

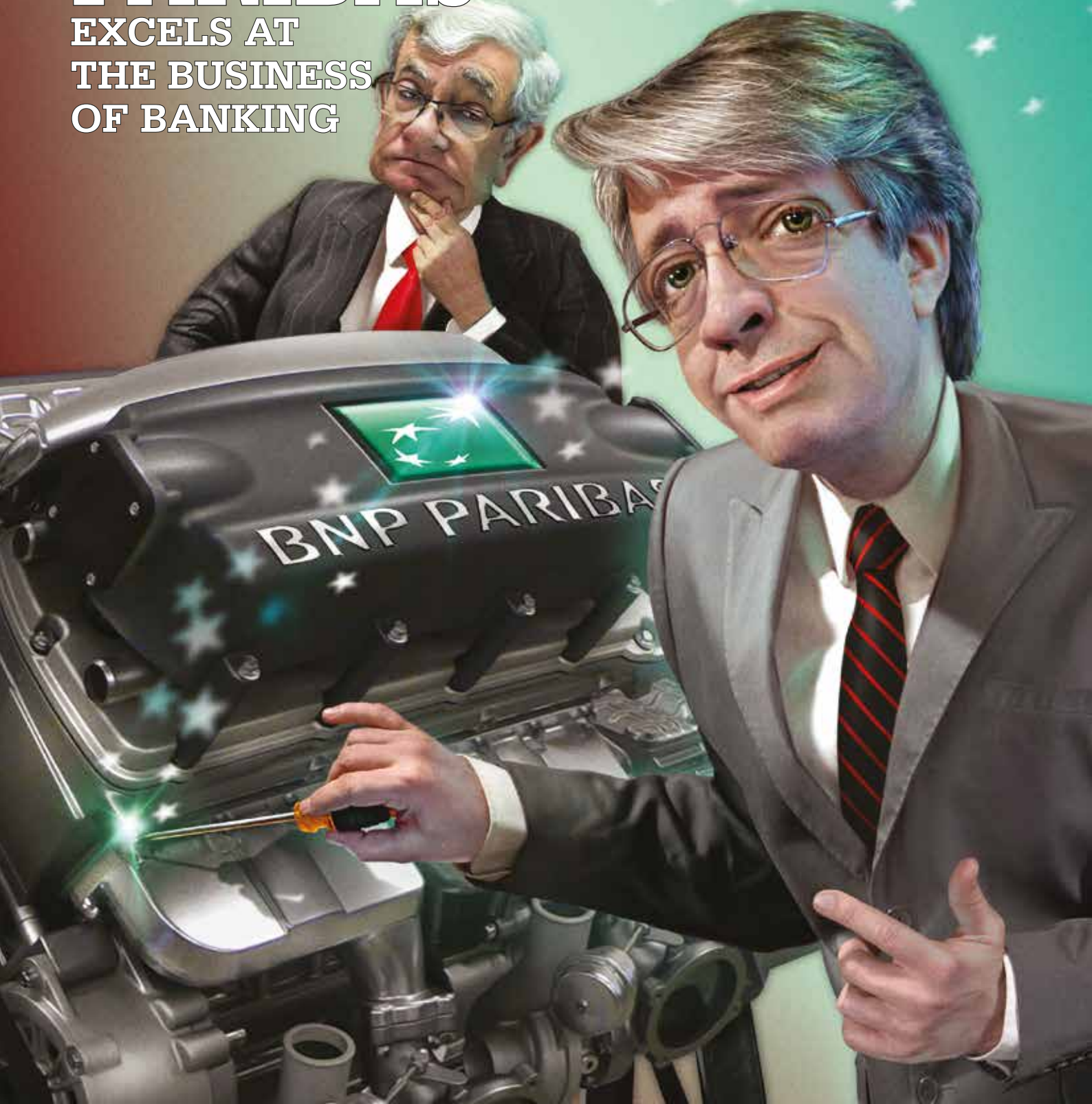
EUROMONEY



WORLD'S BEST BANK

BNP PARIBAS

**EXCELS AT
THE BUSINESS
OF BANKING**



WORLD'S BEST BANK

FINE-TUNED BNP PARIBAS

EXCELS AT THE BUSINESS OF BANKING

BNP Paribas is that rarity: a large bank actually delivering on its promises to stakeholders. It is producing better returns even than many of the US banks, despite being anchored in a low-growth home region, building capital and winning customers – all while proving the benefits of a diversified business model. Its cadre of loyal, long-serving senior executives look to have got the strategy right: staying the course in Asia and the US and running global customer franchises, but only in the select services it excels at

By: Peter Lee Illustration: Jeff Wack

Beset by weak profitability, negative interest rates and low growth in their home markets, European banks are losing out to US rivals that restructured and recapitalized quickly after the global financial crisis and whose home economy has enjoyed a much more robust recovery since.

In April, the European Banking Authority published its latest update on the vulnerabilities of the 154 biggest European banks and noted a prevailing average return on equity of just 4.7%, an average return on assets of just 0.29% and a non-performing loan ratio of 5.8%.

At the same time, the Federal Reserve Bank of St Louis, which aggregates data for all US banks, recorded an average return on equity of 8.3% after the first quarter of 2016, a return on average assets of 0.94% and a non-performing loan ratio of just 1.57%.

But it's in tough times that bank management teams prove their worth: when their chosen business models are most severely tested and the true strength and depth of customer relationships reveal themselves.

BNP Paribas, a leading European universal bank with strong international reach in the US and Asia, was by some distance the standout candidate as the world's best bank in Euromoney's awards for excellence for 2016.

Remember that the sluggish continent of Europe accounts for 70% of BNP Paribas group revenues. It remains the heartland of a bank that has large domestic retail operations in France, Italy, Belgium and Luxembourg and is also making inroads into Germany, especially with its digital bank. BNP Paribas also runs a large corporate and institutional bank encompassing transaction services, FICC and equities markets business alongside classic investment banking.

Its third division, international financial services, includes banking in the US, Latin America and Asia, as well as specialist business such as consumer finance, asset and wealth management and insurance.

At a time when peers are still shrinking, BNP Paribas is growing. While new and uncertain management teams struggle to get back to basics, the technicians at BNP Paribas embrace geographic and business diversity. Critics see a large bank running on six engines in the age of the monoplane. But BNP Paribas seems to have found the happy knack of always keeping four of five of its engines singing.

"Is it our goal to be a global bank?" asks Jean-Laurent Bonnafé, chief executive of BNP Paribas. "No. We are a European bank with global customer franchises and one that seeks to capture what clients want from a bank in the world of today and tomorrow."

This is a large, complicated and diversified banking group which investors and analysts might expect to be struggling in the prevailing tough market conditions. But BNP Paribas is not struggling. It is delivering on its promises to shareholders. It is winning over customers and surpassing the competition even beyond its European peer group.

BNP Paribas has promised shareholders it will deliver a return on tangible common equity of around 10%, now the standard target for most large international universal banks but one that very few are even close to hitting.

For 2015 BNP Paribas delivered 10.1% and for the first quarter of 2016, on an annualized basis and excluding one-offs, it returned 11.1% on tangible common equity. That's far better than most other large eurozone banks and even better than some of the supposed winners from across the Atlantic. Citigroup, the world's best bank in Euromoney's awards for excellence in 2015, reported a respectable 9.1% return on tangible common equity for 2015 and 6.4% for the



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Jean Lemierre

first quarter this year. Bank of America also made a return on average tangible common equity of 9.1% in 2015 and 5.4% for the first quarter of 2016.

Two of the biggest and strongest US banks both underperform the European champion. It makes you wonder what BNP Paribas might achieve if its home region ever does catch up with the US recovery.

For now, BNP Paribas is delivering its return targets – that were set in 2014 on the basis of a 10% Basel III common equity tier 1 ratio – even after boosting that ratio up to 11% from a mix of retained earnings and RWA reductions, while still being able to pay out to shareholders a full cash dividend for 2015 of 45% of net income.

This is a strongly capital generative business. UBS analysts have had a buy on the stock since initiating coverage in March. One of them, Lorraine Quoirez, notes: “We see the bank returning around 30% of its

market capitalization over the next four years.” With BNP Paribas’ market cap at around \$65 billion, only Santander (\$71 billion) in the eurozone carries a bigger valuation.

Good returns are not a function of leverage. BNP Paribas’ fully-loaded Basel III leverage ratio is 4%, up from 3.4% after the first quarter of 2015. In fact the bank appears to be getting less risky, not more so. In the first quarter, its cost of risk was just 43bp, down from a quarterly average of 57bp across 2015. At the end of the first quarter it reported a liquidity coverage ratio of 116% with immediately available liquidity reserves of €298 billion (up from €266 billion at the end of 2015). Those may present an earnings headache but they are enough to cover a full year of exclusion from wholesale funding in the event of any systemic market seizure. BNP Paribas is a very well managed bank.

It has had to be. BNP Paribas has sur-

vived twin setbacks in the US – the sudden short-term funding stop in 2011 and the \$8.9 billion settlement and temporary clearing restrictions imposed in 2014 for sanctions busting with Sudan, Iran and Cuba.

While other European banks have withdrawn from or severely cut back international operations, BNP Paribas has held on to its key US asset, Bank of the West, selectively expanded its CIB operations in the US and is now on track with plans for its intermediate holding company there. That’s a sign of commitment and resilience that US clients value and, looking out from their European heartland, executives believe that BNP Paribas has the capital, liquidity and talent to tap into growth in the US and Asia while selectively picking up market share at home as other European banks continue to struggle.

A snapshot look at net income in the first

quarter, a tough one for all banks, shows that BNP Paribas brought in 10% more profit than its closest European rival, Santander; twice as much as its closest French competitor, Société Générale; three times as much as UBS, one of the banks justly renowned for successfully restructuring its business model post crisis; more than three times what Barclays brought in; four and a half times UniCredit's profits; and more than eight times Deutsche Bank's net income for the quarter.

The key for this bank management team is not just that BNP Paribas should continue to stand balanced on a diversified mix of business revenues and geographic exposures, but also that its businesses should be integrated, that they should reinforce each other.

Jean Lemierre, chairman of BNP Paribas since 2014, tells Euromoney: "This bank has a CEO and a management team that understands the machinery of banking and of this institution very well. They are professional technicians that listen to the engine of the bank and that really know how the engine works."

Lemierre, who was head of the French Treasury from 1995 to 2000 and then president of the European Bank for Reconstruction and Development from 2000 to 2008, knows the bank well himself, having been an adviser to its leaders since 2008, before eventually succeeding Baudouin Prot as chairman two years ago. He says: "They also have a very strong culture that is based on the reality check. It is a culture that says you must set only realistic goals. You must

be able to explain them to shareholders and then deliver them – based on a strong understanding of risk conduct and governance – one year from now, three years from now. Yes, you can have ambitions and visions for the future of the bank. But don't dream."

Euromoney's mind goes back nearly seven years to a meeting in 2009 with Alain Papiasse, then head of CIB at BNP Paribas. Euromoney was pressing him on how much headway the bank, with its strong balance sheet and credit ratings, might make in the US while the domestic banks were still reeling from the sub-prime mortgage crisis and corporations were looking for banks with balance sheet capacity to provide credit. "I tell my people to be ambitious," Papiasse told Euromoney back then, "but not to dream."

THE CULTURE AND PRINCIPLES OF pragmatic realism are clearly so well ingrained that executives echo each other's statements even delivered years apart. No meeting with a senior BNP Paribas banker is likely to pass without the words 'modesty' and 'humility' cropping up at some point.

Since the merger of BNP and Paribas in 1999, the bank has been run by a committed group of long-serving executives, not particularly well-paid by the standards of international banking, but intensely loyal and given to limited turnover. Look back 17 years and long-time readers of Euromoney will remember that BNP was the larger and more staid of the two banks, with a culture of customer service, while

Paribas people were more entrepreneurial, driven and creative. Lemierre claims that, from an initially antagonistic merger, BNP Paribas has managed to build on the best of each predecessor bank's culture.

At times, this speaking with one voice appears a little forced. In formal and informal conversations with executives at different levels and on different continents one hears so often how humble BNP Paribas executives are to be considered by Euromoney the world's best bank that the phrase loses meaning. Nevertheless, this culture is strong; undoubtedly key to the bank's success and when the bank does recruit from outside it won't countenance candidates that threaten it.

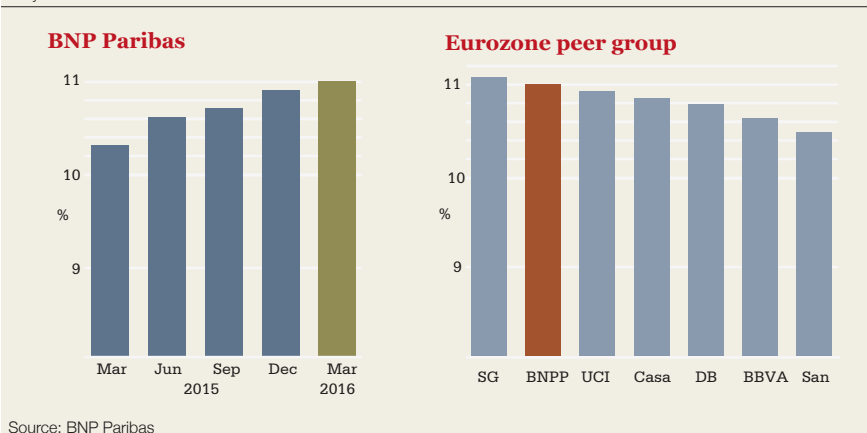
Papiasse, now deputy chief operating officer and group general management representative in North America, is a rarity among the senior ranks, a relative outsider, having built his career at Credit Lyonnais and Calyon and only coming to BNP Paribas in 2005. He was not joining an entirely closed club. Stefaan Decraene, head of international retail banking, joined in 2011 from Dexia. But the average tenure at BNP Paribas of members of the executive committee is around 20 years and newcomers have to accept and absorb the culture fast.

Back in 2009 Papiasse laid out some modest hopes to build distribution to long-only US investors and maybe pick up a little share in FICC to complement hoped-for gains in equity capital markets and M&A in Europe. It seemed conservative at the time. In retrospect, it was entirely grounded.

This was before the sovereign debt crisis in Europe forced a rapid deleveraging by banks there and before US investors stopped funding them.

Those meetings in 2009 also marked the first time Euromoney sat down with Jean-Laurent Bonnafé, then chief executive of BNP Paribas Fortis and on his way up through the retail side of the bank to become chief executive of the whole group in late 2011. We asked him then if he would sell Bank of the West and have never forgotten this quietly-spoken and undemonstrative executive's quizzical look in response, as if he had never heard a dafter question. Hit by collapsing real estate prices, San Francisco-based Bank of

Solid financial structure
Fully loaded Basel III CET1 ratio



the West was making losses. No, Bonnafé patiently explained to Euromoney, he was not going to sell it. He was looking for acquisitions of other troubled banks from the FDIC to bolt onto it.

Seven years on and Bonnafé has been through a lot and not just a \$8.9 billion settlement with US regulators over sanctions. Chief executive since the end of 2011, he first had to shrink his bank before preparing it to grow again. "On the day after the Fortis acquisition the group balance sheet was €2,600 billion," Bonnafé points out. "Three years later it had come down to €1,900 billion before we started adding more assets, including through bolt-on acquisitions."

Euromoney reports separately on the bank's decision to hold on in the US market [see box item on Bank of the West]. Its sound risk and capital management pre-crisis allowed BNP Paribas the flexibility to stay the course in other distant geographies such as Australia. BNP Paribas had entered Australia 130 years previously but in 2011 and 2012 many voices suggested it should cut back. Many European banks did exit and BNP Paribas was one of the very few that remained in what proved a resilient market in the first half decade after the crisis.

"If you are weak going into a crisis, then having to shrink back to core strengths in a hurry can be a less than ideal approach. Sometimes it is wise to resist the obvious short-term defensive move if you can," Bonnafé says. "But there are also times to get ahead of it. For example among others, this bank had a large and profitable non-

domestic mortgage offering that was a €50 billion balance sheet business. However when we studied the emerging liquidity ratio regulations we realized there was no way we could continue with it. And so we exited promptly."

THE AUSTRALIAN EXAMPLE IS A reminder of how international this European bank is. Present in 75 countries, BNP Paribas has 20,000 employees in the US, 10,000 in Africa and 12,000 in Asia.

European banks have struggled to get their business mix right in Asia, often competing in crowded high-profile business segments that turn out to offer poor margins. With 12 banking licences across Asia and €57 billion of deposits BNP Paribas has the scale to self-fund growth in the region.

In 2015 it generated €3.2 billion of revenues in Asia, a 60% increase from what it brought in as recently as 2012. Though many banks have retrenched to become more national or regionally-focused since the crisis, their customers have gone the other way, with even small-to-medium size companies seeking to transact more cross-border than ever before, especially European companies seeing limited demand close to home.

"We are in Asia to serve all manner of European and US clients interested in the region and Asian clients looking the other way. We also have a number of Asian clients looking to develop locally," says Yann Gérardin, head of the corporate and institutional bank. "Banks cannot afford

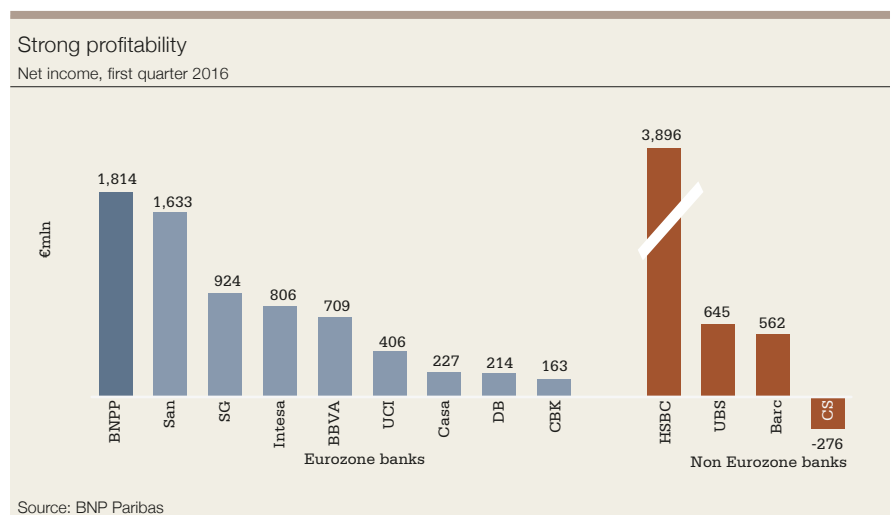
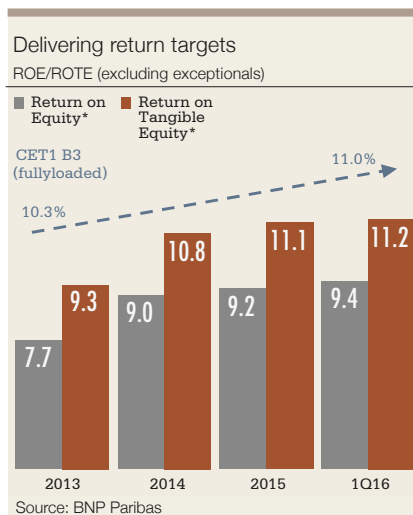
standalone development anywhere in this world. But if you want to be relevant to a German SME exporting to China and cannot offer onshore services in China, you are going to struggle to help them."

In June 2016, Bonnafé says: "Right now the strategic balance of the group is pretty much where we want it to be as we face a future in which digital, with all its challenges but also the chance to improve customer experiences and to cut costs, will be extremely important."

In digital banking BNP Paribas is best known for Hello bank!, a mobile and web-provided brand launched in 2013 that has quickly gathered 2.4 million customers across Belgium, France, Germany, Italy and Austria, including 400,000 clients acquired in 2015 alone. At the start of this year it had already achieved objectives for 2017 that it set three years ago. Growth has not all been organic. It acquired Germany's DAB Bank late in 2014 from UniCredit and merged it with its Consorsbank. In 2015, Direktan-lage.at became Hello bank! in Austria.

In a BNP Paribas banking group still anchored in European retail banking, Hello bank! now accounts for 10% of the entire group's individual client revenues, double the contribution it brought in 2014. It has brought in €24 billion of deposits and €80 billion of assets under management.

The bank is thinking a lot about shared infrastructure and shared business intelligence. "Digital is a global phenomenon but retail banking really does remain local and fragmented and that extends to pricing dynamics," says Bonnafé. "Thus we



have launched Hello bank! throughout Europe; we won't launch Hello bank! in the US, but we will continue to digitalize Bank of the West. Indeed the whole of the BNP Paribas group, whatever the geography or the business line, will go through the digital transformation. And in doing so, much of what we learn with Hello bank! in Europe will feed into what we do with Bank of the West and other domestic businesses."

Bonnafé returns to his first point about global client franchises. "We are a commercial institution that services several groups of customers – financial institutions, large corporations, mid-cap companies, entrepreneurs, individuals – and we spend a lot of time assessing where we are strong and where we are weak. We pay a lot of attention to customer satisfaction surveys and thinking about where we can best invest in view of the likely competition. In the last five years we have reduced the areas in which we compete somewhat and narrowed the focus, devoting capital, liquidity and people only to customer franchises where we believe we can succeed. We have done that because customers deserve only the best service."

He says: "I believe that some banks went too far in basing their approach only on product strength when what customers really want and need is service. If you focus on customer service it becomes part of your people's DNA to look for the synergies between geographies and businesses. You may have a relationship with a large corporate based on debt capital markets and cash management. Does the client also need a consumer finance offering for its customers? Because if it does, we are very good at that too."



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Jean-Laurent Bonnafé

TRANSACTION BANKING HAS become a crucial service for banks to excel in as corporate treasurers worry about the staying power of their partner banks while the sector rationalizes, lack of liquidity and lending capacity, scarcity of collateral and place greater urgency around cash management and

forecasting.

Ten years ago, BNP Paribas was ranked ninth in the world by non-financial corporations in an international cash management business dominated by Citi and HSBC, attracting less business even than ABN Amro and Standard Chartered. In Euromoney's most recent cash management survey

published in October 2015 and drawing on 27,000 customer responses, BNP Paribas was ranked fourth in the world among international cash management banks, still behind HSBC, Citi and also Deutsche but ahead of Bank of America Merrill Lynch and JPMorgan.

In Europe, it was ranked second to long-established leader Deutsche Bank.

But it is on the move. As recently as 2011, BNP Paribas was ranked fifth in Europe.

Since the last Euromoney survey, a more recent Greenwich Associates study of market share in European corporate banking and cash management shows BNP Paribas pulling ahead in first place. It will be interesting to see the results of Euromoney's next survey in October.

Its 'A' rating and a strong financial performance that promises that BNP Paribas will still be around in five years' time are helping it to win business from corporate customers that other banks now struggle to serve. Last year, for example, RBS chose to withdraw from international cash management.

"RBS proposed BNP Paribas to their clients as a preferred partner for them to transition to," recalls Gérardin. "And while some corporations had sensed that RBS might have to withdraw and were already making alternative arrangements to do more with existing partner banks, more than 1,700 legal entities, quite a significant number, decided to switch to us."

Gérardin describes this landmark business win not simply as a case of BNP Paribas's financial strength leading to market share gains but also as a key example of cross divisional co-operation. "This may have been a CIB project to start with, involving the heads of

cash management and trade solutions in each country, but it also drew in the heads of domestic and international retail markets because we had to be sure we could onboard these clients wherever they were located – some of which we had had little previous dialogue with – from a know-your-customer and also from a risk exposure perspective."

He adds: "On-boarding can be a six to nine month process that no-one undertakes lightly. I believe that the corporate clients transitioning to us are very pleased to have a strong bank serving them. Clients understand the constraints on banks and recognize the value of such an essential service."

BNPP builds on BancWest-ern promise

Other European banks may be quitting the US, but it remains an important contributor to BNP Paribas' revenue stream

It has not been plain sailing for BNP Paribas in the US since an \$8.9 billion settlement in 2014 for enabling transactions from sanctioned countries. But in Bank of the West, BNP Paribas retains one of the top 30 banks in the country, with \$75.7 billion in assets. The US holding company, BancWest, which also includes First Hawaiian Bank, has close to 600 offices in 23 states.

Last year, BancWest's revenues (in euro terms) rose 26.7% and it provided BNP Paribas with €910 million in pre-tax income, confirming its standing as one of the main contributors to the group's results. That was more than either the Belgian or Italian businesses. It also enjoyed solid growth in the first quarter of 2016, with deposits up 5.1% year-on-year, and loans up 7.5%.

By comparison, Santander's US business has been sputtering for the last three years. HSBC's acquisition of Household International led to it having to sell almost half of its US retail branches and its credit card division. RBS sold its last remaining stake in Citizens Bank last year. Indeed, alongside BBVA with BBVA Compass, BNP Paribas is in a league of its own.

Many European banks are also exiting wealth management in the US. Barclays sold its US brokerage to Stifel last summer. Credit Suisse offloaded its US wealth management arm to Wells Fargo. Deutsche Bank sold Alex Brown to Raymond James. Other than UBS, only BNP Paribas is sticking around.

BNP Paribas says it wants to become one of the top five European banks in the US – which is typically unambitious of the French bank – but the truth is, it could well become one of the top three. That's thanks to its ability to act like a community

bank, a commercial bank and a global wealth manager all at the same time.

There are capital pressures, however. BNP Paribas is preparing for an IPO of First Hawaiian Bank, which analysts welcome for the capital boost, while fretting about the loss of future earnings. Some are even asking if the same may be planned for Bank of the West, although the bank's global leadership dismiss this.

Group executives in Paris talk enthusiastically about the recent hire of Nandita Bakhshi as CEO of Bank of the West. A veteran of TD Bank and Washington Mutual, she has extensive experience in both US consumer banking and in the development of digital channels. She also provides a pointed answer to those critics who complain that BNPP only promotes senior executives from within.

BNP merged the French Bank of California with Bank of the West in 1980. In 1998, First Hawaiian Bank merged with

Bank of the West and a separate holding company was formed to include the two US entities – BancWest Corporation. Now, as other foreign banks in the US are being forced to establish an intermediate holding company, BNP Paribas has a head start.

Bank of the West passed the Federal Reserve's Dodd-Frank Act stress tests in 2014 and in 2015. Santander stumbled at the stress tests, while Deutsche Bank failed last year.

Senior executives at BNP Paribas talk a lot about synergies and integration across divisions, but in the US analysts say that the decision to keep Bank of the West fairly separate and apply a hands-off approach has worked well. Its success is partly a happy accident of geography. Being headquartered in San Francisco has had distinct advantages when it comes to fintech and digital banking. Andy Harmening, vice-chairman of consumer banking, says Bank of the West has been investing in innovation

Gérardin sees a new momentum in customer relationships evolving. “Institutional clients also see that the pool of banks offering to service them is shrinking. Thus, there is a shift in the relationship between clients and their banks, moving from a transactional-type relationship to more of a partner-based relationship with banks that are able to serve them over the long-term.”

GÉRARDIN HAS RUN CIB SINCE 2014 and sees clear links across businesses within the division and also between the CIB and other parts of the group. “No banking group can afford

CIBs to operate as a standalone business anymore. We have strong domestic and international retail banks in an economic region that will increasingly be financed by capital markets and less by bank balance sheets.

“Our integrated approach allows us to leverage successfully the bank’s networks and create interconnections between businesses. This is one of our strengths, enabling us to gain market share.

“Our integrated model is also demonstrated at CIB level, where we focus on generating cross-selling opportunities among product and service lines. For example, gaining market share in

cash management enabled us to improve market share in FX.”

Gérardin suggests that pre-crisis, European companies raised perhaps 75% of their financing from banks and 25% from capital markets. “About 40% of new financing is now coming from the markets, a level that if you had asked me back in 2013, I would have said European corporates were unlikely to get to before 2020 or even 2025. Yet it is the reality. And helping clients manage this shift isn’t driven by cross-selling. It’s about the instinct to client service that is part of the DNA of BNP Paribas, across the domestic and international retail banks and CIB.”



Executives in Paris speak highly of new Bank of the West CEO Nandita Bakhshi

for the last eight years on its own. It has been partnering with several fintech firms, as well as fintech incubator Plug and Play.

At the same time, in BNP Paribas, Bank of the West finds an enthusiastic partner. The French bank has invested heavily in technology and digitization across the world. It also has one of its L’Atelier BNP Paribas offices in San Francisco where it connects with tech entrepreneurs.

That commitment from the parent has given Bank of the

West a boost. For example, the multi-channel customer relationship management platform for Bank of the West has been mutualized from that of BNP Paribas’ domestic market. Harmening says: “We are now able to use data to tell us what clients prefer as a channel – the branch, ATM, digital – and then we can build the user experience around that.”

It is a key differentiator for Bank of the West. The US regional banks have been slower

than their European peers in adopting digital products and services – even though their customer base is arguably more receptive. Bank of the West was one of the first in the country to adopt photo bill-pay for mobile customers. It was also the first bank in the US to offer customers the ability to swipe and see their balance on their phones without having to log into their bank account.

But it could well be wealth management that is Bank of West’s most prized possession. Its wealth management assets have grown more than 20% every year since 2011 to reach \$10.4 billion at the end of March 2016. In the last five years after BNP Paribas made the strategic decision to bolster the business, Bank of the West’s wealth management business has grown from 6,000 clients to 25,000 clients, 250 to 500 employees and from no specialist branches serving wealthy clients to having 15 centres across the region.

BNP Paribas would not have been able to grow so fast in US wealth without Bank of the West. “We have some very deep relationships with business owners – both in the small business area in the consumer bank, as well as the commercial banking business – that have really spurred our growth in wealth,” says Pierre Ramadier, head of wealth management at Bank of the West.

As BNP Paribas now prepares to IPO its Hawaiian bank, Kiri Vijayarajah, financials analyst at Barclays in London, asks if it might sell or spin off Bank of the West, too. “It would unlock a lot of value.” He says that retail banking is not an easy fit for any European bank in the US. “The divergent regulation, different rules about consumer protection and the inability to share back-office costs make it a hard case to fight for. Maybe digital will smooth out some of those challenges, but it’s a big if.”

Helen Avery



“Our US clients have taken notice of this strong signal of commitment by BNP Paribas and of our capacity to be a partner to them. I believe that it enhances our position in the US”

Jean-Yves Fillion

Gérardin says that bankers working in the domestic networks are already discussing with the mid-cap corporates they serve how these companies will be financed five years from now. BNP Paribas has long been a leader in loan arranger rankings in Europe but is now pushing further ahead in debt capital markets. Last year it brought teams from acquisition finance, corporate and high-yield debt capital markets and loans together to form a single corporate debt platform. BNP Paribas intends to differentiate itself from the competition by deploying this for customers of its retail banks and not just in core Europe but also on the fringe in Poland and Turkey.

“We have a strong retail bank in Turkey, TEB, which services a lot of mid-cap companies in an important growth market,” says Gérardin. “They may borrow from banks now but it will not be long before these companies need to issue high-yield bonds. That will require a bridge to insti-

tutional investors, including to investors in the US that TEB doesn’t necessarily deal with. It can’t afford to run a high-yield team in New York. The corporate and institutional bank must service these clients. And the same is true, of course, of mid-cap corporate clients served by the domestic networks in France and elsewhere.”

Gérardin is passionate about all this. Euromoney asks whether this approach is built around internal joint ventures with their own service level agreements, to give comfort to bankers in the domestic retail banks that precious corporate clients they have long served will not be mistreated by the CIB.

“I see myself working for BNP Paribas group,” Gérardin declares. “The CIB division has to serve all the client franchises of the group, including the domestic and international banking networks, institutions covered by asset management, as well as clients across our specialist divisions.”

One can see his point looking at the

bank’s divisional results. CIB is a volatile business. It can hardly be anything else. Profits at the two other big divisions have been much steadier. For the first quarter of 2016 compared to one year earlier, profits grew nearly 4% in domestic markets, nearly 7% for international financial services while they fell 23% at CIB, following the market collapses at the start of the year.

Yet then again, for the whole of 2015 compared to 2014, profits at CIB grew by 18%, three times the growth rate of domestic markets (up 6.4%), and also ahead of international financial services (up 14%). It is a big business but one that needs to find its place and function within the larger group.

THE US MARKET REMAINS A KEY testing ground for BNP Paribas and for its large CIB division. BNP Paribas is creating an intermediate holding company in the US

that will combine its retail and wholesale divisions. That puts it among just a small handful of foreign banks with the scale, resources and ambition to be significant competitors in the US.

Jean-Yves Fillion, chief executive of BNP Paribas North America and head of the Americas CIB, tells Euromoney: “The move to combine our activities in the US under an intermediate holding company not only demonstrates our commitment to the region, but subjects us to similar prudential standards as US banks, in terms of governance, compliance, capital planning and liquidity stress testing. We will go through a private comprehensive capital analysis and review (CCAR) with the Federal Reserve next year and thereafter CCAR results will be made public, as they are for the big domestic US banks.

“I can tell you that our US clients have taken notice of this strong signal of commitment by BNP Paribas and of our capacity to be a partner to them. I believe that it enhances our position in the US.”

The US, of course, has been a graveyard for foreign banks seeking to build the right size and scale of presence. In wholesale markets, the key question has always been whether serving inbound and outbound customer flows could sustain a business or whether to succeed in the US also required building an essentially domestic business.

BNP Paribas is committed – but remember that it doesn’t dream. It is not over-committed. It has big sales teams covering institutional investors dealing in non-US bonds and stocks and does a lot with US companies going international.

BNP Paribas points as an example to its role as lead-left active bookrunner last year on a dual-tranche high-yield bond offering for Sealed Air, the packaging company based in Charlotte, North Carolina, which raised \$400 million of US bonds and €400 million in a simultaneous euro debut offering, together designed to refinance much more expensive dollar debt. It remains to be seen how much more business BNP Paribas may derive from US companies and US investors under the intermediate holding company structure.

Fillion says: “Given our size, scope and ambitions in the US, reducing below the \$50 billion threshold [above which interna-



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Yann Gérardin

tional banks must apply enhanced capital planning, risk and liquidity management and stress-testing equivalent to large US banks] was not an option. That said we, like other institutions in today’s environment, have taken active steps to optimize the use of our balance sheet.”

Other questions remain for the group. In the years after the merger of BNP and Paribas a pattern became visible whereby the bank sought to derive half of its earnings from retail banking. Whenever organic growth in CIB and specialist financial services tilted that balance too far away from retail, the bank sought an acquisition to bring it back to 50% dependence on retail. So it acquired Banca Nazionale del Lavoro in the run up to the crisis and Fortis in the aftermath.

Today, domestic markets account for just one third of group earnings, though a fair portion of revenues from international financial services also come from retail banking. It’s a fine judgment but it looks like retail, which has 20% returns on equity, is a smaller proportion than half of the group. Combined, equity allocated to retail in France, Belgium and Italy amounts to 27%

of group equity, with Bank of the West accounting for another 9% and domestic markets in the Mediterranean another 7%. So at a push that is just over 40%.

The bank will present a new strategic plan to investors next year and you don’t need to spend long with BNP Paribas executives to guess that digital will be a big part of that. Might BNP Paribas have anything else up its sleeve?

While FIG M&A bankers and senior executives alike agree that global regulators remain hostile to combinations of large banks, BNP Paribas has been acting like a consolidator, hoovering up small bolt-on acquisitions. As well as German online broker DAB, it picked up GE Capital’s European car leasing division last year, following deals for personal finance group LaSer and Bank BGZ in Poland.

Time will tell. For now, delivering promised returns to shareholders even in tough markets, while growing customer market share and building capital looks impressive enough.

The US banks aren’t having it all their own way.

EM



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Only excellent bank management teams can satisfy shareholders, regulators and customers all at once today. BNP Paribas has one of the very best

Nine years on from the financial crisis, and as so many banks stumble to restructure their business models, a key lesson has been lost. The most important thing, the crisis showed, wasn't whether a bank had a good business model or a bad business model. Rather, there were good management teams and poor ones. Some monoline investment banks failed. Some monoline retail banks failed. Others in both camps survived. Some universal banks had to be nationalized. Some didn't.

Euromoney recalls this lesson because more than global scale or market dominance, it is quality of management that differentiates our world's best bank in 2016. The executive team running BNP Paribas, led by CEO Jean-Laurent Bonnafé, has served the bank for an average of 20 years. Loyal, technically proficient, not given to boasting or to grand visions, this team has delivered better returns on tangible common equity than many of the big US banks, while building capital, reducing risk and boosting its customer market share.

At a time when most European banks seem incapable of satisfying any of the three external groups to which they are answerable – customers, shareholders and regulators – BNP Paribas stands out for doing a good job for each of them.

It delivered a 10.1% return on tangible common equity last year, far better than its European peer group, better too than some of the large US banks now cast as winners in global financial services such as Bank of America Merrill Lynch and Citigroup. It also maintained a 45% dividend payout ratio, and analysts calculate that the second largest bank in the eurozone by market capitalization (after Santander) is on track to pay out 30% of its capitalization to shareholders by the end of this decade. It managed this while boosting its Basel III common equity tier-1 ratio up to 11% by the end of last year from 10% a year earlier and improving its leverage ratio to 4% from 3.4%.

Regulators may yet require more capital. This remains a large and complex bank with diverse geographic exposures – present in 75 countries, with 20,000 employees in the US, 10,000 in Africa and 12,000 in Asia, where it has banking licences in 12 countries, \$57 billion of deposits and pulled in €3.2 billion of revenues last year – and diverse business lines. Though its executives decline to call it a global bank, BNP Paribas runs several global customer franchises. It is big in retail banking in the US, as well as six countries in Europe. It has a strong corporate and institutional banking business which is starting to excel in transaction services. And it operates large specialist businesses such as consumer finance.

If it does need to retain more capital, at least this is a bank that generates plenty of it. And the numbers suggest this does not come from excessive risk taking. Sure, CIB earnings can be volatile as for every bank. But its most recent financial reports in the first quarter of this year showed BNP Paribas' cost of risk was just 43bp, down from a quarterly average of 57bp across 2015.



Jean-Laurent Bonnafé's management team has a terrific record on delivering to stakeholders

Customers are benefiting too. Last year when RBS decided to withdraw from international cash management, it proposed to its customers that they switch to BNP Paribas. This was an impressive win but also a heavy undertaking that required on-boarding 1,700 new clients, which can be a six to nine-month process. Those customers come to a bank that is serving customers well, according to leading surveys. Ranked ninth globally in Euromoney's benchmark cash management poll 10 years ago, BNP Paribas had moved up to fourth in our 2015 survey. In Europe it ranked fifth as recently as 2011 but had risen to second by October 2015, with more recent Greenwich Associates surveys suggesting it may now rank first in market penetration among top-tier and large European corporates.

It is also winning customers in retail banking with an impressive digital offering in Europe. Since BNP Paribas rolled out Hello bank! in 2013 it has won 2.4 million customers across Belgium, France, Germany, Italy and Austria. Some of those came through the acquisition of Germany's DAB Bank in 2014, but Hello bank! also acquired 400,000 customers in 2015.

At a time when all banks are grappling with their digital strategies, BNP Paribas already derives 9% of all individual client revenues from Hello bank!

It also owns Bank of the West, one of the top 30 US banks, which it is folding into an intermediate holding company along with its US CIB businesses, in a strong signal of commitment to the US following the \$8.9 billion settlement over sanctions-busting in 2014.

A big contributor to group profits, Bank of the West, headquartered in San Francisco, shares the BNP Paribas culture of digital innovation and has been a pioneer in the US, where it launched the first snap-to-pay feature in the country last year, enabling customers to pay bills via a mobile banking app and capture essential bill information using their smartphone cameras.