French Banks Outlook 2026

Strong fundamentals supported by stabilisation of interest rates allow for profitability upside

Analyst

Carola Saldias Castillo

+39 02 3054 4991

c.saldias@scoperatings.com

Team leader

Marco Troiano

m.troiano@scoperatings.com

Media

Keith Mullin

k.mullin@scopegroup.com

Table of content

Stable operating environment in 2026. We expect customer loans to grow between 0.5% and 1.5%, as the stabilisation of interest rates will support demand. But geopolitical instability could erode market confidence and weaken expectations, while continued political uncertainty in France could weigh on investment and financing decisions.

Profitability expected to improve moderately. We expect French banks to achieve returns on risk-weighted assets in a range of 1.2% to 1.6% in 2026, improving slightly from 2025 and narrowing the gap to other EU banks, which may have passed peak profitability. Earnings growth will be driven by a stronger performance in retail banking. While CIB earnings will remain strong, they are likely to decelerate, reflecting lower market volatility

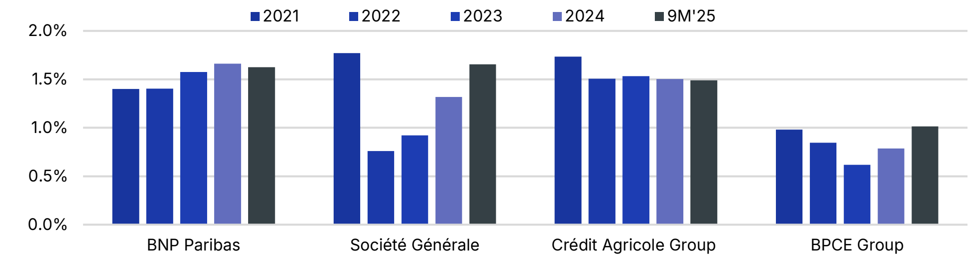
Operating efficiency vis-à-vis EU peers is a key weakness. Efficiency and cost-reduction initiatives are central to French banks' objectives for 2026. While the average cost-income ratio improved in 2025, we anticipate it will remain in a 57%-67% range (vs an EU average of 46% for Q3 2025). Banks continue to engage in active cost management to reduce structural inefficiencies.

Asset quality remains adequate though pressures are emerging. We anticipate a slight deterioration in asset quality, with an increase in stage 3 levels for most banks driven by SMEs and rate-sensitive sectors, which have been negatively impacted by the lag effects of high interest rates.

Funding diversification remains well balanced. French banks maintain a significant base of customer deposits and secured debt (mostly covered bonds). While deposit costs are expected to remain stable, unsecured funding could face higher spreads if market confidence deteriorates.

Organic capital generation enables banks to maintain adequate buffers to requirements. We expect French banks to maintain capital generation. With an average CET1 ratio of 15% for Q3 2025 for our sample of banks (BNP Paribas, BPCE, Crédit Agricole, Société Générale), downside risks around capital generation could come from lower-than-expected profitability.

Figure 1: Return on risk-weighted assets



Source: Banks' financial data, Scope Ratings.

Our expectations of 2026 trends by key area for French banks		
Profitability	↗	Upside from retail banking activities
Asset quality	↘	Potential deterioration from SMEs could lead to higher NPLs
Capital position	→	Increase in organic capital generation offset by shareholder remuneration
Funding and liquidity	→	Funding pressures remain muted, potential increase in unsecured funding costs

1. Stable operating environment supported by interest-rate stabilisation and easing political uncertainty

Operating environment for French banks remains stable and supportive

The operating environment of French banks will remain stable in 2026. Though international diversification is relevant for some large groups, the French banking market remains a key driver of the credit risk profiles of our sample of banks (BNP Paribas, Crédit Agricole Group, BPCE, Société Générale).

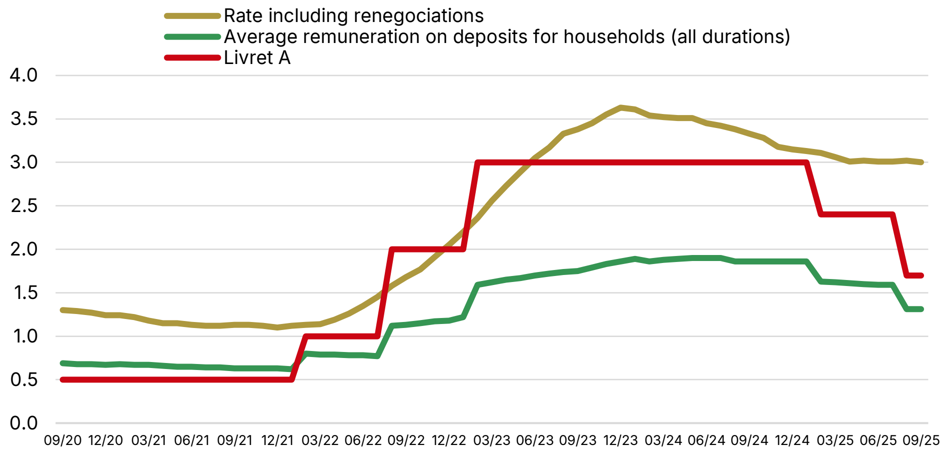
While market confidence remains weak due to political uncertainty surrounding the implementation of structural reforms to reduce the fiscal deficit, the approval of the 2026 budget bill is a positive step towards stabilising the economy and could help unlock investment decisions that were put on hold, supporting loan demand from households and businesses as economic prospects improve.

Under our baseline scenario for 2026, we expect customer loans to grow between 0.5% and 1.5% and RWAs between 0.2% and 1.5%.

Banks' financial prospects will benefit from the stabilisation of interest rates. Net interest margins on household loans, which contribute to consistent earnings, were stable in Q3 2025. Assuming ECB rates remain stable at 2.0% until the end of 2026 and that rates on Livret A and household deposits stabilise at 1.7% (down from the peak of 3.0% between February 2023 and January 2025), the benefit of asset-liability repricing will finally reach a positive gap of around 150 basis points. This should support earnings stability over the next 12 months.

Extended political uncertainty or additional geopolitical instability could result in more conservative assumptions whereby expectations for loan growth and asset quality come under pressure as market confidence erodes. Yet risk-adjusted profitability still remains positive for all banks in our sample (see Appendix – Baseline and downside exercise scenario for 2026).

Figure 2: Key interest rates (%) of reference for French banks



Source: Banque de France. Rate including renegotiations refers to interest rates on housing loans, all maturities.

2. Business models remain resilient, retail and CIB drive profitability

French retail banking and CIB maintain positive trajectory on revenues

Even though political instability in France had a negative impact on market confidence in 2025, French banks saw a positive trend in their return on risk-weighted assets (RoRWA), with an average of 1.45% for 9M 2025. While peak profitability for EU banks has already passed, we expect French banks to continue improving and achieving returns on RWAs in a range of 1.2% to 1.6% for 2026. This is supported by a stronger performance from retail banking, which accounts for 42% of gross operating profits for our sample of banks on average.

Retail banking provides some upside following the stabilisation of interest rates

Retail banking will provide some upside to the revenue base for all four banks in our sample in 2026, following the normalisation of interest rates and stabilisation of market confidence. This should support further growth in mortgages and consumer loans. The extent of the upside depends on the relevance of each bank's retail banking portfolio.

French retail banking varies from 33% to 72% of risk-weighted assets for our sample of French banks and remains the largest or second-largest contributor to profits, representing 36%-55% of banks' gross operating profits at 9M 2025.

BPCE has the greatest upside potential, due to the relevant contribution of retail (55% of total revenues) to the bottom line. However, the relevance of mortgages in the loan portfolio mix limits the upside compared with peers with a greater focus on consumer or specialised lending. Conversely, Société Générale and BNP Paribas have the lowest portions of retail banking revenues to total revenues but a higher component of consumer and specialised lending, for which risk-weighted profitability is higher.

Figure 3: Gross operating profit by business

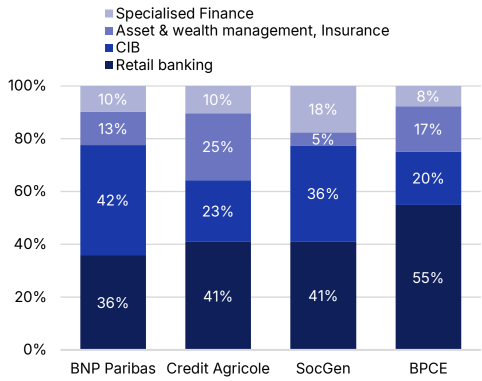
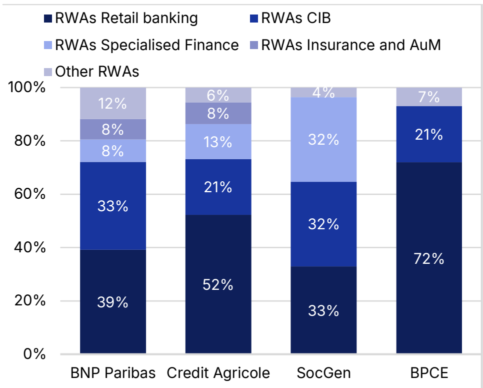


Figure 4: RWAs per business line



Source: Bank's financial data as of 9M 2025; for Credit Agricole, data as of H1 2025. BNP Paribas: Retail Banking includes Personal Finance. Credit Agricole: Retail Banking includes International Retail. SocGen: Retail includes Consumer Finance and International Retail.

Corporate and investment banking remains a key source of revenues

Additional upside potential for profitability could also come from Corporate and Investment Banking (CIB), which continues to be a strong component of French banks' business models, contributing an average of 30% of gross operating profit for the selected group of banks.

Volatility in global markets in 2024 and 2025 bolstered the growth in revenues from CIB activities (Figure 3), resulting in average annual growth of roughly 6.6% in 2025. Given the importance of CIB activities for French banks, we anticipate that the performance of CIB will remain robust for 2026, although the overall contribution to earnings will be lower in 2026, reflecting reduced market volatility. Nonetheless, given the comparatively lower component of risk-weighted assets, CIB continues to be a key driver of profitability for all four banks, with an estimated average RoRWA of 2.7% across our sample.

Asset management and insurance, stable contribution to earnings

Revenues from asset management and insurance will continue to provide a stable and recurring revenue source for BNP Paribas, Crédit Agricole and BPCE. We anticipate higher insurance growth, as wealth management revenues stabilise after the steady growth seen in 2024 and 2025 (10% and 3% YoY, respectively) which was driven by strong inflows of customer savings into products that offered higher returns.

Robust asset and wealth management franchises, along with the cross-selling of insurance products, offers French banks a proven model for revenue diversification with relatively low-risk intensity and high profitability. Banks are actively seeking opportunities to expand their asset management footprints – for instance BNP Paribas' acquisitions of AXA IM and HSBC's wealth management business in Germany.

For most banks, asset management and insurance activities represents between 8% and 10% of total RWAs, with an estimated return above 5.0%.

Figure 5: CIB revenues (EURm)

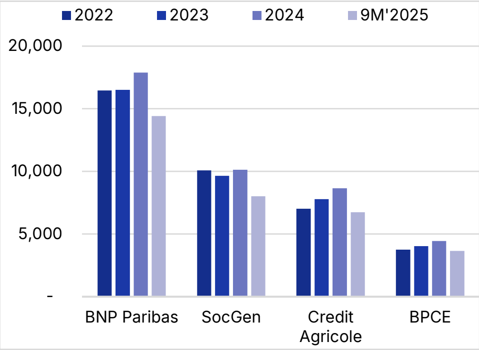
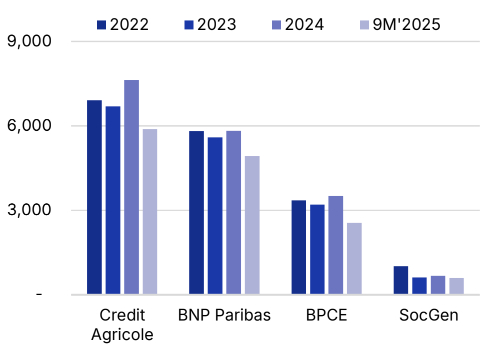


Figure 6: AM & Insurance revenues (EURm)



Source: Bank's financial data as reported, Scope Ratings.

Specialised finance adds revenue diversification but faces growth challenges

Specialised finance contributes proportionally less to French banks' revenues, but it continues to play a key role in facilitating cross-selling for SMEs and commercial customers. For 2026, we anticipate that the performance of this business will be similar to 2025.

The focus is mostly on mobility (auto loans, leasing, and equipment finance). However, this sector is facing increasing competition from non-bank players (mostly captive finance arms). It is also a source of risk due to the accumulation of residual values for second-hand cars, at the same time as it is exposed to EV transition.

International expansion, becomes a source of revenue growth

International expansion has become a key component of most French banks' strategic growth plans. Recent initiatives such as BPCE's acquisition of Novobanco in Portugal, Crédit Agricole's expansion of its holding in Banco BPM to 20.1% and its emphasis on international growth as a core objective of its strategic plan ACT 2028, and BNP Paribas's expansion in Germany through the acquisition of HSBC Private Banking highlight a commitment to enhance the geographic diversification of revenues.

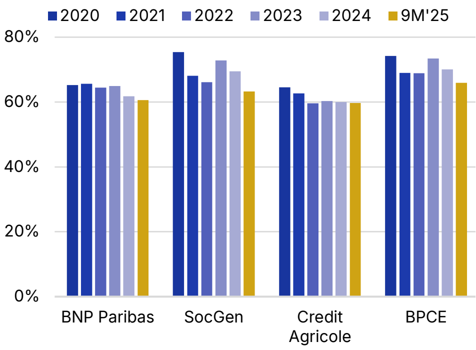
However, given the relative size of the acquisitions, we see no near-term implications for business models and believe that material changes in the geographic footprint will compound gradually over time if this trend persists.

3. Operational efficiency remains a weakness compared to EU peers

While efficiency improves, it remains significantly below the EU average

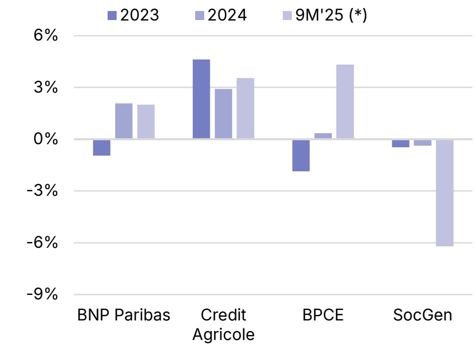
Efficiency and cost-reduction initiatives remain at the core of French banks' objectives for 2026. While the average cost-income ratio for the four banks in our sample improved YoY supported by the increase in revenues (Figure 7), further improvement requires active management of costs to achieve a more efficient operating framework.

Figure 7: Efficiency, cost-to-income ratio



Source: SNL, Scope Ratings.

Figure 8: Operational expenses, YoY growth



Source: SNL, Scope Ratings. (*) Annualised.

French banks have historically maintained large workforces and branch networks that have weighed on their cost structures. In addition, the business diversification that provides revenue generation opportunities outside of traditional banking also adds complexity to group structures. Material investments are required to sustain cross-selling and product offerings.

We expect efficiency at all four banks to remain within a 57%-67% range in 2026 (vs an EU average of 46% for Q3 2025). We believe BNP Paribas and Société Générale will achieve better results, as they are already implementing significant cost-reduction measures, limiting YoY growth (Figure 6). In the case of Crédit Agricole and BPCE, the ambitious efficiency targets announced following the recently updated strategic plans for 2028 and 2030, respectively, have yet to be proven.

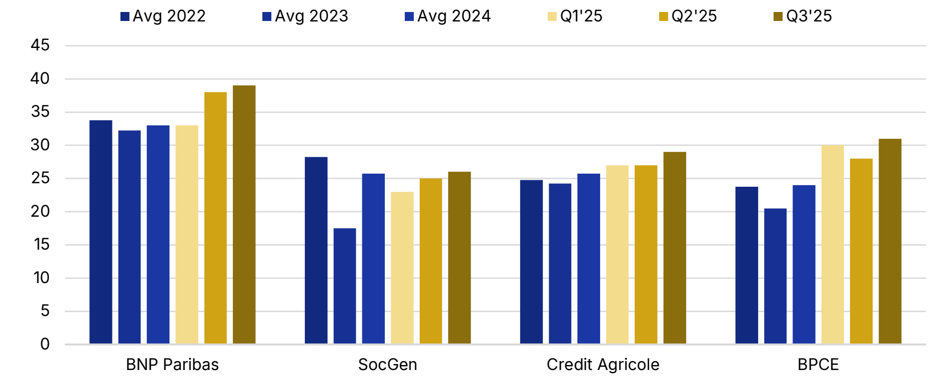
4. Cost of risk remains contained, downside risks could erode profitability

While cost of risk (CoR) remains contained at under 40bp for all four banks in our sample, it is increasing and reached its highest level for 2025 in Q3. The increase is the largest for BPCE (+29%) mostly from its network of retail banks (Banques Populaires) and SMEs, followed by BNP Paribas (+18.2%) due to an increase in CIB and global banking.

It is worth noting that the banks that have more sensitivity to unexpected increases in CoR are BPCE and Crédit Agricole, due to the size of their retail banking businesses, representing 85% and 65% of total loans, respectively.

For 2026, we expect CoR to grow at all banks. We do not believe this will materially pressure profitability but it could erode the upside potential from the performance of retail banking. In the case of an increase in CoR to between 30bp-45bp for the banks in our sample, the impact on profitability is limited and the baseline return on RWAs remains within a 1.2%-1.6% range (vs 1.0%-1.6% at 9M 2025).

Figure 9: Cost of risk in bp



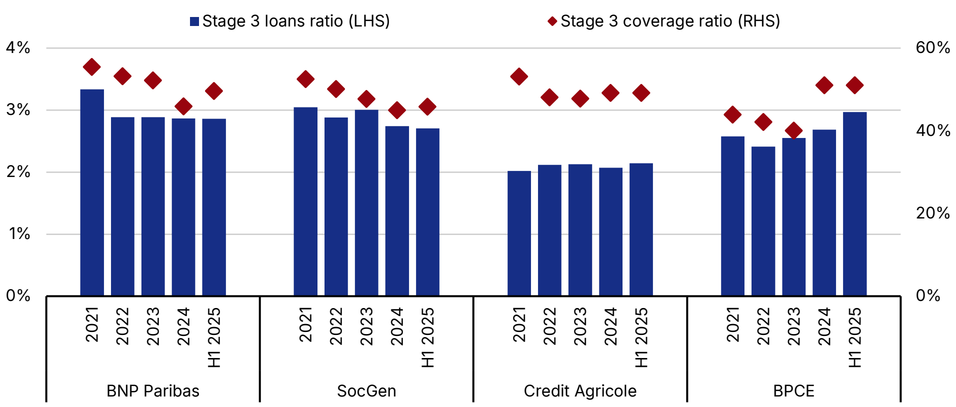
Note: CoR average for the year is based on quarterly reporting. Source: Bank's financial data, SNL, Scope Ratings.

5. Asset quality remains adequate, but SMEs show signs of deterioration

Stage 3 loans remain adequate but with early signs of deterioration

Stage 3 ratios remain adequate, below 3% for all four banks at H1 2025. Secured lending via retail mortgages is a source of resilience for asset quality in the case of BPCE and Crédit Agricole, as mortgages comprise about 57% and 46% of their loan portfolios, respectively. Early indications of credit quality deterioration among retail and SME sectors are starting to be seen in the case of BPCE, related in particular to construction and real estate, which was the primary factor contributing to the increase in stage 3 loans in Q3 2025.

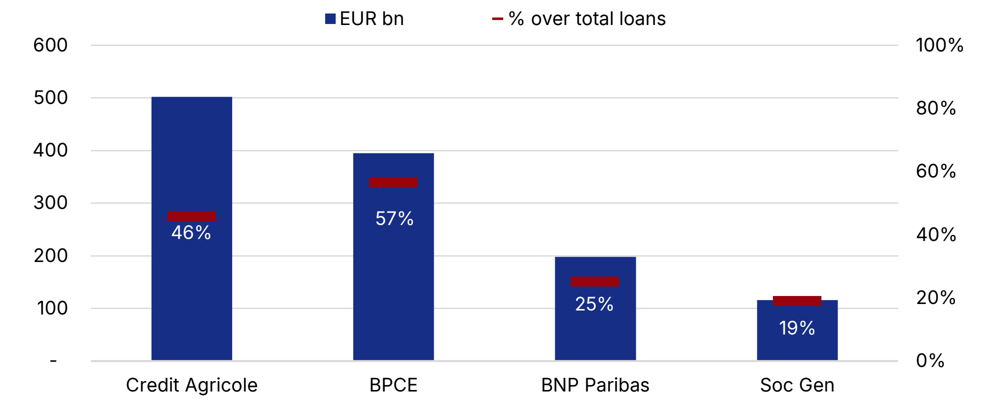
Figure 10: Stage 3 ratio and coverage on stage 3 loans



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

For 2026, we anticipate a shift in the asset-quality trajectory, with an increase in stage 3 levels for most banks, due to deterioration in SMEs impacted by the lag effects of high interest rates. The large component of secured lending and relatively higher coverage ratio for stage 3 loans for Crédit Agricole and BPCE remains strengths for their risk profiles. In the cases of BNP Paribas and Société Générale, we are reassured by the banks' capacity to proactively manage the deterioration of credit quality, due to the relatively shorter maturity of their loan portfolios.

Figure 11: Mortgages, relevance on total loan portfolio



Note: Data as of Q3 2025. Source: Bank's financial data.

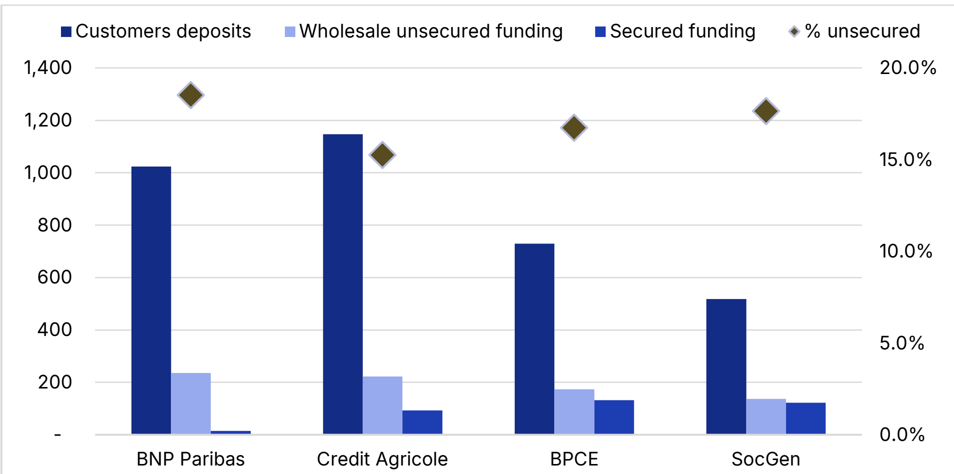
6. Well diversified funding structure, rising funding costs could spill-over on profitability

French banks maintain a stable base of customer deposits

French banks have well-diversified funding structures, including a significant base of customer deposits and a substantial portion of secured debt (mostly covered bonds). Deposits will remain a stable funding source in 2026, primarily for Crédit Agricole and BPCE, according to our baseline scenario of stable interest rates at 2.0%, with a minimal shift from on-balance sheet savings products to off-balance sheet products, as observed during 2023 and 2024.

Wholesale funding is also a significant portion of direct funding and will remain so in 2026. An increase in government bond spreads may have an effect on bank funding spreads, which could lead to a change in profitability. However, we anticipate that this adjustment will emerge over time. In the event of a significant and lasting increase in unsecured funding costs, French banks' access to less price-sensitive capital markets instruments like covered bonds are a source of comfort.

Figure 12: Funding sources, notional amounts (EUR bn) and % of secured funding over total



Note: Data as of Q3 2025. Source: Bank's financial data.

7. Capital and targets support capital management stability, leverage stands as a relevant constraint

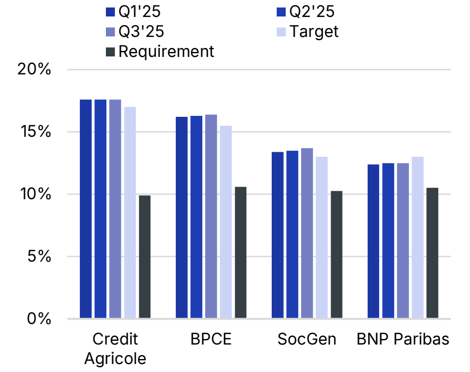
Buffers to capital requirements are improving, while leverage remains tight

French banks recorded positive trends in capital generation in 2025, and we anticipate that this will continue into 2026. The average CET1 ratio has shown consistent growth on a quarter-on-quarter basis, reaching 15.05% in the third quarter of 2025. While the requirements remain at around 10% for all banks, the targets reflect different capital management strategies and risk appetite. Crédit Agricole and BPCE have CET 1 target levels above 15%, compared to BNP Paribas and Société Générale, which have updated their targets to 13%, up from 12.5% and 12%, respectively. French banks are on track to maintain adequate capital buffers, with targets ranging from 250bp to 710bp, which supports our view of a stable outlook for 2026.

The size of French banks is confirmed with their status as Globally Systemically Important Banks (G-SIBs). The Financial Stability Board confirmed additional capital requirements in November 2025 for BNP Paribas and Crédit Agricole, which are still in bucket 1 attracting an extra 1.5% capital requirement, and BPCE and Société Générale in bucket 2, with an extra 1.0%.

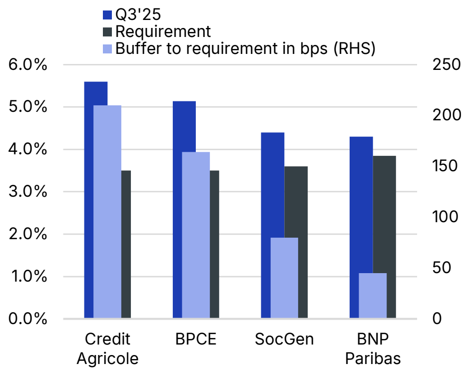
Differences in capital levels are a key differentiating factor between mutual/co-operative groups and BNP Paribas and Société Générale. For the latter two, the leverage ratio stands out as the binding requirement. The driver of this is the sizeable exposure of off-balance sheet commitments and guarantees, which is a key characteristic of their investment banking activities. For 2026, we do not anticipate any relevant changes in leverage exposure on BNP Paribas or Société Générale, due to the relevance of CIB in their business models. However, we take comfort from the ability of the banks to proactively manage buffers to requirements and anticipate potential constraints.

Figure 13: CET 1, requirement and target



Source: Banks' financial data, Scope Ratings.

Figure 14: Leverage, buffer and requirement



Source: Banks' financial data, Scope Ratings

Initiatives on simplification of capital requirements, impact assessment expected for late 2026

The ECB's publication on recommendations for streamlining the European prudential regulatory, supervisory, and reporting framework for banks is a confirmation of the improvements in enhancing the resilience of the EU banking sector and ECB-supervised banks since the implementation of the BRRD in 2015.

The recommendations include, among other topics, a proposal to simplify Pillar 2 Requirements (P2R) with a revised methodology that aims to avoid overlapping requirements in Pillar 1 and Pillar 2. While the changes are expected to take effect in January 2027, we do not anticipate material effects on aggregate capital requirements for French banks. We consider this simplification to be a critical step in enhancing transparency and focusing on the primary drivers of banks' P2R, enabling market participants to better understand the underlying risks that banks maintain based on their business model differentiation.

8. Appendix - Baseline and downside exercise scenario for 2026

	Baseline Scenario 2026		Downside Scenario 2026	
Assumptions	**Lower bound**	**Upper bound**	**Lower bound**	**Upper bound**
Customer loan growth (%)	0.8%	2.5%	-0.3%	1.0%
Customer deposit growth (%)	0.5%	3.0%	-1.0%	1.5%
RWA growth (%)	0.2%	1.5%	0.5%	2.5%
NIM (% on customer loans)	0.9%	2.2%	0.8%	2.1%
Operating expenses growth (%)	0.5%	8.0%	3.0%	9.0%
CoR (bp)	30.0	45.0	35.0	50.0

Note: The baseline and downside exercise scenario is based on Scope Ratings' assumptions using a lower and upper bound reference rate for growth.

		Baseline Scenario 2026		Downside Scenario 2026	
Key performance metrics (%)	**Average 2025 (Expected)**	**Lower bound**	**Upper bound**	**Lower bound**	**Upper bound**
Cost / Income ratio	62.6%	56.5%	66.9%	64.8%	74.8%
Pre-impairment operating profit / Average RWAs	2.4%	2.3%	3.0%	1.6%	2.1%
Impairment on financial assets / Pre-impairment income	20.6%	16.4%	32.8%	30.7%	52.9%
Return on average RWAs	1.3%	1.2%	1.6%	0.5%	1.1%

Related research

European Bank Outlook 2026: late-cycle headwinds put resilience to the test, December 2025

Italian Bank Outlook 2026: stable, supported by solid fundamentals, but risks remain high, November 2025

Bank Capital Quarterly: regulatory simplification treads a fine line, November 2025

European banks face growing investment pressures as ECB sets digital-euro timetable, November 2025

German Banks Outlook 2026: robust earnings needed to offset cost-of-risk, asset quality concerns, November 2025

Europe's digital finance transformation: implications for financial autonomy and market resilience, October 2025

EU Banks NPL Heatmaps: poor economic outlook, high corporate NPLs in core countries underpin caution, October 2025

Italy's banking consolidation wave set to continue, September 2025

Political instability heightens risks to French banks' profitability outlook, September 2025

UK Banks Quarterly: credit fundamentals remain solid but asset quality expected to weaken, August 2025

EU banks NPL Heatmaps: asset quality steady but downside pressures emerging, August 2025

UK car finance: redress scheme will have modest impact on UK banks rated by Scope, August 2025

Italian Bank Quarterly: strong stress-test results, H1 performance provide reassurance, August 2025

European banks: 2025 stress tests: Resilient in the face of not-so-remote downside risks, August 2025

European bank capital quarterly, July 2025

EU-US trade deal: impacts on Italian banking sector will be manageable, July 2025

Mid-year European bank outlook: earnings expected to stay resilient through risks skewed to downside, July 2025

Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

Disclaimer