French banks 2025 outlook

Fundamentals support profitability improvements, political uncertainty clouds lending growth prospects

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French banks underperformed their EU peers on profitability in 2024, primarily due to slower balance-sheet repricing driven by the unique structural characteristics of the French lending and savings markets. While we expect revenue growth to gradually materialise in 2025, supported by strong business diversification, political uncertainty will continue to weigh on market confidence and could delay the expected recovery in lending volumes.

Business-model diversification supports profitability. French banks benefit from well-diversified business models, generating significant revenues from CIB, wealth management and bancassurance. While non-banking revenues are stable and outperform relative to EU peers, asset repricing will support NII growth in 2025, albeit with a delay compared to other European banks.

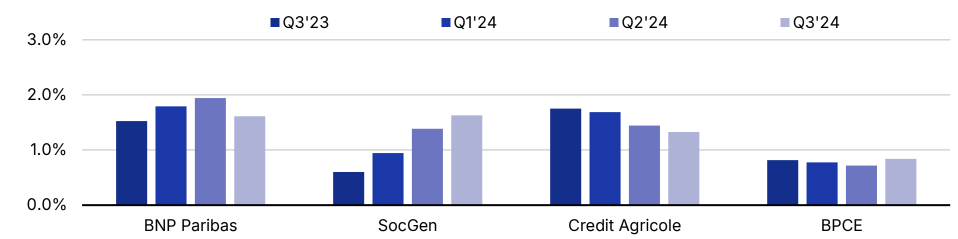
Political uncertainty as a headwind to confidence. France's political uncertainty and volatile domestic economic conditions remain key concerns that could impact the recovery in lending and limit profitability improvements in the near term.

Efficiency improvements and cost containment remain priorities. Large branch networks and a higher variable remuneration component related to CIB activities continue to weigh on banks' operational efficiency. While structural improvements will take time, we expect efficiency gains will likely come first from a growing top line.

Rising NPLs require attention. We expect NPLs to rise, driven by a deterioration in commercial banking and as higher volumes from retail, mostly consumer lending, weigh on provisioning. As corporate portfolios are well diversified, we do not expect sector-specific deterioration.

Capital levels remain robust. French banks maintain robust capital levels, prioritising CET 1 and TLAC buffers to ensure stability. The strategic use of RWA for acquisitions and growth in profitable segments (consumer and specialised lines) remains the key driver for capital deployment.

Figure 1: French banks' annualised return on risk weighted assets*



* Proxy for capital generation before distribution, annualised net profit to avg. RWA (QoQ). Source: Banks' financial data, Scope Ratings.

Expected 2025 trends for French banks		
Profitability	Slightly positive, supported by repricing of loan books	➚
Asset quality	Mildly negative, uncertain economic prospects eroding confidence	➘
Funding and liquidity	Stable, deposit base and regulated savings stable	➔
Capital	Stable capital levels, shareholder remuneration lower than EU peers	➔

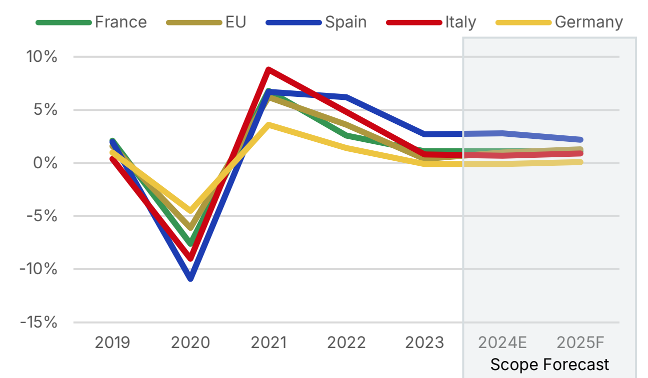
Domestic economy remains resilient, amid political uncertainty

The fundamentals and strength of the French economy support the banking sector's performance

We expect the French economy to grow by 1.1% in 2024 and 2025, and at 1.2% on average between 2026 and 2029, in line with the government's revised estimates. Lower inflation and declining interest rates are expected to support private demand, although a more restrictive fiscal stance and heightened geopolitical tensions could weigh on growth prospects.

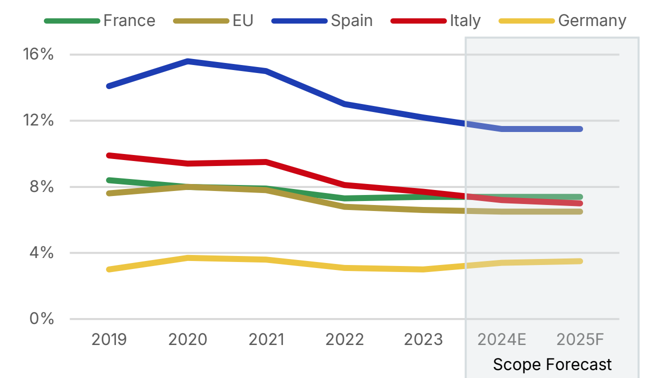
France (AA-/Stable) continues to face a sustained deterioration in public finances driven by higher-than-expected fiscal deficits and a steady rise in general government debt, which has put pressure on the multi-year budget and reform agenda. However, the country's leading role in Europe's economic, financial and security architecture, its large and resilient economy, high GDP per capita and diversified economic structure remain key supporting factors of the banking sector.

Figure 2: GDP growth



Source: Scope Ratings Macroeconomic Board

Figure 3: Unemployment rate



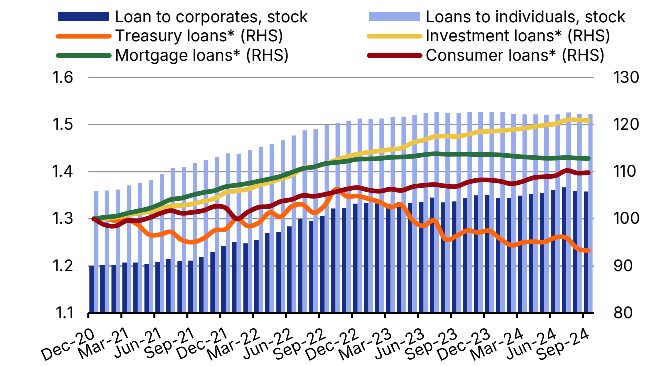
Source: Scope Ratings Macroeconomic Board

Retail loans driving lending volumes

Lending dynamics are showing signs of recovery, mostly from retail and consumer loans. However, bank-by-bank dynamics remains different based on their strategic focus:

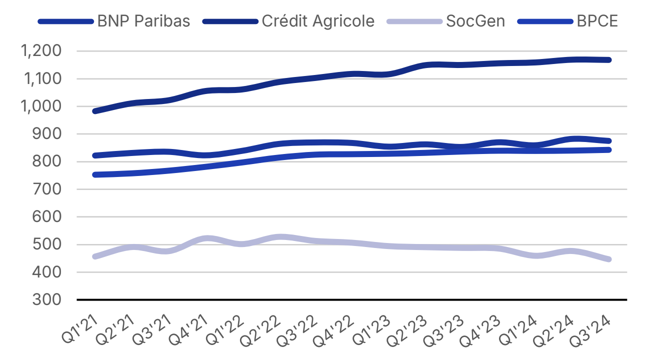
- ✓ BPCE, given its focus on French retail, volumes are +1% YoY as of 9M 24, with stronger growth in consumer and equipment loans (+4% and +3%, YoY, respectively).
- ✓ Crédit Agricole +0.4% YoY, growing in France retail and LCL at +0.5% YoY and Italy +3.0%.
- ✓ BNP Paribas +0.1% Q3 vs Q2 (-1.6% YoY as of 9M24) for commercial and personal banking in France, and growth in consumer lending Italy (BNL), Poland and Belgium.
- ✓ Société Generale, -3.8% YoY as of 9M'24 in French Retail and Private Banking, while Mobility, International Retail & Financial Services growing +5.1% YoY.

Figure 4: Domestic lending dynamics, EUR trn



*Change of stock, Dec 2020 = 100. Source: Banque de France, Scope Ratings

Figure 5: Customer loans, nominal amounts in EUR bn



At amortised cost. Source: Banks' financial data, Scope Ratings

Profitability has shown signs of improvement, but still lags European peers

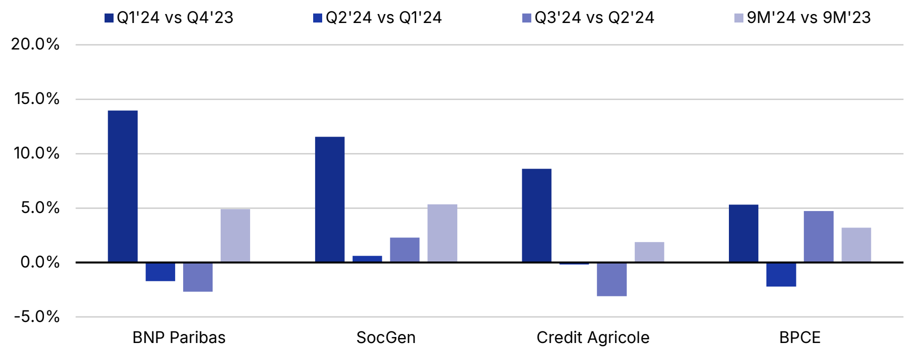
Profitability metrics still below European peers, improvement expected for H1 2025.

French banks continue to lag their European peers in terms of profitability, with annualised net profit to RWAs below 2.0% for our sample of banks (BNP Paribas, Société Generale, Crédit Agricole and BPCE), compared to levels closer to 3.0% for Italian and Spanish banks in Q324.

Revenues in 9M24 are comparably better, supported by the stabilisation of deposit costs in Q3, lower pressure on margins as interest rates remain relatively high, and a stronger component of revenues outside of retail banking. Although there is evidence of an increase in net interest margins in Q3 for most banks in our sample (mostly from residential and consumer loan repricing), we only expect the full effect of asset repricing to be visible in 2025, implying further upside to NII.

Revenues from CIB, wealth management and bancassurance are growing and outpacing EU peers, which validates our view of the resilience of French banks' business models.

Figure 6: Revenues, QoQ and 9M comparison



Source: Banks' financial data, Scope Ratings

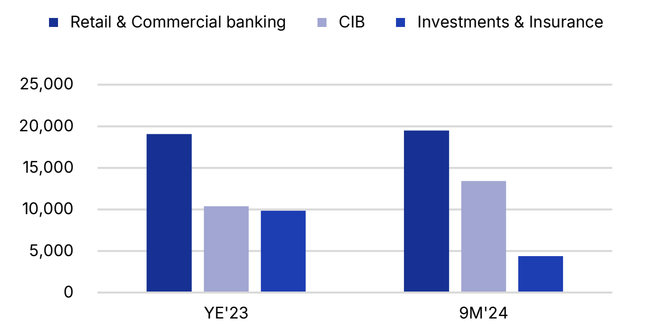
CIB revenues have been growing steadily QoQ and YoY for all banks in our sample: BPCE +7% YoY mostly from trade finance business, derivatives and global securities; Crédit Agricole +5.4% YoY due to higher investment banking, capital markets and structured equities activities; BNP Paribas +5.0% YoY driven by capital markets, securities services and advisory in EMEA; Société Generale +3% YoY due to strong client activity in FX, derivatives and equities.

In addition, revenues from bancassurance and asset management activities remain robust for all banks, increasing between 5% and 10% YoY for most of the banks in our sample.

The strength of well diversified business models, with significant revenues from non-retail banking activities, is a key characteristic of the largest French banking groups and a differentiating factor compared to EU peers, has driven most recent strategic acquisitions:

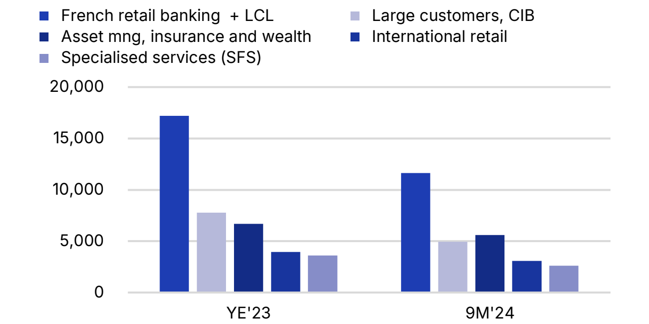
- ✓ BPCE's expansion into equipment finance, acquiring Société Generale Equipment Finance, targeting volume growth and expansion outside of the retail business.
- ✓ BNP Paribas expanding its liability-driven business by strengthening its wealth management and insurance activities with the acquisition of AXA Investment Managers, Neuflize Vie and HSBC's private banking business in Germany.
- ✓ Société Generale embracing a simplification of its business model to enhance performance and release capital-intensive activities, selling its non-core and RWAs intensive operations (African activities, equipment finance, and private banking in the UK and Switzerland).
- ✓ Crédit Agricole expanding via partnerships, with GAC in China (leasing) and in Europe on car financing; agreement to acquire MercaLeasing and acquisition of Nexity Property Management, and recently increasing its stake on Banco BPM (Italy) from 9.9% to 15.1% which will strengthen its partnership as a long-term investor.

Figure 7: BNP Paribas relevant business lines, EUR m



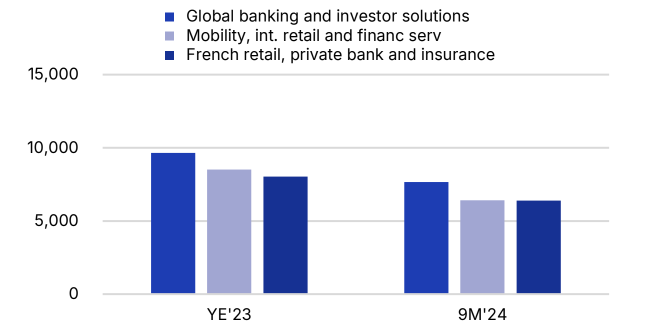
Source: Banks' financial data, Scope Ratings

Figure 8: Crédit Agricole relevant business lines, EUR m



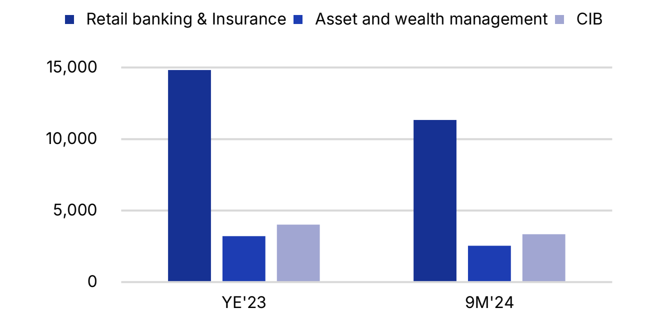
Source: Banks' financial data, Scope Ratings.

Figure 9: Societe Generale relevant business lines, EUR m



Source: Banks' financial data, Scope Ratings

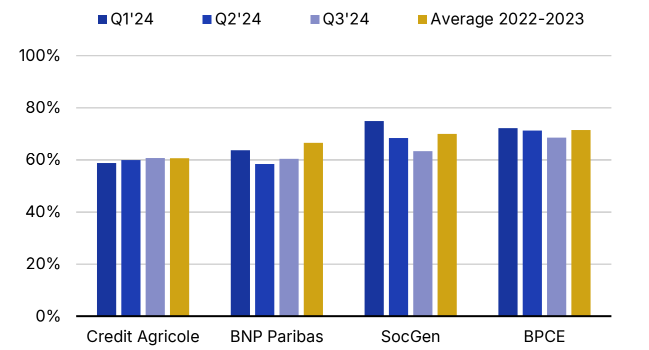
Figure 10: BPCE relevant business lines, EUR m



Source: Banks' financial data, Scope Ratings.

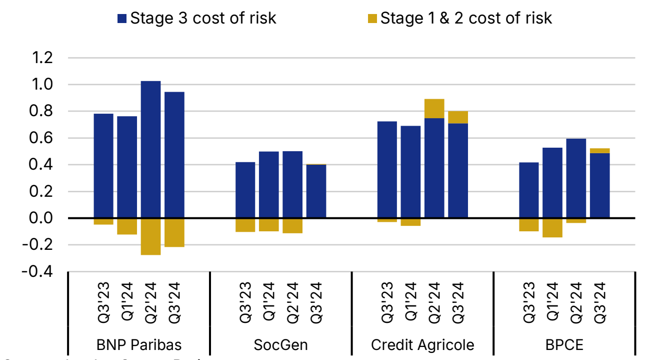
All French banks show slight improvements in their cost-income ratios compared to the 2022-2023 average. However, these improvements have been limited compared to EU peers, which have benefited more from higher interest rates. The structural weakness of large networks and a higher component of variable remuneration related to CIB activities weighs on the operational efficiency of French banks and remains a challenge. All banks in our sample have embarked on cost-containment and efficiency initiatives, which have been providing modest but positive results.

Figure 11: Cost-to-income ratios



Adjusted for SRF contributions. Source: Banks' financial data, Scope Ratings.

Figure 12: Loan-loss provisions, EUR bn

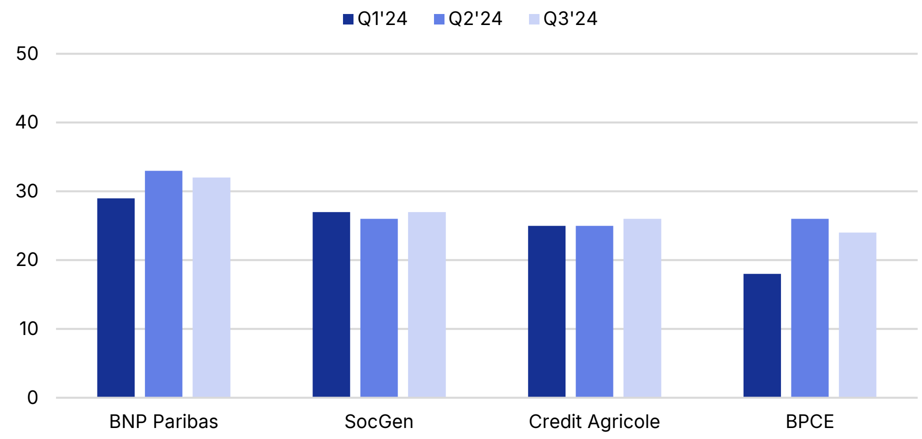


Source: banks, Scope Ratings

Efficiency targets and cost-containment measures are a key priority for French banks in 2025, but we do not expect these to have a significant impact on near-term profitability improvements. We do expect some improvement as a result of the higher base of revenues, although material impacts from cost-efficiency measures will emerge in the medium to longer term.

Cost of risk (CoR) remains contained and below 50bp for all four banking groups in our sample. QoQ developments have demonstrated the resilience of loan books, while relative YoY increases are related to higher volumes in retail and consumer lending.

Figure 13: Cost of risk, annualised in bp



Source: Banks' financial data, Scope Ratings.

We expect CoR for all banks to rise in 2025 as asset quality continues to normalise, given the still-high interest-rate environment and uncertain growth outlook in sensitive sectors (trade, wholesale and construction). However, in the context of growing revenues, we do not expect this increase to put pressure on profitability, still leaving upside potential for banks' results.

Finally, the proposed temporary tax surcharge for very large companies (with turnover of more than EUR 1bn in France) will have an impact on profitability in 2024 and 2025. The effect should be manageable, as the potential for additional tax in 2024 should range between EUR 80m and EUR 120m, based on YE estimated pre-tax profits of each bank.

The additional levy would result in an increase in the effective tax rate (ETR) to a maximum of 35% (from the existing 25%), with the larger effect in 2024, decreasing to 30% in 2025. This will offset some of the improvement in profitability, especially for BPCE and Crédit Agricole, as their portion of business coming from France is larger compared to Société Generale and BNP Paribas.

All in all, we expect profitability to improve slightly in 2025, and for ROE to reach levels of between 8% and 10%, and return on risk-weighted assets to reach 1.5%-2.0%, supported by the repricing of the existing stock of retail loans and mortgages.

While new loan production with higher yields will strengthen the revenue base from French retail and commercial banking, any pick-up in lending volumes will now be very dependent on levels of economic uncertainty and confidence of households, SMEs and corporations, and their decisions to continue with their investments. The challenges of a subdued economic performance related to uncertainty from geopolitical risks and volatile domestic dynamics are a concern, which could delay the ability of French banks to improve profitability in 2025.

Asset quality remains strong, with limited sector-specific deterioration risks

Slightly higher NPL ratios for all banks in the second half of 2024 signal a normalisation of asset-quality trends, following years of very low NPL levels across all business lines. While collective provisions and model adjustments were the main drivers of cost of risk in 2023, stage 3 impairment charges now account for the bulk of CoR, following the increase in volumes in consumer lending, which have a higher risk profile.

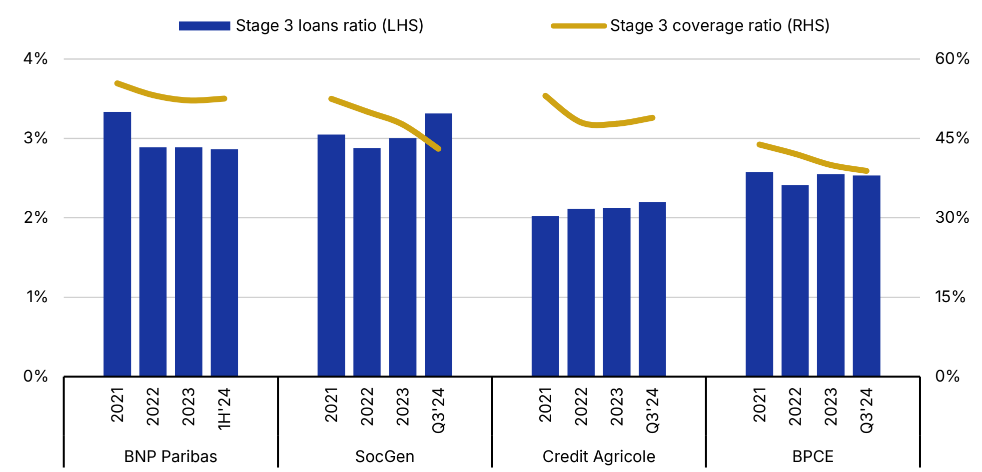
Despite the negative effects of higher interest rates on loan demand and on the solvency of borrowers, still-resilient GDP growth and stable employment trends support asset quality, a dynamic common to several EU countries.

French banks' strong customer loan portfolios stand in contrast with the rise in corporate bankruptcies in France, which are at their highest level in years, partly due to the withdrawal of Covid 19 and energy-related government support measures and guarantees, but also to the impact of high inflation and interest rates. We expect this trend to continue, as the most exposed sectors, trade and construction, will continue to face medium-term uncertainty following a possible increase in tariffs and challenging trade and investment dynamics.

For all four French banking groups in our sample, stage 3 and NPL ratios are still below the 4% threshold. The banks that have shown an increase in stage 3 relative to December 2023 are Crédit Agricole and Société Generale. The increase at Crédit Agricole mainly captures defaults in the corporate market and additional provisions for a number of corporate-specific exposures, while Société Generale has a relatively higher risk profile coming from the mobility and international business units.

We expect stage 3 ratios to increase for most of the banks in our sample due to a deterioration in commercial banking and higher volumes from consumer lending, which have an intrinsically higher risk profile. Given the well diversified sector breakdown of the banks' corporate portfolios, we do not expect sector-specific deterioration to have a material impact on headline asset-quality metrics.

Figure 14: Stage 3 ratios

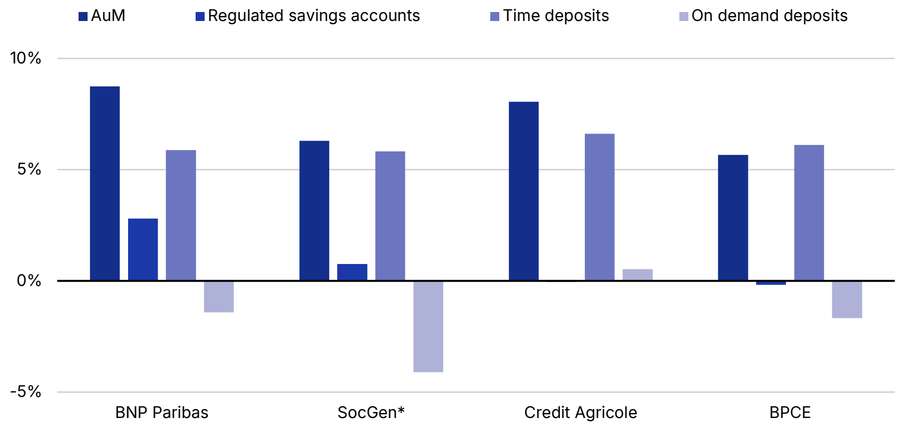


Source: Banks's financial data, SNL, Scope Ratings.

Customers funds inflows to AuM and term accounts has stabilised, improving visibility on 2025 funding costs

We believe the recent shift from sight deposits to time deposits and regulated savings accounts may have reached an inflection point. This is already evident for regulated savings accounts. Falling interest rates will contribute to some rebalancing from time deposits back towards sight accounts, reflecting the trade-off between remuneration and liquidity.

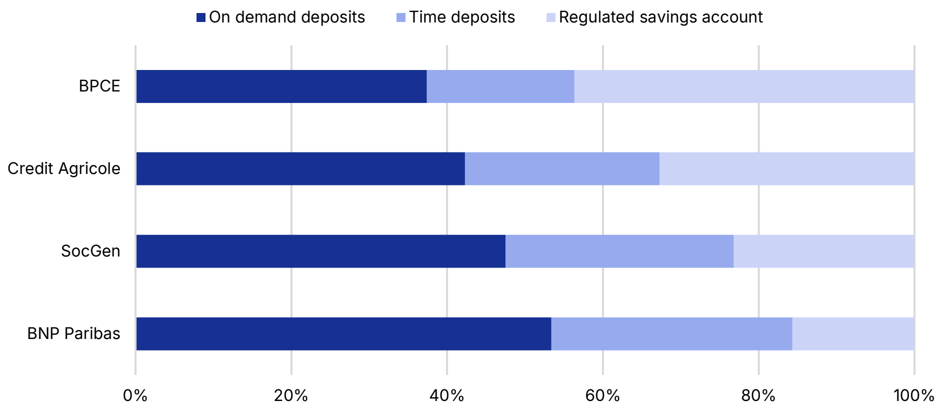
Figure 15: Customers funds, growth year-to-date



*SG: AuM in Private Banking only. Source: Banks' financial data, Scope Ratings

Time deposits now represent between 20% and 30% of total on-balance customers funds for our sample of banks. The biggest increase has been at Crédit Agricole, which as of Q324 had 24% of total customer funds in the form of time deposits, up from 17% in 2022. The stabilisation of time deposits across French banks and the relatively lower exposure to regulated deposits provides better oversight of the aggregate cost of customers funds for 2025, which will lead to an optimisation of funding costs while interest rates continue to adjust downwards.

Figure 16: Composition of deposits, sight vs time as of H124



Source: Banks' financial data, Scope Ratings.

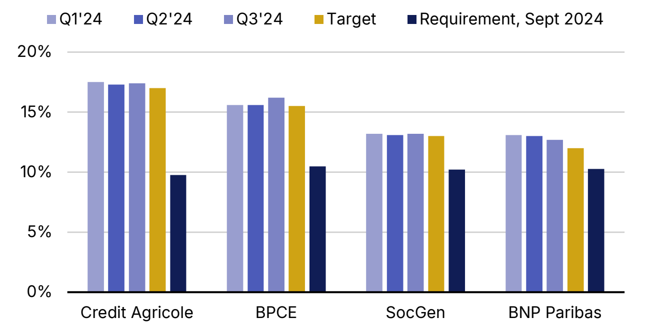
Capital levels remain adequate, supporting business model differences

French banks have maintained their focus on CET 1 and TLAC buffers, with adequate capitalisation levels, limited on one hand by still-low profitability and lower organic capital generation compared with EU peers, but supported on the other hand by relatively lower shareholder remuneration, with payouts and share buy-backs in the lower range compared with EU peers. The driver of capital deployment remains financing new RWAs, both from acquisitions and growth in profitable segments (consumer, auto loans and specialised lines).

Our sample of French banks showed an average CET 1 ratio of 14.9% as of Q3’24, slightly below the EU aggregate (the latest available was 15.8% in Q224). French banks’ TLAC was above 26% (versus a 22%-23% requirement for all banks). While targets reflect different business models and capital-management strategies, the banks with higher targets and buffer to requirements remain those with a higher component of retail banking, Crédit Agricole and BPCE, with CET ratios above 16% as of Q3’24, while for Société Generale and BNP Paribas’ CET 1 ratios remain more optimised, in the range 12.5%-13.5% as of Q324.

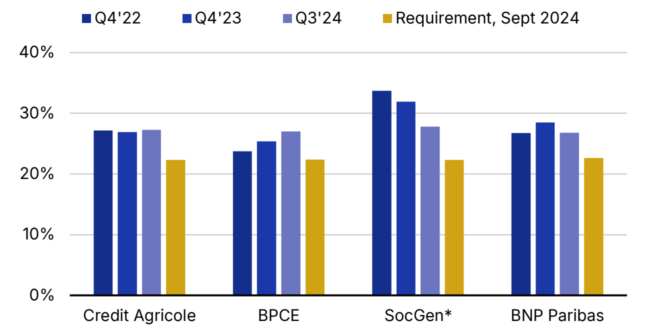
We do not expect significant changes in capital levels in 2025, apart from one-offs in Q1 following the implementation of Basel IV, with an estimated negative effect of 50bp for BNP Paribas. Capital optimisation will continue for Société Generale as the group focuses on divesting from capital-intensive activities, while for BPCE and Crédit Agricole we expect capital to remain relatively stable as both groups focus on organic growth. The recent announcement of Crédit Agricole related to the increase of its stake in Banco BPM from 9.9% to 15.1% via financial instruments should not have a significant impact on CET 1.

Figure 17: CET1, ranked by Q324 data



Source: Banks’ financial data, Scope Ratings

Figure 18: TLAC evolution vs requirement



*Societe Generale opted in Q2’24 to waive the option offered by Article 72b(3) CRR to use Senior Preferred debt for TLAC. Source: Banks’ financial data, Scope Ratings.

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