# French Banks In 2024

## Domestic Interest Income To Rebound


Nicolas Malaterre

Nicolas Poirier



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S&P Global Ratings


*This report does not constitute a rating action*

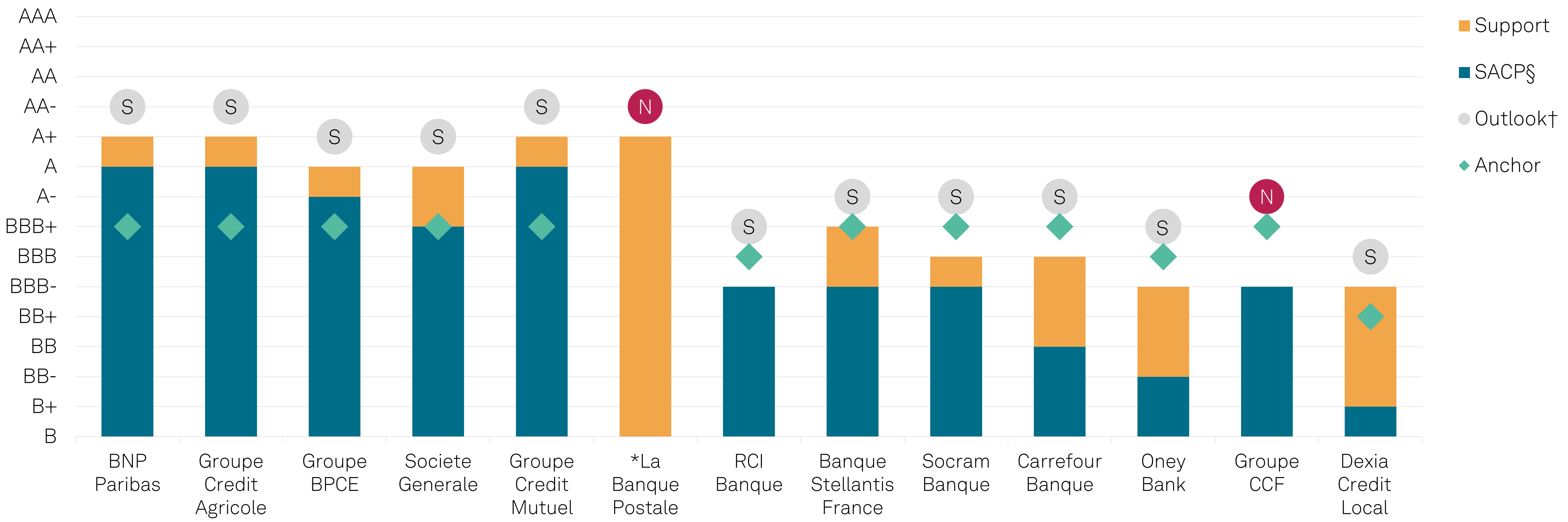
# Contents

# French Banks | Key Takeaways

- **We expect French banks' domestic net interest income to rebound in 2024, becoming noticeable by mid-year**. Banks' liabilities have repriced faster than they've been able to reprice assets, namely fixed-rate mortgages, so benefits from higher interest rates have come with a time lag.
- **We forecast credit growth at about 3% this year, above the eurozone average**. But domestic lending growth has been slowing across all asset classes. We do not expect deposit repricing to materially affect net interest margins. The move from non-interest-bearing to interest-bearing deposits will continue, but decelerate, also because Livret A remuneration is fixed at 3% until early 2025.
- **Business and geographical diversification** is still a factor for banks' revenue performance.
- **Cost efficiency remains a weakness for French banks compared with European peers**, notably due to still-dense branch networks. Banks also face digitization and efficiency challenges.
- **Potential credit risks relate to lending to consumers, SMEs, and sectors such as construction and real estate development**. These risks do not necessarily materially affect wider financial sector performance. Some credit deterioration could also result from borrowers facing higher interest burdens amid higher-for-longer rates. But banks have maintained asset quality, and we continue to forecast moderate cost of risk. We project domestic nonperforming assets will increase to 2.8% of total domestic assets by end-2025.
- **In France, most of our bank ratings have a stable outlook**. This implies ratings are unlikely to change over the next two years under our current base cases. Ratings could come under pressure if our macroeconomic forecasts or our credit loss projections deteriorated considerably. Lower economic growth, tighter funding conditions, and inflation remain headwinds for banks' asset quality, business prospects, and cost management.

# Mostly Stable Outlooks; Ratings Unlikely To Change In The Next Two Years

## Diversified banking models supporting large banks ratings




*The rating on La Banque Postale is equalized with the one of La Poste Group. §Stand-alone credit profile for rated groups. †S--Stable. N--Negative. Ratings as of Jan. 4, 2024. Source: S&P Global Ratings.

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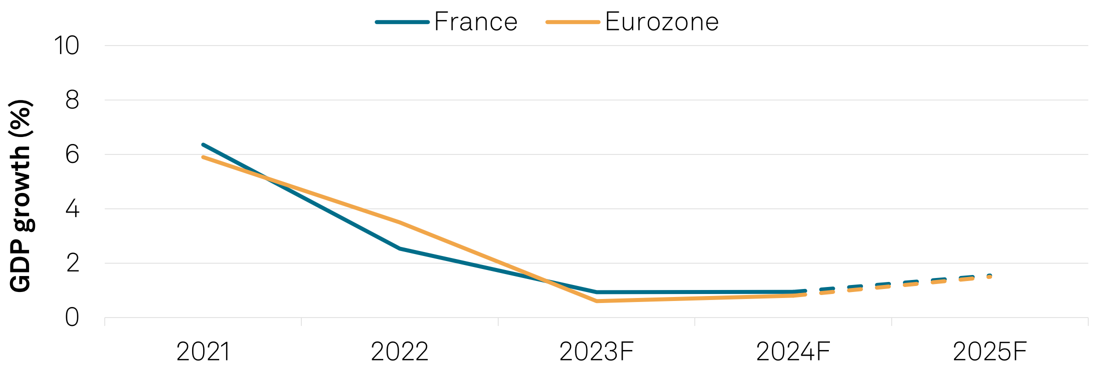
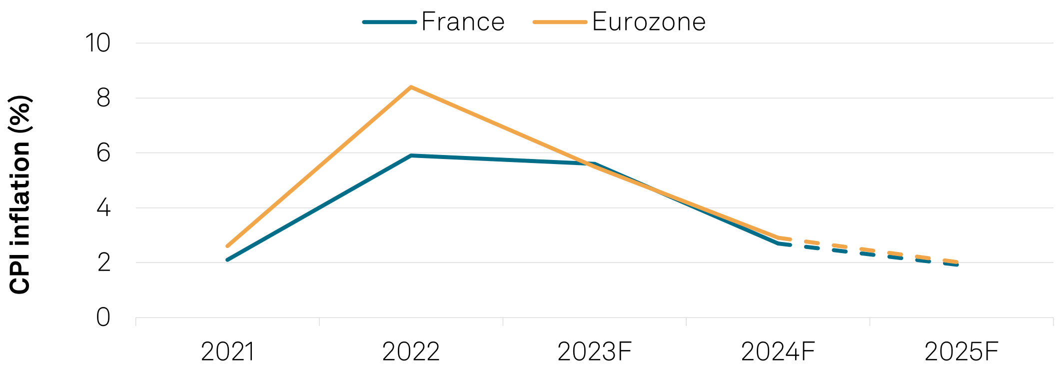
# The Economy Has Slowed Since 2022 But Unemployment Has Stayed Low

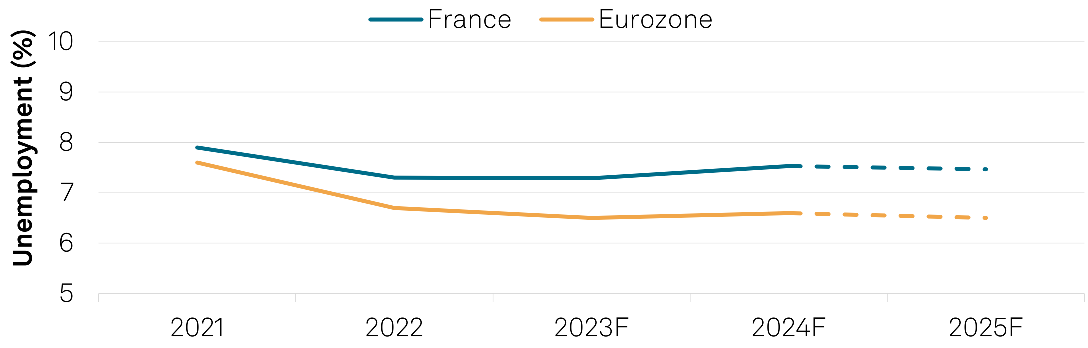
## French GDP growth close to eurozone GDP



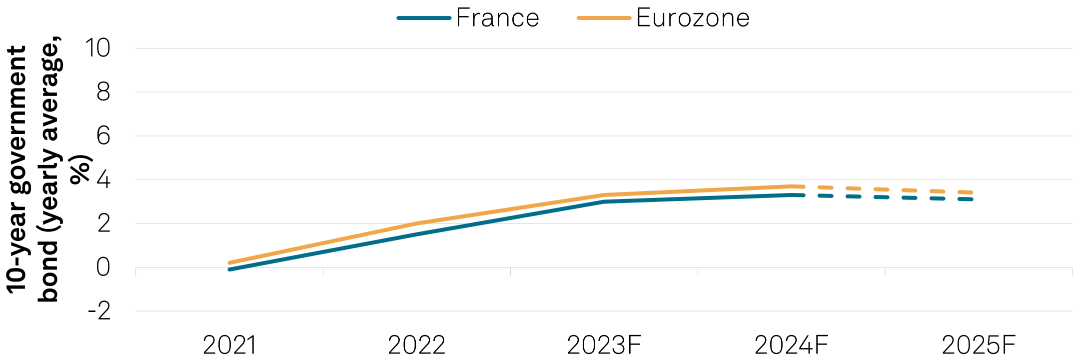

## Inflation to decrease to 2% In 2025




## Unemployment remains stable but higher than eurozone average




## Rates are stabilizing and modestly decreasing




F-- forecast. Source: S&P Global Ratings.

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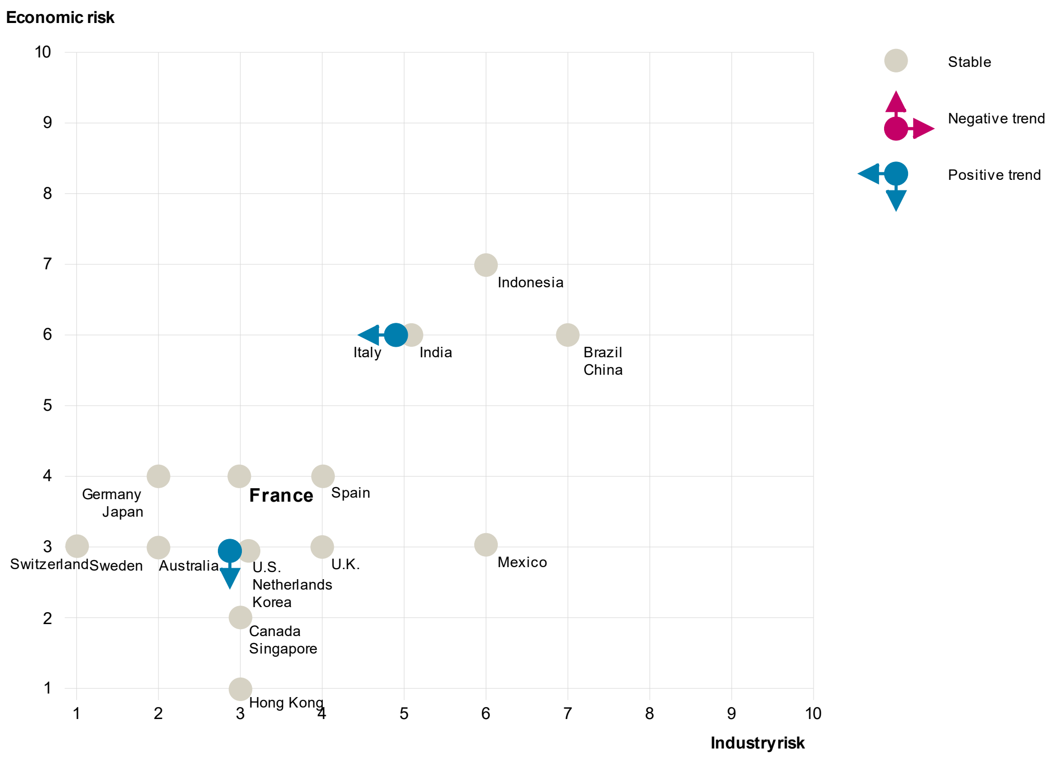
# France’s structural profitability pressures remain

## BICRA scores and economic industry risk trends




Data as of Jan. 19, 2024. A BICRA (Banking Industry Country Risk Assessment) is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group 1) to the highest-risk (group 10). Source: S&P Global Ratings.

**Key strengths**

- Banks in France benefit from its open and diversified economy.

- The sector is stable and concentrated, with limited space for new entrants. Traditional banks are enhancing their digital offerings to meet customer demand.

- The structure of banks’ domestic loan books is relatively low risk, reflecting the private sector's high creditworthiness, particularly households.

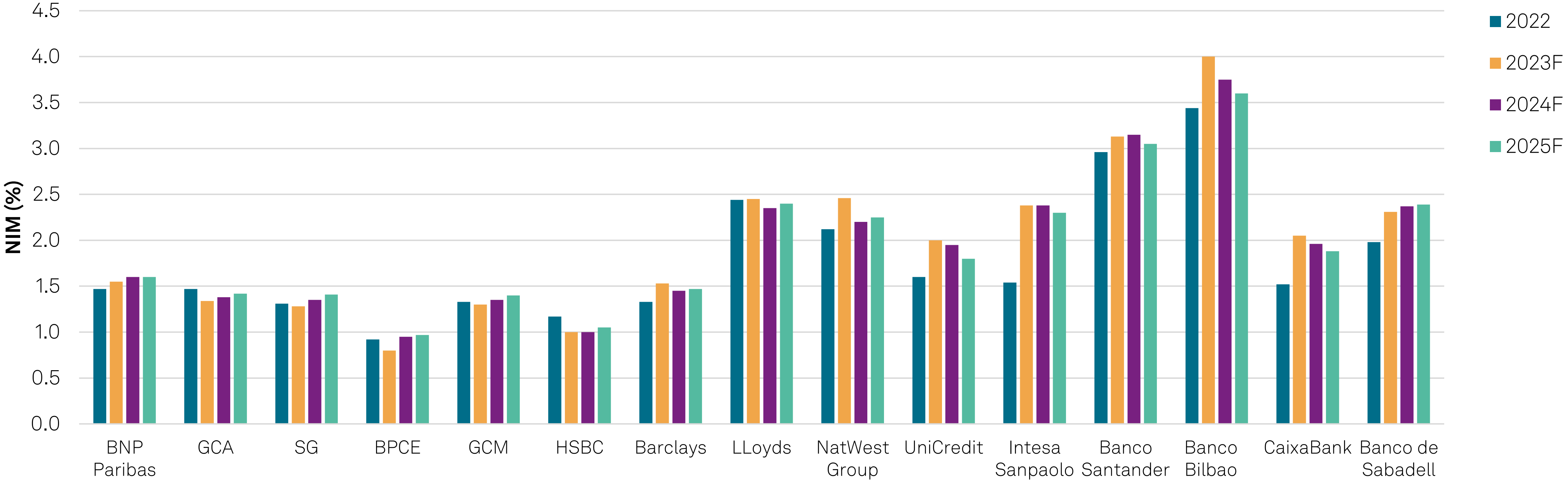
**Key risks**

- The competitive domestic market is challenging banks' earnings; retail credit margins remain tight and higher interest rates are not significantly boosting earnings, for now.

- Pandemic-era support packages and higher funding costs have created additional debt burdens for sovereigns and companies.

# NIMs Up Modestly In The Next Two Years For French Banks But Remain Below Most European Peers

Higher rates will increasingly benefit asset yields via new housing loans in the next two years

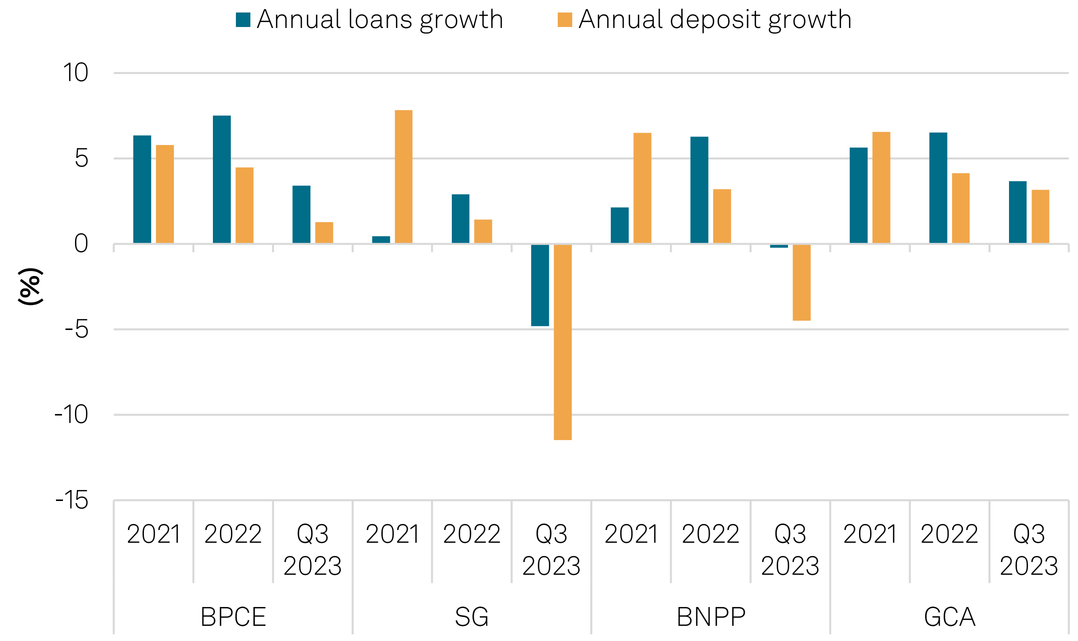



NIM is computed as net interest income / average earnings assets. Source: S&P Global Ratings.

# French Banks' Credit Growth Has Decelerated Since Late 2022

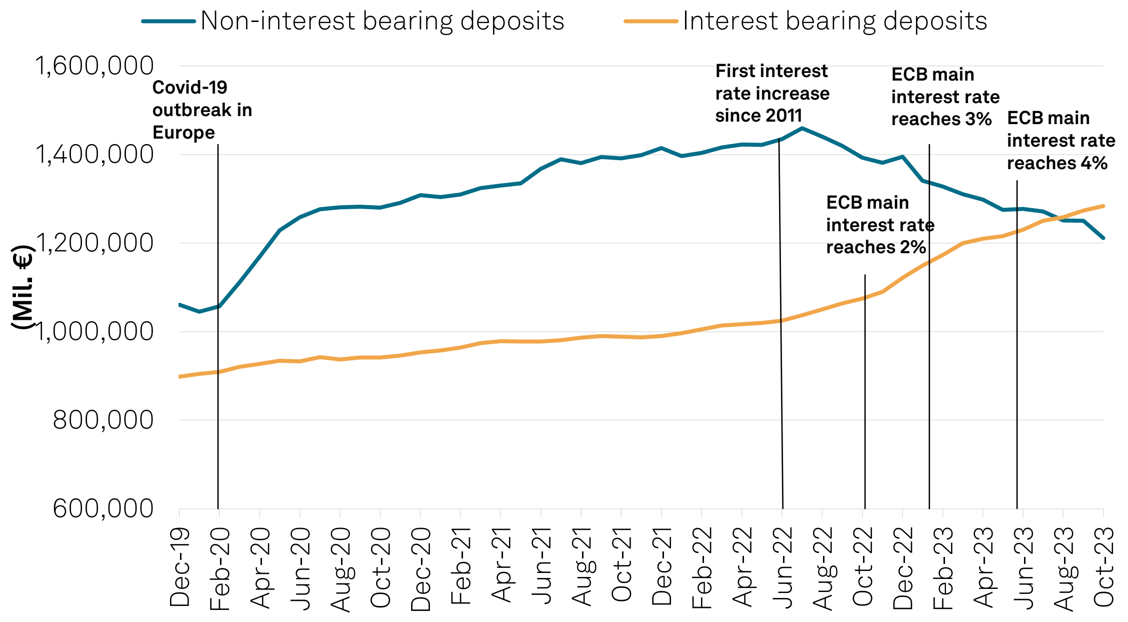
Deposits shifted from non-interest bearing to interest bearing because of rising interest rates. We expect low demand for housing loans due to higher interest rates and just-commenced property price adjustments.

## Credit growth will likely bottom out at about 3% in 2024.




Domestic Retail Activities On A Twelve-Months Basis. Source: Banks Disclosures.

## Rapid expansion of interest-bearing deposits as a proportion of French banks' deposit bases

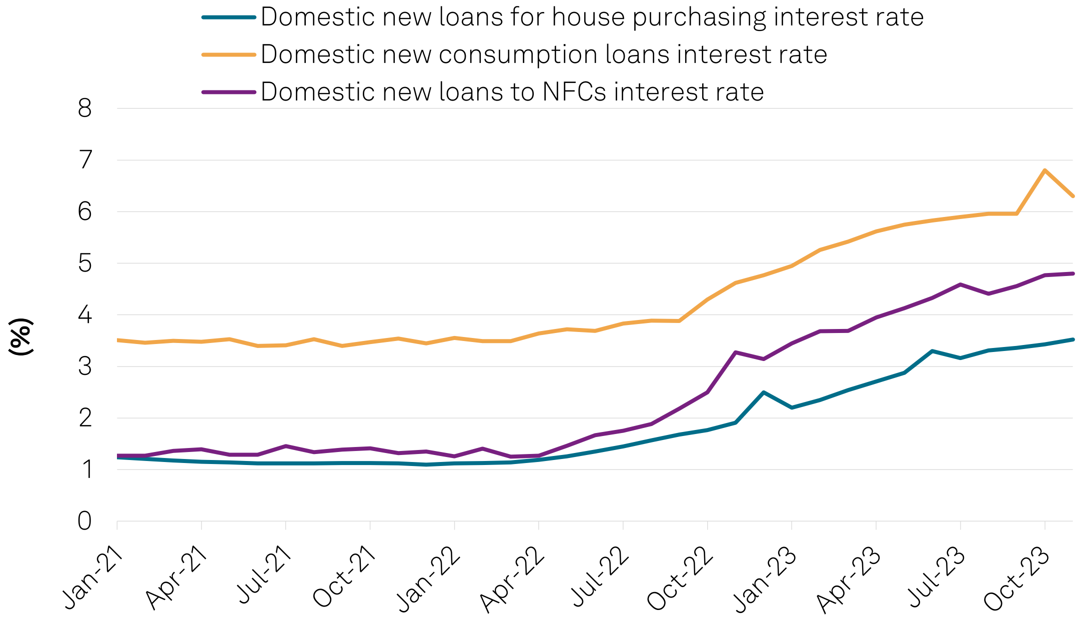



Source: Banque de France.

# Banks Will Benefit From Rising Interest Rates And Asset Repricing in 2024

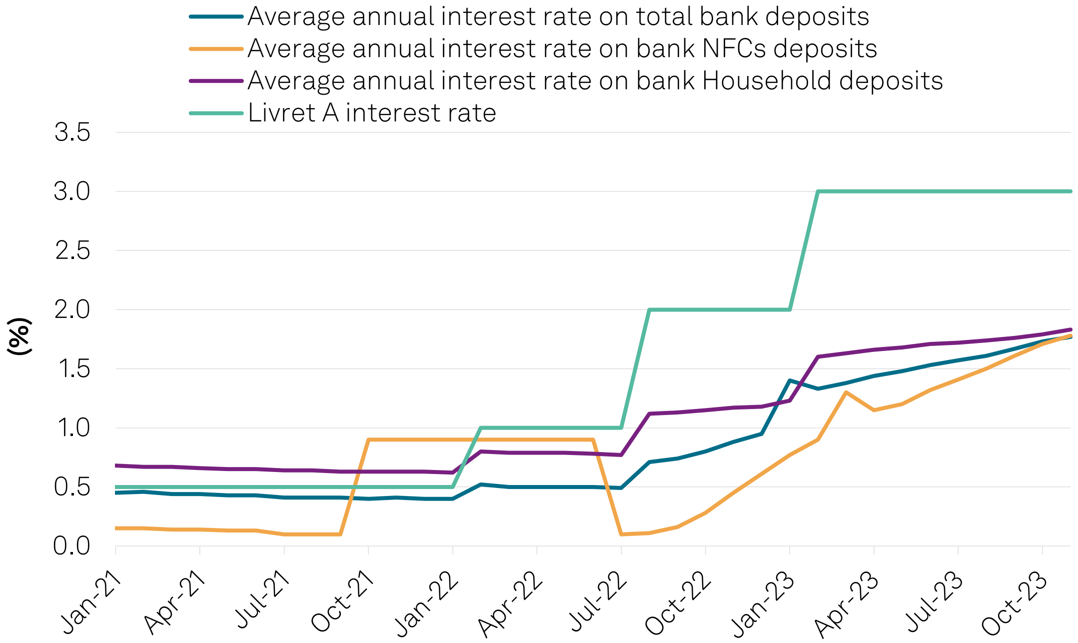
In 2023, French banks were affected by liabilities repricing faster than assets comprising large books of fixed-rate mortgages

## Interest for all types of loans increased only gradually along side usury rates




NFCs--Non-financial corporates. Source: Banque de France. * The usury rate for a mortgage loan with a tenor of 20 years and above was 6.11% as of December 2023 versus 3.57% in January 2023.

## Deposit interest rose, in particular for Livret A which is now fixed until 2025 at 3%




Source: Banque de France.

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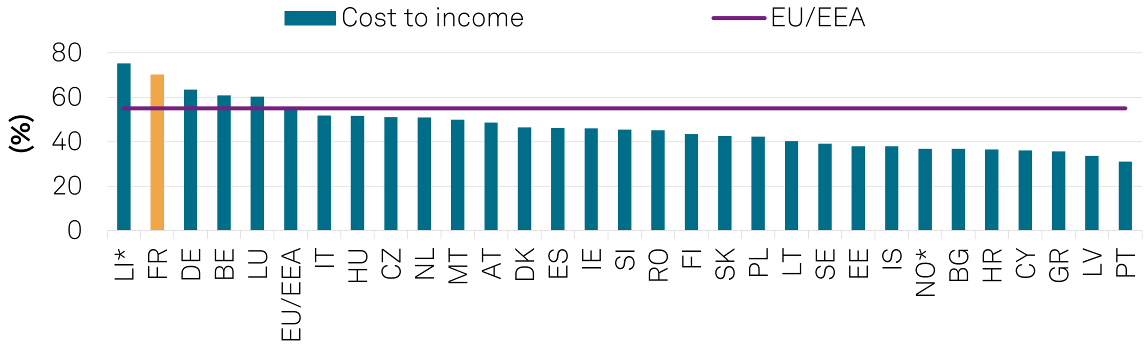
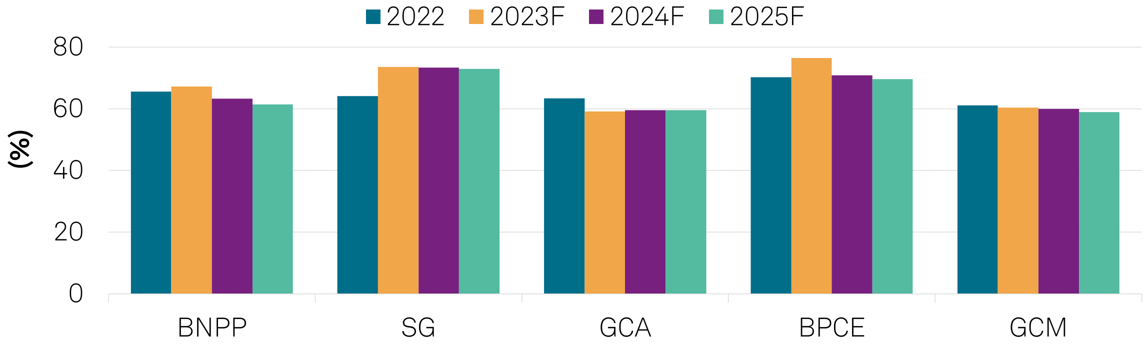
# For French Banks, Cost Bases Remain A Structural Challenge in 2024

## Tight margins and cost inefficiencies are weakening profitability

### French banks' cost to income tops the EU average



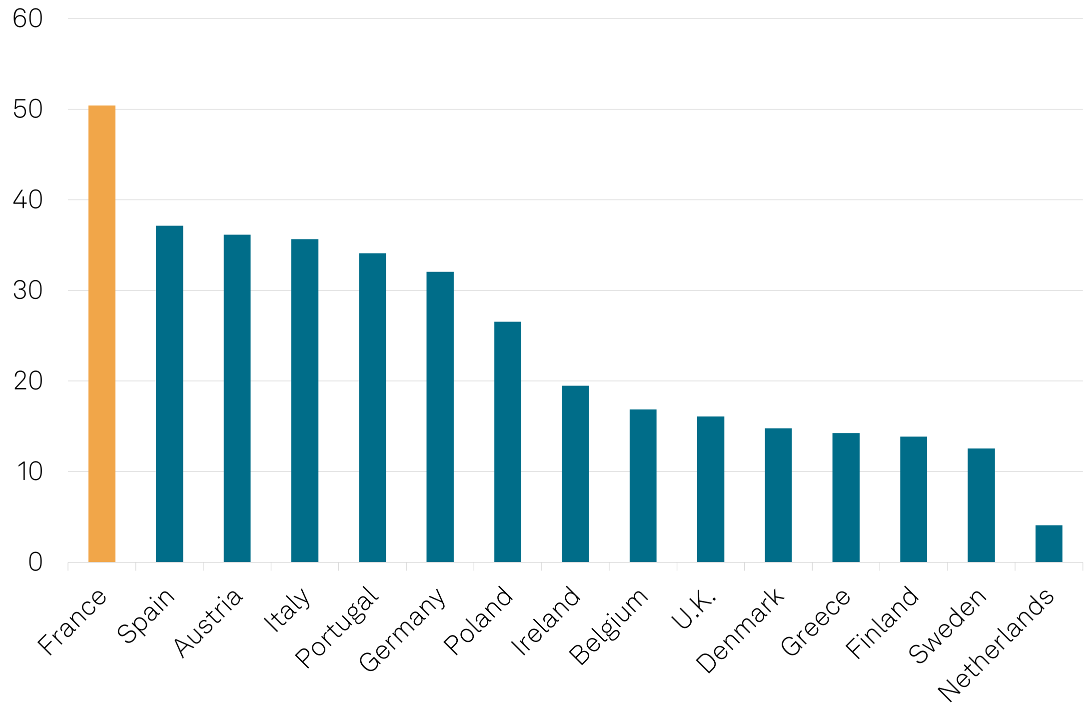

### Uneven cost to income is a greater challenge for some banks




*EBA data as of Q3 2023. ECB data as of end-2022. F--Forecast. Source: S&P Global Ratings.

### France has the highest domestic branch density in the EU

Bank branches per 100,000 inhabitants at year-end 2022



# The Banking Landscape Is Shifting

French banks are looking at growth drivers and operational efficiency

- Credit Agricole, Societe Generale (SG), and BNP Paribas have fleet leasing subsidiaries (respectively, Leasys S.p.A., Ayvens, and Arval Service Lease). Growth and earnings prospects drive this segment, although downside stems from residual value risks, integration risks for SG, and increased competition. We view these risks as manageable in 2024.
- The corporate and investment banking segment is increasing partnerships and distribution capacity.
- At the start of 2023, Societe Generale Group completed the merger of Societe Generale and Crédit du Nord retail banking networks, so its two now operate as one.

Banks are improving their automation and digitalization capabilities as well as simplifying group structures and continuing to invest in cybersecurity.

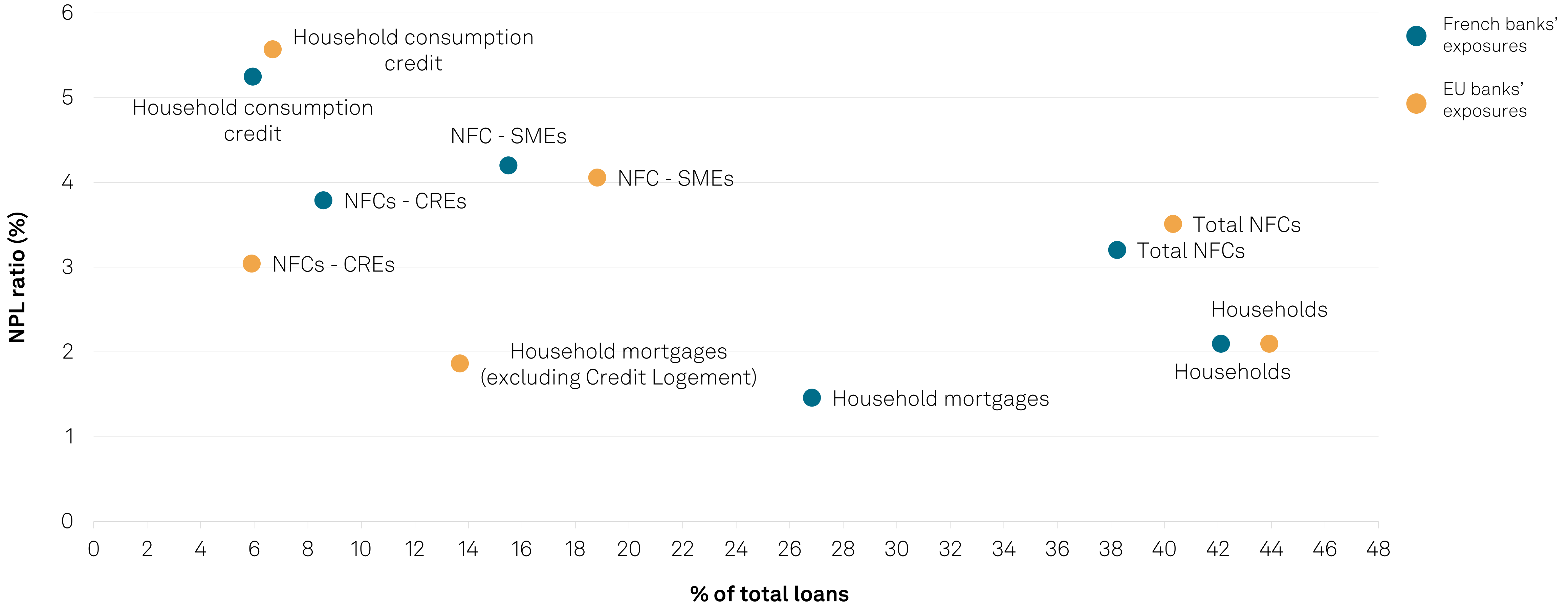
Several pure-online players have or could cease activity to the benefit of traditional banks' online subsidiaries (ING Bank France, Orange Bank)

- Cooperative banks, in particular, have retained large branch networks to maintain proximity to clients.
- Boursobank, with 5 million clients, is a clear pure digital leader in France with an expected net income in 2026 of about €300 million.

Strained profitability is leading consumer lending banks to review their operational setups and strategies. Our downgrade of Oney Bank last year reflected pressure on its financial profile and execution risks relating to its transformation plans, which could intensify in a less supportive macroeconomic environment.

The transformation of CCF (formerly HSBC's retail activities in France) will involve a lengthy and complex restructuring, which could lead to multiyear losses in a more challenging operating environment. Our negative outlook on our ratings on CCF reflects this uncertainty.

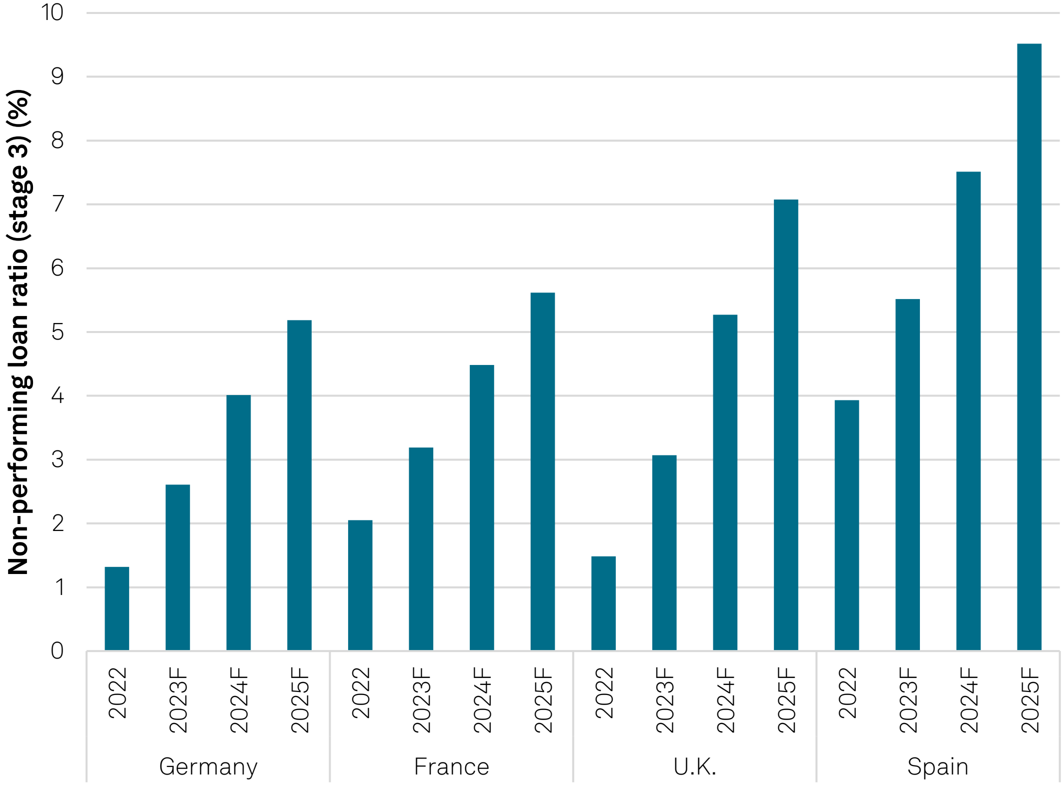
# Pockets Of Risk Exist In SMEs, Consumer Lending, And CRE



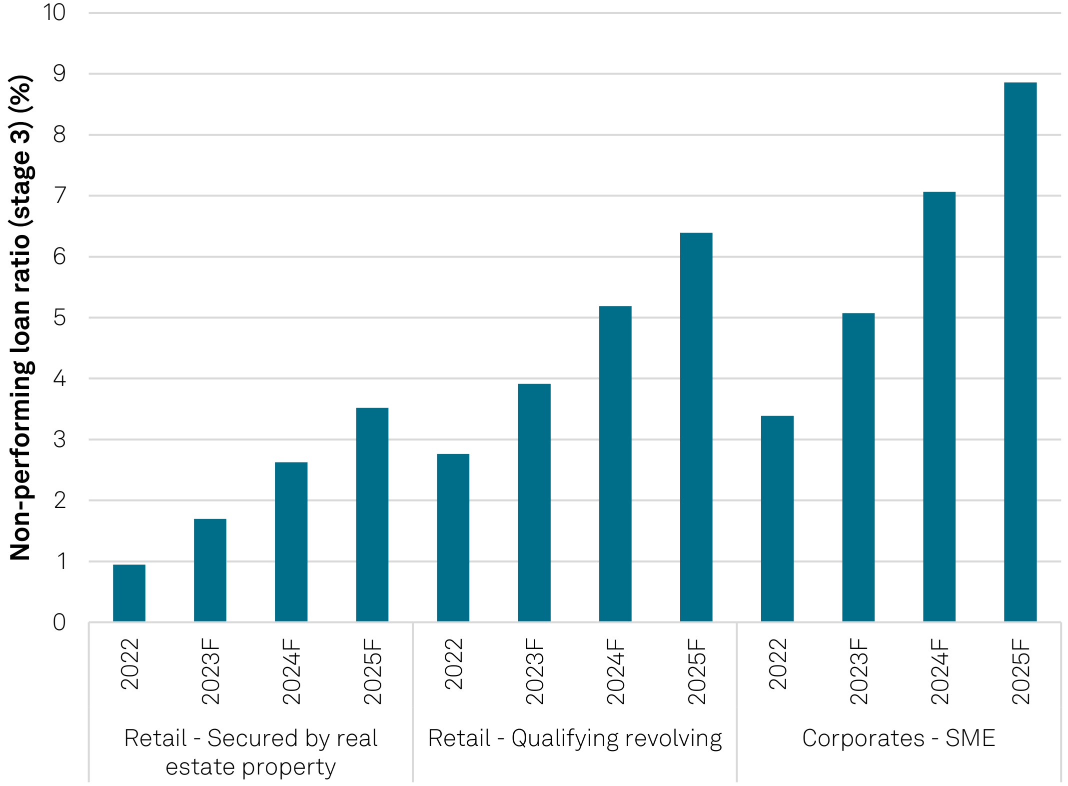

CRE--Commercial real estate. SME--Small-to-midsize enterprise. NFC--Non-financial corporates. The sample for France includes only data from the five largest banks (BNPP, GCA, SG, BPCE, and GCM). Source: EBA, S&P Global Ratings.

# The Modelled Increase In Stage 3 Loans For French Banks Is Moderate For Exposure Under The Adverse Scenario In The 2023 EBA Stress Test

## More risks in the adverse scenario in the U.K. and Spain



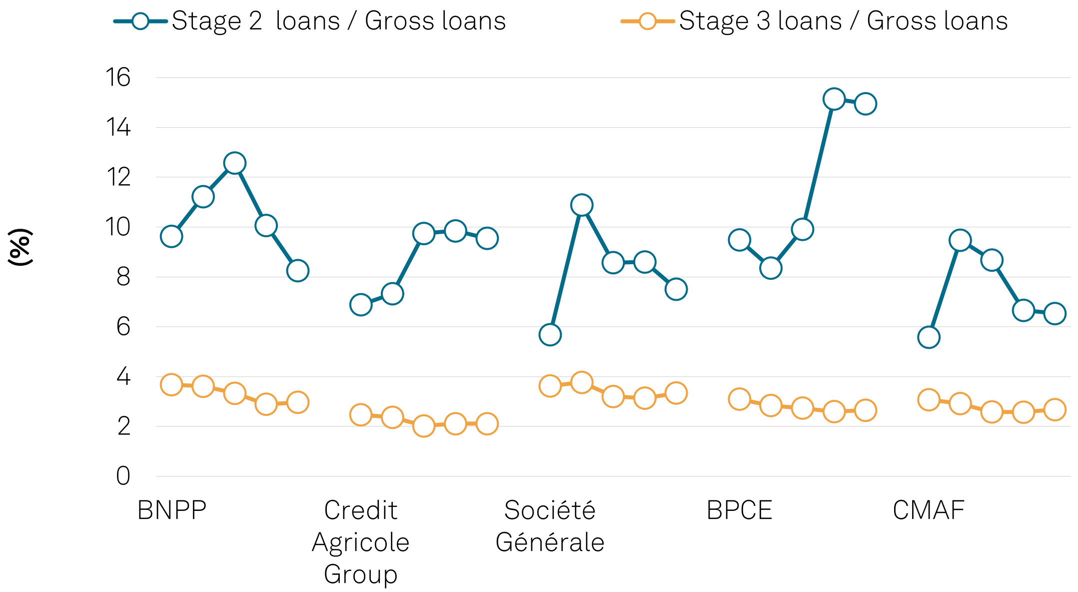

## Modelled NPLs increase in SMEs and unsecured credit




The EU-wide stress test involved 70 banks from 16 EU and EEA countries, covering 75% of EU banking sector assets. The adverse scenario was characterized by severe negative shocks to economic growth and higher unemployment combined with higher interest rates and credit spreads. F—Forecast. Source: EBA Stress Test 2023.

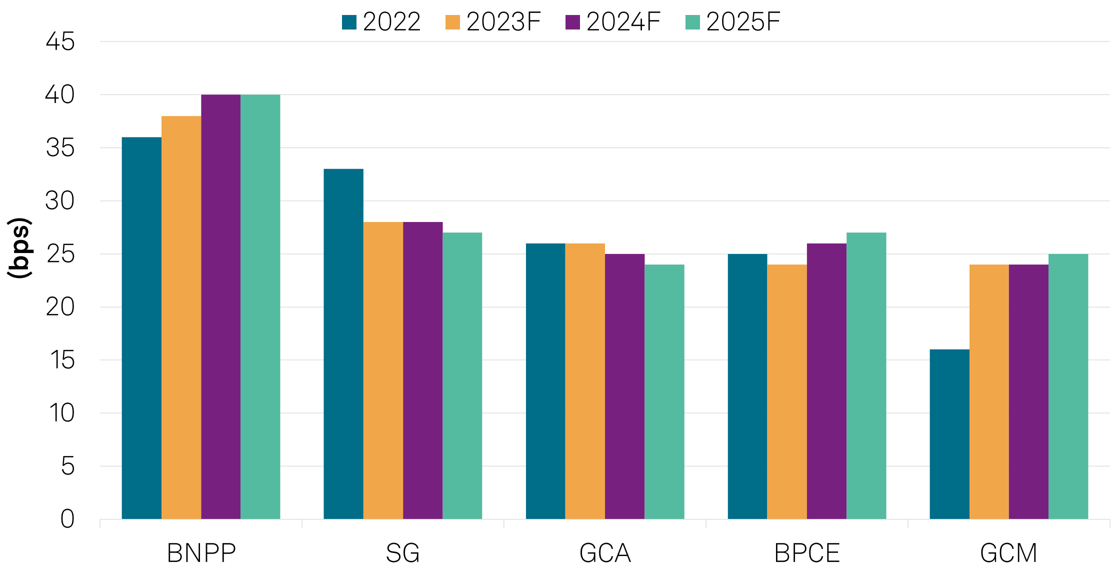
# We Expect A Modest Increase In French Banks' Cost of Risk

Stage 2 and 3 gross loans as a proportion of total gross loans, Dec-2019 (first dot), Dec-2020 (second dot), Dec-2021 (third dot), Dec-2022 (fourth dot) & Jul-2023 (fifth dot)




*The variation for BPCE's stage 2 proportion is due to a change in the calculation methodology used.
Source: Bank disclosures and S&P Global Ratings estimates, S&P Global Ratings database and data definitions.

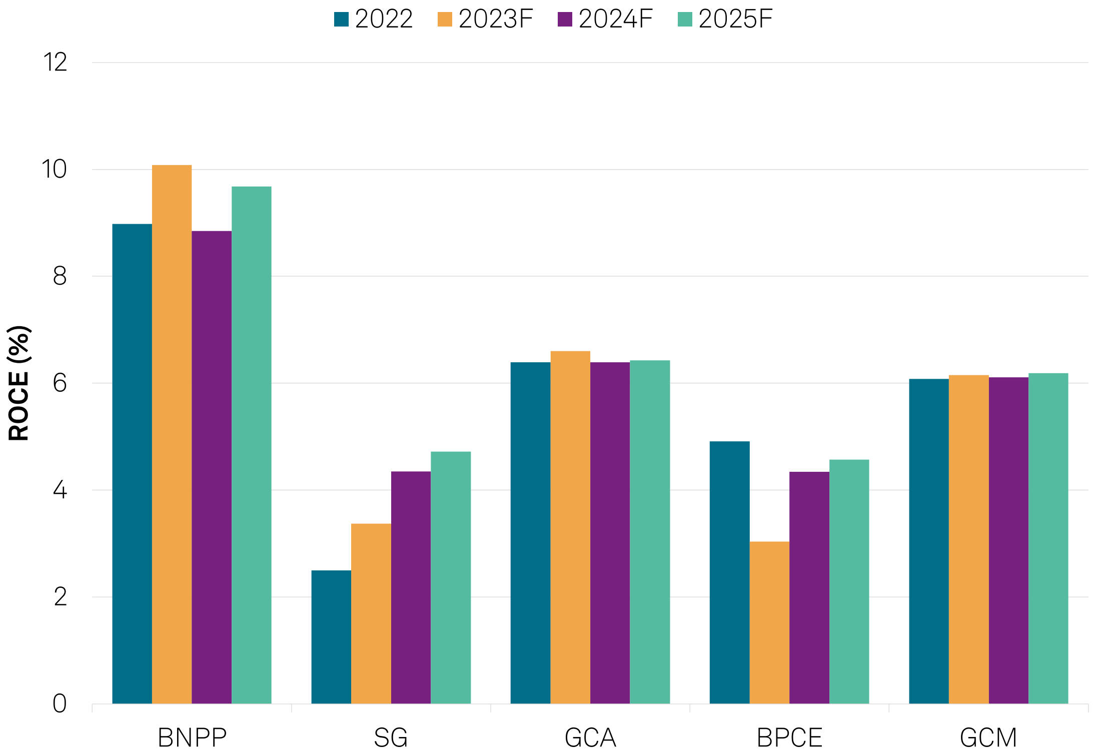
Cost of risk is about at banks' guidance




F-- Forecast. Source: S&P Global Ratings.

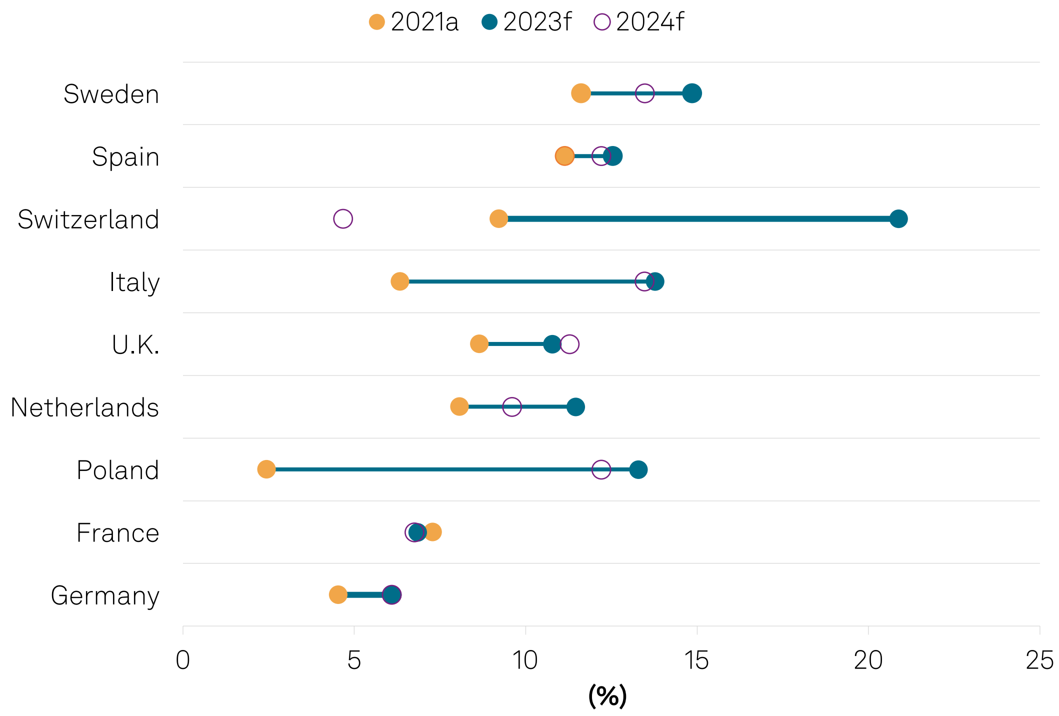
# Some Banks Still Lag Peers' Profitability

## French banks' return on average common equity should rebound from 2024




ROCE: Return on average common equity. F—Forecast. Source: S&P Global Ratings.

## Weighted average return on average common equity, for rated European banks




f--Forecast. Source: S&P Global Ratings. Sample includes rated European banks for which we have data for all three periods (i.e. constant sample). Values are weighted by total assets.

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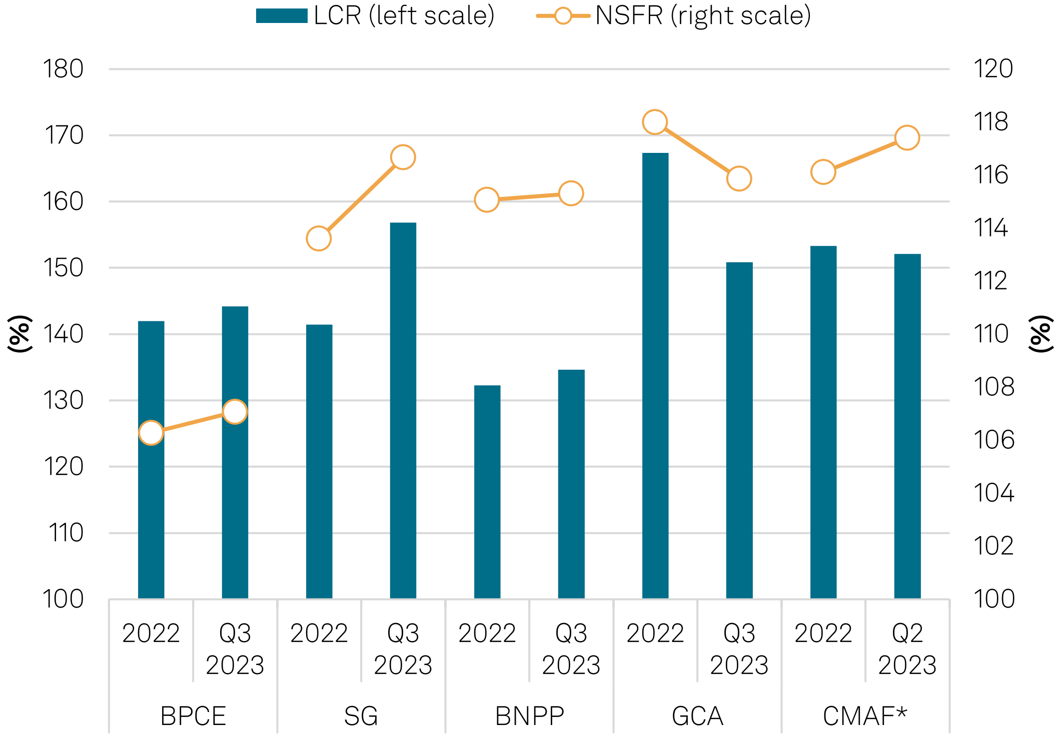
# Funding And Liquidity Remain Solid, With TLTRO Largely Repaid

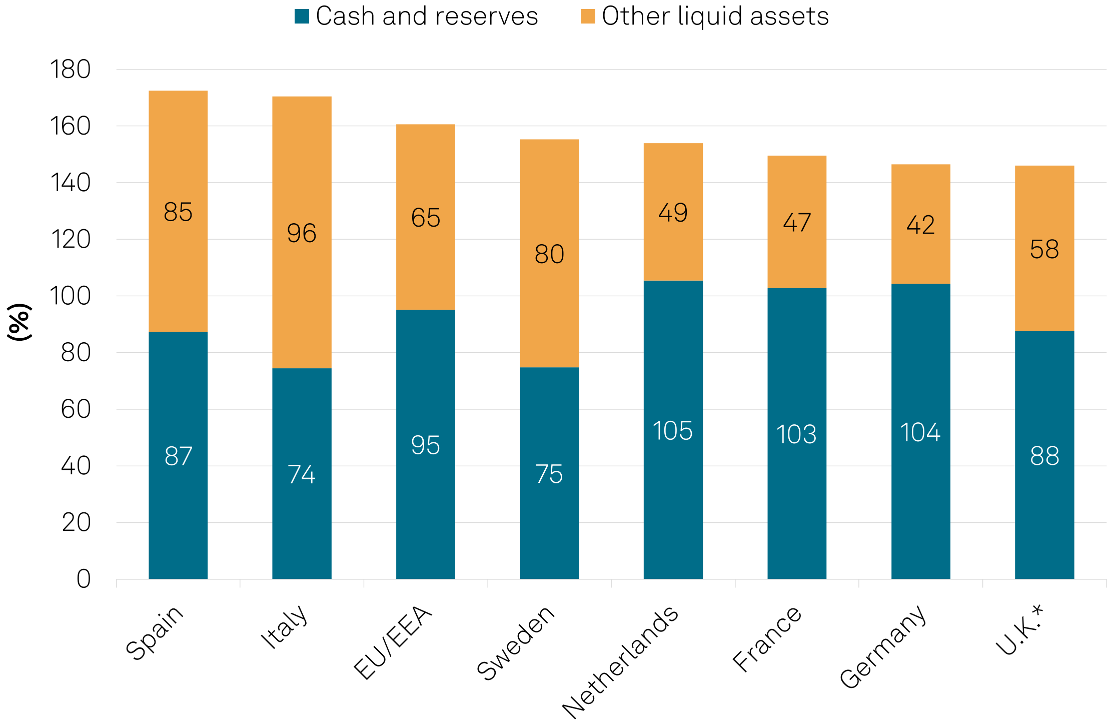
Most French banks have some reliance on wholesale resources, exposing the sector to market shocks

French banks liquidity metrics remain well above regulatory requirements




*CMAF does not publish quarterly data for Q3 2023. Source: Banks Disclosures

Large European banks' LCR ratios and mix on June 30, 2023




LCR--Liquidity coverage ratio. Source: European Banking Authority (EBA), S&P Global Ratings

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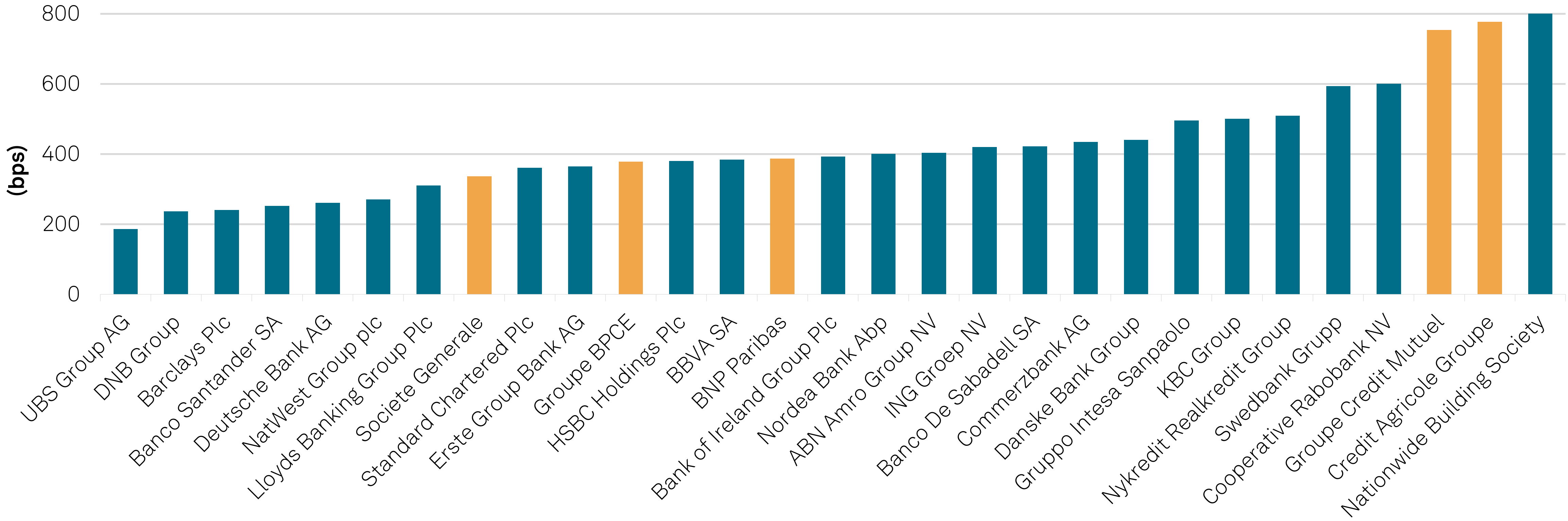
# Capital And Buffers Above Minimum To Remain Stable Despite Slight Increase in Pillar 2 Requirement And French Contracyclical Buffer (1/2)

| SREP Pillar 2 Requirements (total capital) | 2024 | 2023 |
|---|---|---|
| BNP Paribas | **1.77%** | 1.57% |
| Société Générale | **2.42%** | 2.14% |
| Crédit Agricole Group | **1.75%** | 1.50% |
| Groupe BPCE | **2.10%** | 2% |
| Credit Mutuel Arkéa | **1.41%** | 1.55% |
| Credit Mutuel Alliance Fédérale | **1.75%** | 1.50% |
| La Banque Postale | **2%** | 2% |
| UniCredit | **2%** | 2% |
| Gruppo Intesa Sanpaolo | **1.50%** | 1.50% |
| Banco Santander SA | **1.74%** | 1.58% |
| CaixaBank | **1.75%** | 1.65% |
| Banco de Sabadell SA | **2.25%** | 2.15% |
| ABN AMRO Group NV | **2.25%** | 2.00% |
| Cooperative Rabobank NV | **1.90%** | 1.90% |
| ING Groep NV | **1.65%** | 1.75% |
| Deutsche Bank AG | **2.65%** | 2.70% |
| Commerzbank AG | **2.25%** | 2.00% |
| Bank of Ireland Plc | **2.35%** | 2.25% |

**Increases** and **decreases** from 2023 to 2024. Data displayed are as of January of each year. Source: Banks Disclosures and ECB

# Capital And Buffers Above Minimum To Remain Stable Despite Slight Increase in Pillar 2 Requirement And French Contracyclical Buffer (2/2)

## Minimum Distance to SREP




Data typically as of latest date, mainly June 2023. GCM data as of end-2022. 6% cut-off on chart. Minimum could be CET1, T1 or Total - depending on the bank. For information, we include Swiss banks but these are not subject to the CRDIV trigger regime. Some of these banks have no rated AT1. Source: Banks' disclosures.

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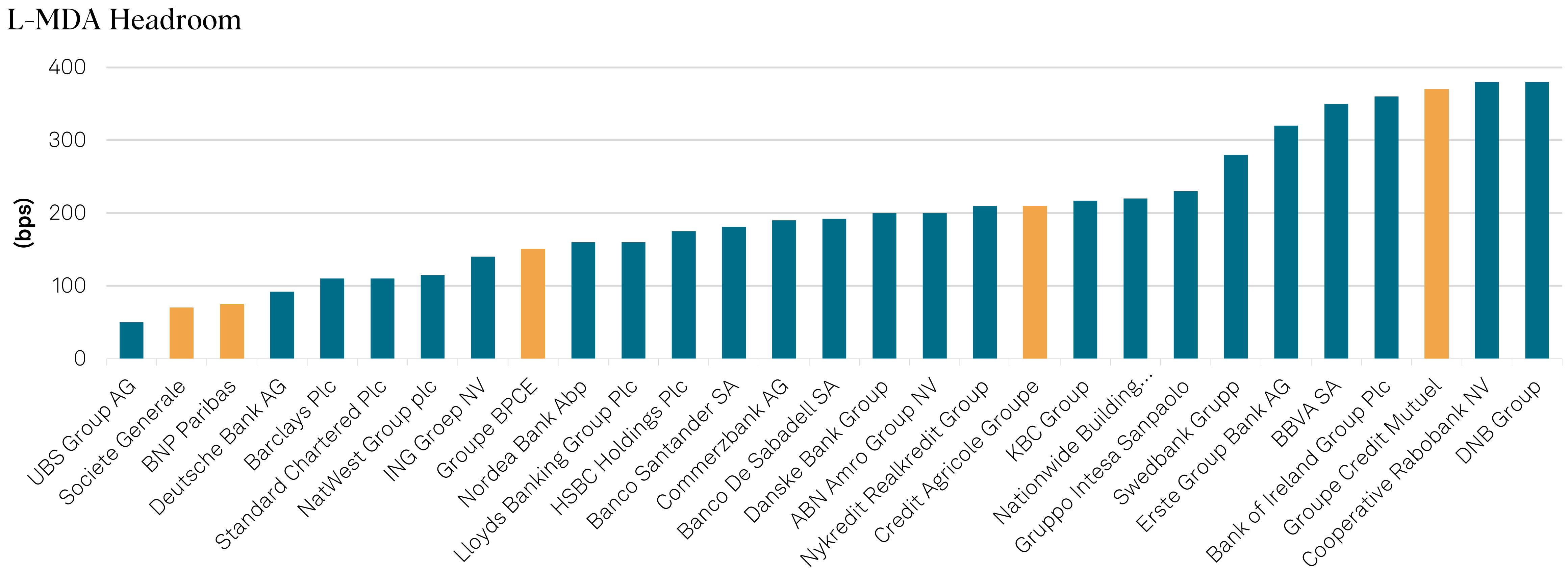
# BNPP And Socgen: L-MDA Requirement Increases In 2024




Data typically as of latest date, mainly June 2023. GCM data as of end-2022. A 0.1% Leverage Ratio Pillar 2 add-on (P2R-LR) applies to Barclays, Bank Ireland, BNP Paribas, Commerzbank, Deutsche Bank, KBC Group, and Société Générale. Source: Banks Disclosures

# What Could Go Wrong For French Banks In 2024

**There could be lower sector profitability with no rebound in interest income**, undermined by tight margins, lower new loan volumes, cost inefficiencies, and higher funding costs. Mismanaged interest-rate risks and hedging strategies along with evolving interest rates could also pose challenges at a time when business diversification or profitability might be less supportive.

**We could materially revise down our macroeconomic forecasts or increase our credit loss projections.** This could be the result of lower economic growth and higher or more persistent inflation.

**A harsher operating environment could weigh on French banks.** This could materialize amid headwinds such as tighter funding conditions or a slowdown in business prospects.

**Market volatility could trigger financial instability.** Higher rates could pressure nonbank financial institutions' leverage and liquidity, and ultimately unearth dangers to the broader financial system

# Related Research

- Banking Industry Country Risk Assessment: France, Dec. 13, 2023
- Credit Conditions Europe Q1 2024 Adapting To New Realities, Nov. 28, 2023
- French Banks' Domestic Net Interest Income Remained Depressed In The Third Quarter, Nov. 10, 2023
- Large French Banks' Net Interest Income Should Pick Up From Mid-2024, Sept. 26, 2023

# Analytical Contacts


### Nicolas Malaterre

Paris

+33 1 4420 7213

nicolas.malaterre@spglobal.com

### Andrey Nikolaev, CFA

Paris

+33 1 4420 7329

andrey.nikolaev@spglobal.com

### François Monéger

Paris

+33 1 4420 6688

francois.moneger@spglobal.com

### Philippe Raposo

Paris

+33 1 4420 7377

philippe.Raposo@spglobal.com

### Mathieu Plait

Paris

+33 1 4420 7364

mathieu.plait@spglobal.com

### Clément Collard

Paris

+33 1 4420 7213

clement.collard@spglobal.com

### Thierry Chauvel

Paris

+33 1 4420 7318

thierry.chauvel@spglobal.com

### Nicolas Poirier

Paris

nicolas.poirier@spglobal.com

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