French banks quarterly

Positive earnings trajectory challenged by fragile economic recovery

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Political uncertainty in France has eased but economic growth prospects continue to be challenging, adding pressure to the expected recovery in French banks' lending volumes. Market confidence remains fragile in the wake of the protectionist shift in US trade policies.

French banks showed a strong improvement in profits in Q4 from a low basis in Q4 2023, boosted by a strong performance in corporate and investment banking (CIB), asset management and insurance and by the first signs of an increase in revenues from retail and commercial banking. However, French banks' return on risk-weighted assets (RWAs) lags EU peers, primarily due to limited balance-sheet repricing driven both by the peculiarities of the French lending and savings markets, and the banks' costly operational structures. Profits will grow moderately in 2025, however, supported by better performance in retail and commercial banking.

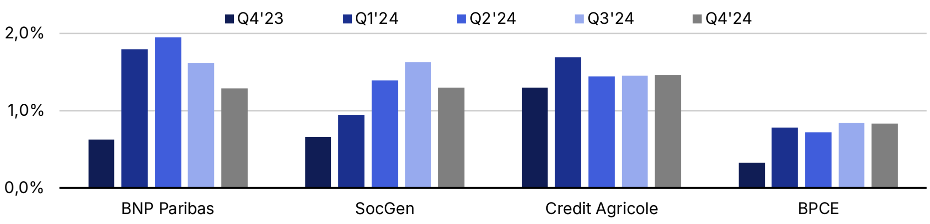
Recent asset management deals support business model resilience. French banks continue to target growth through business model diversification. Société Générale is in the process of reshaping its business mix to improve profitability and efficiency, but BPCE and BNP Paribas are expanding their asset management franchises through joint ventures and acquisitions.

Asset quality remains a strength. While some normalisation of cost of risk (CoR) and a moderate increase in non-performing loans (NPLs) are likely, robust asset quality is feature of French banks.

Capital remains adequate; most banks maintain dividend payouts at levels below EU peers. Organic capital generation remains below EU peers due to lagging profitability, which in turn keeps shareholders' remuneration at more conservative levels than that of peers, ranging from 50% to 60% versus 80%-100%.

Rating Outlook. Our Stable outlooks for the public ratings on BNP Paribas (AA-/Stable) and Crédit Agricole (AA-/Stable) indicate that risks to their credit profiles are broadly balanced in 2025.

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

Expected 2025 trends for French banks		
Profitability	Slightly positive, supported by repricing of the loan book	↗
Asset quality	Stable to mildly negative, normalisation of CoR and NPLs	↘
Funding & liquidity	Stable, minor shift between deposits and regulated savings wealth products	→
Capital	Stable, shareholder remuneration lower than EU peers	→

1. Political uncertainty easing but growth prospects depend on the impact of tariffs

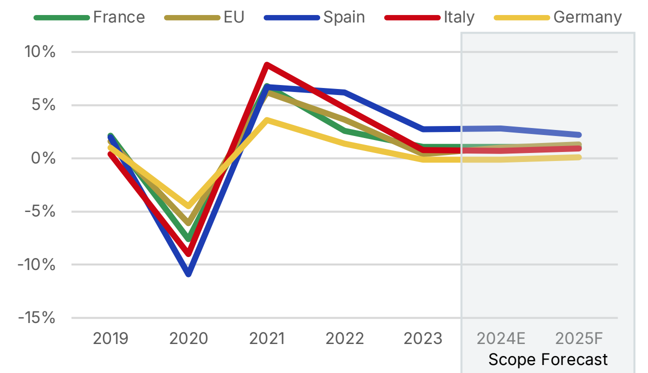
Strong fundamentals support banking sector performance.

Scope expects GDP growth in France to be 1.1% in 2025, supported by lower inflation and declining interest rates that should lead to an increase in private demand and an easing of political uncertainty after the passing of the 2025 budget.

There are still headwinds, however, including a more restrictive fiscal stance, potentially higher unemployment, geopolitical tensions, the impact of expected US tariffs and increased military spending.

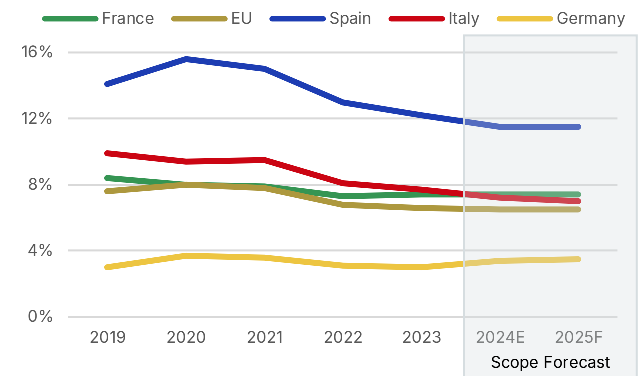
France (AA-/Stable) and its leading role in Europe's economic, financial and security architecture, its large and resilient economy, high GDP per capita and diversified economic structure, remain key supporting factors of the banking sector.

Figure 2: GDP growth



Source: Scope Ratings Macroeconomic Board

Figure 3: Unemployment rate

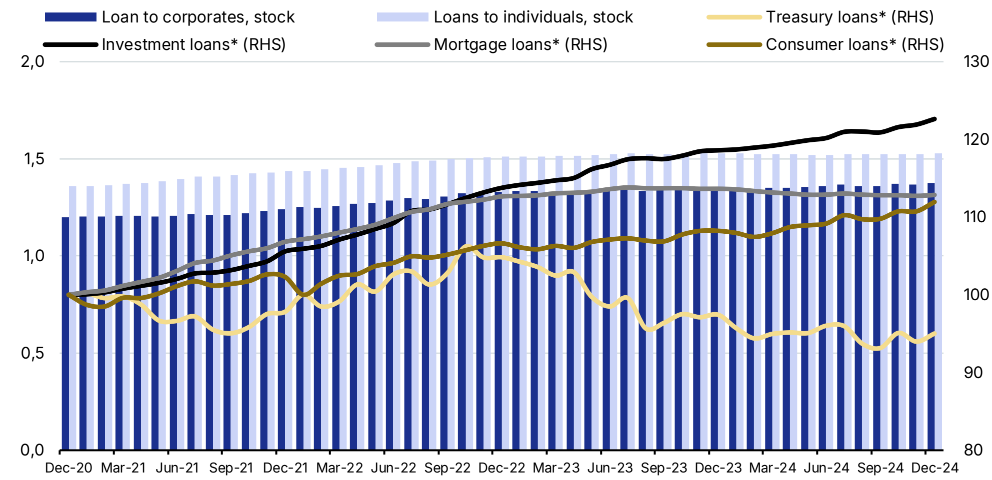


Source: Scope Ratings Macroeconomic Board

Retail loans driving lending volumes

Loan volumes are showing signs of recovery, mostly consumer loans as mortgage lending has hardly recovered since Q2 2024. Individual bank dynamics remains different, depending on their strategic focus as well as geographic footprints including relevant operations outside France.

Figure 4: Domestic lending dynamics, EUR trn



*Stock, Dec 2020 = basis 100. Source: Banque de France, Scope Ratings

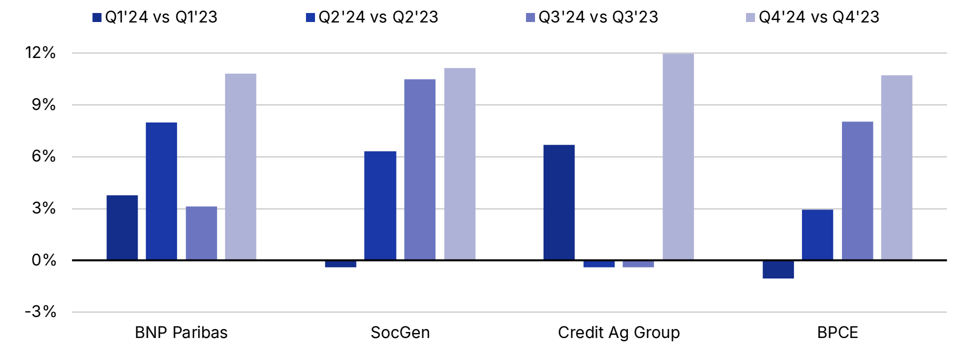
2. Strong Q4, but profitability still lags European peers

Growing profits QoQ but capital generation still below European peers

Q4 2024 profits improved significantly for our sample of banks (BNP Paribas, Crédit Agricole, BPCE and Société Générale). All four posted higher revenues in 2024 compared to 2023, with some acceleration in growth more visible in the second half of 2024.

Revenue growth was supported by a stronger share of revenues from non-banking activities, a stabilisation in deposit costs (including adjustments on Livret A) and positive effects of asset repricing. But French banks continue to lag their European peers. Annualised net profit to RWAs remained in the range of 0.8%-1.5% in Q4 for our sample of banks, compared to levels above 2.0% for Italian and Spanish banks.

Figure 5: Revenues, quarterly growth YoY



Source: Banks' financial data, Scope Ratings

Revenues from CIB, asset management and insurance activities contributed positively to growth in Q4 across all banks and were the main driver of the increase in revenues in 2024 vs 2023. Revenue from banking activities, mostly French retail, showed weak performance in the first three quarters of 2024, and accelerated only in the last quarter of the year.

Figure 6: BNP Paribas, revenue quarterly growth YoY

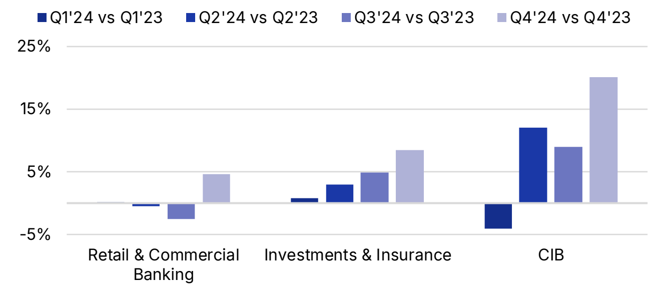


Figure 7: Crédit Agricole, revenue quarterly growth YoY

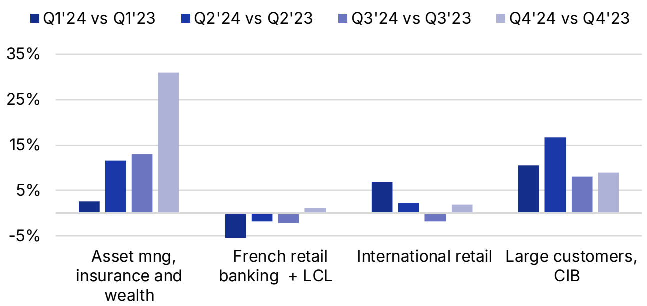


Figure 8: SocGen, revenue quarterly growth YoY

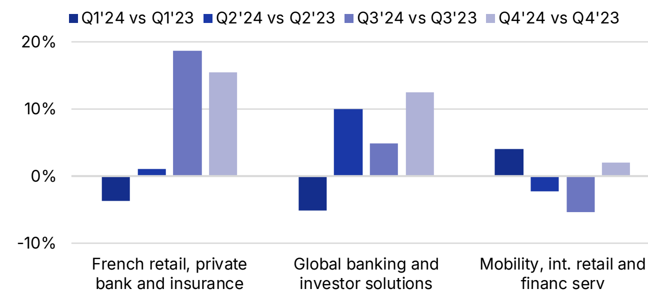
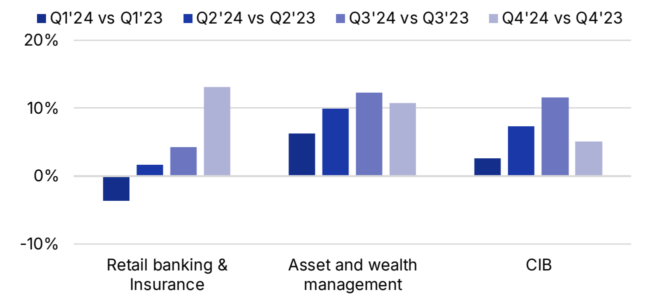


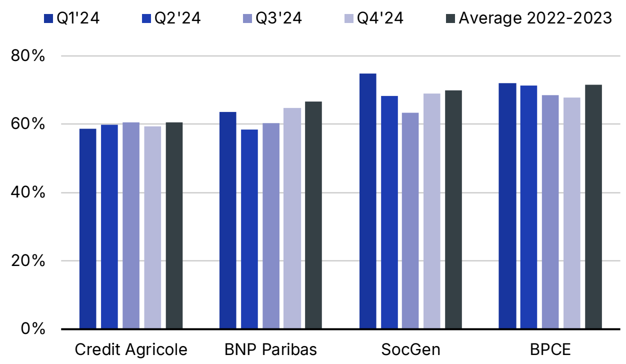
Figure 9: BPCE, revenue quarterly growth YoY



Source: Banks' financial data, Scope Ratings

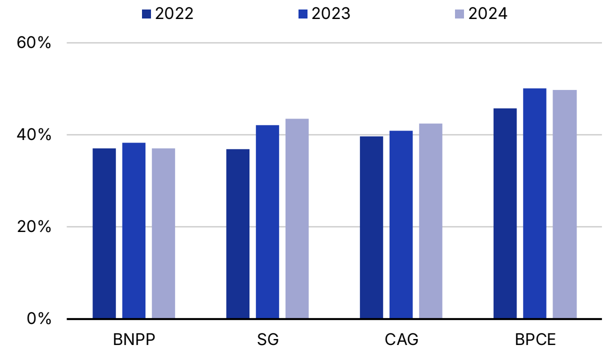
Stronger revenues supported efficiency improvements for all banks in our sample. Cost-income ratios are all below the 2022-2023 average (adjusted for SRF contributions). For French banks, staff costs are significant within the costs structure compared to EU peers because of the comparably large branch network and a higher share of variable remuneration related to CIB activities. While we expect further improvements in efficiency as the revenue base continues to grow, this will not be sufficient to close the gap to EU peers.

Figure 10: Cost-to-income ratio



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

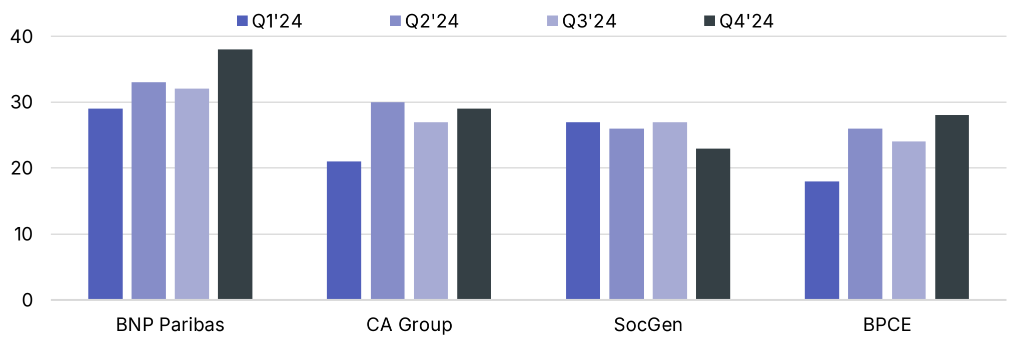
Figure 11: Staff costs to revenues ratio



Source: Banks' financial data, Scope Ratings

Q4 2024 CoR increased for BNP Paribas (due to consumer and private banking), Crédit Agricole (more provisions related to UK car loans) and BPCE (increase from CIB specific cases), but it remains low and within a range of 23bp-40bp, confirming the strong asset quality of French banks.

Figure 12: Cost of risk, annualised in bp



Source: Banks' financial data quarterly data, Scope Ratings

We expect CoR for all banks to rise moderately 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.

In 2025, profit growth should be supported by higher net interest income, given the gradual repricing of long-term assets and a lower cost of liabilities (e.g. regulated savings) following recent rate cuts. Commissions, notably in CIB, should continue to perform well.

But while new loan production at higher yields will strengthen the revenue base in retail and commercial banking, the speed at which loan volumes will recover is very dependent on the prospects for economic growth and sentiment, mostly for households and SMEs. The challenges of subdued economic performance, from geopolitical risks and volatile domestic dynamics, are a concern that could slow the ability of French banks to further improve profitability in 2025.

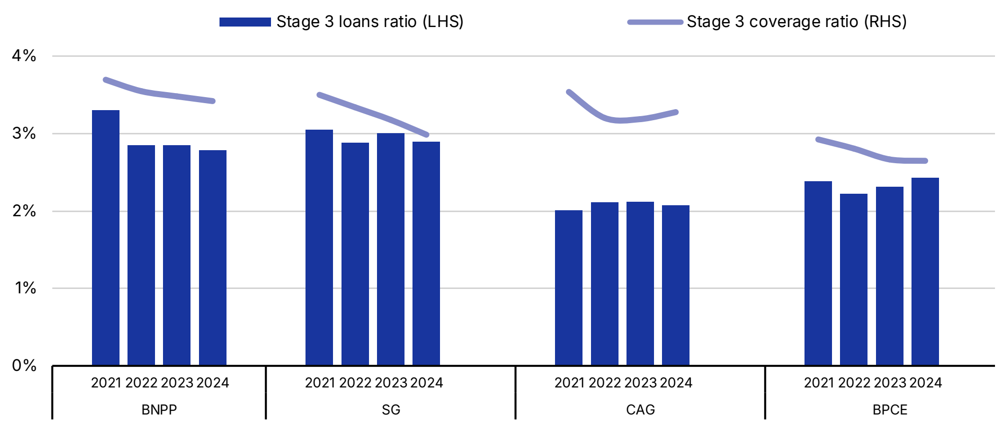
3. Asset quality remains a strength, but NPL should start normalising

Against a backdrop of rising corporate bankruptcies in France, banks' asset quality remains strong, with NPL ratios marginally declining in Q4.

Slightly higher corporate NPLs are a normalisation following the end of Covid-related government support measures and guarantees, higher energy prices and alternatives to bankruptcy such as voluntary de-registrations.

We expect stage 3 ratios to normalise at slightly higher levels for most banks because of volatile economic scenario and the structurally higher risk from retail, mostly consumer lending, weighing on provisioning.

Figure 13: Stage 3 and coverage ratios



Note: Coverage ratio measured before guarantees Source: Banks' financial data, SNL, Scope Ratings

4. Capital levels remain adequate and still above targets

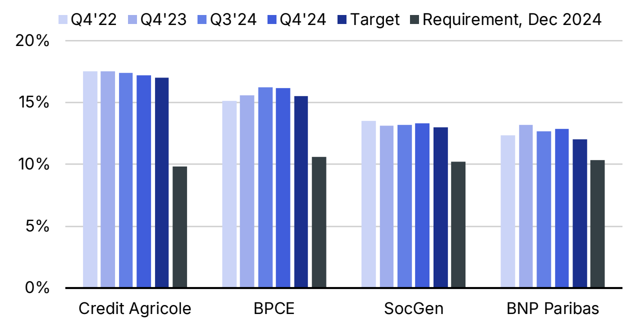
Capital is supported by retained profit at 50% and modest growth in RWA

Our sample of French banks recorded an average CET 1 ratio of 14.8% as of Q4'24, slightly below the EU average (EBA risk dashboard Q3 2024 at 16%). French banks have maintained their focus on CET1, MREL 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 (50%-60%) and share buy-backs in the lower range compared with EU peers, several of which are moving to 80%-100% total payouts.

However, there is a significant difference between mutual and co-operative groups (BPCE and Crédit Agricole), which have higher capital ratios and more conservative capital targets, and BNP Paribas and Société Générale, which hold smaller buffers to requirements and target a more optimised capital structure. The differences disappear when looking at Total Loss-Absorbing Capacity (TLAC), as all French banks TLAC was above 26% (versus a 22%-23% requirement).

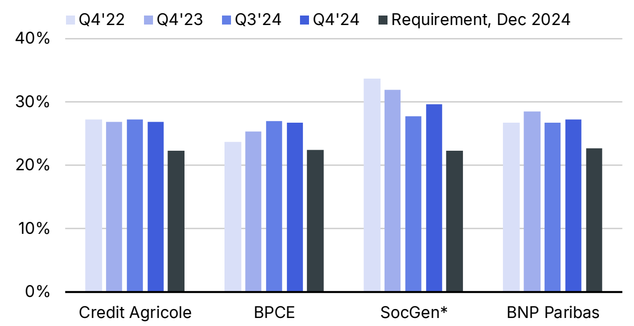
The impacts of Basel III finalisation should be well absorbed by all banks, with the largest negative impact of around 50bp on BNP Paribas and Société Générale, in both cases expected for January 2025. For BPCE and Crédit Agricole, we expect capital to remain relatively stable as both groups focus on organic capital generation.

Figure 14: CET1, Q4 evolution 2022-2024



Source: Banks' financial data, Scope Ratings

Figure 15: TLAC, Q4 evolution 2022-2024



Source: Banks' financial data, Scope Ratings

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