

Research Update:

La Banque Postale Hybrid Debt Ratings Raised On Integration With CNP; Issuer Credit Ratings Affirmed; Outlooks Negative

October 9, 2023

Overview

- We see greater capital fungibility between La Banque Postale (LBP) and CNP Assurances (CNP) thanks to higher integration with CNP.
- We consider the alignment of the two financial entities' governance, the finalization of the group structure, as well as CNP's capital strengths and willingness to support LBP if needed; as of mid-2023, CNP represents substantially all of LBP's consolidated profit and core equity.
- Therefore, we now analyze LBP primarily as an insurance group with banking activities, and we think the increased capital fungibility between LBP and CNP supports the bondholders of LBP's hybrid debt, as we expect CNP to upstream capital to support those creditors in case of stress.
- Consequently, we raised all ratings on LBP's hybrid debts.
- We view La Poste's (LP's) overall creditworthiness as broadly unchanged and continue to equalize our ratings on LBP with the rating on its parent.
- We therefore affirmed our 'A+/A-1' ratings on LP and on LBP. The outlooks are still negative.

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Rating Action

On Oct. 9, 2023, S&P Global Ratings affirmed its 'A+/A-1' long- and short-term issuer credit ratings (ICRs) on La Banque Postale (LBP) and La Poste (LP). The outlooks on the long-term ratings are negative.

We raised the ratings on LBP's:

- Senior subordinated debt to 'BBB+' from 'BBB-';
- Subordinated debt to 'BBB' from 'BB+'; and
- Junior subordinated debt to 'BB+' from 'BB-'.

At the same time, we affirmed our ratings on LBP's and LP's senior unsecured issuances.

Rationale

We see greater integration between CNP and LBP. When the French Minister of Finance announced the creation of a "major public financial center" headed by LP in 2018, the development involved the 100% acquisition of CNP by LBP, which was already a 100% subsidiary of LP. The group structure was completed in April 2023 with a new CNP Holding Assurances taking control of all insurance subsidiaries previously held by LBP.

The sensitivity of LBP's consolidated figures to CNP's results highlights the importance of the insurance business. Unusual for a subsidiary, CNP is both larger and more profitable than its direct banking parent. At mid-2023, CNP contributed 58% of LBP's total assets and almost all of its net profit and core equity. According to the last stress test conducted by the European Banking Authority, LBP's fully loaded CET1 would stand at 0% in 2025's adverse scenario under International Financial Reporting Standards (IFRS) 4 against 6.8% under IFRS17. This means LBP's stress tests results differ massively on the accounting standard CNP is looked at.

Lastly, we consider the increasing alignment of the two entities' governance. LBP's CEO has been temporarily replaced by the CEO of CNP. This suggests a convergence of management and governance around insurance operations.

We therefore now analyze LBP primarily as an insurance entity with associated banking activities. LBP's banking credit story alone can no longer give the full picture of its creditworthiness, weighing in the considerable support LBP derives from its subsidiary's successful insurance activities. As such, we've removed our stand-alone credit profile (SACP) from LBP. As CNP is now the relevant entity to assess LBP's credit quality, we raised our ratings on LBP's hybrids, capturing CNP's higher starting point from which to derive the rating on hybrids instruments. To derive the issue ratings on LBP's senior subordinated (or senior nonpreferred), subordinated (or Tier 2) and junior subordinated (or Additional Tier 1) debt, we removed three, four, and six notches, respectively from the ICR on CNP. These deductions include two notches of qualitative adjustment to reflect the structural subordination of LBP's hybrids to CNP's hybrids.

The higher integration between LBP and CNP does not affect the credit quality of LP or CNP. We determine the LP group's SACP by weighting the SACPs of its core entities, then we adjust the calculated group SACP to reflect capital fungibility limitation between the financial and the corporate parts of the group and the non-linear default rate between SACPs. LP benefits from a four-notch uplift to its 'bbb' group SACP, reflecting the expected government support from France (unsolicited AA/Negative/A-1+). This leads to the group credit profile (GCP), which is unchanged at 'a+'. Lastly, we equalize our ICRs on LP, LBP, and CNP with the GCP. (For more information on CNP, see "Research Update: La Poste, La Banque Postale, And CNP Assurances Outlooks Revised To Negative After Same Action On France; 'A+' Affirmed," published Dec. 7, 2022, and "CNP Assurances," published Oct. 20, 2022, on RatingsDirect.)

Although the group SACP now relies on two SACPs, versus three previously, our view of LP's creditworthiness is unchanged. We now incorporate LBP's banking strengths and weaknesses as part of our assessment of CNP's SACP. The main benefit LBP brings to CNP is its distribution network, while the main risk LBP generates for CNP is the tail-risk of a recapitalization as CNP holds the vast majority of the financial sub-group's equity. Nonetheless, we see our 'a+' SACP on

CNP as resilient, and our view of CNP's creditworthiness isn't affected by our new rating construction for LBP.

The ratings on all debt within the LP group, except for LP's hybrids, could be affected if we lowered the rating on France. Our starting point to notch down the ratings on LBP's and CNP's hybrids is now the same, being the lowest of CNP's SACP or the ICR. This reflects our opinion that CNP's creditworthiness now supports LBP's hybrids debtholders. Our negative outlooks on the long-term ratings of LP, LBP, and CNP reflect our negative outlook on France and the possibility of a downgrade following a sovereign downgrade. Consequently, a downgrade of LP, LBP, and CNP would affect the starting points to rate the entities' senior debts as well as LBP's and CNP's hybrids. LP's hybrids wouldn't be affected by a sovereign downgrade because they are rated against the 'bbb' group SACP, which is not dependent on the ratings on France. In the unlikely case the ICR on CNP becomes higher than its SACP, meaning its ratings would be supported rather than capped by LP's group support--and ultimately by government support--our ratings on LBP's and CNP's hybrids would not be affected. This is because we don't consider the timely extraordinary support to be there for hybrid debtholders, even though we consider government support to be present to uphold senior unsecured debtholders of LP, LBP, and CNP.

Outlook

La Poste

The negative outlook on LP mirrors that on France. We expect the group to continue to benefit from a very high likelihood of receiving extraordinary support from the French government.

We expect steady financial performance for the group's key businesses and further progress on the 2030 strategic plan, which aims to consolidate and optimize historical activities and its public service missions; accelerate the development of the bank, insurance, parcels, and e-commerce activities that spur growth and profit generation; and continue its digitization.

Downside scenario: We could lower the ratings in the next two years if we take a similar rating action on France.

Although more remote at this stage, we could also lower our ratings if we see a material decline in the group's overall financial performance that reduces diversification benefits and strains the 'bbb' group SACP.

Upside scenario: A revision of the outlook on France to stable would lead us to revise the outlook on LP to stable.

La Banque Postale

The negative outlook on LBP mirrors that on LP. We continue to see LBP as a core subsidiary of LP group, and any rating action on the parent would lead to a similar action on LBP. We expect LP group will maintain a strong, lasting interest in LBP in the near future. LBP is an integral part of the group's strategy, and we see it as strongly integrated within the group.

Downside scenario: We would lower the rating on LBP if we take a negative rating action on its parent, LP, which could follow a negative rating action on France or a weakening of our LP group SACP.

Given the enduring, strategic, and operational integration of LBP into LP, we see limited risk of weaker interest or support from the parent in the next two years. However, such a scenario could emerge if LBP becomes a less profitable or riskier subsidiary, which in turn could lead us to reconsider its core status to LP group and result in rating pressure.

Additionally, we could lower our ratings on LBP's hybrids if we were to revise down the SACP, or lower the ICR, on CNP.

Upside scenario: We would revise our outlook on LBP to stable if we took a similar action on France.

We currently see limited upside for LBP's hybrid instruments.

Ratings Score Snapshot

	To	From
La Poste		
Issuer credit rating	A+/Negative/A-1	A+/Negative/A-1
SACP	bbb	bbb
La Banque Postale		
Issuer Credit Rating	A+/Negative/A-1	A+/Negative/A-1
SACP	--	bbb
Anchor	--	bbb+
Business position	--	Adequate (0)
Capital and earnings	--	Moderate (-1)
Risk position	--	Moderate (-1)
Funding and Liquidity	--	Strong and Strong (+1)
CRA adjustment	--	0
Support	--	(+4)
ALAC support	--	0
GRE support	--	0
Group support	--	(+4)
Sovereign support	--	0
Additional factors	--	0

SACP--Stand-alone credit profile. CRA--Comparable ratings analysis.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Large French Banks' Net Interest Income Should Pick Up From Mid-2024, Sept. 26, 2023
- La Banque Postale, Jan. 27, 2023.
- Research Update: La Poste, La Banque Postale, And CNP Assurances Outlooks Revised To Negative After Same Action On France; 'A+' Affirmed, Dec. 7, 2022
- Full Analysis: CNP Assurances, Oct. 20, 2022

Ratings List

Ratings Affirmed

La Banque Postale

La Poste

Issuer Credit Rating	A+/Negative/A-1
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La Banque Postale

Senior Unsecured	A+
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Commercial Paper	A-1
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La Poste

Senior Unsecured	A+
Junior Subordinated	BB+
Commercial Paper	A-1

Upgraded

	To	From
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La Banque Postale

Senior Subordinated	BBB+	BBB-
Subordinated	BBB	BB+
Junior Subordinated	BB+	BB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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