French bank quarterly

Net interest income and strong CIB performance support revenue momentum

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French bank revenues continued to grow in Q1 2025, mainly driven by retail banking, corporate and investment banking (CIB) and wealth management-related fee and commission income. However, bottom-line profitability continues to lag EU peers, as large operating structures continue to weigh on cost efficiency.

Different profitability dynamics reflect underlying business-model strengths. French banks' return on RWA reflects relatively slow balance-sheet repricing due to the peculiarities of the French lending and savings markets. Competitive pressures have intensified since 2024 but we expect profits to grow moderately in 2025 supported by better performance in retail and CIB.

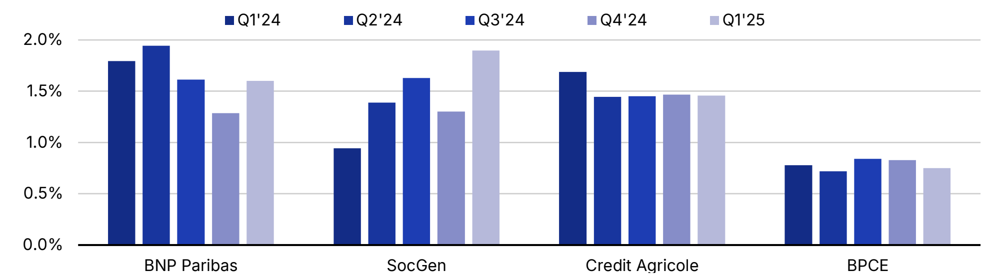
Economic growth slowing but asset quality stable. While there are no evident signs of asset quality deterioration yet, we expect some weakening by year end. French banks will continue their cautious provisioning approach amid an uncertain macroeconomic outlook.

Capital levels above management targets and SREP requirements. We expect capital levels to remain stable as organic capital generation will allow banks to support shareholder remuneration and further business growth.

M&A initiatives support geographic diversification. French banks are actively seizing opportunities to expand outside France to markets offering higher profitability. BPCE has agreed to acquire Novo Banco in Portugal; Credit Mutuel Group will consolidate its presence in Germany with the acquisition of OLB, while Credit Agricole increased its stake in Italy's Banco BPM. Given the size of the French banks' domestic operations, though, we do not expect these initiatives to materially shift their business models or geographic diversification. But acquisitions will strengthen the contribution of retail banking.

Rating Outlook. The Stable outlooks assigned to our public ratings of BNP Paribas (AA-/Stable) and Credit Agricole (AA-/Stable) and French banks in general 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.

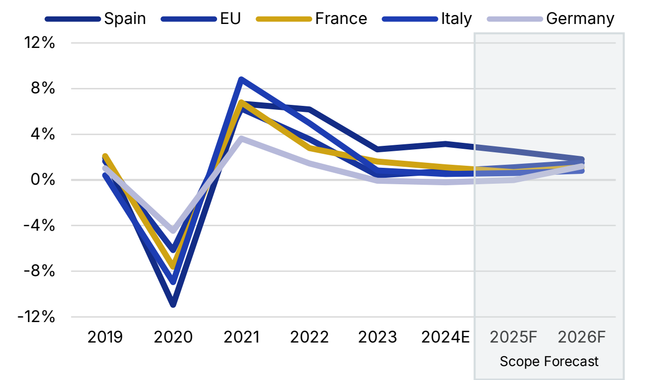
Our expectations of 2025 trends by key area for French banks		
Profitability	↗	Moderate growth supported by retail banking and CIB
Asset quality	↘	Stable to mildly negative; normalisation in CoR and NPLs
Capital position	→	Stable, shareholder remuneration lower than EU peers'
Funding and liquidity	→	Stable, adequate liquidity following slow balance sheet growth

1. Economic growth to slow but banks' performance remains unaffected

We expect GDP growth in France (AA-/Stable) to slow to 0.7% in 2025 before rebounding to 1.1% in 2026. Growth is weighed down by persistent domestic challenges, including fiscal adjustments and political fragmentation, as well as uncertainties arising from US tariffs and their effects on demand and investment. Higher defence spending will constrain efforts to reduce the fiscal deficit, a trade-off that the government will need to balance out. However, economic activity will benefit from strong private consumption supported by lower inflation, and a weakening yet still-resilient labour market.

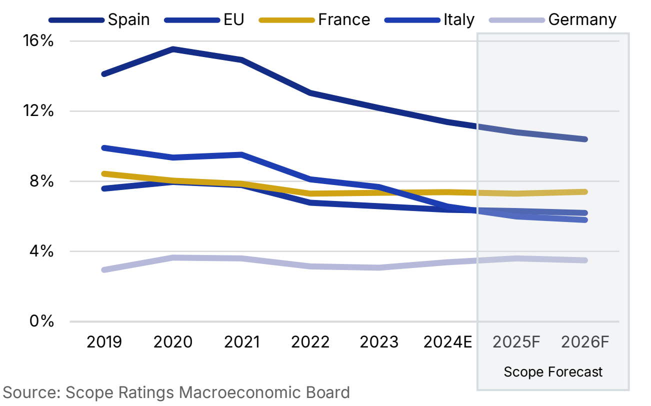
Strong fundamentals support banking sector performance.

Figure 2: GDP growth



Source: Scope Ratings Macroeconomic Board

Figure 3: Unemployment rate



Source: Scope Ratings Macroeconomic Board

However, household confidence has deteriorated, as is the case for most EU countries, due to high levels of geopolitical uncertainty, which has in turn slowed strong demand for borrowing observed in Q4. However, unemployment remains contained, providing some stability to households without material effects on their financial position, which we expect will continue to be a supportive factor for the French economy in the coming quarters.

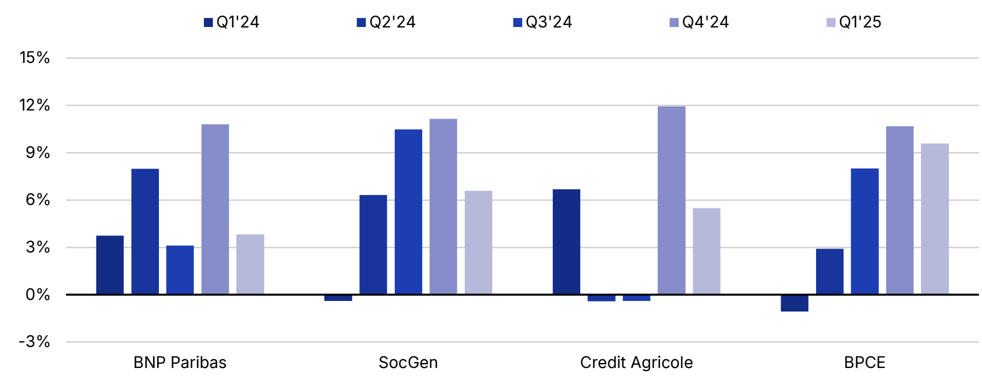
Market confidence is relatively weak, but fundamentals remain stable

2. Strong Q1 earnings provide good track for 2025

Our sample of French banks (BNP Paribas, BPCE Group, Crédit Agricole Group, and Société Générale), improved their return on risk-weighted assets (RoRWA) to 1.43% in Q1 25 from 1.3% in Q1 2024.

Growing profits QoQ but capital generation still below European peers

Figure 4: Revenues, YoY



Source: Banks' financial data, Scope Ratings

Total revenues increased by 5.8% YoY on the back of strong performance from corporate and investment banking (CIB), followed by a strong rebound in French retail banking (except for BNP Paribas, whose retail banking performance was flat in Q1 25).

Higher net interest income underpinned the recovery in French retail banking. Funding costs eased thanks to both lower ECB rates and lower regulated savings rates (Livret A has remained at 2.4% since February 2025 vs 3.0% in 2023). While the lag effect of the fixed-rate loan portfolios is now finally benefiting from higher interest rates, the expectation of further interest-rate cuts for 2025 could limit the banks' ability to sustain the positive trajectory in retail banking revenues.

CIB revenues rose across all banks in our sample, supported by higher trading incomes thanks to market volatility. Wealth management and private banking segments also performed well because of higher customer inflows benefiting from the still-positive interest-rate environment.

Figure 5: BNP Paribas, revenue by business (EUR m)

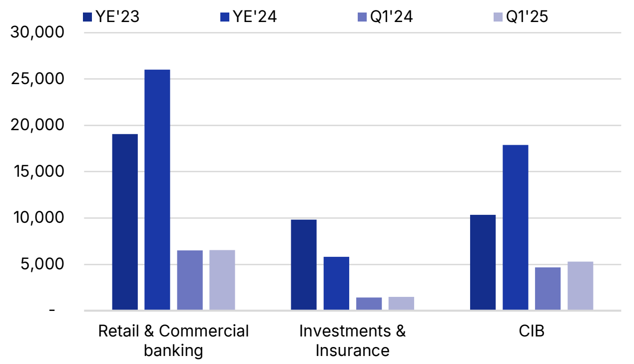


Figure 6: Credit Agricole, revenue by business (EUR m)

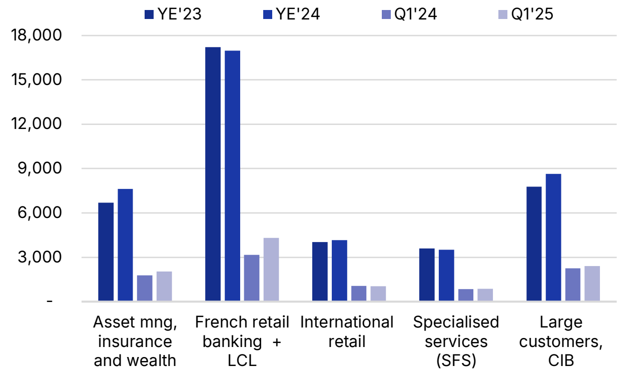


Figure 7: SocGen, revenue by business line (EUR m)

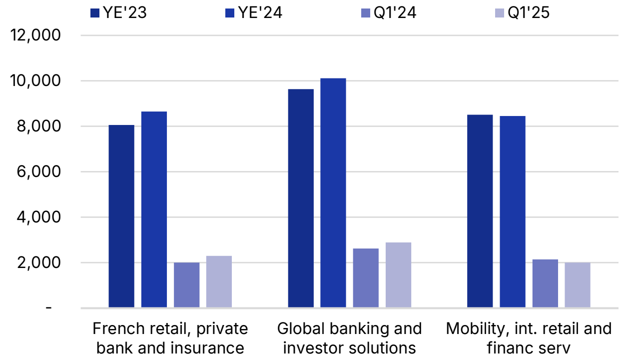
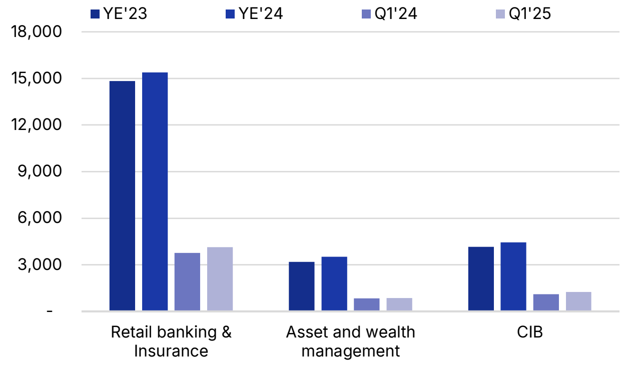


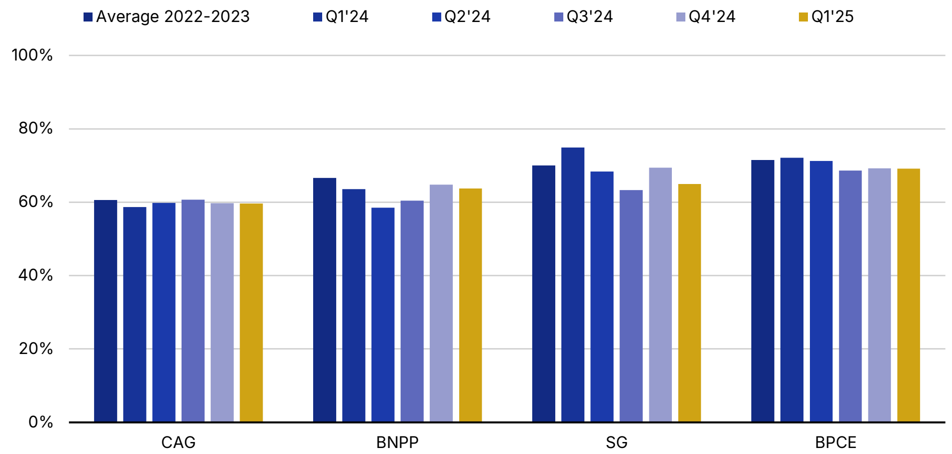
Figure 8: BPCE, revenue by business line (EUR m)



Source: Banks' financial data, Scope Ratings.

The average cost-income ratio slightly improved YoY to 64.4% from 67.3% in Q1 24. Société Générale showed the biggest improvement, supported by revenue growth and lower costs, a key focus of its new strategic plan. We expect higher revenues will support French banks' efficiency in coming quarters, but staff cost pressures such as rising variable remuneration from performing CIB segments, and M&A integration costs could challenge further cost-reduction efforts.

Figure 9: Cost-to-income ratios

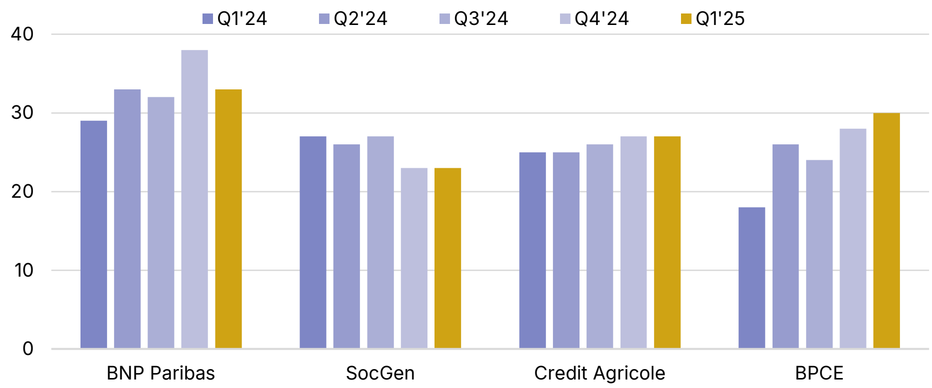


Source: Banks' financial data, Scope Ratings

French banks' cost of risk (CoR) increased moderately in Q1 25. At an aggregate level, the increase came mostly from corporates and SMEs, but there is also some deterioration in consumer loans. Société Générale was the only bank within our sample to report a decrease in CoR, mainly driven by improvements in asset quality in French retail. BNP Paribas and Credit Agricole's CoR was relatively stable YoY.

BPCE recorded the highest increase, to 30bp from 28bp in Q4 24 and 18bp in Q1 24. BPCE's increase was driven by a comparatively low base in Q1 24 that included significant reversals of Stage 1 and Stage 2 loans. We expect moderate upwards pressure on CoR in the following quarters but the impact on profitability should remain well contained.

Figure 10: Cost of risk, annualised in bp



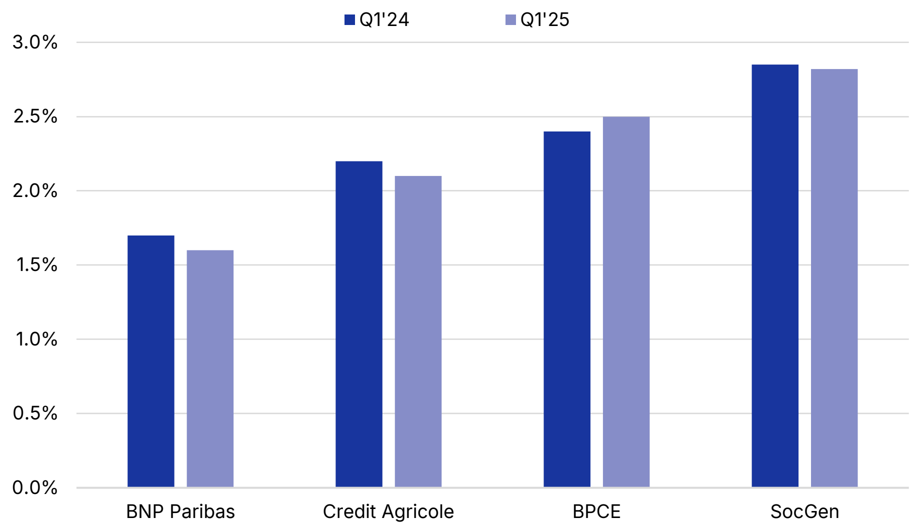
Source: Banks' financial data quarterly data, Scope Ratings.

3. Asset quality broadly stable, some early signs of deterioration in SMEs

Non-performing loan (NPL) ratios remained contained at 2.3% in Q1 25, with little to no change quarter on quarter. There was a subtle deterioration in SMEs, mostly at BPCE, but this has been offset by resilient or improving asset quality in retail banking.

For the full year, we expect asset quality to normalise at slightly higher levels for most banks, reflecting the volatile economic environment and the structurally higher risk in consumer lending and from SMEs, which will weigh on provisions.

Figure 11: NPL ratio, YoY



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

4. Capital levels remain adequate and above targets

Capital is supported by retained profits and modest growth in RWA

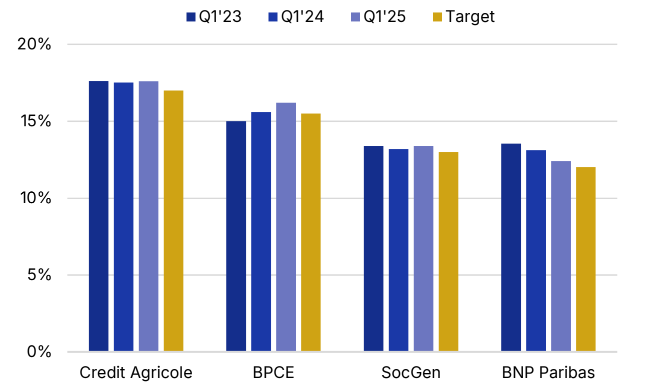
The average CET1 ratio for French banks was 14.9% in Q1, unchanged from the previous quarter. Across individual banks' CET1 ratios ranged from 12% to 18%. BPCE and Credit Agricole are in the upper range, while Société Générale and BNP Paribas at the lower end. But the difference in capital levels between mutual and co-operative groups and BNP Paribas and Societe Generale largely disappear when considering Total Loss-Absorbing Capacity (TLAC).

BPCE and Credit Agricole maintain higher capital ratios and conservative capital targets whereas the latter hold smaller buffers to requirements and maintain optimised capital structures. This is not the case for TLAC as for all French banks, it is above 27% versus a 22%-23% regulatory requirement.

The final implementation of Basel III was aligned to expectations, with the largest negative impact on BNP Paribas at -50bp and -48bp for Société Generale. For both banks, organic capital generation for Q1, and in the case of Societe Generale the disposal of SG Equipment Finance, mitigated most of the negative effects of the application of CRR3. For BPCE, the impact was positive (+36bp), as well as for Crédit Agricole group (+56bp).

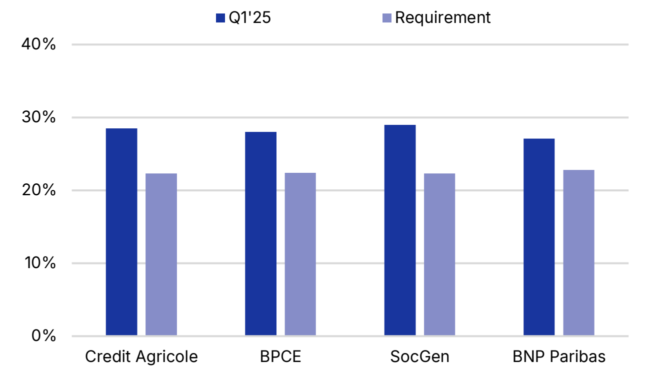
We take comfort from the combination of high capitalisation and loss-absorption capacity, which provides stability in a scenario of still limited growth in RWAs.

Figure 12: CET1, YoY and target



Source: Banks' financial data, Scope Ratings.

Figure 13: TLAC, Q1 '25 vs requirement



Source: Banks' financial data, Scope Ratings.

5. Dynamic M&A activity to target geographic diversification

Active M&A activity supporting growth outside France

After years of limited M&A activity, French banks are actively engaging in initiatives to expand outside of France to enhance geographic diversification. The recent announcement by BPCE to acquire Novobanco in Portugal, Credit Mutuel Group's acquisition of OLB in Germany, and Credit Agricole's increased stake in Italy's Banco BPM demonstrate the appetite of French banks to expand, increasing footprints in markets with comparatively higher intrinsic profitability.

We also foresee potential to strengthen recurring revenues streams, as Italy and Portugal have shown stronger upside in net interest margins compared to France, which may help to strengthen stable retail revenue contributions for BPCE and Credit Agricole.

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