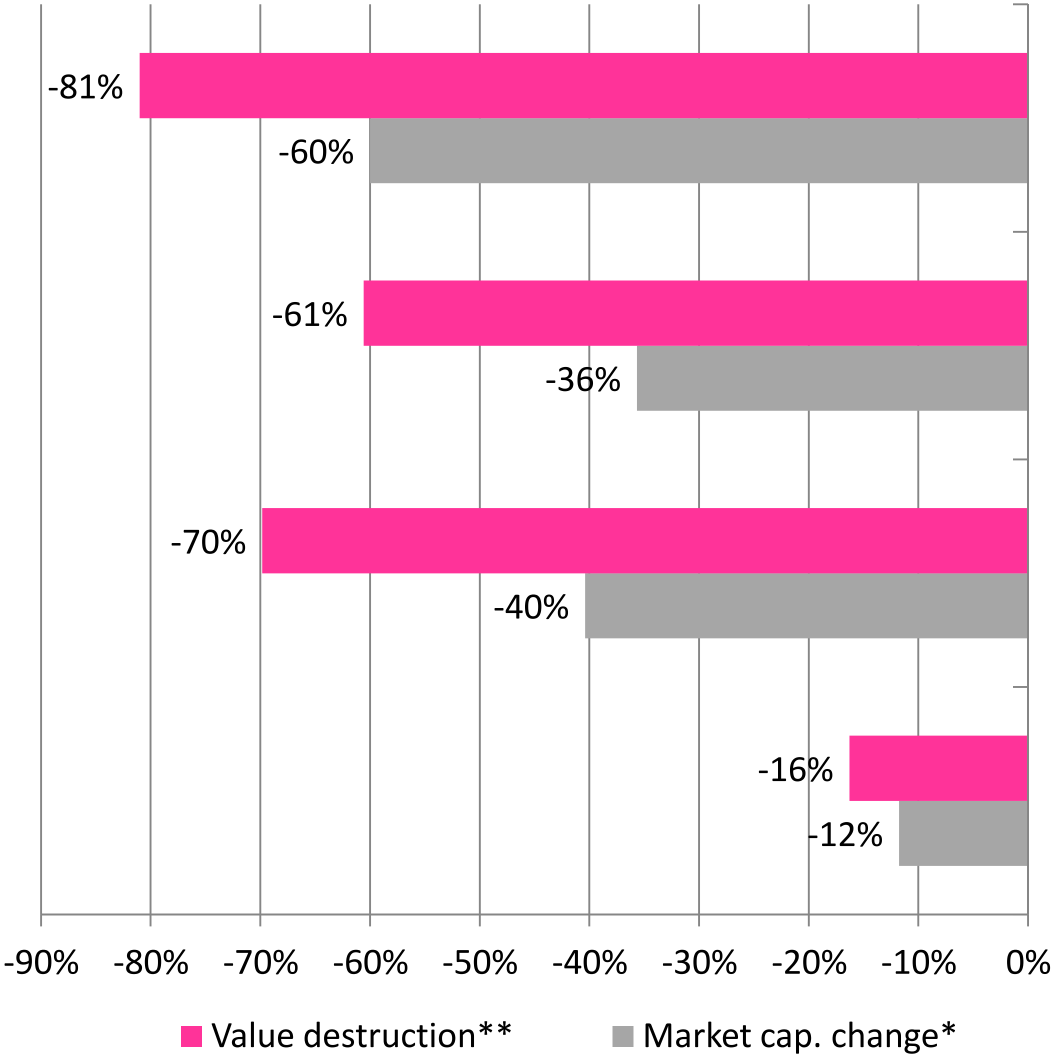


Prices as of 31/05/12

4 French banks
(current perimeter – ex Dexia)

Value destruction of €164bn
(dividends and recap' included)
equates to -81% since 2007!

French Banks: Value destruction is much greater than commercial banks



AV French banks

BNPP, SocGen, CASA, Natixis

AV commercial banks

AV banks excluding 4 French, RBS, BARC, DB, CS, UBS

AV banks

38 banks over 13 countries

AV universe

465 European stocks

(*) prices as of 31/05/12, vs average 2007 market cap., reinvested dividends
(**) market cap. change adjusted for cumulated recapitalisations

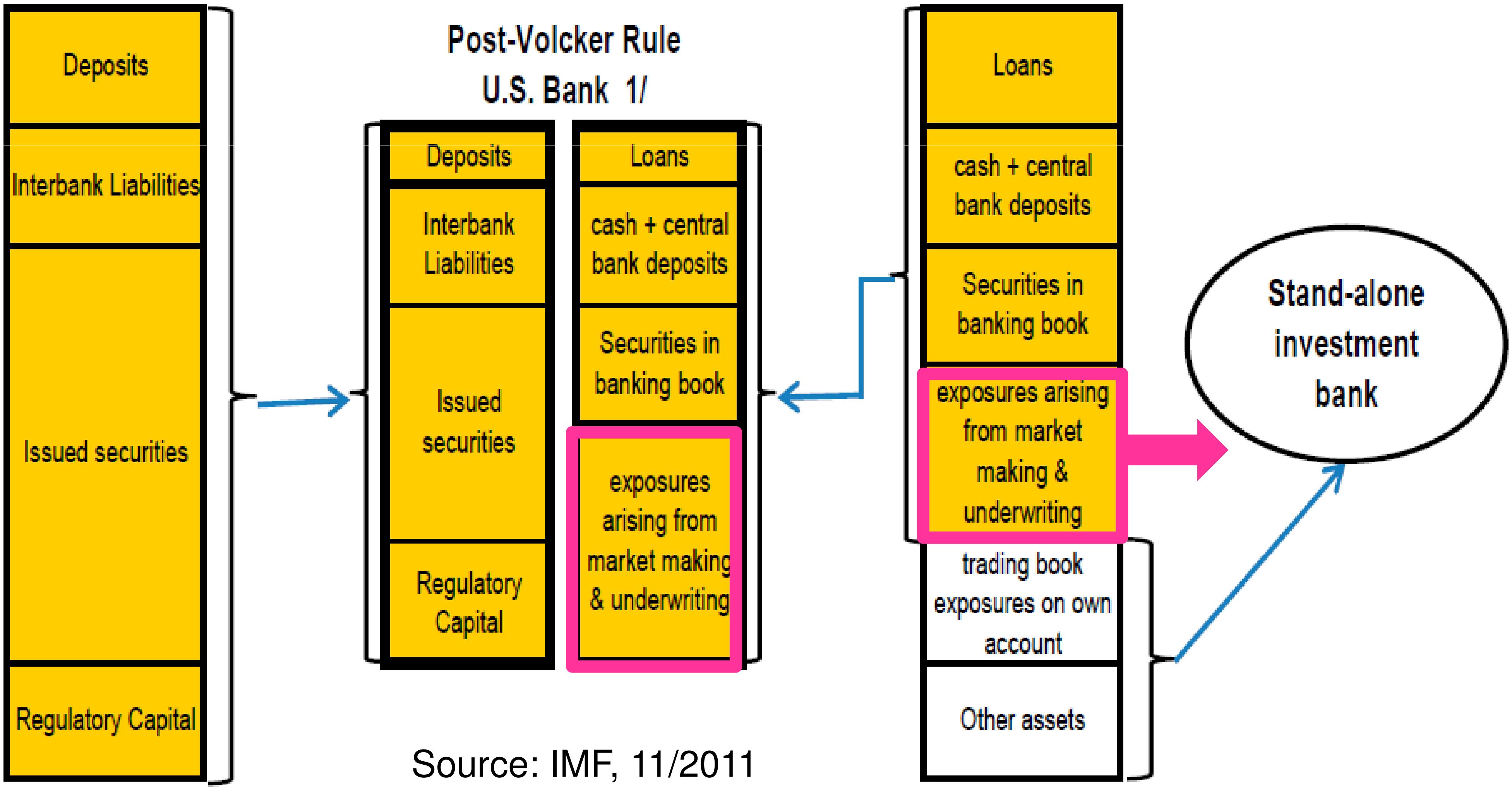
Prices as of 31/05/12

Unlocking shareholder value trapped in investment banking discount while alleviating 2B2F related moral hazard

	VOLCKER	VICKERS	GLASS-STEAGALL
Principle	Prop trading forbidden (**but lax definitions**)	Ring-fencing of deposit-taking retail and commercial bank	Total ownership separation between deposit-taking retail and commercial bank from investment bank (spin-off)
	Ownership/sponsorship in Hedge Funds and Private Equity Funds forbidden. **But lending to Hedge Funds and to highly-leveraged transactions (HLTs, LBOs) is allowed**	Higher capital requirements for the ring-fenced bank (10% vs 7% Basel 3, 17% with CoCos and the likes)	No links whatsoever between the two
		Investment banking allowed outside of the ring-fence **but stays within the banking group**	
Where ?	USA	UK	USA
When ?	From July 2012 (2 to 5-year max transitory)	From 2019 on	From 1933 until 1999 (Gramm-Leach-Bliley act)

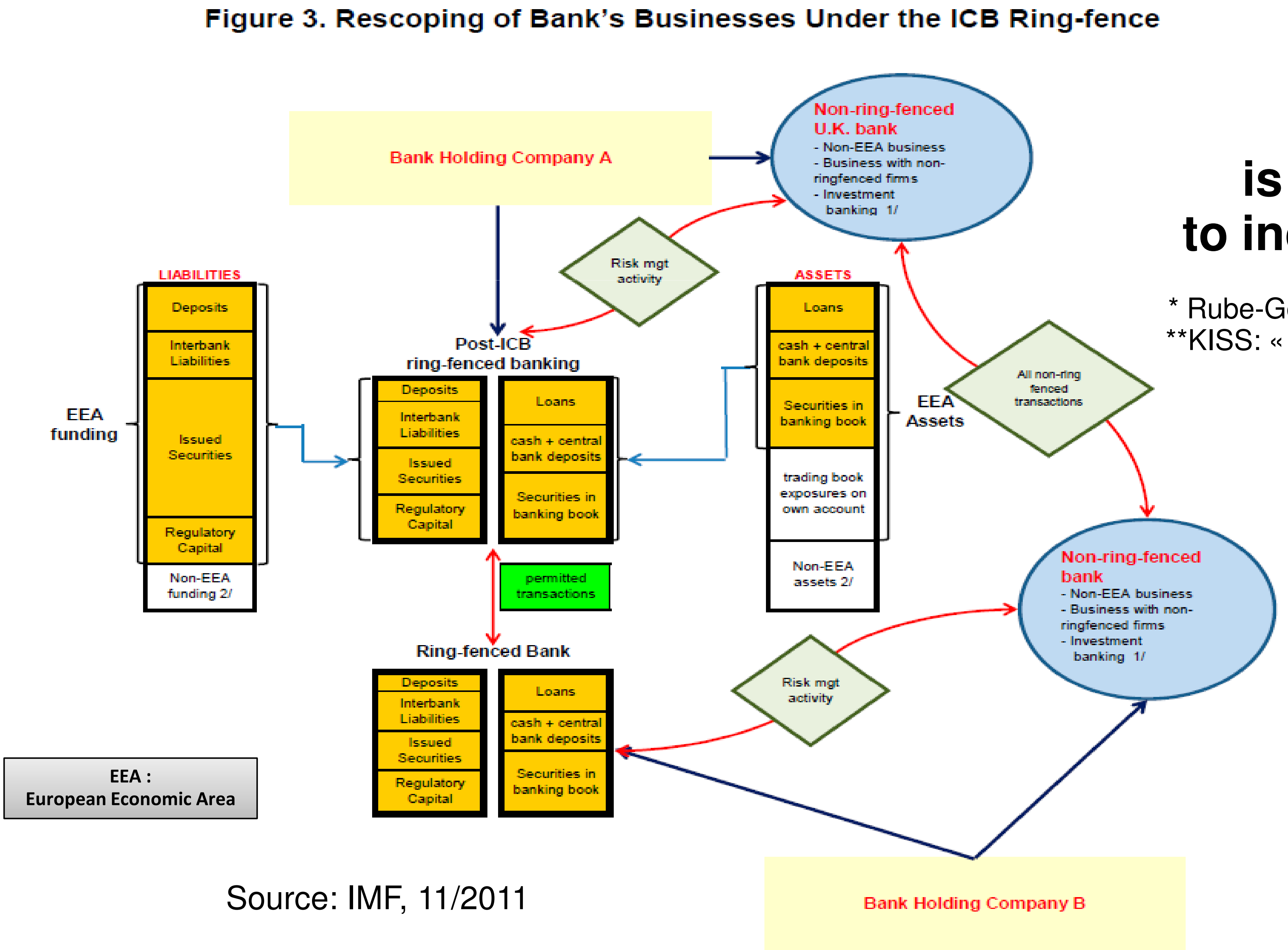
Volcker : a good start but insufficient

Figure 2. Rescoping of Banks' Businesses Under the Volcker Rule



Source: IMF, 11/2011

Vickers : a Rube-Goldberg machine* that does not pass the KISS test**



Source: IMF, 11/2011

Complexity is the best way to increase risk…

* Rube-Goldberg: « usine à gaz »
**KISS: « keep it simple, stupid! »

From the specific stakeholder's point of view
Shareholders
Managers
Taxpayers
Customers
Depositors
Creditors
Bank employees
Regulators
National interest
Society as a whole

The case for Glass-Steagall : reconciliating private and public interests

SHAREHOLDERS	VOLCKER	VICKERS	GLASS-STEAGALL
Risk	☹	☹☹	☺☺/☹☹
Return	☹☹	☹	☹☹/☺☺
Event-reputational risk / Image & brand value	☹☹	☹	☺☺
Agency costs / Corp. Governance	☹	☹☹	☺☺
Unlocking value / conglomerate discount	☹	☹☹	☺☺

The case for Glass-Steagall : reconciliating private and public interests

MANAGERS	**VOLCKER**	**VICKERS**	**GLASS-STEAGALL**
Asymmetry (“*Tail I win, Head you lose*”)	☺☺	☺☺	☹☹
Complexity	☹	☹☹	☹☹/☺
Fraud risk (Kerviel/SG, Adoboli/UBS,…)	☹☹	☹☹	☹☹/☺☺
Emperor / Rainmaker syndrome	☺	☺☺	☹☹
Compensation	☺	☺☺	☹☹

The case for Glass-Steagall : reconciliating private and public interests

TAXPAYERS	VOLCKER	VICKERS	GLASS-STEAGALL
Tax collection	☹	☺☺	☺☺
« Too big to fail »	☹	☹☹	☺☺

The case for Glass-Steagall : reconciliating private and public interests

CUSTOMERS	VOLCKER	VICKERS	GLASS-STEAGALL
Conflicts of interest*	☹	☹☹	☺☺
Borrowing costs	☹	☹	😐
Convenience / ease of services**	☹	☺	☹
Securities market liquidity	☹☹	☹	☺☺

* Examples of conflicts of interest:

- having the bank underwrite and distribute a bond issue to repay a corporate loan going sour (e.g. Eurodisney, Eurotunnel,…);
- prop trading does not respect fiduciary responsibilities towards customers (e.g. High Frequency Trading, frontrunning institutionnal customers, price manipulation,…);
- (…)

** Two phone calls instead of one today…

The case for Glass-Steagall : reconciliating private and public interests

DEPOSITORS	VOLCKER	VICKERS	GLASS-STEAGALL
Safety of deposits	☹☹	☺	☺☺

The case for Glass-Steagall : reconciliating private and public interests

CREDITORS	VOLCKER	VICKERS	GLASS-STEAGALL
Rights/Seniority/Risk assessment	☹☹	☹	☺/☹

The case for Glass-Steagall : reconciliating private and public interests

BANK EMPLOYEES	VOLCKER	VICKERS	GLASS-STEAGALL
Employment*	☹	😐	☺
Incivility / Bank bashing / Tellers being confused with traders	☹☹	☹	☺☺

*Who's going to cry, anyway,over a few hundred layoffs of traders in London, NYC and Hong-Kong ?

Except the fired traders themselves…

The case for Glass-Steagall : reconciliating private and public interests

REGULATORS	VOLCKER	VICKERS	GLASS-STEAGALL
Decreasing leverage	☹	☹☹	☺
Decreasing liquidity pressure	☹	☹☹	☺☺
Decreasing systemic risk & interconnectedness	☹ Lending to hedge funds (prime brokerage) and to highly leveraged transactions (LBO) still permitted	☹☹ Keep on doing the same errors, but in a subsidiary…	☺☺
Supervision ease	☹	☺	☺☺
Pushing speculation into shadow banking	☹☹	☹	☺☺
Bank resolution / « living will »	☹☹	☺	☺☺

The case for Glass-Steagall : reconciliating private and public interests

NATIONAL INTEREST	VOLCKER	VICKERS	GLASS-STEAGALL
The Goldman Sachs syndrome of having an investment banking champion	☹☹	☹	☺ (merge, if necessary, the 4 existing French IB into 2 major players, after the split) BNP IB with Natixis IB SGIB with CA-IB

The case for Glass-Steagall : reconciliating private and public interests

FYE 2011 (€bn)	Group			Commercial Bank		Investment Bank			
	Assets	o/w loans	Employees	Assets	Employees (est.)	Trading assets	o/w deriv.	Employees (est.)	**Ranking***
BNP Paribas	1 965	670	204 000	1 135	194 000	830	462	10 000	#4
CASA	1 724	408	87 000	1 200	81 000	524	383	6 000	#7
SocGen	1 181	397	160 000	743	153 000	438	258	7 000	#8
Natixis	508	112	20 000	259	18 000	249	126	2 000	#11
Total	**5 378**	**1 587**	**471 000**	**3 337**	**446 000**	**2 041**	**1 229**	**25 000**	
					"Parisis" (Paribas + Ixis)	1 079	588	12 000	**#3**
					"Galion" (SGIB + CA-IB)	962	641	13 000	**#4**

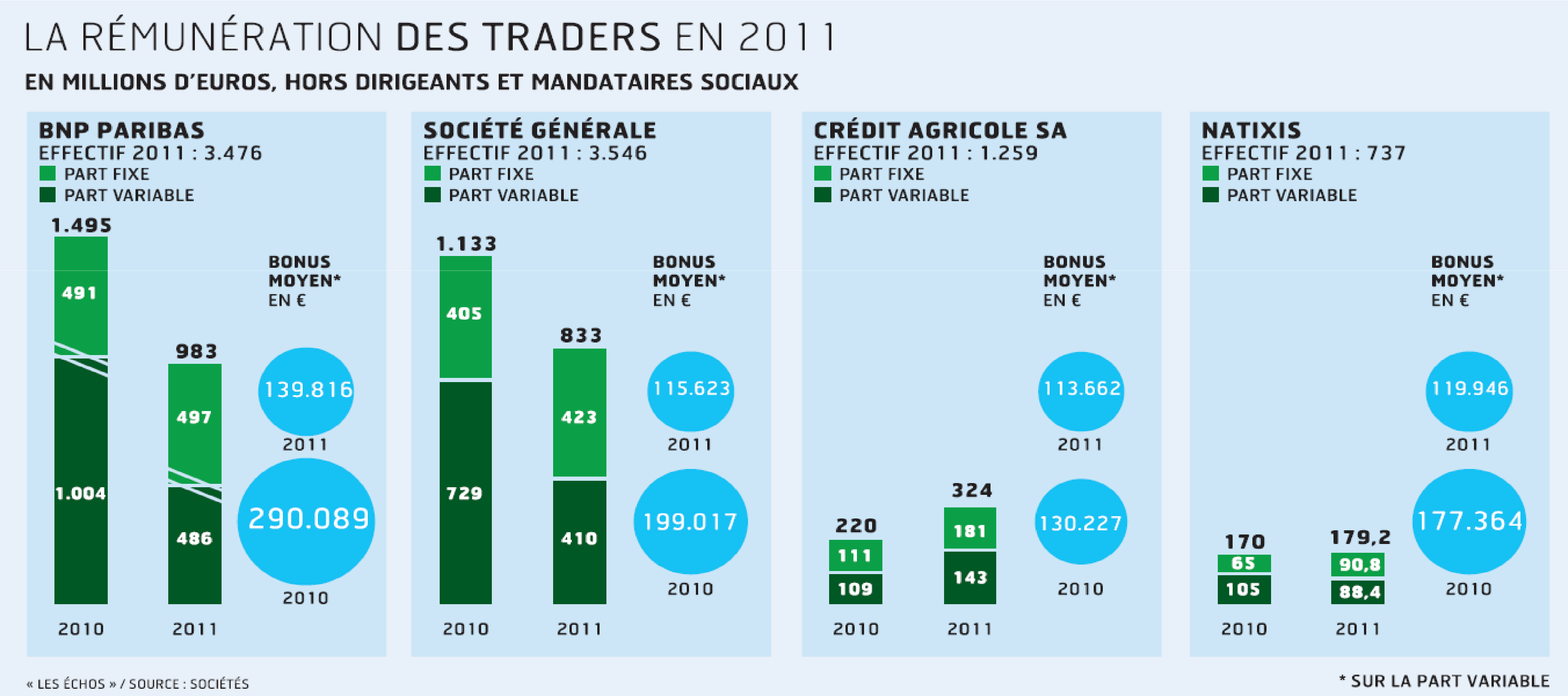
Employees benefiting from bonuses (« traders ») numbered 9,000 in FY11 (see next slide).

Strategic fits and complementary business portfolios while maintaining healthy competition: e.g. BNP vs SG in equity derivatives, Natixis vs CACIB in structured/asset based finance.

At FYE 2011, « pure play » US investment banks had total assets of: Goldman Sachs €740bn ($924bn), Morgan Stanley €600bn ($750bn).

(*) in Europe by trading assets

The case for Glass-Steagall : a happy few beneficiaries (2% vs 98%)



• 9,000 people in total, or less than 2% of the 471,000 staff employed in those 4 French banks.

• €2.3bn in bonuses in total, or 27% pretax of the combined €8.5bn net profit of these 4 French banks in FY11 (including CASA's €1.5bn loss).

The case for Glass-Steagall : reconciliating private and public interests

SOCIETY AS A WHOLE	VOLCKER	VICKERS	GLASS-STEAGALL
Social Utility	☹	☹	☺/☹
Externalities* / Moral hazard	☹☹	☹	☺☺

***The polluter pays principle:**

If one creates the cost, one must bear the cost

What kills it?

	VOLCKER	VICKERS	GLASS-STEAGALL
The bank managers' lobby	"*will do only if it's done everywhere*" ***(1)***	"*can't do Vickers for mutual banks, so it won't do"* **(???)**	"*the crisis started in America, not in France* ***(2)****, and nobody proposes G-S*" ***(3)***
AlphaValue	JP Morgan's « Chief Investment Office »…	Bob Diamond, Barclays' CEO, is not opposed to it…	Nothing but the self interests from a controlling few (who benefits from the crime?)

These lines of reasoning are as absurd as saying:

(1) *"We won't close a dangerous nuclear power plant in our backyard, unless the Americans or the Ukrainians stop theirs first"*
(2) "*As each of us knows, the Chernobyl cloud stopped dead at the Alsacian border*" and BNP-Paribas, AXA and Oddo's "Dynamic Money Market Funds" never were the first to breack the buck on 9 August 2007…
(3) "*It's not because tsunami waves had not reached more than 7-meter high before, that Fukushima should not have built higher dams*"

Actually, there is a public debate about G-S going on in **Italy**, and the idea is coming back into the limelight in **the US** following the JP Morgan/London whale episode…

In essence, cutting to the chase

VOLCKER	VICKERS	GLASS-STEAGALL
• The **"coat of mail"** will end up as a **"teddy underwear"** with the many exceptions obtained by the bank lobby (too wide/loose definitions of "**market making*", "hedging**"** (portfolio) **and "arbitraging***"** (HFT); **prime brokerage** and **HLTs/LBO lending** allowed. • Toothless **if** you don't make bank management criminally responsible if the Volcker rule is trespassed.	• Ring-fencing was **useless on the Titanic:** the only thing that "cut" it was to not be on that boat that night. • **Brokerage/securities and deposit banking were in separate subsidiaries** (but in the same banking group) **before the 1929 crisis and it didn't work**: that's why they made Glass-Steagall… • "Reverse" Vickers did not work in France (Natixis/BPCE 2008; CA-CIB/CASA/FNCA 2011).	• "**The Chinese Wall**" worked for 66 years in the US and **the American economy, or conquering US companies, were <u>not</u> impeded by its existence.** • Finance went astray when G-S started to crumble in the mid-1990s in the US. • **In France,** Debré law (1966), Bérégovoy law (1984), then M&A wave between commercial and investment banks: aborted T.G.F. (1995), CASA/Indosuez (1996), BNP/Paribas (1999), SG "pushing towards the brink" to remain independent (1999 until Kerviel), Natexis/CDC Ixis (2006).

* « Market making » cant' be a profit center, and should only be a breakeven activity
** « Hedging » can't be a « losing hedge »
*** « Statistical arbitrage » is not arbitrage, it's quant' speculation…

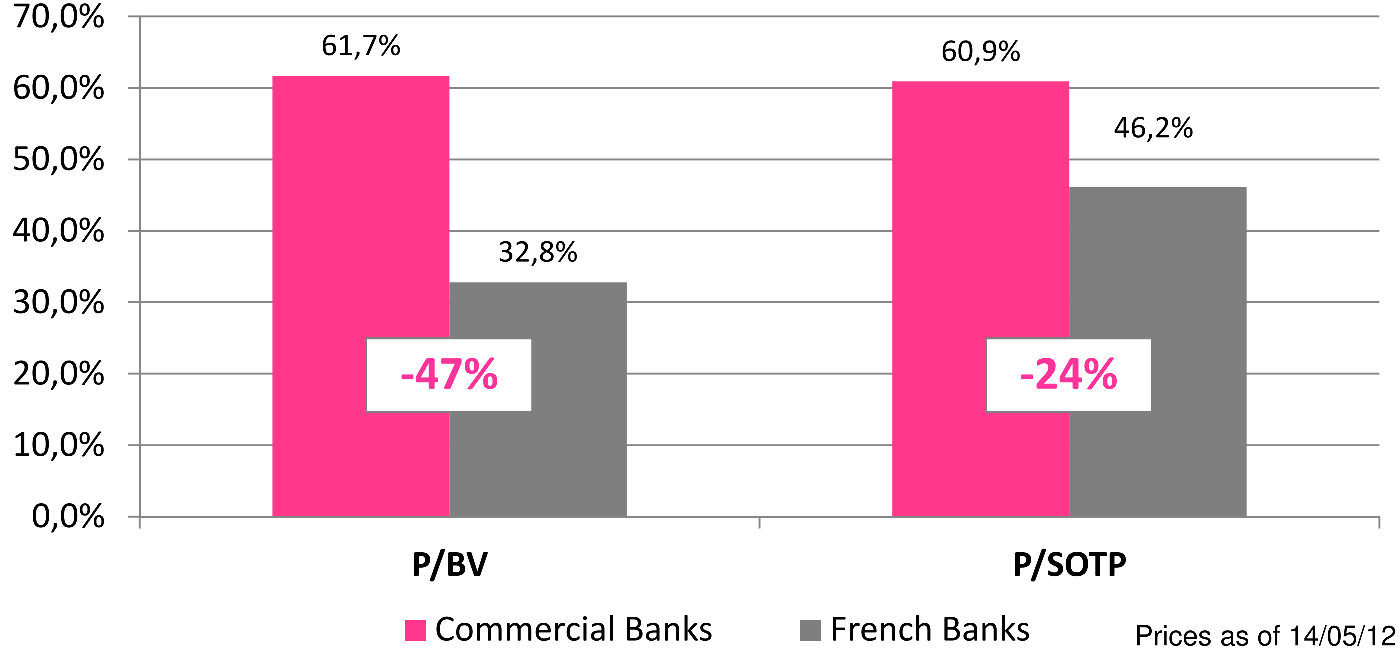
French Banks : value destroyed assessment

	BNP PARIBAS	CASA	SOCGEN	NATIXIS
Shareholder value destruction 2007-15/05/2012 (dividends + recap' included)	-€42.9bn (-58%)	-€44.4bn (-99%)	-€57.8bn (-94%)	-€19.9bn (-88%)
o/w employees	(6.2%) -€2.7bn loss	(4.8%) -€2.1bn loss	(7.6%) -€4.4bn loss	(1%) -€0.2bn loss
Shareholder value destroyed/employee	-€210,000	-€510,000	-€361,000	-€1,000,000
Shareholder value destroyed/trader	-€12.3m	-€35.3m	-€16.3m	-€27.0m
Loss/employee-shareholder	-€13,200	-€24,100	-€27,500	-€10,000

French Banks : valuation discount vs. EU commercial banks

Discount linked to Investment Banking (IB) activities (« universal banking model »)

€bn	Market Cap	Equity '12	Sum of the parts (SOTP)
29 Commercial Banks*	430	697	706
4 French Banks**	60	183	130



Prices as of 14/05/12

* AV 38 banks excluding 4 French, RBS, BARC, DB, UBS and CS

** BNP (€27.62), SG (€16.50), CASA (€3.27), Natixis (€2.03)

French Banks : assessing spin off related value unlocking

2014	BNP PARIBAS	CASA	SOCGEN	NATIXIS
Sum of the parts (SOTP)	€68.9bn	€21.3bn	€29.1bn	€10.8bn
A - Current IB market discount @24% on P/SOTP	€16.5bn	€5.1bn	€7.0bn	€2.6bn
Trading portfolio (gross) Trading port. (net of derivatives)	€734.7bn €327.3bn	€485.3bn €130.5bn	€387.5bn €159.8bn	€232.7bn €115.4bn
Total assets	€1,745.7bn	€1,596.8bn	€1,044.1bn	€474,3bn
B - Spin-off subsidy costs (0.375% on trading portfolio net of derivatives at 35% tax rate and P/E of 6x)	-€4.8bn	-€1.9bn	-€2.3bn	-€1.7bn
(A – B) = Value to be unlocked	**=+ €11.7bn**	**=+ €3.2bn**	**=+ €4.7bn**	**=+ €0.9bn**
Market cap (15/05/12)	€31.8bn	€7.6bn	€12.3bn	€6.0bn
Value to be unlocked / Mkt cap (upside %)	**+37%**	**+42%**	**+38%**	**+15%**

French Banks : assessing spin off related value unlocking

As of 15/05/12	BNP PARIBAS	CASA	SOCGEN	NATIXIS
Major shareholders In green, shareholders who should be keenest of "unlocking value"	- Belgian State: 11%* - Employees: 6%	- FNCA: 56% - Employees: 5%	- Employees: 8% - GROUPAMA: 4%...	- BPCE: 72% - Employees: 1%
Shareholder equity (group share) 2012	€74.3bn	€41.9bn	€49.1bn	€17.8bn
Market cap (15/05/12)	€31.8bn	€7.6bn	€12.3bn	€6.0bn
P/B as of 15/05/12 (share price)	**0.43x** (€26.84)	**0.18x** (€3.04)	**0.25x** (€15.80)	**0.33x** (€1.95)
Value to be unlocked (per share)	**=+€11.7bn** (+€9.93)	**=+€3.2bn** (+€1.28)	**=+€4.7bn** (+€6.00)	**=+€0.9bn** (+€0.29)
P/B post value unlocking while keeping a clawback to better fortunes	0.59x	0.26x	0.35x	0.39x

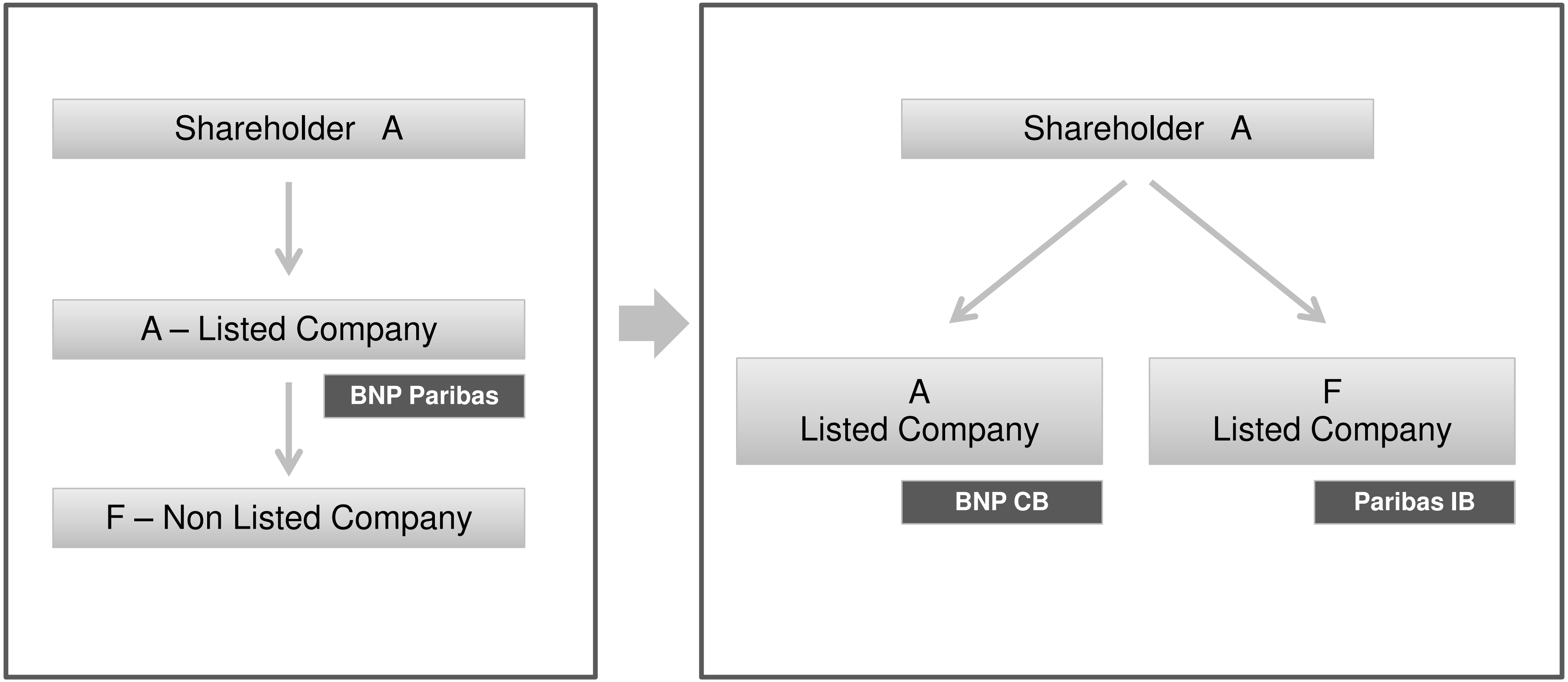
* The Belgian State acquired 113.4m BNP shares at €46 on 13/05/09 as payment for Fortis. As of 15/05/12 (€26.84 share price), it sits on a €2.6bn paper loss (-42%). Or roughly what the Belgian public entities have alltogether already lost on Dexia… (€3bn injected on 30/09/08 at €9.90 per share vs. €0.17 on 15/05/12), like the French ones, by the way.

Implementation technique

VOLCKER	VICKERS	GLASS-STEAGALL
Regulations, controls & sanctions	Transfer of assets in subsidiary (e.g. asset management subsidiaries: 1996 MAF law in France, following the 1993 DSI Directive)	• Spin-off (BNP Paribas, SG) e.g. Total/Arkéma, Philip Morris/Kraft, GDF-Suez/Suez Environnement, etc. • Split-off (CA-CIB, Natixis) e.g. Sequana/SGS

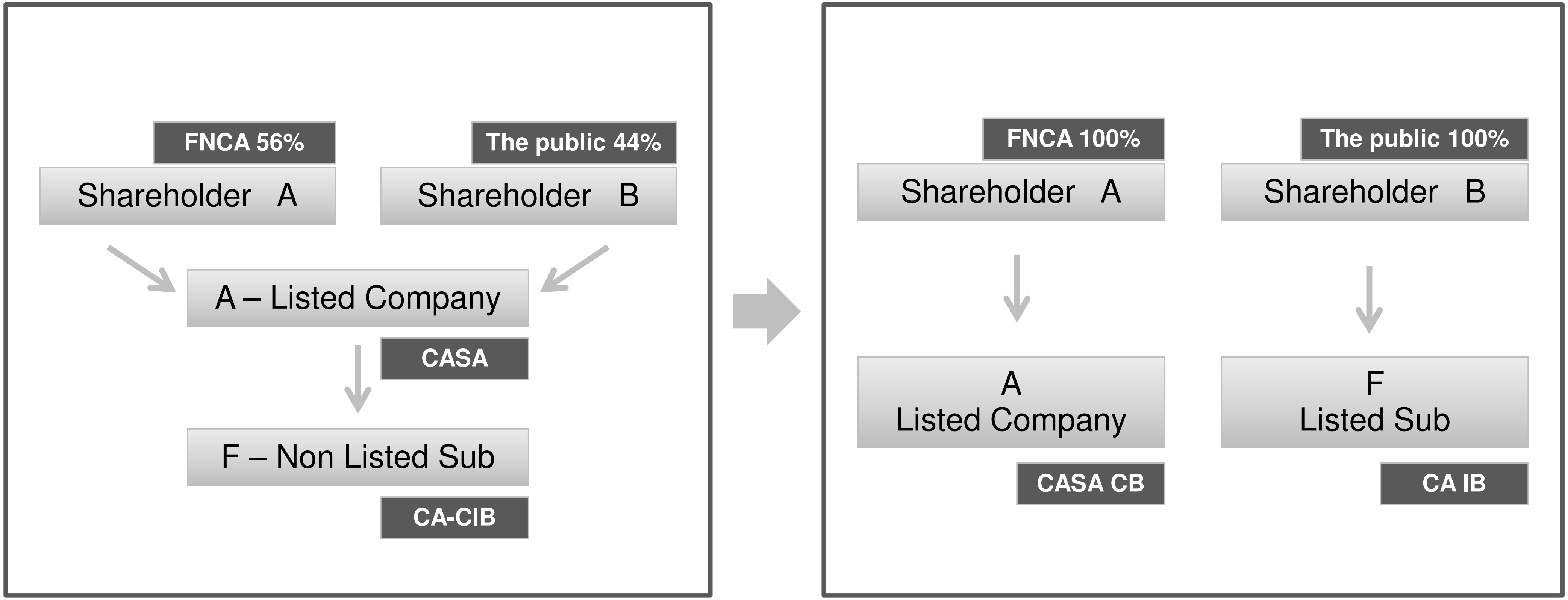
French Banks: Spin-off (BNP Paribas, Société Générale)

SPIN-OFF
De-Merger with the distribution of shares to a newly created company by way of dividends



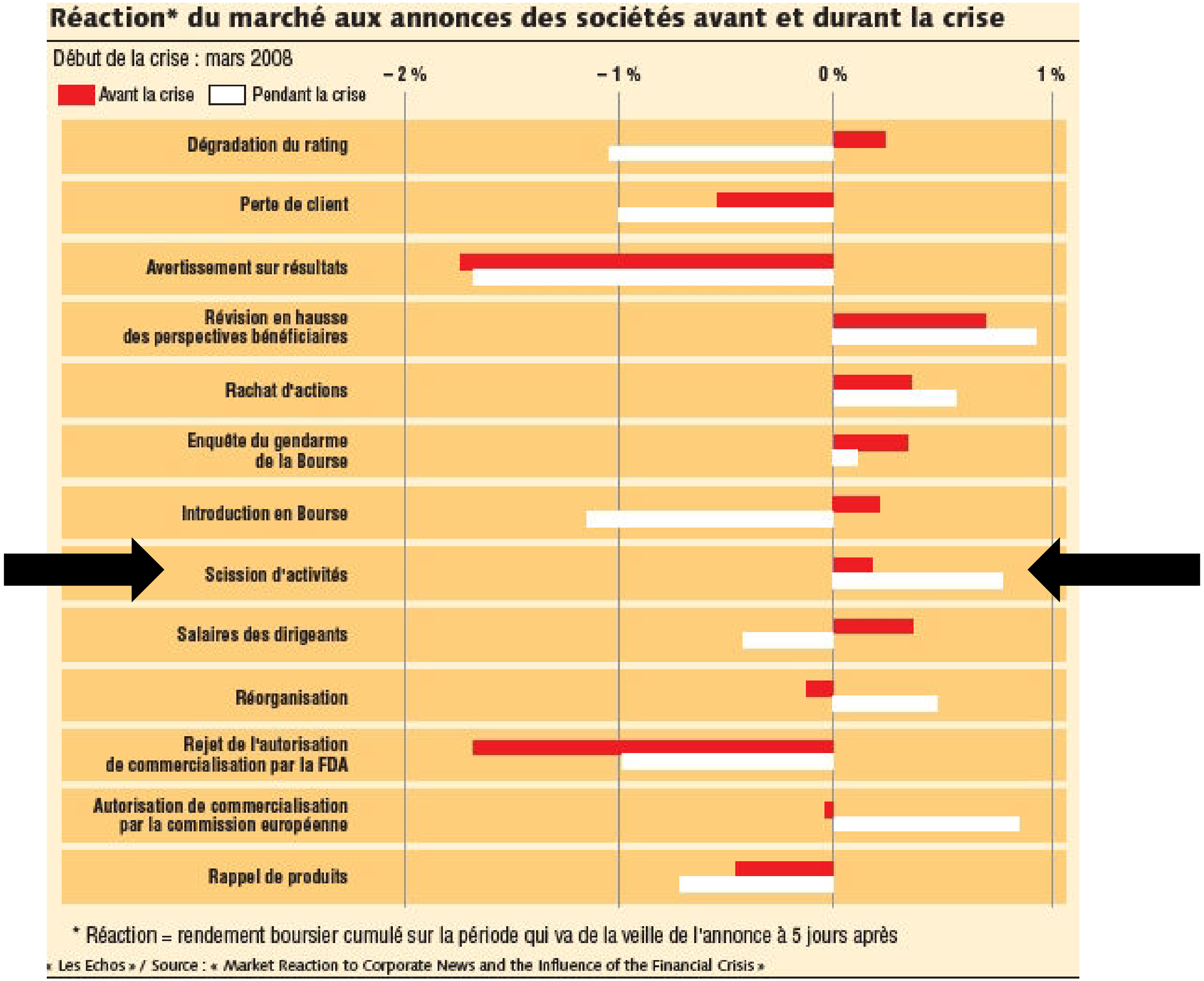
French Banks: Split-off (CASA 56% majority owner, Natixis 72% majority owner)

SPLIT-OFF :
A split-off is a voluntary exchange of shares of a parent company for the shares of a subsidiary. All shares tendered > De-Merger



Split-off with shares (plus cash compensation if necessary)

French Banks: spin off unlocked substantial shareholder value during crisis



In a nutshell (home takeaway)

Stakeholders		VOLCKER	VICKERS	GLASS-STEAGALL
Shareholders	Unlocking value	☹	☹	☺
Managers	Asymmetric private interests	☺	☺	☹
Taxpayers	Moral hazard / 2B2F	☹	☹	☺
Customers	Conflicts of interest	☹	☹	☺
Depositors	Safety	☹	😐	☺
Creditors	Risk assessment	☹	☹	☺
Bank employees	Incivility / reputation	☹	☹	☺
Regulators	Interconnectedness / systemic	☹	☹	☺
National interest	National IB champion	☹	☹	☺
Society as a whole	Social utility	☹	☹	☺

Getting to the heart of the matter

The only stakeholders benefiting from the current Universal Banking structure are bank managers and a few traders… Disguising their own interests as being in the public interest is no longer an acceptable proposition for ruined shareholders, other bank employees (98% of the staff), other stakeholders or society as a whole.

Shareholders have lost a bundle, mostly because of their lack of governance, but they are entitled -- as owners -- to recover some of that wasted value by unlocking the conglomerate discount, while keeping the opportunity of a return to better fortune through the spin-off technique.

Bank employee-shareholders are also entitled to no longer suffer from the incivility and bank-bashing justly owed to traders (less than 2% of bank staff).

Taxpayers and society as a whole, following the huge cost, direct and indirect, of the banking-induced economic crisis, are entitled to having sound banks: without them, we have no collective future.

We have a unique and historic opportunity to reconcile private interests (shareholders, bank employees) with the public interest (derisking the banks): if this objective means to « sacrifice » in the process the bonuses of a few traders and the stock options of a few bank CEOs, well, who do you think it’s fair to choose as « collateral damages » this time around ?

Do you ever wonder why we don’t hear Crédit Mutuel, Crédit du Nord, La Banque Postale or Banque Martin-Maurel complain so much about bank separation ?

European banking union

- The latest idea of a « European banking union » with a European wide deposit insurance scheme should NOT be considered without a full split of the casino banking beforehand.

- Else, it would be a recipe for renewed disaster, further enlarging the scope and the size of the moral hazard linked to the 2B2F issue.

- As a reminder, Glass-Steagall was put in place in 1933 as a political counterpart/bargaining for deposit insurance: if you want the government insurance, you must split the casino from the utility.

- Without the split, we can already imagine Messrs. Bob Diamond (CEO of Barclays) and Anshu Jain (new co-CEO of Deutsche Bank) running « laughing all the way to the bank » as the expression goes…Would French taxpayers be ready to « bail-out » GTUBs (Global Trading and Universal Banks) like Barclays or a Deutsche Bank in the future ?

20 common, but false, ideas about French universal banking and bank separation

1	« Separation will destroy shareholder value »
2	« It will push trading activities outside the supervisor eyes into the shadow banking area »
3	« It will reduce the competitive advantage of French corporates and penalise French banks abroad »
4	« It will induce banks to do more securitization which was the source of the crisis »
5	« Not one euro of customer deposits is being gambled in trading activities of universal banks »
6	« The securities/capital markets activities (investment bank) subsidise the retail and corporate banking activities (commercial banking) in France »
7	« If you separate, the banks will have to layoff employees in the retail/commercial bank »
8	« Separation will increase the cost of consumer mortgages and fixed rate mortgages won't be available anymore »
9	« French universal banks are solid and stable »
10	« French banks no longer have prop trading activities »
11	« French banks did not cost one euro to the taxpayers, it even earned €2.3bn for the Government bugdet »
12	« No need to separate French banks as the French banking supervision is top-notch »
13	« Universal banks provide irreplaceable services to their corporate customers »
14	« Prop trading is just trading with the bank's own money »
15	« When a bank is a « market maker » for sovereign or corporate bonds, that bank facilitates the financing of governments and companies. These are activities to be preserved »
16	« Universal banking has existed for decades and going back to split activities is equivalent to moving back to the Stone Age »
17	« Universal banks proved more resilient in the crisis. Northern Rock and Lehman failed because they weren't universal banks »
18	« Separating the CIB from the universal banks is impossible »
19	« Separation is an American idea that does not fit the French characteristics as the capital markets finance up to 60% of the US corporate needs and the American banks only 40%, while in France it's 2/3rd provided by the banks and only 1/3rd by the financial markets »
20	« Mutual banks can't do Vickers »

« Separation will destroy shareholder value »

1 **FALSE with spin-off**

Value destruction is behind (-81%!) and the spin-off allows to immediately unlock shareholder value (+36%) with the additional benefit of seeing each of the two shares (stock of the commercial bank, stock of the investment bank) recover whenever their respective activities encounter better fortune.

« It will push trading activities outside the supervisor eyes into the shadow banking area »

2 **FALSE with spin-off**

Investment banks, like specialised banks, e.g. Dexia, Crédit Immobilier de France, etc. are supervised by the Autorité de Contrôle Prudentiel (ACP supervised some 700+ financial institutions in 2011).

« It will reduce the competitive advantage of French corporates and penalise French banks abroad »

3 **FALSE with spin-off**

US companies and the American economy were not impeded by the Glass-Steagall (1933-1999) during the 66 years of its existence. Neither were American banks penalised in their development abroad during that same period… On the other hand, French banks inflicted themselves deep liquidity wounds with their bloated trading rooms in NYC and London, as well as badly financed foreign networks. As a result, they are now pulling back in a disorderly and value-destroying manner (e.g., CA-CIB exiting 21 countries out of its 53-country footprint).

« It will induce banks to do more securitization which was the source of the crisis »

4 **FALSE**

Securitization per se is a 40-year old technique which in itself is not a bad thing; it's the perverted use of the SubPrime and the CLOs/CDO²s during the 2003-2007 period that generated the crisis. In addition, securitization is better regulated under Basel III with a 5% retention and a very high risk-weight assigned to this retained portion (up to 1,250%).

« Not one euro of customer deposits is being gambled in trading activities of universal banks »

5 **FALSE**

It's pure semantics: while it is true that most French universal banks do not even have enough deposits to cover loans to the real economy (loan/deposit ratio of c.115%; i.e. €100 in deposits are not sufficient to finance loans of €115, the €15 missing are borrowed from the interbank market/wholesale funding sources), when they engage into trading activities, they exponentially increase this funding deficit. On average, besides €115 in loans, French banks have to fund trading activities (ex-derivatives) for an additional €60, thus they need to borrow €75 in total (€15+€60), or five times more than their « legitimate » borrowings to finance the real economy, from the unstable wholesale market. When they have trading losses or there are concerns about their solvency (e.g. Euro-zone sovereign crisis), a liquidity squeeze can occur (e.g. Summer 2011 in $ for French banks), putting the bank, and all of its deposits (because money is fungible), at risk of a failure. Thus, when you stop playing on words and cut it down to the essence of trading, yes, it puts the deposits at risk and this is why the state had to bail out banks, to protect the deposits from the losses of a bank failure. Splitting the banks will NOT impede the commercial banks from having, as they always did even under G-S, access to the interbank or the bond markets to fund the real economy: saying the contrary is plainly intellectual dishonesty.

« The securities/capital markets activities (investment bank) subsidise the retail and corporate banking activities (commercial banking) in France »

6 **FALSE**

Retail/commercial banking is much more stable and less volatile than investment banking; so it's less risky (eventhough it's certainly not riskless and is definitely as cyclical as the real economy that its serves). In addition, the Return On Equity (ROE) which measures the profitability of banking activities stood at:

2011 ROE 9% allocated equity on RWAs	BNP Paribas	SOCGEN	CASA	Natixis
French retail banking	18% (26% pretax)	17%	-CRCAM: 22%e -LCL: 19%e	- CCI CE+BP: 13%e
Investment banking (the portion to be split)	14% (20% pretax)	15% (whole CIB, ongoing activities alone)	4% (ongoing activities, excluding own debt revaluation & adjustment plan)	11% (whole CIB, ongoing activities alone, 14% pretax)

In addition, if the retail bank was subsidised by the investment bank, we should logically see layoffs in the RB and not in the CIB as we currently see… So the lay-off blackmailing brandished by bank managers to trade unions is a lure.

Also symptomatic: before the crisis, SG-IB management was widely rumored to want to split from the rest of the bank as they thought that they were so profitable (while in reality it was a pure fallacy of risk-taking with the implicit government guarantee which ended up in losses). Now the same people are no longer keen on « separation » at all because they finally got it that it was nice and cozy to enjoy the asymmetric government support from the retail deposit side… A real win/win situation: head they win, tail they don't lose.

« If you separate, the banks will have to layoff employees in the retail/commercial bank »

7 **FALSE with spin-off**

If you do Volcker, you might have to fire a few traders in NYC, London and Hong-Kong, but who is going to cry, except the traders themselves? Glass-Steagall might actually create a few jobs in the split IB (coverage senior bankers).

« Separation will increase the cost of consumer mortgages and fixed rate mortgages won't be available anymore »

8 **FALSE**

Consumer mortgage rates may increase, not because of bank separation, but because of Basel III liquidity and solvency requirements. The increase in interest rates due to Basel III has been estimated at 25bp (residential mortgages) to 85bp (financial institutions liquidity lines) by top-rated strategic consultant, McKinsey, which is painless to absorb in such a low interest rate environment, not to forget that it is designed to have solid banks to finance the real economy and avoid the huge costs of a historical banking crisis (GDP loss of 10% to 15% overall). A second-rate consultant, eager to oblige to its banking clients, claimed that separation would hike French mortage rates by up to 100bp and impose floating rate mortgages: these claims are weird as the two scenarios on which the consultant built his assumptions are not even being considered in either Vickers or Volcker… Separation, whatever its form, will not deny access to the interbank and bond markets, matched-funding or using interest rate swaps (e.g. CIF, etc.) as asserted in this « study ». In addition, French banks have provided fixed rate mortgages long before the concept of CIB was even « invented ». Last, but not least, « universal » UK banks (HSBC, RBS,…) only offer floating rate mortgages in the UK; so the fixed rate mortgage characteristics has nothing to do with the universal bank structure.

« French universal banks are solid and stable »

9 **FALSE**

Even though French banks are far from being the worst, their supposed paragon of virtues needs to be tuned down and modesty, which is not a French quality as we all know, upped a bit. Without the €360bn bailout (€40bn in hybrids, €320bn bank bond guarantees) packaged by the French government on 13 October 2008 to restore confidence, French banks would also have been swept away in the systemic crisis. The $ liquidity crisis started in the Summer 2011, which violently mauled French banks, forced them to embark into a fast – value destroying! -- diet to shed c.€400bn in assets collectively. The universal banking model proved to be a Maginot Line: the « enemy » went around the asset side to attack through the liabillity side, the liquidity being the Achilles' heel of this universal banking model. As a reminder, French banks are 3rd, behind Spain and Italy, at the ECB LTROs trough. Among the 29 G-SiFis, 5 are… French. There is a big and complacent confusion here between solidity and « too big to fail »… If you want to consider a sound banking system, look at Canadian banks, which are NOT 2B2F because they don't have bloated trading rooms in NYC and London (no GTUBs in Canada!), or far-fetched international networks (how useful was it to have a branch network in… Ukraine, a costly proposition to shareholders).

« French banks no longer have prop trading activities »

10

FALSE

« Le trading pour compte propre est mort! Vive le trading à haute fréquence! » High frequency trading is just another name for prop trading and both BNP and Société Générale are world-class actors in HFT, a $20bn annual revenue business. Of note is the fact that their capital market activities lost money in Q4 11 while market making activities should be a neutral proposition (neither making money, nor losing money… unless it's prop trading in disguise). Interestingly enough, these two banks are part of the very select club of 13 Global Trading and Universal Banks (GTUBs) followed by Fitch as a special risk category.

« French banks did not cost one euro to the taxpayers, it even earned €2.3bn for the Government bugdet »

11

FALSE

The Cour des Comptes made a tackle to that claim in May 2010 (annual report, pp.29-30, special report, pp.104-122). And Dexia is still (unfortunately) somewhat French (at least c.€3bn loss for French public entities: State, CDC, CNP,…), isn't it? The banking crisis also indirectly contributed to the 25 points increase in the debt/GDP ratio from 65% in 2007 to 90% in 2012 (or roughly an increase of €8,000 per French inhabitant), not to forget a 3 points increase in the unemployment rate from 7% to 10% over the same period (approx. 800,000 jobs lost), which are the unswerving and indelible costs to society as a whole.

« No need to separate French banks as the French banking supervision is top-notch »

12

FALSE

Well, again, French supervision is certainly not the worst, but less complacency would be appreciated from the host country of the Kerviel trading fraud (world record!), Dexia's two failures in less than 3 years (world record, too!), Natixis gargantuan « GAPC » of… €81bn (page 285 FY11 registration document), and the liquidity crisis of H2 11 which had not been « anticipated »… Not to forget the Banque AIG France's booking role in the CDS disaster of 2008. One may wonder if France does not suffer from a slight « regulator capture » by a few of its largest universal banks? If you want to consider a good banking supervision, look at Sweden (Riksbank, following the Swedish banking crisis in the 90s; « Swedish » finish in CT1, at 10% in FY12, 14% in FY14, LCR above 100% by currency as early as FY13…).

« Universal banks provide irreplaceable services to their corporate customers »

13

FALSE

Well, the split would solve the intractable « conflicts of interest » issue (that nobody seems to care about, even corporate board members!) and corporate treasurers could do with 2 phone calls, instead of one today. Not to forget that when the IB does something stupid in a universal bank, it shows in the CB side via a credit crunch…

« Prop trading is just trading with the bank's own money »

14

FALSE

This is not their « own money » to speculate with, it's a safety cushion against legitimate banking risks financing the real economy. They can't be allowed to bet the same money twice, once in the loan portfolio/utility bank and a second time in the trading porfolio/casino bank…

« ***When a bank is a « market maker » for sovereign or corporate bonds, that bank facilitates the financing of governments and companies. These are activities to be preserved*** » said the Governor of the French central bank (Les Echos, 15/05/12)	15	**TRUE** but , with all due respect to Mr. Noyer, bank separation, especially the full split!, never meant that these activities should not be preserved or that banks should stop market making. It just means that it should be done in a separate bank that should not be subsidised by the Government guarantee of bank deposits to the benefit of a happy few with the social costs to be borne by an unlucky many crowd… Mr. Noyer also said in the same article that when a bank manages its ALM to avoid inbalances in F/X or interest rates, « *it takes positions for its own account that ends up reducing its balance sheet risk, which is sound* ». The JP Morgan « mishap » is just a reminder that ALM and so-called portfolio hedging should not end up as directional trading in disguise… which, in the end, could penalise even more the proper financing of the real economy., which -- we are sure -- remains the Governor's main, ultimate and legitimate concern.
« ***Universal banking has existed for decades and going back to split activities is equivalent to moving back to the Stone Age*** »	16	**FALSE** In France, while bank de-regulation came in two steps (Debré law 1966, Bérégovoy law 1984), the de-facto « mélange des genres » only really started in the mid-90s through a combination of two events: the apparition of the VaR concept in trading rooms (marketed by Riskmetrics, a… JP Morgan affiliate!) and the wave of M&A (CASA/Indosuez 1996, BNP/Paribas 1999, Natexis/Ixis 2006,…). In the US, the Gramm-Liley-Bleach act of 1999 repelled the Glass-Steagall act of 1933… It's only 13 years ago and things started to go haywire around 2003 and ran awok in 2007. So it took less than10 years to throw the world into the worst ever crisis since 1929, after 66 years of stability… We will lose -- at least -- a decade of economic growth (rosy scenario).
« ***Universal banks proved more resilient in the crisis. Northern Rock and Lehman failed because they weren't universal banks*** »	17	**FALSE** This is a true sophism. Northern Rock and Lehman failed because they were « too small to be saved ». In actuality, Northern Rock was nationalised and Lehman (balance sheet size of $660bn) filed for bankruptcy, which proved – with hindsights – a mistake with systemic consequences. Large universal banks would have also collapsed if they had not been bailout: Citigroup, Bank of America, UBS, RBS, Fortis… Even the French banks needed to be propped up by the government (aforementioned €360bn hybrids and bond guarantees) to avoid failure. So universal banks are not more solid (see the aforementioned top 10 largest annual banking losses in Europe), they're just 2B2F! Also consider what happened to European banks, and most particularly to French banks in H2 11. Without the ECB LTROs provided at around €1,000bn, many major universal banks would have collapsed in 2012, being unable to repay €600bn of bank bonds maturing this year (while the bond market was closed to banks as a consequence of the Euro crisis). Arguing against separation because universal banks would be sounder is a pathetic fallacy.
« ***Separating the CIB from the universal banks is impossible*** »	18	**FALSE** Splitting means separating the IB only (primary market underwriting, secondary market making, securities brokerage,…), not the entire CIB. The « C » (corporate loans) would remain in the retail part to form a traditional commercial bank.

« Separation is an American idea that does not fit the French characteristics as the capital markets finance up to 60% of the US corporate needs and the American banks only 40%, while in France it's 2/3rd provided by the banks and only 1/3rd by the financial markets »	19	**FALSE** The UK situation is fairly similar to theFrench one (bank intermediation bigger than market intermediation)., and the UK has decided to separate with its Vickers ring-fencing solution… While Basel III may have a bigger impact in that respect (but see aforementioned comments about securitization), separation will not change fundamentally the bank/market intermediation breakdown.
« Mutual banks can't do Vickers »	20	**FALSE** Each of the French mutual banks (e.g. 39 CRCAM, 17 Caisses d'Epargne, 19 Banques Populaires) are already separate banks, so the ring-fencing would not be that complicated… Now, even if you assume that they can't do a Vickers (which we don't recommend anyway because it didn't and won't work), nothing precludes to do a Glass-Steagall… **Where there is a will, there is a way…**

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