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Comparative study of the financial performance of French mutual retail banks compared to that of their capitalist counterparts

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Keywords: retail banks, mutualist and capitalist French banks, financial performance, peers' comparison

☒ ***PUBLIC REPORT*** ☐ ***CONFIDENTIAL REPORT***

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ABSTRACT

The objective of this paper is to study the financial performance of French mutual retail banks compared to that of comparable capitalist banks. First, we calculate the Return On Equity ratio and find that most mutual banks underperform their peers. From there, we seek to understand the causes of this difference. We put forward 6 hypotheses and attempt to confirm or refute them through financial data, calculations and strategy thinkings. Once reviewing all the hypotheses, we reconstruct a new ratio for the mutuals banks with normalized items of mutual banks based on the standardized elements where they underperformed.

I. Introduction

(Retail) banking in France

Banks are “financial institutions that collect deposits from the public and grant loans to businesses and households”. [1] These financial companies transform short-term deposits into long-term loans.

Banks are therefore intermediaries financing the economy. Retail banking in particular fulfills this role by carrying out “all banking transactions involving small amounts, mainly with individuals, professionals, and small businesses.” [2]

In France, retail banks represent a Net Banking Income (NBI is the equivalent to turnover for banks) of €66.7bn for the five largest French players in 2023. Total NBI has declined by 0.9% per year between 2019 and 2023, mainly because of the weak French economic growth. Household consumption and business investment have slowed, impacting the number of loans, which is no longer increasing. In France, retail banks are therefore operating in a mature, stagnant market that will remain so in the coming years. [3]

The French retail banking market is composed of six major French retail banks, which account for 99% of the market in 2023. These six banks are: Crédit Agricole Group (30.5% market share in 2023), BPCE Group (21.6%), Crédit Mutuel Group (16.7%), Société Générale (13.2%), BNP Paribas (11.8%), and Banque Postale (5.8%). The top three players in this market are cooperative banks that account for 69% of the market. [4]

The Mutual Model

While capitalist banks are banks owned by private shareholders, based on the corporate model, mutual banks or cooperative banks are banking companies in which customers can become shareholders by subscribing to members’ shares (“parts sociales” in French). Customers can then take part in the decisions of their mutual bank. Unlike ordinary shares, where each share carries one voting right and an individual can therefore obtain multiple voting rights by purchasing shares, members can only hold one voting right even with multiple shares. Customers who agree to become shareholders in a mutual bank are all on an equal footing and must cooperate, as they all have the same power in the governance of the bank. [5] A mutual bank is therefore a bank that belongs to its customers (members).

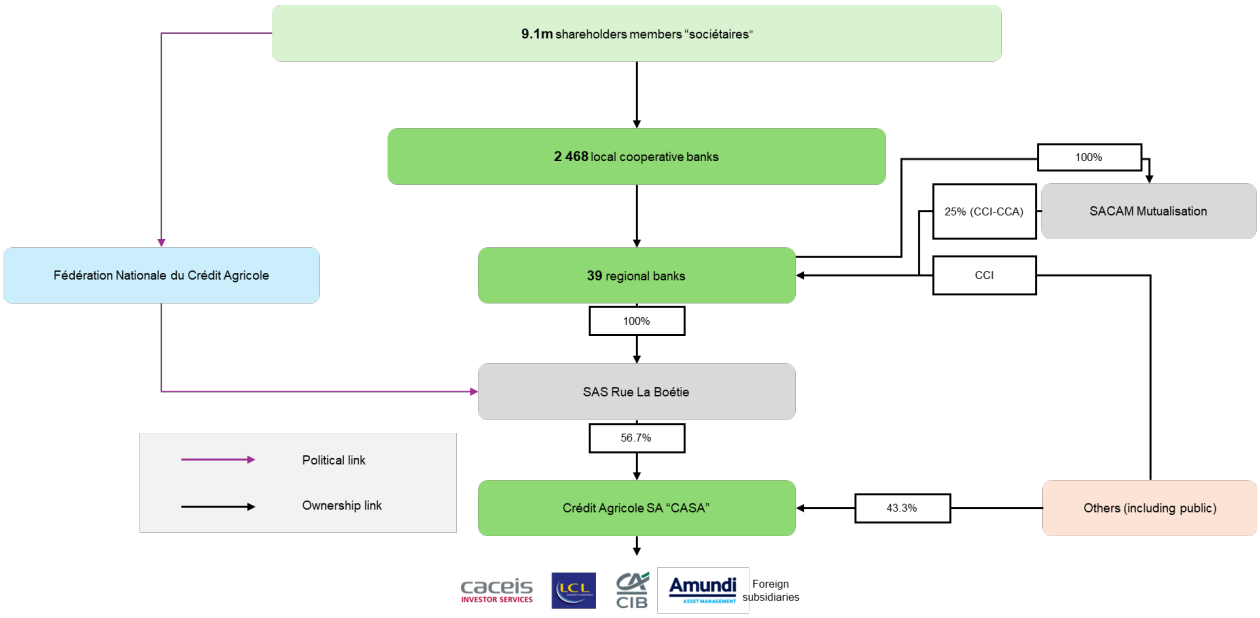

Figure 1: Organization of the Crédit Agricole Group

Figure 1 represents legal structure of the Credit Agricole group. Members are at the top as customers are shareholders of their own local mutual banks. Local banks have joined together to form regional banks owned by the local banks and indirectly members. Regional banks own SAS Rue de la Boétie, which in turn owns the majority of Crédit Agricole S.A. (CASA), the group's listed entity. Thus, the entire group is majority-owned by its customers. However, the latter benefit from the group's performance through their regional banks. This performance can be measured.

Definition of financial performance and methodology

Traditional financial analysis ratios, particularly ROCE, are not relevant when measuring a bank financial performance. EBIT and EBITDA are meaningless due to financial results that cannot be separated from a bank's business. For large international banks, market practice is often to use ROTCE (Return On average Tangible Common shareholders' Equity), which neutralizes the effect of goodwill, preferred shares, and intangibles. In this paper, we can assume that regional retail banks and their capitalist retail peers have simpler balance sheets (no or really low goodwill and a low proportion of intangibles compared to tangibles). We will therefore use ROE directly, which is defined as net income divided by shareholders' equity. We use the group share values for these metrics, and shareholder equity will be defined as the average over two years.

$$ROE\ (n) = \frac{Net\ Income\ (n)}{Average\ shareholder\ equity\ (n\ and\ n-1)}$$

Figure 2 shows the ROE calculated using the aforementioned formula for a panel of mutual and capitalist banks, which is the panel we use in this paper. The figure shows a clear underperformance of mutual banks with a much lower ROE, which we believe cannot be explained by a potential lower cost of capital.

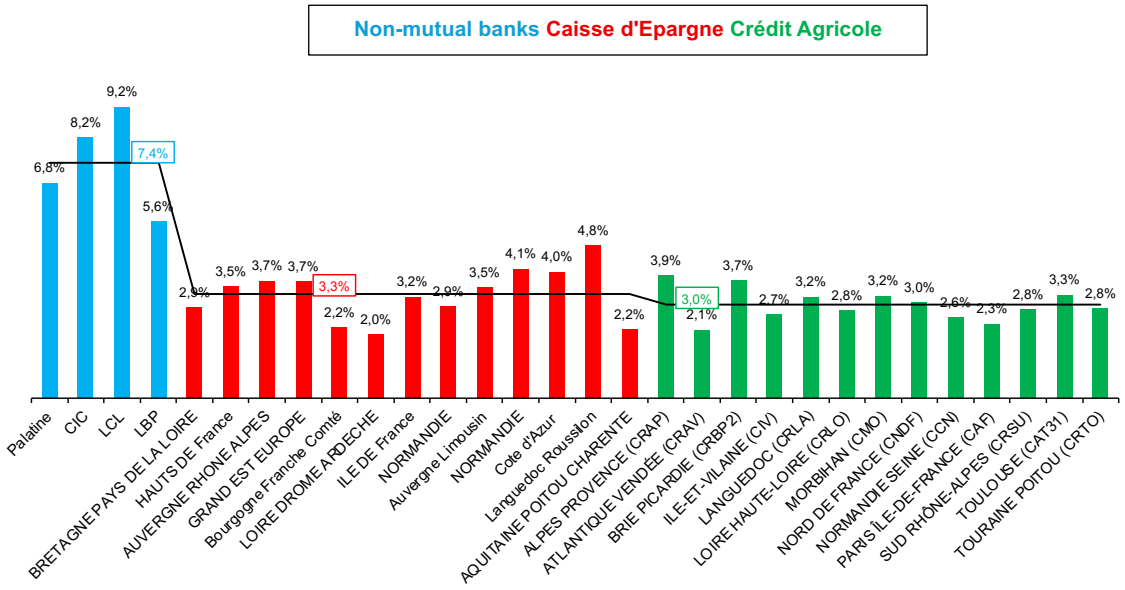

Figure 2 : Return on Equity 2024 for panel banks under study

Capitalist banks have an average ROE of 7.4% for the year 2024, which is 2.2 times higher than the average ROE of regional mutual banks (average ROE of 3.3% in 2024) and 2.5 times higher than the average ROE of Crédit Agricole's regional banks (average ROE of 3.0% in 2024). Non-mutualist retail banks therefore appear to perform better financially than the regional banks of mutualist networks.

We suspect that low ROE does not cover the cost of capital for mutual banks, which translates into a Price to Book Ratio well below 1 for Crédit Agricole's listed regional banks (as of 22/08 post market, the average PBR for 13 CA regional banks is 0.28).

In this paper, we conduct a comparative analysis of mutualist and capitalist banks, mainly focused on income statements, and balance sheets. We identify likely sources of underperformance in certain items of the consolidated financial statements and quantify their impact by linking them to the specific characteristics of mutual banks and the retail banking market in France.

We mainly use statistical methods on a panel of 27 mutual banks (13 Caisse d'Epargne and 14 Crédit Agricole) and 4 capitalist banks that we consider comparable. When necessary, we make more precise comparisons using examples from regional banks in the Ile-de-France region.

Capitalist banks used are LCL (a subsidiary of Crédit Agricole SA), CIC (a subsidiary of Banque Fédérative du Crédit Mutuel), Banque Palatine (a subsidiary of the BPCE group), Banque de Savoie (a subsidiary of Banque Populaire Auvergne Rhône Alpes) and, to a lesser extent, La Banque Postale. We exclude Société Générale and BNP Paribas, which are far too global in scope and rely too heavily on their ancillary businesses. For example, Commercial & Personal Banking Eurozone accounts for only 26% of BNP Paribas's 2024 revenues. [6] More generally, the market lacks capitalists' peers that do not have a national reach.

It is noteworthy that all of the selected capitalist peers (excluding Banque Postale) are subsidiaries of a regional mutual bank (Banque de Savoie) or central bodies of mutual banks. We exclude the Crédit du Nord group because the networks were merged since its acquisition by Société Générale. [7] Crédit Commercial de France (CCF), which became HSBC France between 2008 and 2023, still appears to be in a ramp-up phase and too early to be considered. [8]

We believe that the most relevant peers are LCL, followed by CIC, even though they are national banks. Banque Palatine focuses too much on corporate and private banking. Banque Postale also has a national network with 45% retail business [9], but the sharing of resources with La Poste group seems unclear to us. Banque de Savoie has mainly regional exposure.

All financial data in this paper is derived primarily from annual financial reports published by banks, Pillar 3 reports, or publicly available data.

Hypothesis

The differences in performance found with ROE ratio stem either from a lower numerator for the same denominator and/or from a denominator that is too large for the same numerator. The underperformance therefore stems from a lower net income, or from shareholder equity that is too high.

First, we consider the causes of lower net income, at every stage of the income statement. Difference may be due to low topline net banking income (NBI) in view of the banks' assets and liabilities. NBI consists of two main items: commissions and interest rates.

- *Hypothesis 1: The underperformance of mutual retail banks stems from lower interest margins on customer loans.*
- *Hypothesis 2: The underperformance of mutual retail banks stems from commissions that are too low in relation to financial liabilities.*

Below net banking income in an income statement is gross operating income. Between these two aggregates are operating expenses and provisions for depreciation and amortization of tangible and intangible fixed assets. Thus, we study the following two assumptions:

- *Hypothesis 3: The underperformance of mutual retail banks is due to higher operating expenses relative to net banking income*
- *Hypothesis 4: The underperformance of mutual retail banks is due to higher depreciation and amortization compared to net banking income*

Between gross operating income and operating result, is the cost of risk. We study the following hypothesis:

- *Hypothesis 5: The underperformance of mutual retail banks stems from risk cost relative to gross margin*

After the operating result in income statement are income taxes, which are used to compute the net result. Income tax is 25.83% in France for all companies and therefore cannot be a factor explaining the difference in financial performance.

Lastly, we consider that shareholder equity could be too high for a given net income. Shareholder equity is regulated for banks and cannot be below a certain threshold defined by CET1 ratio. Last hypothesis under study is:

- *Hypothesis 6: The underperformance of certain retail banks is due to excess of CET1 assets*

II. Underperformance hypothesis

H1. Interest Rates

Retail banks act as financial intermediaries between savers and borrowers. Banks have some room for maneuver in setting the interest rates at which they lend to their customers. In France, this rate depends on the European Central Bank's key interest rate and the margin that the bank wants to get on loans, affected by credit risk. In France, interest rates for individuals are mostly fixed, which leads to less variation in loan rates. We focus on two aspects here: (i) do mutual banks offer more favorable rates to their member customers, and (ii) do these same banks earn less margin on loans than other banks? We therefore study these two points considering LCL,

CIC, Credit Agricole Ile de France (CA IdF), and Caisse d'Epargne Ile de France (CE IdF) over the last 5 years.

We compute the following formula to calculate, based on the available data, an approximation of the interest rates at which the banks lent between 2020 and 2024, for the four banks of the panel.

$$Interest\ rate\ (n) = \frac{Interest\ income\ from\ customer\ operations\ (n)}{Average\ loans\ and\ receivables\ from\ customers\ (n\ and\ n-1)}$$

In order to use this formula and compare the ratios between banks, we assume that the banks have the same portfolio of customers loans. That is, loans with comparable maturity and customers with comparable risk profile.

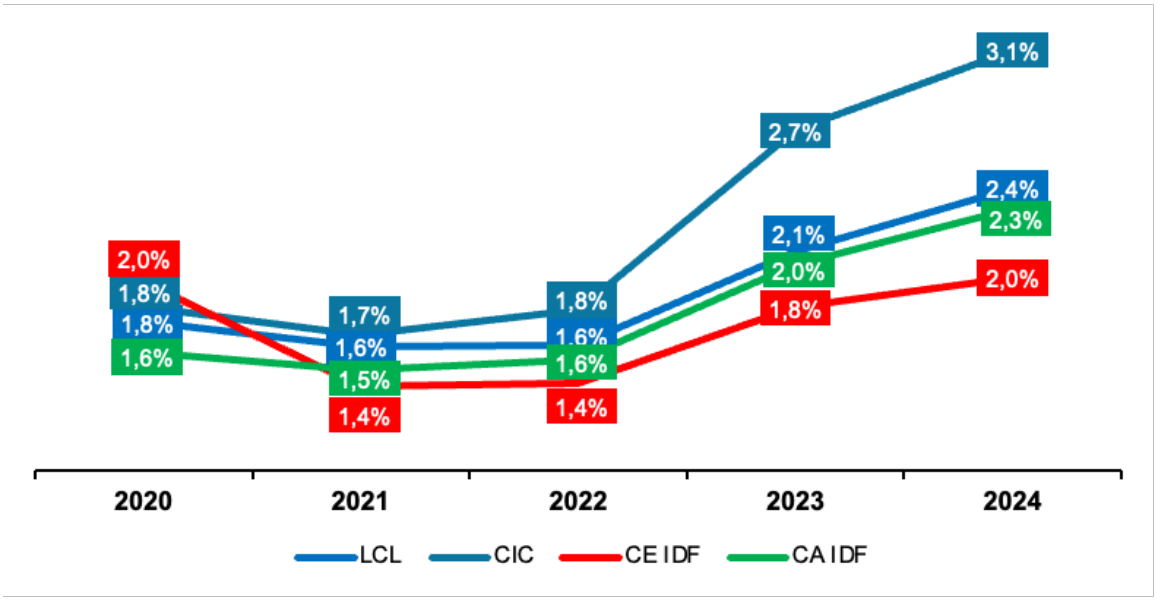

Figure 3 : Evolution of the 4 bank's interest rate between 2020 and 2024

Figure 3 shows that between 2021 and 2024, the two mutual banks had lower interest rates than LCL and CIC. Over these four years, the minimum difference between the highest interest rate offered by mutual banks and the lowest interest rate offered by capitalist banks was between 7bps and 12bps.

This difference in interest rates could be a differentiating factor for CA and CE, as lower interest rates compared to competition can attract more customers and increase the topline. Lower rates may also reflect the mutual banks' pursuit of social utility in serving their members.

We study the margins of the different banks on loans, using the following ratio for the four banks:

$$Intermediation\ Margin\ (n) = \frac{Interest\ income\ from\ customer\ operations\ (n)}{Average\ loans\ and\ receivables\ from\ customers\ (n\ and\ n-1)} - \frac{Interest\ expenses\ from\ customer\ operations\ (n)}{Average\ customer\ liabilities\ (n\ and\ n-1)}$$

We then calculate the average ratio over the five-year period and a 95% confidence interval for each bank, shown on Figure 4.

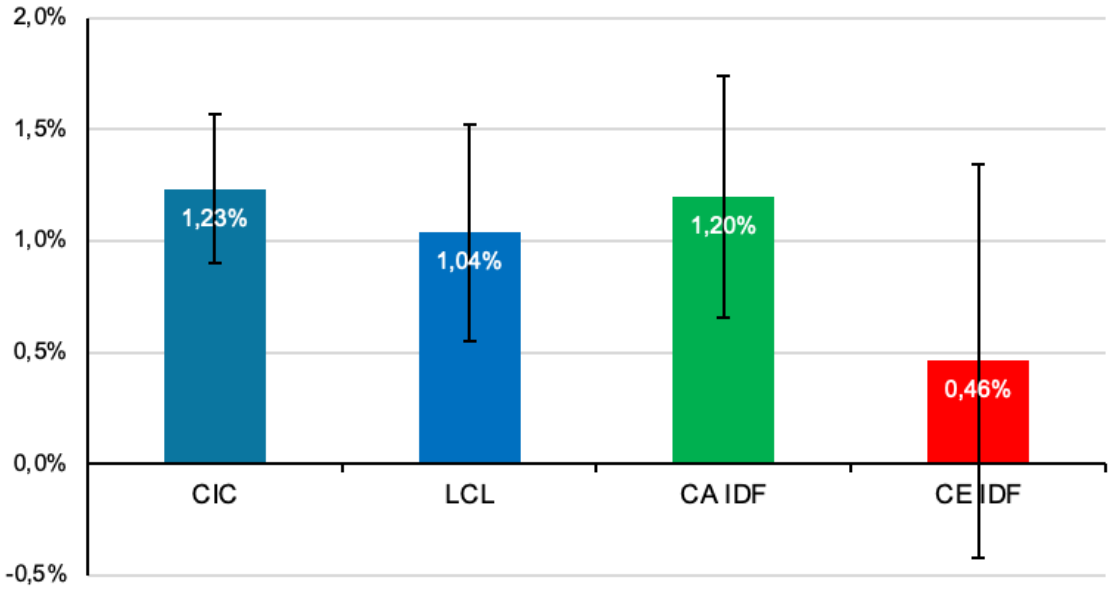

Figure 4 : Average spread (95% confidence level) on intermediation margin for the four banks studied

None of the four banks has a significantly different intermediary margin at 95% compared to the others. This hypothesis does not appear to be a significant factor in the underperformance of the two mutual banks CA and CE in the Ile-de-France region.

H2. Commissions received

In retail banking, commissions are revenues generated from providing services, meaning accepting deposits and extending loans. Commissions are a major component of non-interest income and are therefore an important component of Net Banking Income. Crédit Agricole Île-de-France's 2025 tariff schedule illustrates the diversity of commissions. [10] This document mentions first of all, account-related commissions (fixed charges for irregular operations such as the intervention fees). But there are also transaction commissions (covering payments and

transfers with different tariffs depending on the location of the payment), card-related commissions (annual or monthly fees depending on the customer type of card), cheque-related commissions (linked to issuing or stopping a bank check), overdraft and irregularity commissions (fees for rejected payment), professional account commissions (movement commissions) and finally wealth management and investment commissions. [10] Some commissions paid by customers are related to financial services provided by their bank, while other commissions are penalties for customer behavior and are related to the bank's risk management. All the commissions are a source of revenue of the bank.

In this paper, we focus on retail customers related commissions. They can be found in commissions on customer transactions and in other commission items. These include especially commissions on payment methods, life insurance sales, and financial services. In addition, as part of the FINREP 2020 regulatory changes, some commissions on customer transactions have been reclassified by banks as “other commissions” or “other services,” depending on the bank. Thus, it appears that a large majority of commission subcategories are customer related. We consider total net commissions to include all customer-related commissions.

In order to work with a consistent ratio, the denominator must therefore consist of all financial liabilities at amortized cost, corresponding to debt to credit institutions, debt to customers, and debt represented by securities.

$$\frac{Total\ net\ commissions}{Total\ financial\ liabilities\ at\ amortized\ cost}$$

We compute the ratio for three traditional retail banks (LCL, Banque Postale, and CIC) and two comparable regional cooperative banks (CA IdF and CE IdF) over a five-year period from 2020 to 2024.

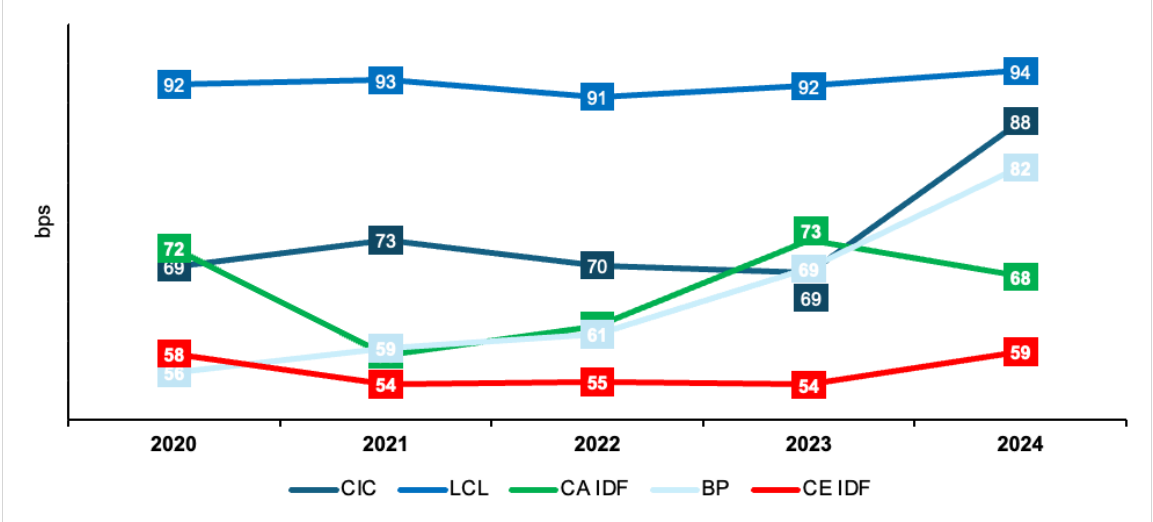

Figure 5 : Change in total net fees divided by financial liabilities at amortized cost between 2020 and 2024 in bps

At first glance as illustrated in Figure 5, only LCL over the period, Caisse d'Epargne Ile-de-France from 2021 onwards, and CIC in 2021 and 2022 appear to have ratios that are significantly different from other banks. It therefore does not seem possible at first sight to see a notable difference in the commissions received by the cooperative and non-cooperative banks in relation to their customer deposits.

We then compute the average ratio over the five-year period and a 95% confidence interval for each ratio on Figure 6.

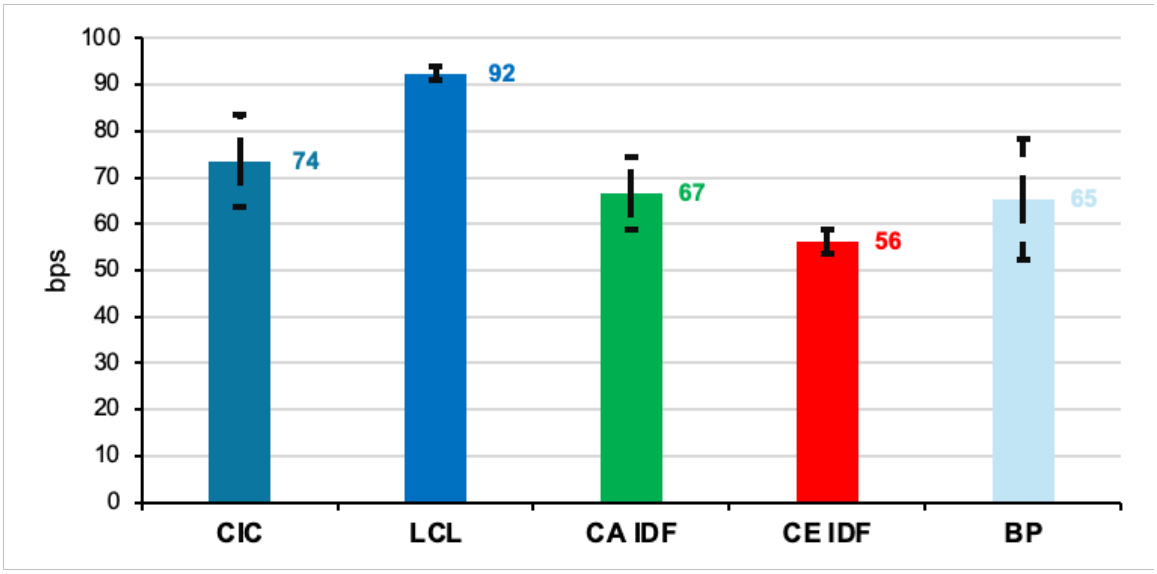

Figure 6 : Average ratio of total net commissions to financial liabilities at amortized cost (in bps), at a 95% confidence interval.

Only LCL and CE IdF have a ratio that is significantly different from the other banks (CA IdF and CIC). We believe it is reasonable to consider that the two mutual banks underperform LCL and, to some extent (though not statistically significant), CIC.

Operating ratio

The transition from Net Banking Income to gross operating result reflects the bank's internal efficiency. There are several formulas for quantifying this efficiency, but market practice often involves using the operating ratio. In this paper, the notion is defined as follows:

$$Operating\ Ratio = \frac{General\ operating\ expenses\ +\ D\&A}{Net\ Banking\ Income\ (NBI)}$$

We choose to include D&As because (i) they remain relatively low in a capex-light industry, (ii) the numerator will simply be defined as: NBI - Gross operating result, which simplifies data collection, and (iii) it allows for subsequent comparisons with accounts where expenses are classified by function rather than by nature. This study is relevant because the banking sector in France is mature, competitive and highly consolidated. [3] Banks therefore need to work on their margins to increase or maintain earnings.

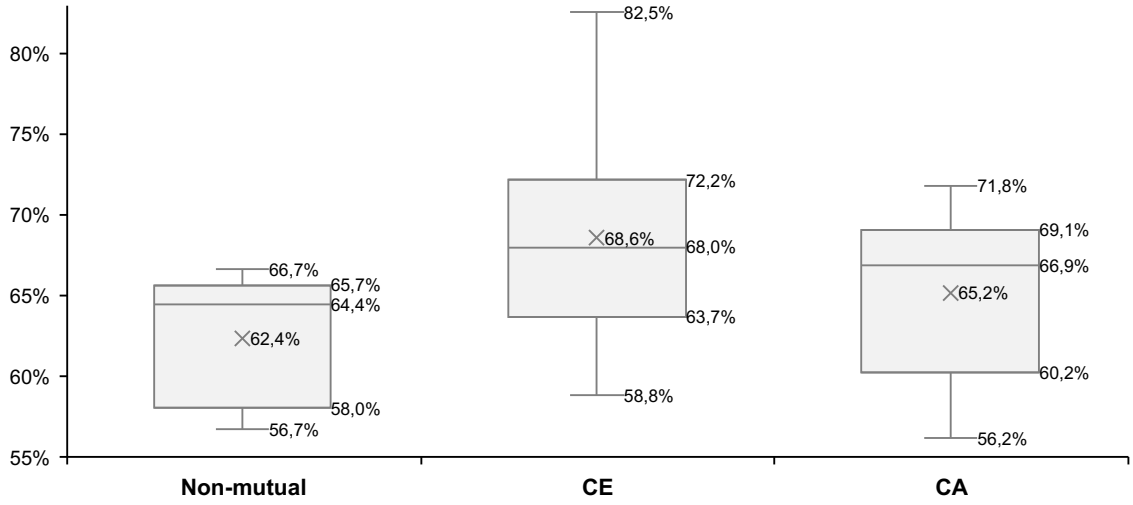

Figure 7: Distribution of operating ratios in 2024 among the banks studied

Our panel of banks includes five non-mutual banks (Banque Palatine, Banque de Savoie, CIC, LCL, and LBP), 14 local branches of Caisse d'Epargne, and 13 local branches of Crédit Agricole.

The calculation of the operating ratio shows higher average (and median) ratios for mutual banks (CE and CA) (Figure 7). Our study also shows that it is difficult to link these levels to the level of net banking income, which seems to invalidate the hypothesis of a critical size to be reached.

First of all, it is important to understand whether general operating expenses are predominantly fixed or variable and attempt to estimate the ability of regional mutual banks to adapt to changes in their topline (in our case, net banking income (NBI)) or potentially suffer from negative operating leverage. We consider relevant to conduct this study on FY2022 and FY2023, which experienced a substantial drop in new loan production, mainly due to rising interest rates. Thus, while in May 2022, monthly new home loan production reached €26.7bn, it fell to €9.2bn in January 2024 before rising again since then [11].

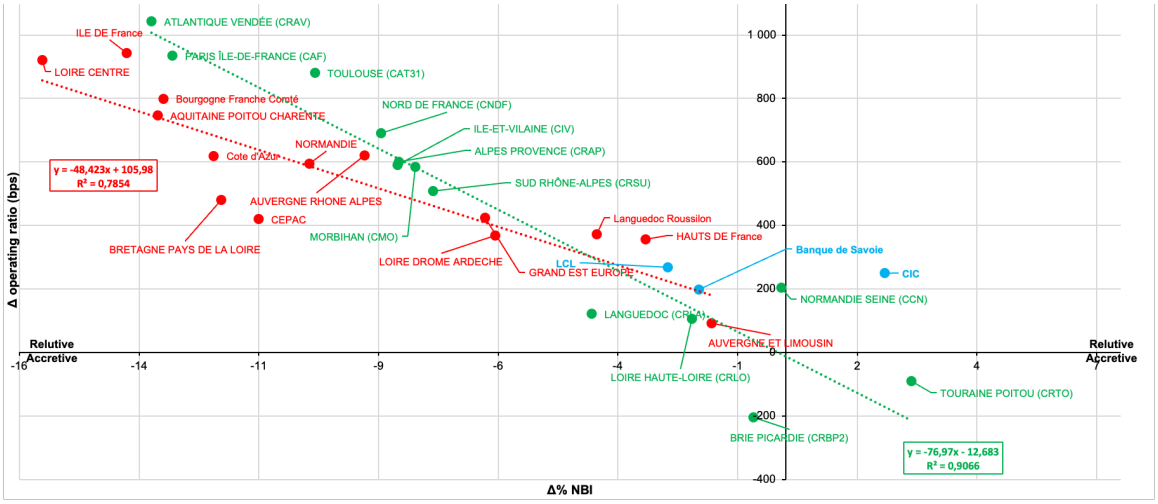

Figure 8 : Change in operating ratio in bps as % of change in NBI between 2022 and 2023

Our study shows that almost all banks in the panel experienced a decline in their topline between 2022 and 2023, accompanied by an increase in the operating ratio and therefore a decline in the operating margin. Our study highlights a particularly significant operational lever for mutual banks (notably Crédit Agricole) (Figure 8).

Regression Statistics	
Multiple R	0.886
R Square	0.785
Adjusted R Square	0.768
Standard Error	116.146
Observations	14

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	105.980	74.422	1.424	0.180	-56.172	268.132
Δ% NBI	-48.423	7.306	-6.628	0.000	-64.341	-32.505

Figure 9 : Output of the regression of the change in the operating ratio (between 2022 and 2023, in bps) on the change in NBI (between 2022 and 2023, in %) for the regional banks of the Caisse d'Epargne

Regression Statistics	
Multiple R	0.952
R Square	0.907
Adjusted R Square	0.898
Standard Error	126.974
Observations	13

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-12.683	57.671	-0.220	0.830	-139.617	114.251
Δ% NBI	-76.970	7.447	-10.336	0.000	-93.360	-60.580

Figure 10: Output of the regression of the change in the operating ratio (between 2022 and 2023, in bps) on the change in NBI (between 2022 and 2023, in %) for the regional banks of the Crédit Agricole

For the two regressions (Figure 9 and Figure 10) the p-value is below 0.05, the coefficient is considered significant for the change in Net Banking Income (NBI). The regression coefficients show an increase in the operating ratio of 48bps for a 1% decrease in the net banking income of the Caisse d'Epargne and 77bps for a 1% decrease in the net banking income of Crédit Agricole. The difference between these two groups is not, a priori, explained by a size effect as in 2023, the average NBI of the Crédit Agricole banks is €479m, compared to €473m for Caisse d'Epargne.

The three capitalist banks are above the regression lines for Crédit Agricole and Caisse d'Epargne, which would suggest that, for the same level of decline in NBI, they experienced a greater increase in their operating ratio and therefore a greater decline in their margin. However, this observation has some limitations, notably that in most cases, the net banking income of capitalist peers was less affected over the years studied (even benefited from the situation in the case of CIC) than that of mutual banks, and the same is true for the operating ratio. We have no quantitative explanation for this phenomenon, but we interpret it as a size effect leading to an ability of these large banks (in this case CIC and LCL) to find pockets of demand outside of mortgage lending, even in an unfavorable interest rate environment. This observation is limited by the small size of the capitalist sample.

The study shows that regional banks are close to breaking even despite different levels of net banking income (MAD in 2023 of €212m for CE and €167m for CA) and roughly similar business activities. This leads us to question the composition of operating expenses, particularly payroll expenses, which, if unduly high, could explain a high break-even point at different levels of net banking income. For the rest of operating expenses study, we focus on banks of sufficient size and with the most comparable customer bases. From this panel, we choose LCL as the capitalist

benchmark, Crédit Agricole d'Ile-de-France and Caisse d'Epargne Ile-de-France to represent mutual banks, as the two largest regional banks of their networks. At certain key moments, we also use a comparison with the CIC to ensure a semblance of universality in our study.

The study shows that in 2024, the gross income margin for Caisse d'Epargne IdF was 442bps lower (415bps in 2023) compared to LCL, and 242bps (283bps in 2023) lower for Crédit Agricole IdF compared to LCL.

We present the details of this difference in bps (% of NBI, normalized to LCL) in 2024 for the two mutual banks studied (Figure 11 and Figure 12). Personnel expenses and other operating expenses have a significant negative impact on the margin, partially offset by D&A that are lower than for LCL.

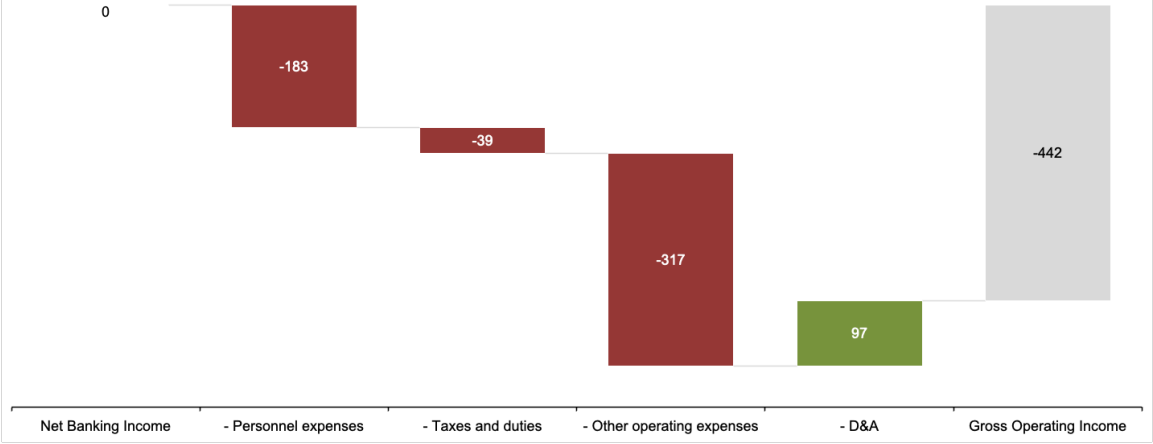

Figure 11: 2024 - Caisse d'Epargne - IdF -- Difference in bps vs. LCL (% of NBI, normalized to LCL)

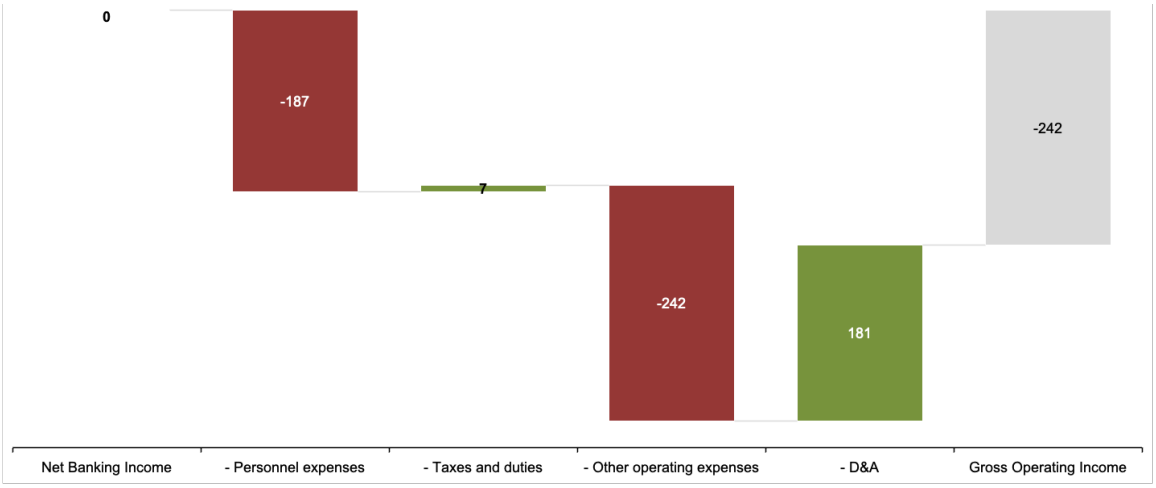

Figure 12: Crédit Agricole - IdF -- Difference in bps vs. LCL (% of NBI, normalized to LCL)

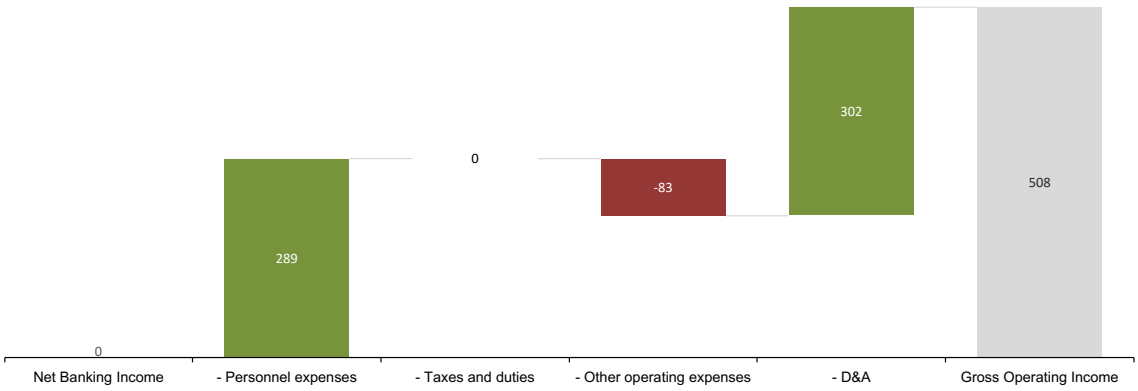

Figure 13: CIC -- Difference in bps vs. LCL (% of NBI, normalized to LCL)

As an example, we also show a comparison between CIC and LCL (Figure 13), both of which are non-mutual banks, which shows (excluding other general operating expenses) a clear outperformance by CIC. LCL is therefore an ambitious peer for mutual banks but is not the best in class.

H3. Personnel expenses

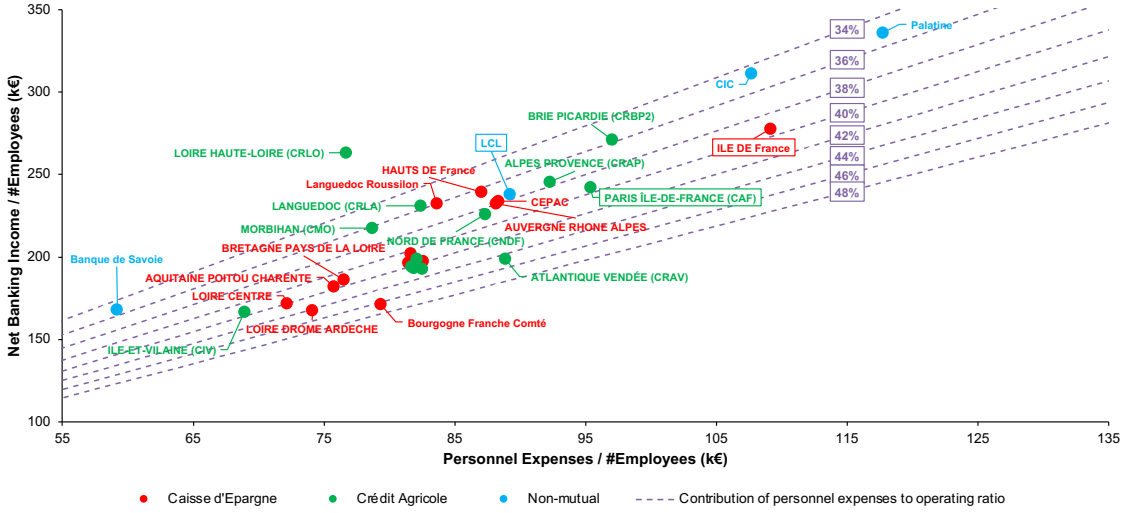

Figure 14 : NBI per employee based on total personnel costs per employee in 2024

We consider now personnel expenses, which are a significant cost, given that human resources are a bank's industrial tool. Our study shows a close link between personnel expenses per employee (total personnel expenses, including social security contributions in particular) and net banking income per employee (Figure 14).

For the same level of contribution to the operating ratio (which an organization wants to be as low as possible), there are an infinite number of possible combinations of personnel costs per employee and NBI per employee. This approach assumes that a bank that is less commercially successful than another may have lower personnel costs per employee and achieve the same operating margin after salaries.

In the context of a fairly mature banking industry and convergence of contributions to the operating ratio, several possibilities (possibly a mix of the two) can be envisaged in a steady state: (i) a decrease/increase in salaries per employee for banks that underperform/overperform in terms of net banking income per employee (within the limits of the minimum wages in force, but which seem to be largely exceeded in our case), equivalent to a shift on the horizontal axis. (ii) An adjustment of NBI per employee through increased commercial efforts (but this seems unlikely given the low growth of the market) or through a reduction in the number of employees (those who stay would keep their salaries unchanged), at the same NBI level, equivalent to a shift on the vertical axis.

It seems to us that non-mutual banks have lower contributions from personnel expenses to the operating ratio compared to most regional banks, despite different positions in terms of net banking income per employee and total personnel expenses per employee. We find these results convincing, as the total operating ratio of capitalist structures is below average and often better than that of regional banks. We are fairly confident that non-mutual banks are not understaffed in favor of much higher external expenses (which would have the benefit of providing flexibility to weather tough times, that said).

This observation should be qualified in the case of Banque de Savoie (a subsidiary of the BP-AuRA group), which does not have a significantly better operating ratio than the regional banks (66.7% in 2024, ranking tenth in terms of gross margin among the 27 regional banks studied), due to external costs that offset its good salary performance. One explanation for this could be the outsourcing of support functions to the BPCE/BP-AuRA group due to the small size of the bank (€51 million in net banking income and 308 employees in 2024) and the fact that its employees are therefore proportionally more P&L makers than in other banks. This prevents us from definitively concluding the above hypothesis due to the absence of truly comparable non-mutual banks in the matrix.

We consider now the 20 out of 27 regional banks that have a higher contribution from personnel expenses to the operating ratio than LCL (37.5%). We estimate that a normalization can be

achieved by increasing NBI per employee (vertical axis, Figure 14) or decreasing salary per employee (horizontal axis, Figure 14). We simulate the normalization with sensitivity to two parameters. Initially, we consider NBI growth, which has a positive or negative effect on NBI per employee. For reference, there are several growth estimates for retail banking in 2025. Xerfi estimates a value of 1.5%. [3] Consulting firm AT Kearney [12] reports that although the French retail sector is resilient and grew by 2% in 2024, it is mainly stagnating, with various trajectories depending on banks. BNP Paribas and Société Générale have been stagnating since 2015, Crédit Mutuel and LCL are growing, but BPCE and Crédit Agricole are declining. We adopt a growth assumption of between -3% and 3% compared to 2024, highlighting the diversity in the geographical locations of regional banks.

		NBI organic growth						
		-3,0%	-2,0%	-1,0%	0,0%	1,0%	2,0%	3,0%
Salary of departing employees relative to average salary	-15%	280 (13,5%)	255 (12,4%)	230 (11,4%)	205 (10,3%)	202 (10,3%)	189 (9,8%)	166 (8,8%)
	-10%	264 (12,8%)	241 (11,8%)	217 (10,7%)	194 (9,7%)	190 (9,7%)	179 (9,3%)	156 (8,3%)
	-5%	250 (12,1%)	228 (11,1%)	206 (10,2%)	184 (9,2%)	180 (9,2%)	169 (8,8%)	148 (7,9%)
	0%	238 (11,5%)	216 (10,6%)	195 (9,7%)	174 (8,8%)	171 (8,8%)	161 (8,4%)	141 (7,5%)
	5%	226 (10,9%)	206 (10,1%)	186 (9,2%)	166 (8,3%)	163 (8,3%)	153 (8%)	134 (7,1%)
	10%	216 (10,4%)	197 (9,6%)	178 (8,8%)	158 (8%)	156 (8%)	146 (7,6%)	128 (6,8%)
	15%	206 (10%)	188 (9,2%)	170 (8,4%)	152 (7,6%)	149 (7,6%)	140 (7,3%)	122 (6,5%)

Regional banks affected	20	20	20	20	18	17	17
# CE	9	9	9	9	8	8	8
# CA	11	11	11	11	10	9	9

Figure 15: Number of jobs to be cut to achieve LCL's contribution to OR (and average proportion in the affected branches) based on NBI growth and the salary of redundant employees (as a percentage of average salary)

In the simulation, range retained for growth is almost always not sufficient to achieve the target contribution to the operating ratio. In the French context, we believe it is unlikely to significantly directly reduce personnel expenses (shift on the horizontal axis, Figure 14). It is therefore necessary to consider the departure of employees. Departing employees may have different salary levels, so we present a second sensitivity axis based on the average salary of these departing employees as a percentage of the bank average salary in 2024.

The results of this sensitivity analysis are presented in Figure 15. The simulations highlight the extremely significant workforce reduction efforts that must be made in all scenarios. In our best-estimate scenario (1% NBI growth and laid-off employees earning the same salary as the average), this leads to a reduction of 8.8% of the workforce in 18 banks, representing a total of 3,094 jobs cut across the regional banks under study (including 1,669 in the CE network and 1,425 in the CA network). This seems very high, likely unattainable, and socially unacceptable

given the image that mutual banks want to project. In this context, it appears to us that regional mutual banks are structurally unable to achieve a contribution from salaries to operating ratio comparable to that of LCL. We have therefore identified a significant factor contributing to the underperformance of mutual banks compared to capitalist banks, accentuated by the fact that LCL is the least performing capitalist bank in terms of salaries per NBI among the panel.

One reason for this underperformance may be due to a size effect. Indeed, it seems to us that regional banks within the same network replicate a large number of functions that could be more effectively shared. This leads to a significant increase in the number of employees and therefore a lower proportion of P&L maker employees in smaller regional banks.

We test this hypothesis by considering Caisse d'Epargne and Crédit Agricole regional banks and assuming that they have similar administrative operations. One possibility is to consider a “fixed cost” in terms of the minimum number of employees required to operate the bank at 0 NBI. Under aforementioned assumptions, the number should be roughly the same in all banks. We test this hypothesis by running a linear regression of the number of employees on NBI for Crédit Agricole and Caisse d'Epargne banks. The regression gives a significant intercept at the 5% threshold with a value of 629. This value is plausible but represents on average 33% of the workforce of regional banks.

Rather than considering an employee” fixed costs” (which certainly exist to some extent), we assume increasing returns in labor productivity (at least in the range of regional banks' NBI). We use a log-log model and plot the log regression (number of employees) against log (net banking income) on Figure 16.

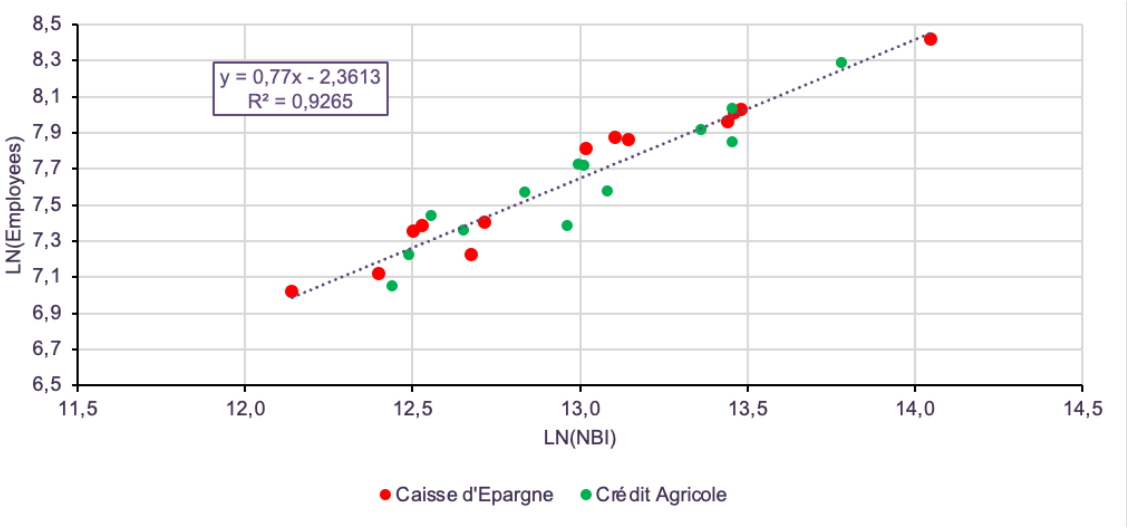

Figure 16 : Linear regression of ln(#Employees) as a function of ln(NBI) for 26 regional banks in the Crédit Agricole and Caisse d'Epargne network (excluding CE Côte-d'Azur)

We also provide the table obtained with the coefficients that give a significant beta at 5% threshold, equal to 0.77 (Figure 17). Therefore, a 1% increase in NBI for a mutual bank seems to lead to a 0.77% increase in the number of employees. Our model is not easily extrapolated for higher NBI values (diminishing returns) but makes sense at the level of regional banks.

Regression Statistics	
Multiple R	0,963
R Square	0,926
Adjusted R Square	0,923
Standard Error	0,105
Observations	26

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*
Intercept	-2,361	0,575	-4,103	0,000	-3,549	-1,174
LN (NBI)	0,770	0,044	17,391	0,000	0,679	0,861

Figure 17: Output of the linear regression of ln(#Employees) as a function of ln(NBI) for 26 regional banks in the Crédit Agricole and Caisse d'Epargne network (excluding CE Côte-d'Azur)

We were unable to accurately quantify the contribution of the size effect to the number of surplus employees in mutual banks because the regression model produces values that are too high when they fall outside initial NBI range. Nevertheless, we believe that significant mutualization of human resources between regional banks within the same network is unlikely in their core business. Agency theory provides insight into the reasons for this improbability. Historically, the central bodies of mutualist banks have developed through the acquisition of SAs in different business lines or abroad. In classical agency theory, the central technostructure is delegated powers by the mutual banks, but with access to asymmetric information, it would tend to become autonomous and then gradually take on a control role. Ultimately, this would weaken the control capacity and independence of the regional banks and distance them from their own “shareholders”, who are the members. [13] In this respect, massive synergies seem difficult to achieve.

We have therefore come to believe that personnel costs contribute too much to the operating ratio for most of the mutual banks studied, due to the fact that they have too many employees and/or pay them to much related to their level of activity. To align this contribution with that of the LCL would lead to mass departures, which are hardly feasible in practice. This underperformance is probably reinforced in relation by the smaller size of regional banks, as larger capitalist banks (LCL and CIC) can pool and mutualize certain function at a larger (national) level, which we believe would be difficult to change for reasons of mutualist governance. Furthermore, it should be noted that LCL and CIC are more urban banks than the regional banks of Crédit Agricole and

Caisse d'Epargne. This makes it easier for non-mutual banks to manage more assets (due to a higher number of people and concentration of wealth in big cities) for the same number of employees per agency.

Other operating expenses

In the absence of clear information on their composition, we have chosen not to comment on this major difference.

H4. D&A

In 2024, the D&A over NBI ratio is the only financial indicator where the two regional banks in the Paris region (CA IDF and CE IDF) outperform LCL (Figure 11 and Figure 12), which has a positive effect on their gross margin. Indeed, CE IdF is +97bps higher than LCL on this ratio and CA IdF is +181bps higher than LCL. Furthermore, this outperformance almost offsets the underperformance of CA IDF's personnel expenses (+181bps vs. -187bps).

To isolate drivers of these differences, we break down the ratio, using a kind of Dupont Formula.

On the numerator D&A, are associated to tangible and intangible assets. Annual financial reports of the French banks understudy, show that tangible and intangible assets are mainly made of tangible assets. We therefore assume for the analysis that tangible and intangible assets are fully made of tangible assets such as real estate, which can be approximated by the number of bank branches. In this respect, the ratio of intangible and tangible assets on the number of bank agencies is informative.

Thus, to compare D&A/NBI ratios, we consider three ratios defined with the following formula:

$$\frac{Depreciation\ and\ amortization\ expense\ on\ tangible\ and\ intangible\ assets}{Net\ Banking\ Income\ (NBI)} = \frac{Depreciations\ \&\ amortization}{Tangible\ \&\ Intangible\ assets} \times \frac{T\ \&\ I\ assets}{Number\ of\ bank\ agency} \times \frac{Nb\ of\ agency}{NBI}$$

Ratios are analyzed for LCL, CIC, CE IdF and CA IdF. We consider that the value of the real estate assets held by the four banks can be compared, as they are mainly urban banks. We present in Figure 18, contributions to the breakdown of D&A / NBI for the four banks in Ile-de-France studied rebased on LCL. A value exceeding 1 signifies that the component is greater for the bank relative to LCL. Our analysis suggest that mutual banks significantly outperform LCL in

term of the contributions of Agency per NBI (higher for LCL) and D&A per (in)tangible assets (higher for LCL). We do not comment on the differences in the ratio of (in)tangible assets per agency, as we do not have specific information on the surface area of the agencies, although a new breakdown would have been relevant.

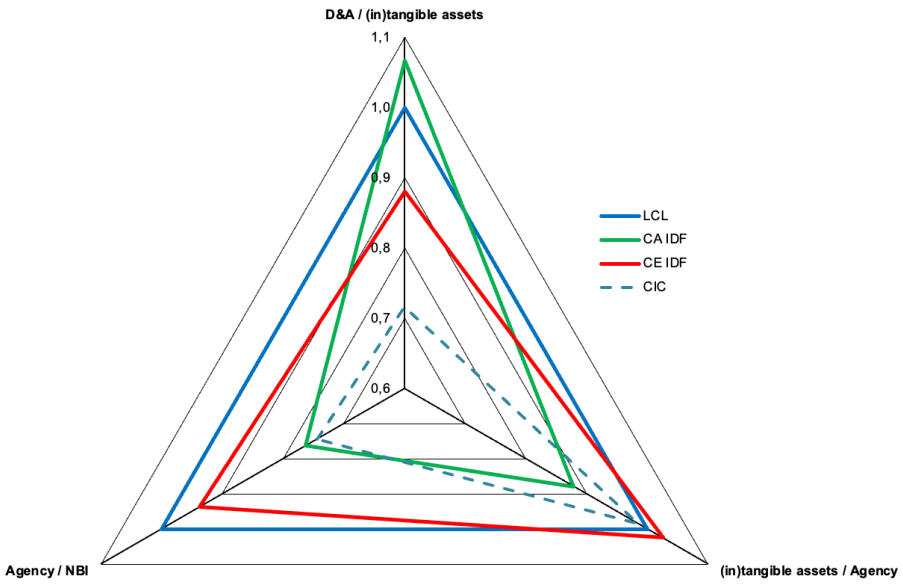

Figure 18 : Contributions to the breakdown of D&A / NBI for the four banks in Ile-de-France studied rebased on LCL

NBI per agency

We present in Figure 19 the evolution in the ratio of NBI per agency. NBI per bank agency is surprisingly lower for LCL. We believe that this higher level for mutual banks is due to the predominantly urban nature of the area studied, leading to agencies of sufficient size in the Paris region, even for mutual banks. We have not found a satisfactory rural capitalist comparable to confirm this hypothesis.

The higher NBI per branch for Crédit Agricole does not seem to be explained by economies of scale due to market share. Indeed, at the French level, a BCG insight [4] on retail banking in 2023, shows market share of 23.6% for Crédit Agricole, 10.4% for Caisse d'Epargne, 6.9% for LCL and 6.8% for CIC. Although we do not have precise market share figures, it appears that Crédit Agricole Île-de-France's market share ranges between 6% and 11% depending on the product for individual customers [14]. It is very likely that Crédit Agricole Île-de-France's market share is lower than that of its capitalist competitors in Île-de-France. However, we note that the bank arrived later in Paris, opening its first branch in 1963 [15], and has a network of branches reputedly more

spacious and less dense than LCL's. Since 2013, as part of the “Maille & Maillage” project, Crédit Agricole Île-de-France has closed around 50 branches with the aim of retaining those with at least six advisors [15] [16].

The trends in NBI growth by agency differ between mutual and capitalist banks. CE IdF and CA IdF have seen their NBI decline simultaneously from 2022, undoubtedly reflecting negative macro market trends. However, CIC and LCL have seen their NBI per agency rising, despite being certainly exposed to same unfavorable market trends.

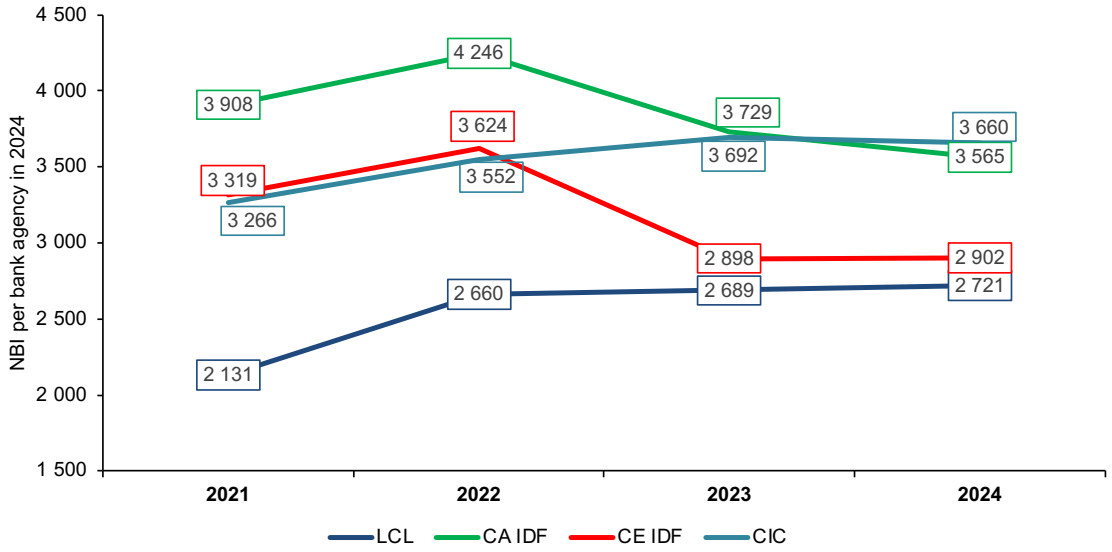

Figure 19 : Net banking income per branch for banks studied in the Île-de-France region

More generally, the trend observed at LCL seems to correspond, at least in part, to an active policy of branch closures carried out between 2021 and 2022. The bank announced internally in 2021 that it wanted to close branches with fewer employees by 2022, reducing the number of branches from 1,600 to 1,350 [17]. We have not found any plans for a recent large-scale closure of bank branches in France among mutual banks, although some branches have recently been closed or will be closed soon in rural areas [18].

At the French level and for all banks, the consulting firm Sia Partners estimates that 5.5% of branches have disappeared between 2020 and 2023 (compared to 19% in Germany and 14% in Italy), with France still maintaining an exceptional network [19]. The firm estimates that between 8% and 20% of branches will inevitably close by 2027. We have strong reasons to believe that mutual banks are lagging behind this trend. Indeed, proximity is an important selling point for mutual banks, particularly in rural areas. For example, in 2022, Lozère, one of the least populated

departments in metropolitan France, had two Société Générale branches compared to 21 Crédit Agricole branches. Furthermore, a study shows [20] that mutualist banks reinforce their moral legitimacy through four types of communication about their “sociétaires”

- Sociétaires as partners and investors
- Sociétaires as developers of the **l**ocal community (charities, culture)
- Sociétaires as participants in the economic development of their region (entrepreneurship, innovation, financing)
- Sociétaires as part of the bank and contributing to it

At least 2 of these points seems to us to contradict the possible upcoming branch closures (especially in rural areas), which therefore could have a negative effect on market share. However, we believe that after the closures, the ratio of net banking income per branch for mutual banks could increase slightly.

All in all, in Île-de-France, LCL suffered from a negative effect from its lower NBI per agency, which is resorbing but negatively affects its D&A level. We have good reason to believe that this effect is potentially non-existent or even reversed outside the Île-de-France region.

D&A per (in)tangible assets

Figure 20 shows a ranking of banks that has remained relatively unchanged since 2021 in terms of D&A per tangible and intangible assets, despite varying growth/declines among banks.

CE IdF and CA IdF report accounting for their impairments in accordance with IAS 16, while LCL use ANC Regulation 2014-03 (and therefore, in principle, ANC 2022-06 from the 2025 financial year onwards). We do not have this information for CIC. The four banks under study use the component-based asset accounting method to all their fixed assets, and the depreciable base considers the potential residual value of the assets. Fixed assets are depreciated based on their estimated useful lives.

We have no information on the depreciation method, except for LCL, which states using a straight-line method. We can assume straight-line depreciation for branches and offices, which we believe represent the majority of banks' tangible and intangible assets, as their economic benefits are likely to remain constant over time. Absolute levels of the ratio are difficult to comment on and compare as they stand, especially since the amortization periods seem to vary considerably from

one bank to another. For example, the amortization period for structural work is 30 to 80 years at CA IdF, 25 to 35 years at CE IdF, and 20 to 80 years at CIC. At LCL, structural work is amortized over 80 years for Haussmann-style buildings and 60 years for other buildings. Due to the lack of information, it is difficult to explain the differences in the levels of this indicator.

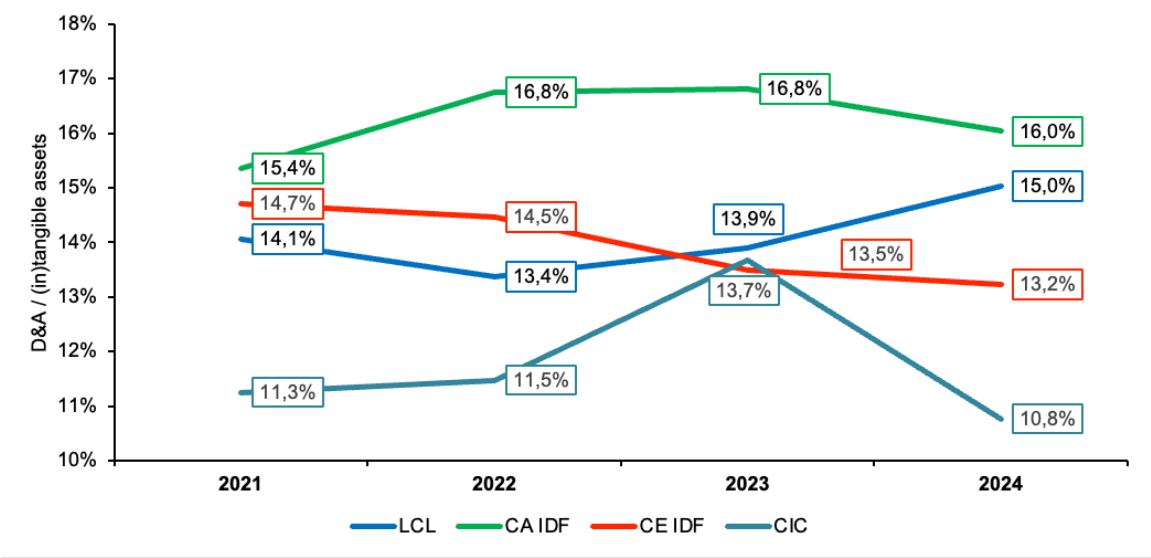

Figure 20 : D&A / (in)tangible assets for banks studied in the Île-de-France region

In this regard, an increase in the ratio over time for CA and LCL (and CIC until 2023) would correspond to the aging of assets, and therefore their non-renewal that could correspond to LCL's branch recent closure policies. We confirm the ongoing reduction in fixed assets at LCL, with a CAPEX divided per D&A ratio below 1 and falling Figure 21.

All in all, we could not link this difference to whether or not the banks are mutualist in nature. We consider only that this difference in terms of D&A contributes to a lower operating ratio for the two mutualist banks under study, compared to LCL, which is for us not an identifiable source of major differences in performance.

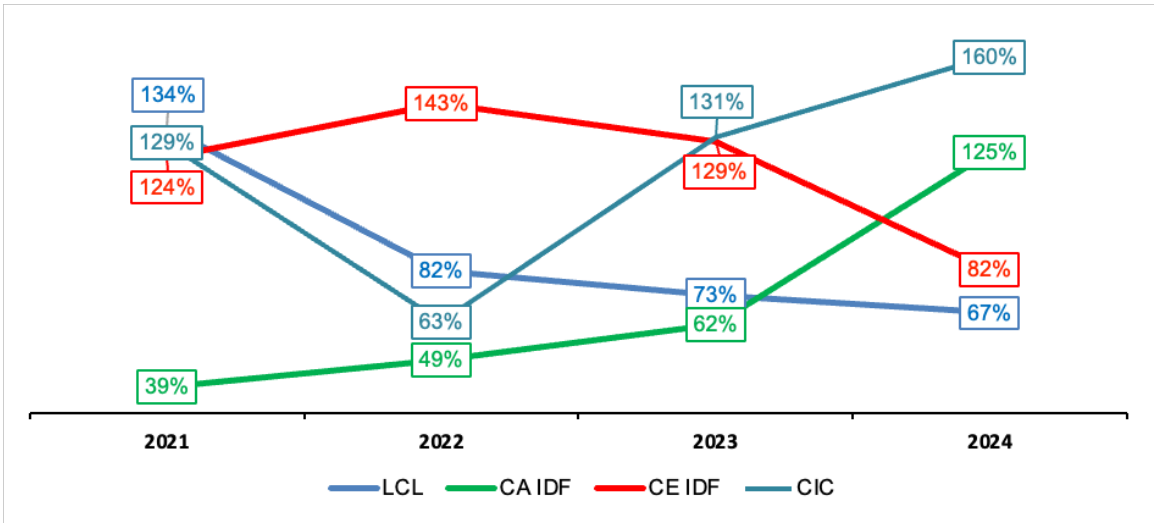

Figure 21: Evolution of the ratio CAPEX / D&A for banks studied in the Île-de-France region

H5. Cost of Risk

The transition from gross operating income to operating income reflects the cost of risk, which can have a significant impact on net income and ultimately on shareholders' return on equity. For example, the cost of risk reduced LCL's operating income by 27.5% in 2024.

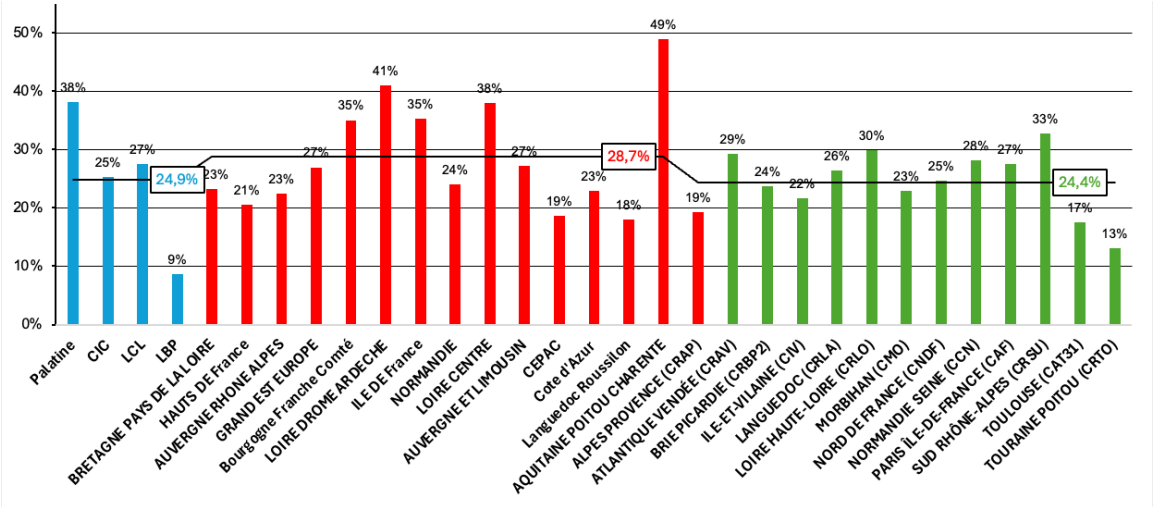

Figure 22: Cost of risk as a percentage of gross operating income for banks in the panel in 2024

Our study shows that this percentage varies depending on the regional banks, reaching an average of 28.7% in 2024 for banks in the Caisse d'Epargne network and 24.4% for those in the Crédit Agricole network (Figure 22). The same study conducted in 2023 shows percentages that

also vary, reaching 17.5% for LCL, 25.7% on average for Caisse d'Epargne and 24.1% for Crédit Agricole. Rather than focusing on the level based on gross operating income, it is important to understand whether the absolute level of risk cost is consistent with the risk of the assets held by the banks or whether mutual banks are exercising caution.

The cost of risk is also known as counterparty risk cost or credit risk cost and is defined as "the net provisioning charge for bad debts. It includes all risks inherent in banking credit activities, whether they are foreign exchange, default, counterparty, interest rate, or credit risks". [21] The cost of risk can be broken down as follows :

$$Cost\ of\ risk\ =\ provisions\ and\ impairments\ +\ reversals\ of\ provisions\ and\ impairments + other\ changes\ in\ provisions\ and\ impairments\ of\ all\ financial\ assets$$

Here, we examine whether provisions, reversals of provisions, and impairments related to total exposures are stable and comparable between the two types of banks.

$$\frac{Cost\ of\ risk\ (n)}{Total\ balance\ sheet\ exposures\ \ (n-1)}$$

In order to calculate the ratio, we consider the total balance sheet exposures excluding derivatives, OFTs, and exempt exposures, in accordance with EU LR3. Total balance sheet exposure is a figure that has been mandatory since June 2021 in connection with Pillar 3 disclosures by EBA (European Bank Authority). [22] We consider this ratio for LCL, CIC, CA IdF, and CE IdF over three years between 2022 and 2024.

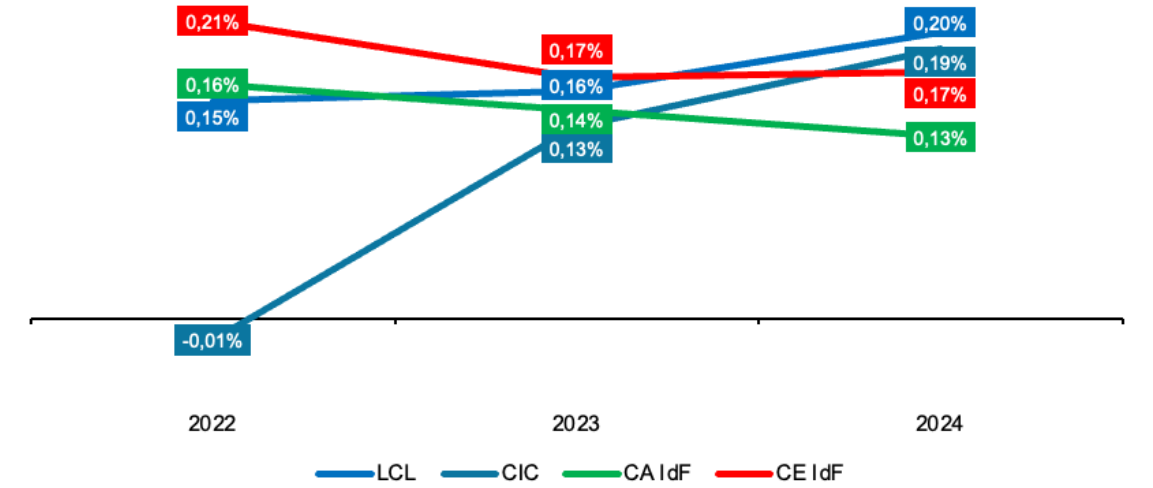

Figure 23 : Cost of risk as a percentage of total balance sheet exposure

We note that, apart from CIC's ratio in 2022 (which is abnormally negative), the four banks have similar ratios and that these ratios appear to be constant over time (between 0.13% and 0.20%). As the four banks have similar ratios, it would appear that none of the 4 banks is over-provisioning in terms of percentage of their total balance sheet exposures meaning the cost of risk has the same impact on the P&L of each bank.

The cost of risk is an accounting concept that has been in use in Europe and France since 2018, in accordance with the international IFRS 9 standards published by the IASB (International Accounting Standards Board). The cost of risk therefore corresponds to the recognition of "Expected Credit Losses" (ECL). [23] To calculate this credit cost, IFRS 9 standards have defined a general model called the "3-bucket model" to be followed. It categorizes financial assets into three categories (Stage 1, Stage 2, and Stage 3), according to the assumed risk of the asset at time t. Once categorized, the net impairments of each asset can be calculated according to the specificities of each category defined in Figure 24. [24]

	Stage 1	Stage 2	Stage 3
Trigger	Initial recognition	Significant increase in credit risk	Credit-impaired
ECL	12-month ECL	Lifetime ECL	Lifetime ECL
Effective interest rate (EIR)	EIR on gross carrying amount (without ECL)	EIR on gross carrying amount (without ECL)	EIR on amortized cost (with ECL)

Figure 24 :Three-stage IFRS 9 impairment model [24]

To compute ECLs, the following simplified formula can be used for every stage but with different parameters [24] [25]:

$$\text{ECL} = PD * LGD * EAD$$

with PD = Probability of Default

LGD = Loss Given Default

EAD=Expected exposure of the time of default

As the 4 retail banks have the same type of balance sheet exposure, we can assume that they all have a similar EAD. Thus, we try to estimate whether they calculate their impairments with a similar probability of default and loss given default for the three stages (PD*LGD) by studying the following ratio for each stage and each retail bank.

$$\frac{Cumulative\ depreciation\ of\ stage\ x\ (n)}{Gross\ exposure\ of\ stage\ x\ (n)}$$

As previously, we study the ratio for the four retail banks (LCL, CIC, Ca IdF, and CE IdF) over three years from 2022 to 2024.

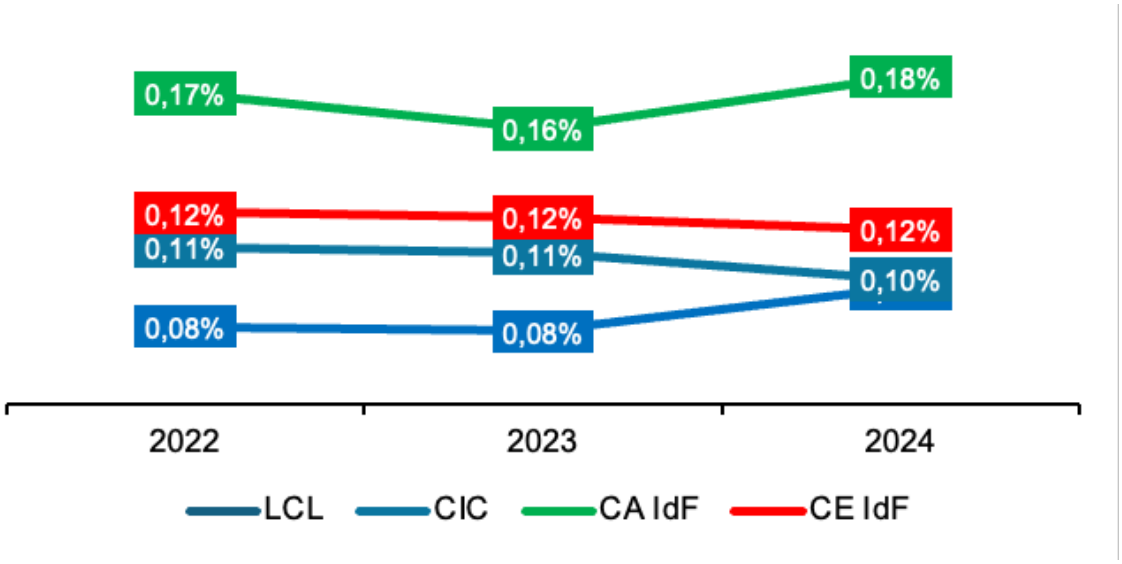

Figure 25 : Cumulative depreciation of stage 1 as a percentage of gross exposure of stage 1

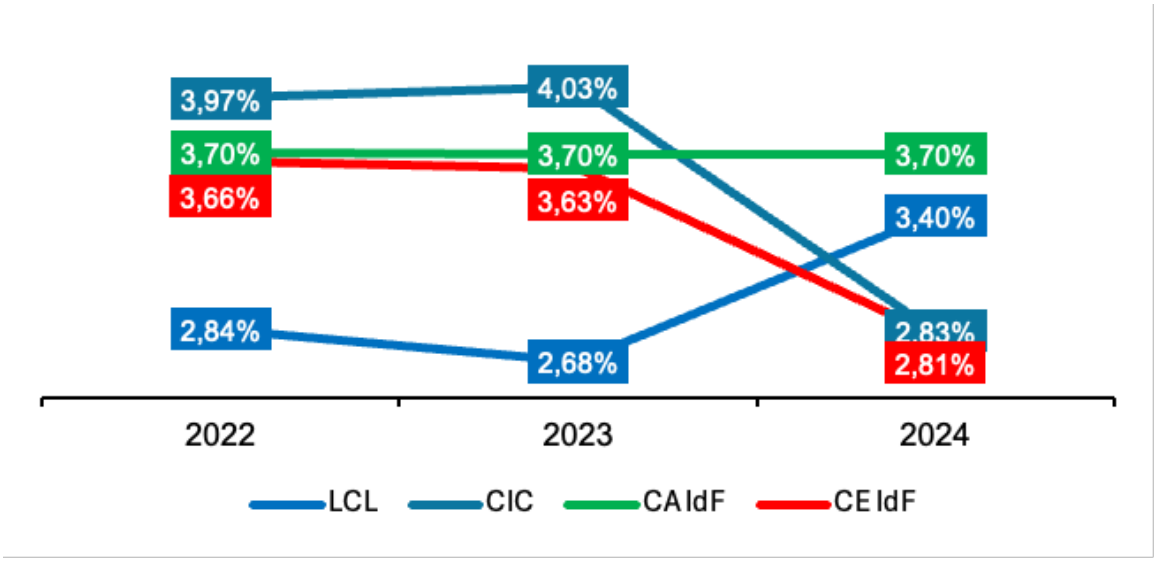

Figure 26 : Cumulative depreciation of stage 2 as a percentage of gross exposure of stage 2

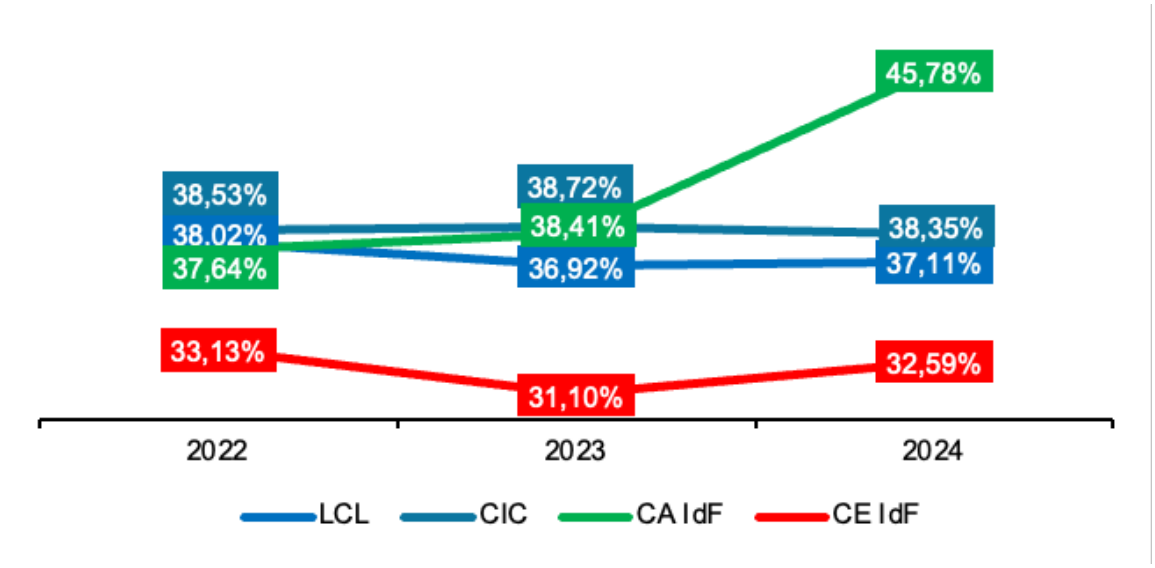

Figure 27 : Cumulative depreciation of stage 3 as a percentage of gross exposure of stage 3

We conclude that the four banks use similar default probability for the three stages. They therefore appear to assess PD*LGD for assets in the three different stages in the same way as differences are small. Figure 25, Figure 26 and Figure 27 confirm that mutual and non-mutual banks estimate their cost of risk in the same way. This means that the cost of risk does not have a significant impact on the difference in performance between retail banks.

H6. CET1 level

Return on equity also depends on its denominator, which is shareholders' equity. Reducing the denominator of the ratio therefore improves the bank's financial performance, as measured by return on equity.

In the banking industry, shareholders' equity is regulated and forms part of capital. A minimum level is required to absorb potential losses and combat solvency risk, which could pose a risk to the financial system depending on the size of the bank [26]. This mechanism aims to align shareholders by reducing their risk incentives, avoiding massive costs for the collective in bad times. The Basel Committee, which has been meeting since 1974, sets standards that are then transposed into European legislation and applied in European Union member states, including France. Following Basel I (1988) and Basel II (2004), the regulations resulting from the Basel III agreements, initiated in 2010, have gradually came into force in Europe since 2013. [27]. The banks under study in this paper are all subject to these regulations. French banks are jointly supervised by the Autorité de Contrôle Prudentiel et de Résolution (ACPR) and the European Central Bank (ECB) within the framework of the Single Supervision Mechanism (SSM). The Basel IV regulations, which came into force in 2025 and are subject to a transition period until 2030, do not apply in this paper, which covers financial years prior to 2025.

The minimum capital requirement depends on the risk of the assets held by banks. The measure to use in this regard is the risk-weighted assets (RWA). Depending on each bank's asset portfolio, the metric can be computed using the standardized method or the Internal Ratings-Based Approach (IRB). Banks under study use the IRB method.

The prudential capital requirement corresponds to a percentage of RWA. There are different categories of prudential capital [28] :

- Common Equity Tier 1 (CET1) includes shareholder equity and, more generally, all perpetual instruments for which the bank has complete flexibility over payments.
- Additional Tier 1 (AT1) capital is a perpetual debt that does not need to be repaid and absorbs losses if the CET1 ratio falls below a specified threshold.
- Additional Tier 2 (AT2) capital consists of subordinated debt with a minimum maturity of five years, which must not be subject to incentives for early repayment.

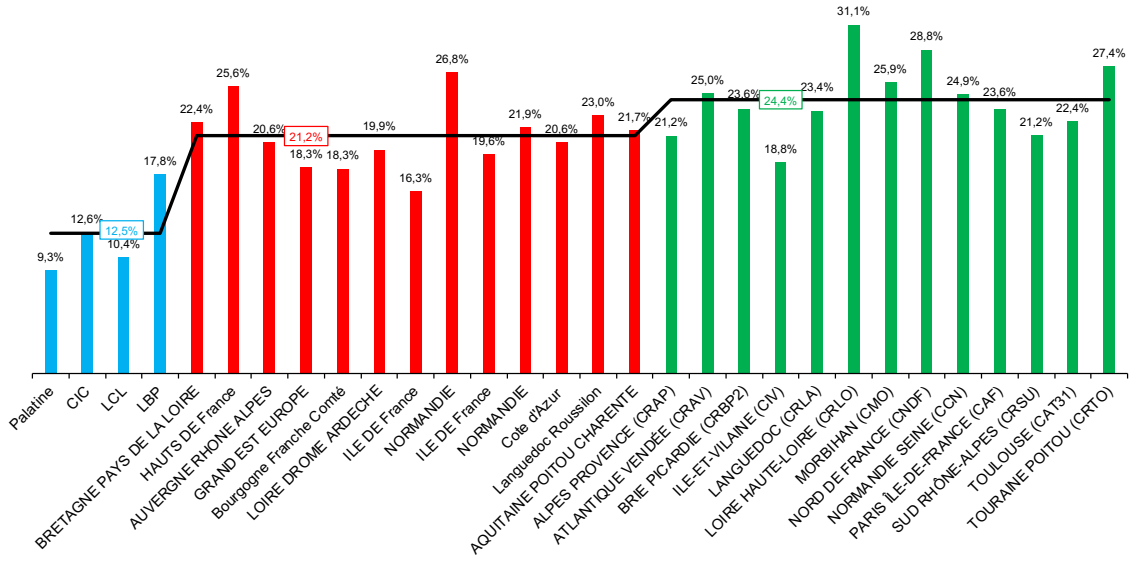

Figure 28: CET1 ratios in 2024 for the banks under study

We represent the CET1 ratio for the banks studied in this paper in Figure 28. The study shows that individually, mutual banks have much higher ratios than their capitalist rivals and well above the minimum requirements. Minimum requirements are defined for each bank individually based on the size of its balance sheet, whether or not it plays a systemic role, and various other parameters and are regularly updated by the ECB [29]. The CET1 requirements for the Crédit Agricole regional banks under study stand at 7.97%, which is well below the actual average of 24.4%, implying a very significant excess of equity capital. Requirements vary across the Caisse d'Epargne but stands mainly at 8%, leading CET1 capital ratios to be always well above the minimum, with an average of 21.2%. LCL reports a CET1 ratio requirement of 7.99%, leading to a relative lower excess. The total excess CET1 capital relative to the minimum threshold amounts in 2024 to €19.8bn for the 13 Crédit Agricole banks, and €18.1bn for the 13 Caisse d'Epargne banks.

Higher CET1 ratio can be interpreted in two ways: (i) regional banks do not have a high enough RWA, (ii) regional banks have excess equity capital. Case (i) can be resolved by increasing the volume of loans (unlikely on this scale) or increasing the risk of loans (undesirable). It seems more reasonable to consider acting on (ii) with a reduction in equity capital, which would bring the ratio closer to its minimum. The ROE of mutual banks is therefore greatly affected by this excess equity, which is considered to be a source of underperformance in this paper.

We correct for the effects of this excess capital and bring the amount of equity capital of mutual banks closer to their CET1 ratio requirement. We assume that mutual banks have liquid resources available that they can sell to repurchase and cancel Cooperative Investment Certificates (securities similar to non-voting shares for listed regional banks) or members' shares.

However, their actual ability to use liquidities is not unlimited. Indeed, banks are also subject to liquidity requirements to cope with maturity transformation risks, which involve transforming illiquid long-term assets into liquid short-term assets [26]. The CRR framework and CRD IV regulations mainly define two liquidity ratios [28]. We consider the NSFR to be a relevant constraint for our simulation, as it is a long-term ratio. We don't consider the LCR ratio, which is defined as the ratio between the value of HQLA (High-Quality Liquid Assets) holdings and total net cash outflows over the next 30 calendar days [30]. Our simulation does not assume that all liquidity will be returned to shareholders immediately; rather, it is more of a medium- or long-term CET1 target ratio.

The NSFR (Net Stable Funding Ratio) is defined as the ratio between Available Stable Funding (ASF) and Required Stable Funding (RSF). The ratio has to be greater than 1, in order to ensure that a bank can meet its obligations over the next year. In our understanding, equity is given a factor of 100% in the ASF calculation [31]. We initially assume that the equity capital to be reduced is available in cash (this reduction can therefore be achieved over several years). We understand from the BIS that coins and banknotes immediately available to meet obligations and all central bank reserves have a 0% RSF factor in the computation.

We present on Figure 29 the results of the reduction in equity capital for the 19 mutual banks, as we were unable to determine the NSFR ratio and/or the level of required stable capital for seven of the 26 banks in the panel (all in the Caisse d'Epargne network). We converge the CET1 ratio to 10.4%, which is LCL's ratio in 2024 and is approximately 200bps above the minimum CET1 ratios for regional banks in 2024, subject to an NSFR ratio greater than 1.

Simulation results show a total reduction of €15.4bn for 13 Crédit Agricole and €7.9bn for 6 Caisse d'Epargne. In 58% of cases, the requirement for an NSFR ratio greater than 1 is a limiting factor to capital reduction in the simulation. Reducing equity capital in this way frees up a considerable amount of capital that could be reinvested in the economy, where it will probably be more productive.

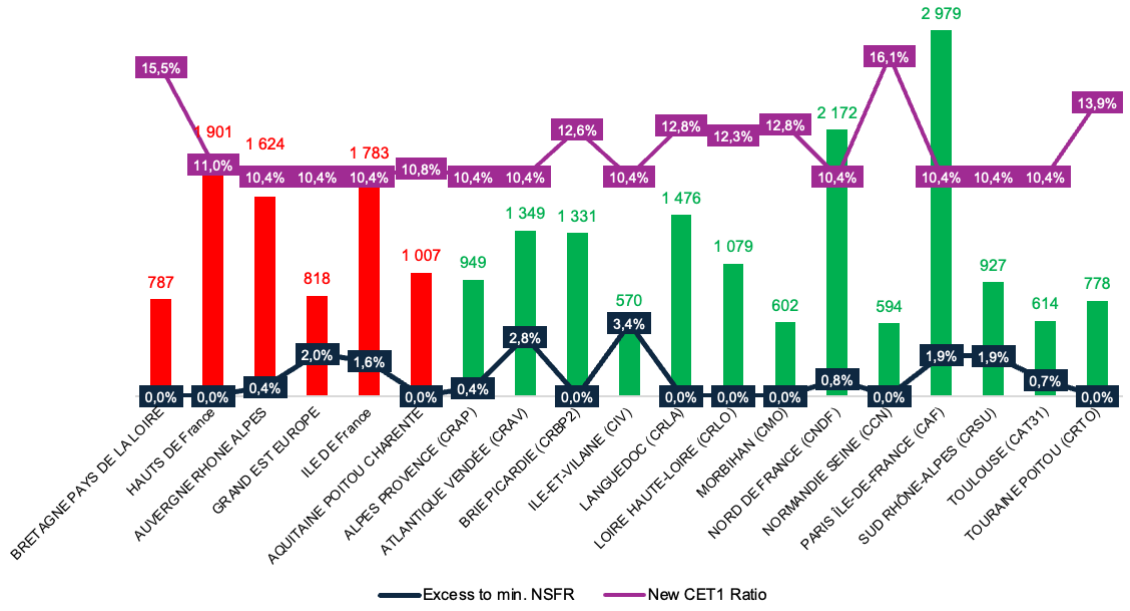

Figure 29 : Simulation of the reduction in mutual banks' equity capital to approach a CET1 ratio, subject to an NSFR constraint greater than 1

We present on Figure 30 the increase in Return on Equity 2024 (at comparable net income) resulting from this capital reduction. We assume that, over a long-time period, regional banks would have sufficient liquid assets to carry out these capital reductions, on top keeping a NSFR ratio greater than 1. Since we have very little information on how well these assets perform, we figured in the simulation that they did not add to net income.

The simulation output shows a significant percentage increase in return on equity, averaging 42.5% for Crédit Agricole and 49.3% for Caisse d'Epargne. In practice, the simulation faces limitations due to the organization of mutualist groups. Indeed, excess equity on the liabilities side is transferred to other entities in the group or held in unclear cross-shareholdings on the asset side (notably “Instruments de capitaux propres comptabilisés à la juste valeur par capitaux propres non recyclables” and “Actifs financiers à la juste valeur par résultat”).

Part excess equity capital from regional mutual banks “flow freely” between entities of the Crédit Agricole group (in the prudential sense) thanks to a legal internal solidarity mechanism. Article L511-31 of the French Monetary and Financial Code stipulates that the central bodies representing credit institutions are responsible for ensuring the cohesion of their network and may take all necessary measures to guarantee the liquidity and solvency of their members. This is the model chosen by the Crédit Agricole Group and its affiliated regional banks, with Crédit Agricole S.A. (itself a subsidiary of the regional banks) as the central body [32]. The mechanism is similar

for the BPCE group, since the Banques Populaire and Caisse d'Epargne banks are affiliated with BPCE S.A., which is the central body.

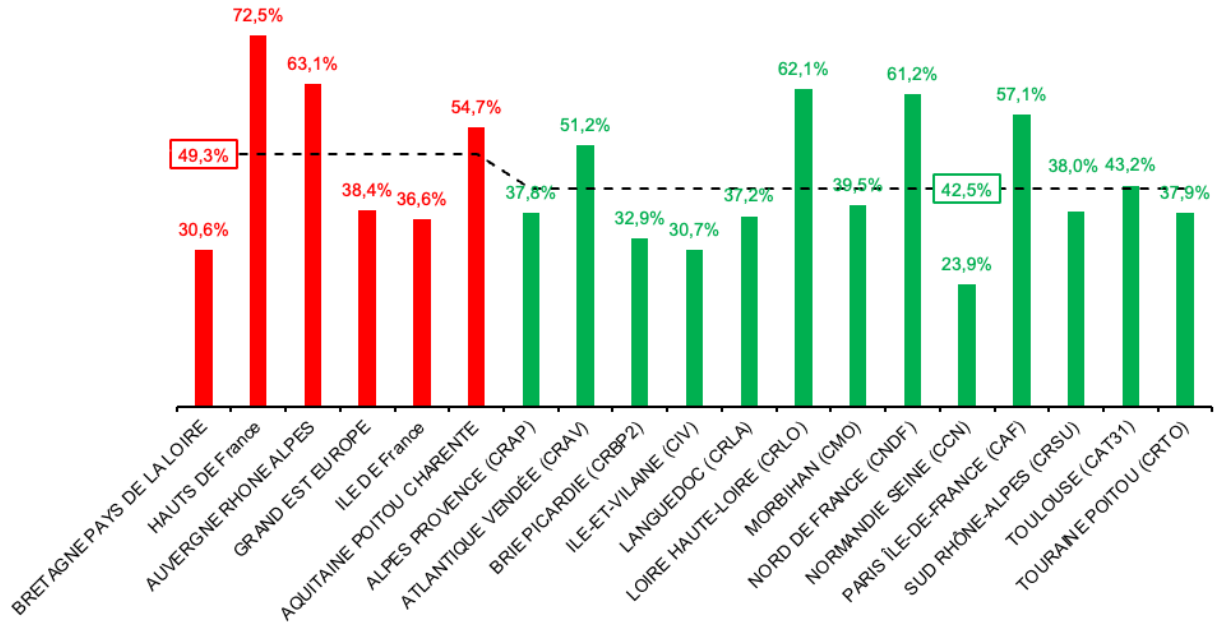

Figure 30: Percentage increase in RoE 2024 (at unchanged net income) after reduction in equity capital of 19 mutual banks

The solidarity mechanism allows Crédit Agricole S.A. (as a subsidiary), which includes the riskier activities (notably CIB), to contribute less to the CET1 requirements of the prudential entity thanks to the excess capital reserves of regional mutual banks of the group. We therefore consider it highly unlikely that a reduction in equity capital of this magnitude would be permitted.

As of December 31, 2024, capital amounts from the regional banks contribute to the CET1 of the entire group (in the prudential sense). Equity recognized at group level as of December 31, 2024, is made for €5.4bn of CCI and CCA of the regional banks, for €9.4bn of the shares of the local banks, and for €8.3bn of the equity of Crédit Agricole S.A. (listed company).

In total, the Crédit Agricole Prudential Group has a CET 1 ratio of 17.2% as of December 31, 2024, compared with a requirement of 9.8%, while Crédit Agricole S.A. has a ratio of 11.7% compared with a requirement of 8.7% [33]. Crédit Agricole S.A.'s return on equity for shareholders, who are indirectly the regional banks and the public, is therefore automatically increased compared to the company as a stand-alone entity.

We consider it highly unlikely that a plan for a massive return to shareholders (or members) will be implemented in this case, given the complexity of the prudential group and the balance of power among the affiliates and the central body.

More generally, this organization leads to a strengthening of the technostructure [13] (here Crédit Agricole S.A. or BPCE), raising the question of the position of the technostructure, which acts by delegation of the regional banks but has prerogatives of internal control, solvency, and liquidity. The example of the economic difficulties faced by Natixis (listed company at the time) during the 2008 crisis, controlled by the Banque Fédérale des Banques Populaire and the Caisse Nationale des Caisses d'Epargne, highlighted the divergence of interests between professionalized public limited company executives and their mutualist shareholders [34].

One might wonder whether it is acceptable for members of a regional bank to forego an increase in distribution or a shareholder return policy (buyback of CCI, CCA, or members shares) to enable the prudential group (Crédit Agricole SA and BPCE) to benefit from a better CET1 ratio and, for Crédit Agricole S.A. shareholders (Natixis is not listed anymore), a better return on equity.

We therefore believe that a major source of underperformance, which is partly irremediable, lies in the excess equity capital, the cancellation of which seems unlikely to us.

III. Reconstruction of normalized performances

Based on all the studies conducted, we believe that the truly significant effects of mutual banks' underperformance can mainly be found in:

- Excessively high personnel costs relative to banks' net banking income, which can be resolved through a redundancy plan.
- Overcapitalization of mutual banks, reflected in an excessively high CET1 ratio, which weakens return on equity and could theoretically be resolved through shareholder return’s policies.

Even if other factors studied appear to us to be a source of performance differences, but (i) we cannot say for certain that they are the result of mutualist or non-mutualist status, and (ii) their impact appears to us to be less negative and is sometimes beneficial to mutual banks. We therefore present here a ROE adjusted for what we feel are the two more negative effects.

For personnel costs adjustments, we consider the scenario in which departing employees have the same average wage as in the bank before their departure. NBI is assumed to remain unchanged. We use a tax rate of 25%. For bank overcapitalization, we converge the CET1 ratio towards that of LCL in 2024 at 10.4%, subject to an NSFR greater than 1.

Our work should be viewed in terms of academic quantification rather than as a goal to be achieved, insofar as the affiliate structure of mutual banks makes it very difficult to resolve certain causes of underperformance (particularly equity capital reduction).

Figure 31 shows the results of this performance adjustment for the mutual banks of the panel for which necessary data are available. Normalization is highly beneficial in terms of incremental return on equity for the mutual banks, with an incremental contribution of 174bps on average across the 19 banks in the simulation. In addition, return on equity is improving and edging toward capitalist standards, averaging 5,23% for Caisse d'Epargne and 4,67% for Crédit Agricole. ROE remains well below the values recorded by the capitalist banks but gives confidence in the accurate identification of significant underperformance area.

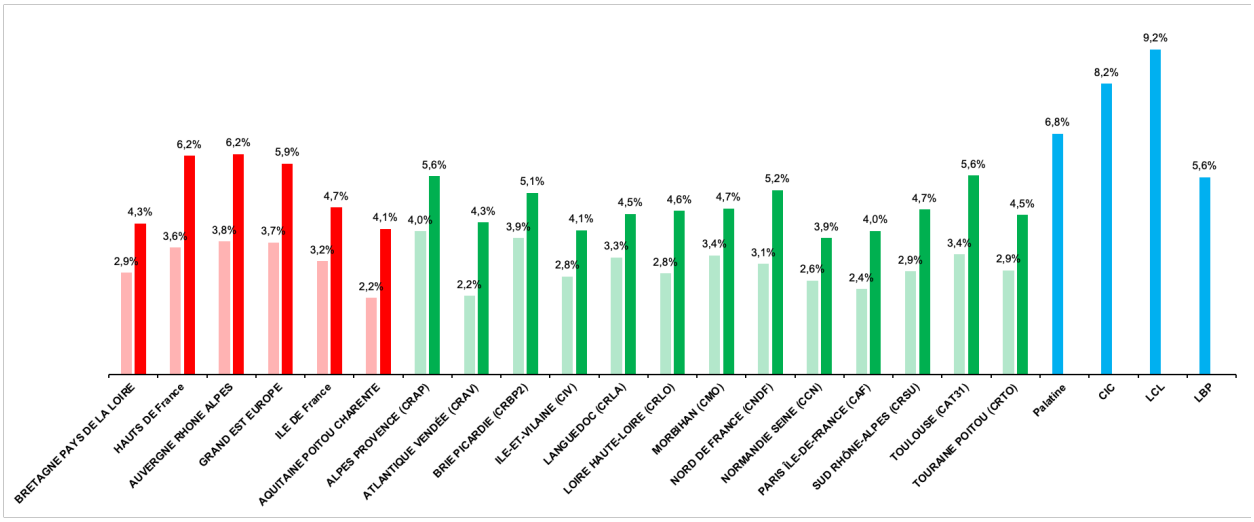

Figure 31: Return on Equity obtained after normalization of mutual banks performance

We also show the individual effects of each adjustment on ROE 2024 for the two mutual banks in Île-de-France under study (Figure 32 and Figure 33). Due to adjustments to the return on equity, which involve a ratio, there is necessarily a combined term that we separate on the figures.

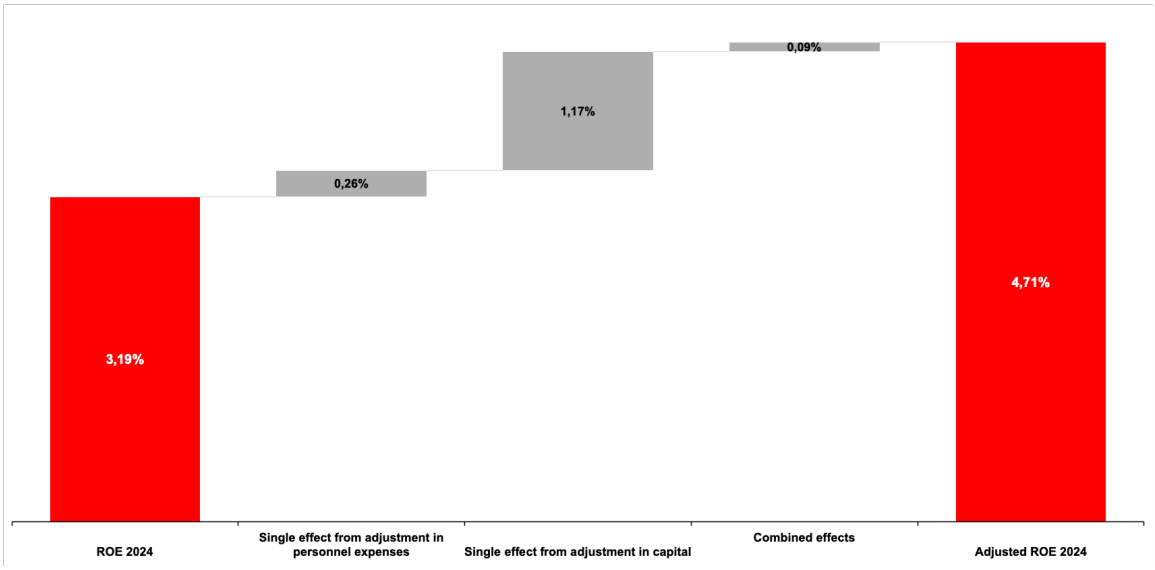

Figure 32: Breakdown of the effects of performance normalization on ROE of Caisse d'Epargne Ile-de-France

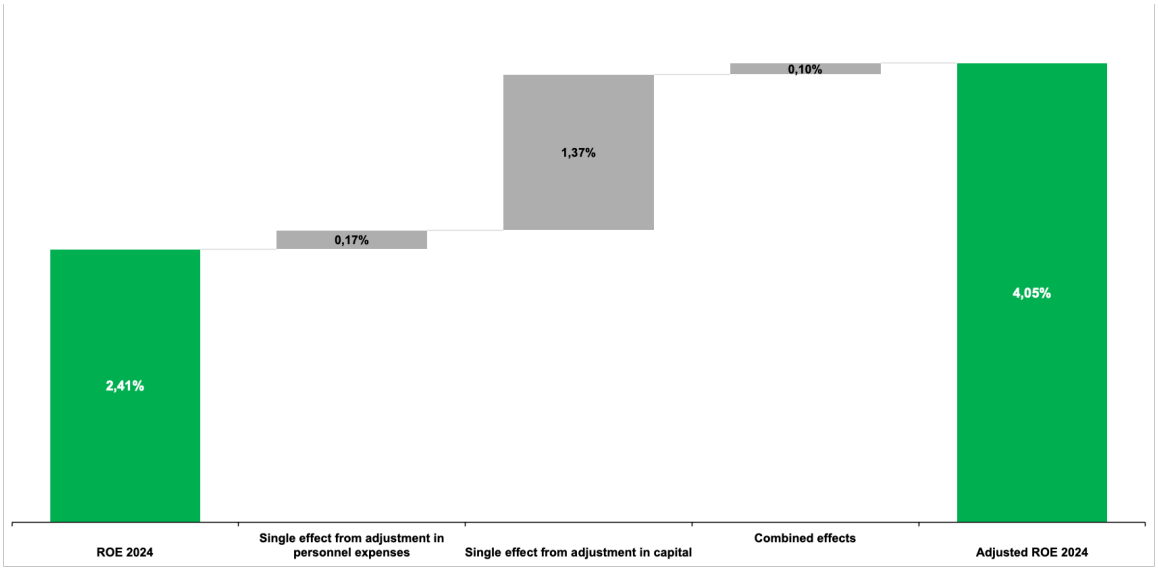

Figure 33: Breakdown of the effects of performance normalization on ROE of Crédit Agricole Paris Ile-de-France

IV. The mutualist model in perspective

Despite the lower financial performance of French mutual banks compared to their competitors, cooperative banks offer a model with other benefits.

Three researchers have shown that systemic mutual banks have more stable returns over the long term than their non-mutual peers, enabling them to better withstand crises. [35] Putting

money into mutual banks can be consider safer and could contributes to the stability of the financial system.

In addition, cooperative banks have a broader local presence compared to their peers thanks to a wider number of agencies throughout the country. They may be closer to their customers and members, enabling the bank to better understand customers' activities and needs. [36] Increased knowledge of these customers also stems from the fact that customers who are members of the bank are represented in decision bodies. Customers with sector-specific and practical knowledge can then influence changes that enable the bank to offer services tailored to its customers. The information asymmetry between customers and their bank is reduced in mutual banks, allowing the bank to gain a competitive advantage through its direct market knowledge. [13] Furthermore, when setting commission levels, the national mutual bank entity proposes rates, but regional banks are free to set their own rates. The strategy ensures that they are not completely disconnected from competing practices at the French level, while also allowing regional banks to adapt to the economic reality of their territory. This decentralization of decision-making gives the banks a certain independence, allowing them to adapt to their clients and prospect customers. [37]

The mutual bank model therefore places the customer at the center of its strategy, and their performance must be considered in light of their contribution to the economy.

V. Conclusion

In this paper, we noted that a large number of regional mutual banks in the Crédit Agricole and Caisse d'Epargne groups underperform their capitalist rivals in terms of ROE, which is the financial standard criterion for measuring a bank's performance. For each significant item across the income statement, we studied the comparative performance of regional mutual banks compared to LCL and/or CIC. We rejected hypotheses where the differences seemed insignificant, difficult to explain, or favorable to mutual banks. We did not consider assumptions regarding differences in net interest margin, commission levels, depreciation levels, and cost of risk. It appears that the fundamental differences between mutualist and capitalist banks ultimately lie in personnel expenses and CET1 equity (both of which are higher for mutualist banks).

The first point can be partly explained by a size effect, with regional banks being much smaller than LCL or CIC, with established productivity growth. We simulated a readjustment of the number of employees to achieve an operating ratio contribution identical to that of LCL. The simulation indicates a significant number of employee departures, which we have quantified at an average of 8.8% across the regional mutualist banks affected. With regard to CET1, the mutual banks have a significant excess compared to the prudential requirement and to capitalist banks, which negatively affects ROE. Subject to an NSFR ratio greater than 1, we have simulated the quantification of the equity that can be redistributed. This leads to a distribution of €15.4bn for 13 Crédit Agricole banks and €7.9bn for 6 Caisses d'Epargne banks. We also quantified the impact on ROE at +42.5% on average for Crédit Agricole and 49.3% for Caisse d'Epargne.

We put each source of underperformance into context with the organization of the Crédit Agricole or BPCE group and the state of the retail banking market in France. It seems to us that the two major sources of underperformance can be explained by the organization of mutualist groups and by agency theory. In this regard, we believe that a significant reduction in this performance gap is unlikely. However, we have simulated the impact of a normalization of the variables associated with this underperformance. The combination of the two effects leads to an adjusted ROE for 2024 that is on average 174bps higher for the mutual banks studied. These are not sufficient to fully explain the difference in ROE observed between mutualists and capitalists' peers, but they contribute significantly to reducing the gap.

Finally, we believe that although we have identified major causes of financial underperformance, this in no way detracts from the benefits for society, the financial system, and members that are at the heart of the mutualist model. These benefits have not been evaluated in this paper but would benefit from being quantified.

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