

French bank quarterly

Political vulnerabilities cloud uncertain year-end

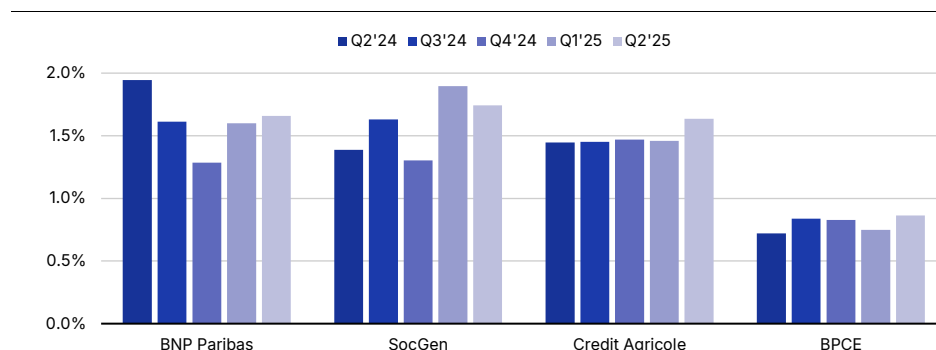
Persistent political instability continues to weigh on market confidence. The uncertain political environment is likely to constrain market sentiment in the final quarter of the year, potentially dampening the positive earnings momentum that French banks built in the first half, supported by growing revenues from retail banking, insurance and wealth management. The recent widening of French government bond spreads to record highs is likely to increase banks' refinancing costs in coming quarters.

Profitability continues to grow but weaker confidence could limit upside potential. Net profits have improved at the country's four largest banks (BNP Paribas, Credit Agricole, BPCE and Société Générale) driven by recovering retail banking revenues. While profitability lagged that of EU peers in 2023 and the first half of 2024, stronger loan production at higher yields and improving deposit margins since the second half of 2024 have strengthened the revenue base in retail and commercial banking.

Capitalisation remains adequate, but sovereign volatility could pressure capital levels. Under a scenario of a sustained widening of French government bond spreads, the impact on capital of valuation changes on sovereign exposures could add further volatility. The direct and indirect exposures of all four largest banks remain above our materiality threshold of 25% of Tier 1 capital.

Rating Outlook. The Stable outlooks assigned to our public ratings on BNP Paribas (AA-/Stable) and Credit Agricole (AA-/Stable) and for French banks more broadly reflect our expectation that risks to their credit profiles remain broadly balanced.

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



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

Analysts

Carola A. Saldias Castillo
c.saldias@scoperatings.com

Team leader

Marco Troiano, CFA
m.troiano@scoperatings.com

Media

Keith Mullin
k.mullin@scopegroup.com

Table of content

1. Lending dynamics slowing down as market confidence remains weak
2. Earnings prove to be resilient and maintain positive momentum
3. Stable asset quality but signs of deterioration from corporates and SMEs
4. Wholesale funding could face higher cost, but stability comes from a large component of customer deposits
5. Capital remains stable, and remains resilient even under an adverse scenario
6. Sovereign exposure could add volatility on capital metrics
7. M&A activities evidence dynamic market conditions

Our expectations of 2025 trends by key area for French banks

Profitability	→	Moderate growth supported by retail banking and CIB
Asset quality	↘	Stable to mildly negative; normalisation in CoR and NPLs
Capital position	→	Stable, limited RWA growth. Downside risks from market turmoil
Funding and liquidity	↘	Stable, adequate liquidity following slow balance sheet growth

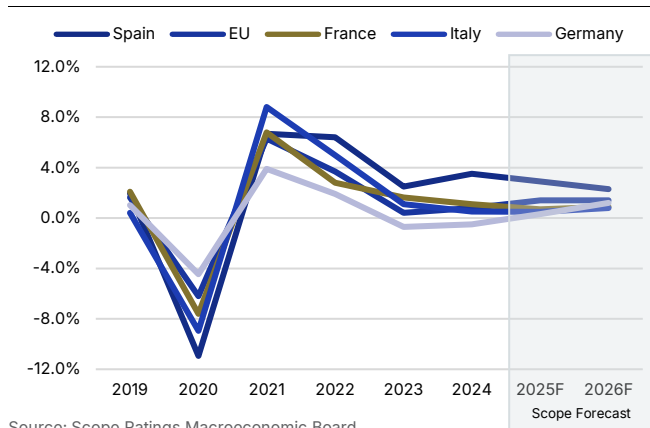
1. Lending dynamics slow as market confidence remains weak

The French political landscape remains volatile, following the lack of parliamentary agreement to approve the 2026 budget. Rising political instability, heightened political fragmentation and polarisation, together with challenging economic outlook cloud the prospects for a broad-based political compromise that would lead to a material reduction in the budget deficit and stabilise the debt-to-GDP trajectory.

Market confidence remains volatile

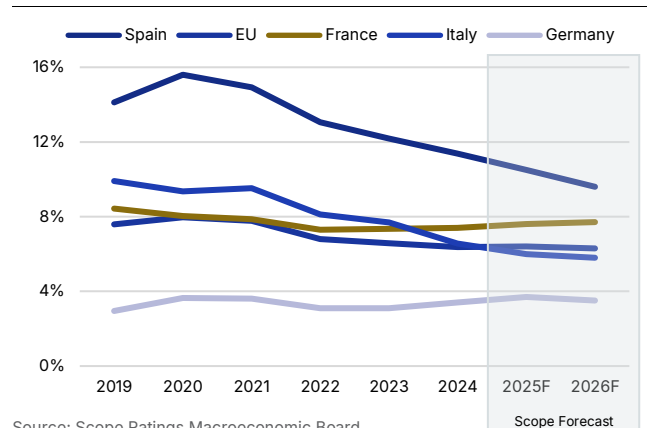
Social tensions and uncertainties around the economic and public policies to be pursued after the next presidential election in 2027 limit any visibility into the medium-term outlook and prospects for stabilisation. This prompted Scope to lower its outlook on the French sovereign from AA-/Stable to AA-/Negative on 26 September.

Figure 2: GDP growth



Source: Scope Ratings Macroeconomic Board

Figure 3: Unemployment rate



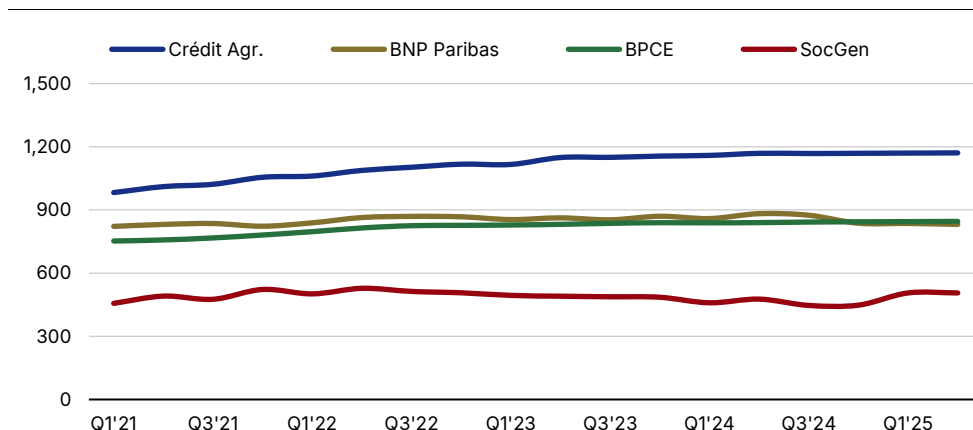
Source: Scope Ratings Macroeconomic Board

Significant market volatility has seen French government bond spreads widen to record highs this year. Further erosion of market confidence could slow the growth in French banks' lending volumes expected for the last quarter of the year.

The positive trend in residential mortgages, corporate and SME loans since early 2025 reversed in August, with the largest effect on mortgages. We attribute this to the deterioration of household confidence in France, as is the case for most EU countries. At the same time, unemployment remained unchanged in Q2 at 7.3% vs Q1, providing positive signs of household stability. We expect this will remain a supportive factor for the French economy in the coming quarters.

In our sample of banks, Credit Agricole and BPCE show a positive trajectory in lending loan growth, with a slight increase in home mortgages in Q2 vs Q1.

Figure 4: Loan growth (EUR m)



Source: Banks' financial data, Scope Ratings

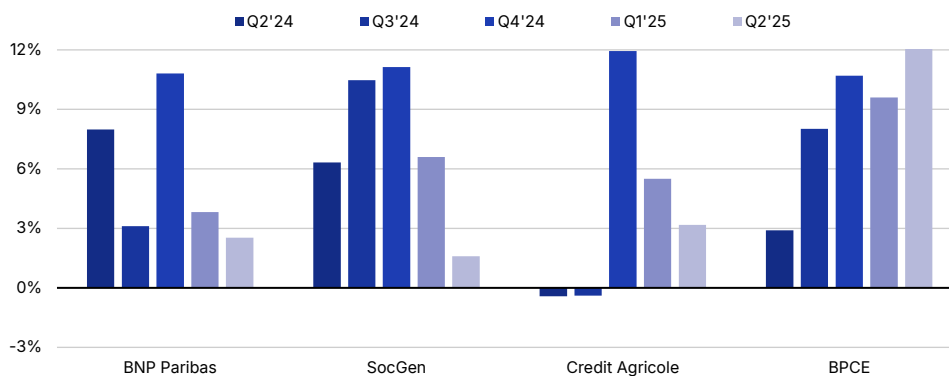
2. Earnings prove to be resilient and maintain positive momentum

While political instability could erode some of the positive momentum around lending dynamics in the last quarter of the year, French banks improved their return on risk-weighted assets (RoRWA) to 1.48% in the second quarter from 1.37% in Q2 2024, although this still lags the performance of peers in Italy and Spain.

Profitability is improving QoQ, but challenges remain material

Average revenues for the four largest French banks increased by 4.9% YoY, on the back of strong French retail banking activity and a continuing positive trajectory in insurance and wealth, and asset management. Corporate and investment banking revenues decreased QoQ for most banks, however, due to market volatility and lower activity in equities and derivatives.

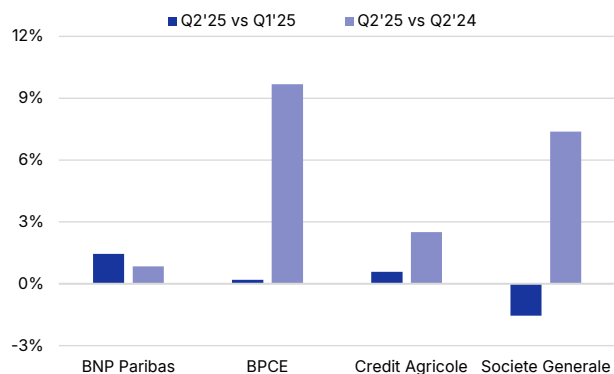
Figure 5: Revenues, YoY



Source: Banks' financial data, Scope Ratings

Revenues at BNP Paribas rose by 2.5% YoY. Retail banking maintains a stable growth, both in France and from international activities due to a rebound in net interest income from better margins on non-remunerated deposits. Greater contribution from specialised businesses (Arval) also supported commercial banking revenues. In CIB, the lower contribution from structured derivatives and subdued volatility slowed customer demand.

Figure 6: Retail and commercial banking, revenue growth

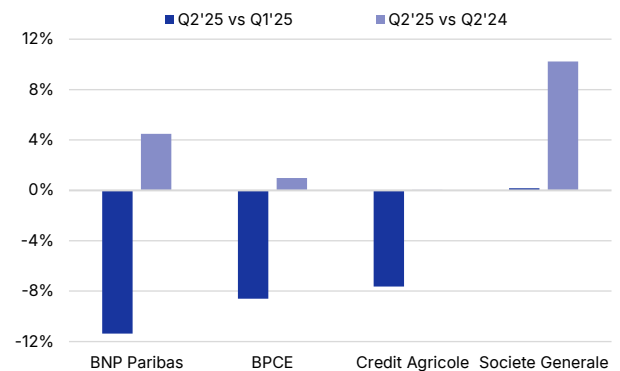


Source: Banks' financial data, Scope Ratings.

Societe Generale is improving the revenue base across all business lines. This is more pronounced in retail banking due to an acceleration in home loan production as well as the good performance of its digital bank, BoursoBank.

For Credit Agricole, growth came from fee and commission income in retail banking in France and Italy, as well as strong asset management and insurance activities. Revenues from large customers decreased YoY due to lower investment banking and capital markets fees.

Figure 7: CIB, revenue growth



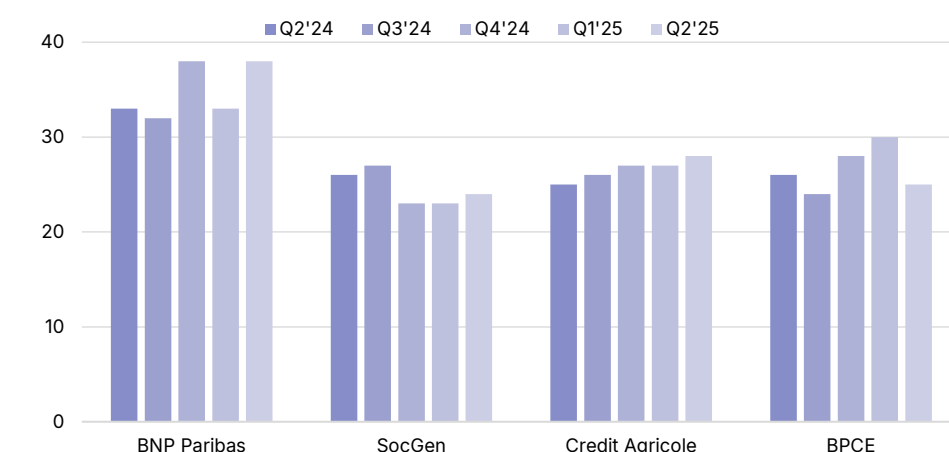
BPCE's revenue increase was the largest YoY (+12%) among the four banks, mainly due to the strong performance of consumer finance and leasing (+10% YoY). CIB remained strong due to global markets and M&A activity.

The average cost-income ratio for the four banks slightly improved to 62.2% as of Q2 2025 from 65.3% in 2024 helped by higher revenues. BNP Paribas and Société Générale showed significant efficiency improvements, supported by revenue growth and cost containment. We expect revenues to continue supporting French banks' efficiency in coming quarters, but pressure remains due to the large component of variable remuneration from CIB activity, M&A integration costs and eventually, stabilisation of revenues which may reduce efficiency gains.

Cost of risk (CoR) continued to increase QoQ but remained contained, with an average level of 29bp. At an aggregate level, the increase came mostly from SMEs and some deterioration in consumer loans. For BPCE, there was a change in trend with a reduction to 25bp in Q2 25 vs 30bp in Q1, due to improvements in CIB.

Societe Generale and Credit Agricole's CoR was relatively stable QoQ, while BNP Paribas recorded the highest increase, to 38bp from 33bp in Q1 25 driven by a specific credit event in its commercial and private banking portfolio. We remain cautious about moderate upward pressure on CoR for the following quarters, as market confidence remains subdued, although we do not consider this to add material pressure to profitability.

Figure 8: Cost of risk, annualised in bp



Source: Banks' financial data quarterly data, Scope Ratings.

French bank profitability could come under pressure from a gradual but steady increase in funding costs. The widening of French sovereign debt spreads will likely have spillover effects as French banks are among the largest debt issuers in Europe.

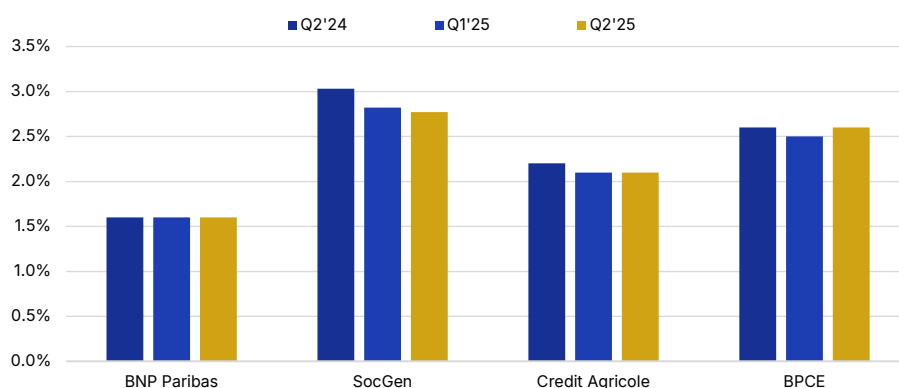
That said, most banks have largely completed their planned funding for this year, which should mitigate the impact of a temporary increase in unsecured funding costs in coming quarters. However, the effects of higher spreads on a permanent basis could erode expectations for further profitability improvements in 2026.

3. Stable asset quality but signs of deterioration from corporates and SMEs

Non-performing loan (NPL) ratios were almost unchanged at 2.3% in Q2. The component of secured lending via retail mortgages is a source of resilience for asset quality. In the case of BPCE and Credit Agricole, mortgages comprise about 50% and 35% of their gross loan portfolios, respectively.

NPLs remains almost unchanged QoQ

Figure 9: NPL ratio as % of gross loans



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

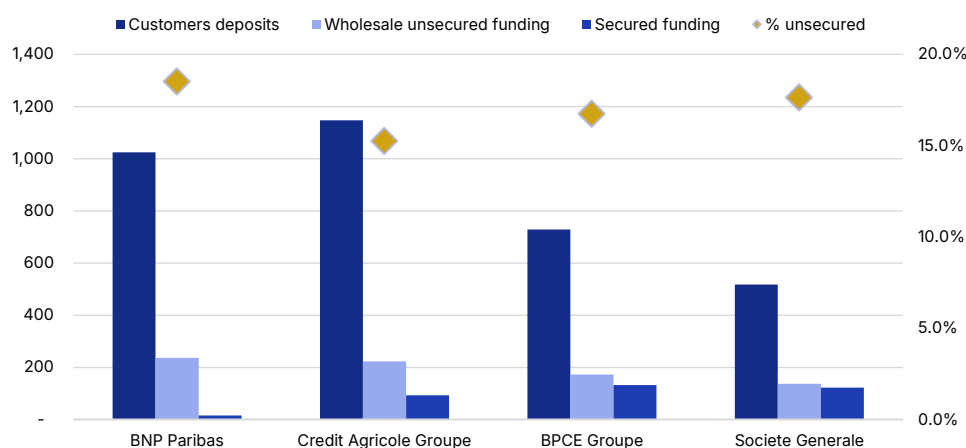
For the full year, we expect asset quality to show some early signs of deterioration with higher NPL levels for most banks, reflecting the volatile economic environment and the structurally higher risk in consumer lending and SMEs, which will weigh on provisions.

4. Wholesale funding could face increase in spreads

French banks have well-diversified funding structures that include a significant base of customer deposits and a large portion of secured debt (mainly covered bonds). While deposits are expected to remain a stable funding source despite the recent reduction in policy rates, the potential increase in government bond spreads will have an effect on bank funding spreads.

BNP Paribas maintains the largest portion of wholesale funding: 19% of the total as of H1 2025 followed by Societe Generale (18%), BPCE (16%) and Credit Agricole (15%). In the case of a steep and permanent increase in unsecured funding costs, we take comfort in the ability of French banks to access capital markets with covered bonds, which have proven to be less sensitive in times of market volatility.

Figure 10: Funding sources as of H1 2025 (EURm and as % of direct funding)



Note: Secured funding includes covered bonds and structured notes. Source: Scope Ratings, banks' reported information.

5. Capital remains stable and resilient even under an adverse scenario

French banks remain capital generative: the average CET1 ratio increased slightly to 14.97% in Q2 (14.9% in Q1). Capital generation was somewhat muted for Credit Agricole as RWA grew by 29bp. For the case of Societe Generale and BNP Paribas, capital has remained almost unchanged QoQ due to shareholder remuneration in the range of 15-20bp during the quarter.

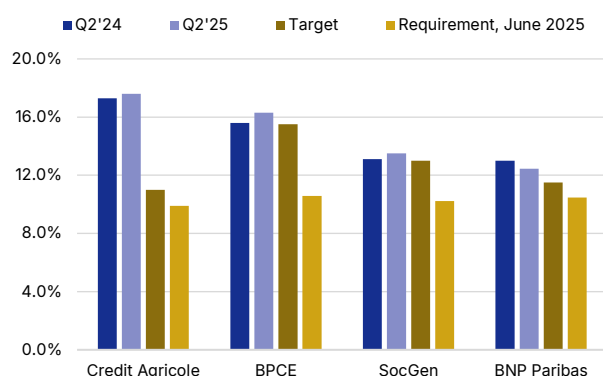
While the comparison in capital levels between mutual and co-operative groups and BNP Paribas and Societe Generale remains a key differentiator, it is less the case when considering Total Loss-Absorbing Capacity (TLAC), which remains aligned for all French banks with buffers at least 300bp above requirements as of June 2025.

In the 2025 EU-wide stress tests, French banks confirmed their resilience. However, under the 2027 adverse-scenario, BNP Paribas and Societe Generale's CET 1 levels breached their MDAs by 100bp and 150bp, respectively.

For France, the assumptions used for this scenario include a contraction of real GDP by a cumulative 5.9% over the three-year stress-testing horizon, an unemployment rate of 12.5%, a significant fall in the value of real estate assets (-28.2% for commercial real estate, -13% for residential real estate), and a 50% decline in equity prices in the first year.

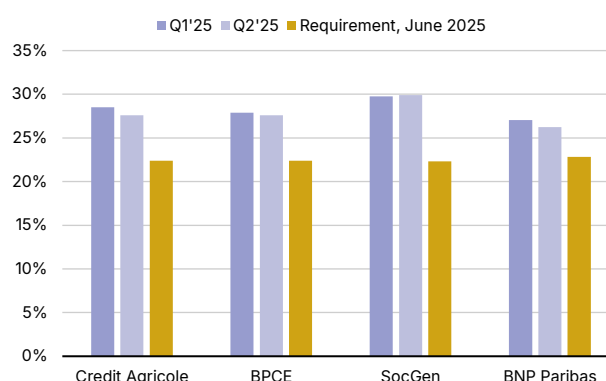
In the context of this theoretical exercise, we take comfort that all four banks in our sample benefit from a well-diversified revenue base, with income from non-banking activities providing a recurring base of earnings.

Figure 11: CET1 Q2'25, target and requirement



Source: Banks' financial data, Scope Ratings.

Figure 12: TLAC, Q2'25 vs requirement



Source: Banks' financial data, Scope Ratings.

6. Sovereign exposure could create capital volatility

A sustained widening of French government bond spreads would not only affect French banks funding costs but also could increase capital volatility, due to the banks' large direct holdings of sovereign debt plus indirect exposures through their insurance subsidiaries.

Sovereign exposure ranges from EUR 40bn to EUR 100bn and represents between 40% to 150% of CET1 capital. The French sovereign does not raise credit-risk concerns, but the large concentration of sovereign debt could add volatility to capital ratios for those banks that maintain more optimised capital strategies.

Societe Generale and BNP Paribas maintain CET 1 levels closer to their targets (13.5% and 12.5%, respectively), compared to BPCE and Credit Agricole, which maintain larger buffers to their targets (both above 15%). This could put pressure on decisions to further increase shareholder distributions, as French banks have remained in the lower range in terms of dividend payouts compared to Italian and Spanish peers.

7. M&A activities evidence dynamic market conditions

French banks are among the most diversified in terms of business activities which are spread across retail banking, CIB, insurance, asset management and specialised financing. But they lack strong geographic diversification, although changes are underway.

Credit Agricole has almost 70% of its total assets in France but recently announced a further increase in its share in Italy's Banco BPM to 20.1%. Credit Agricole has long considered Italy as its second domestic market. This step could allow it to consolidate its presence in Italy (see [Italy's banking consolidation wave set to continue](#)).

Meanwhile, BPCE recently announced the acquisition of Novobanco in Portugal, while Credit Mutuel acquired OLB in Germany.

Related research

[Europe's digital finance transformation: implications for financial autonomy and market resilience](#), October 2025
[Norwegian savings banks: equity capital structure proposals will have limited credit implications](#), 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
[BPCE's acquisition of Novo Banco is a step towards greater European Banking Union](#), June 2025
[Spanish bank quarterly: trade doubts weigh on asset quality; fees and commissions key to profits](#), June 2025
[UK banks quarterly: credit fundamentals still resilient but moderating](#), June 2025
[UniCredit: large M&A setbacks will not curb strategic ambition](#), May 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

© 2025 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, Scope Innovation Lab GmbH and Scope ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.