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CREDIT OPINION

3 November 2023

New Issue



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RATINGS

La Banque Postale

Domicile	Paris, France
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A2
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	A2
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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La Banque Postale

Update to credit analysis

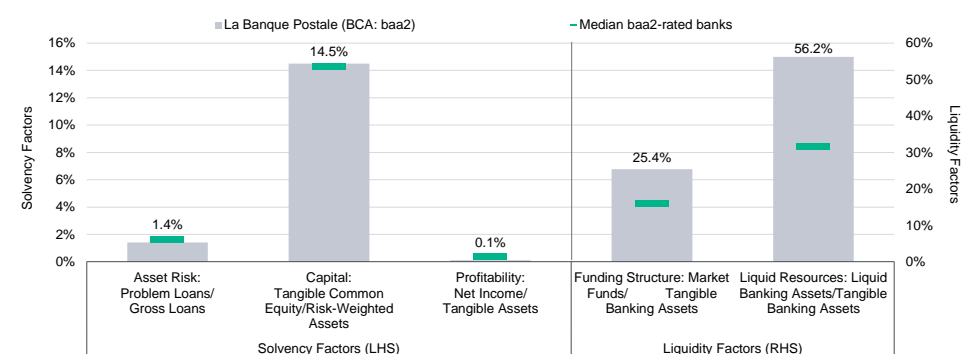
Summary

The baa2 Baseline Credit Assessment (BCA) of La Banque Postale (LBP) reflects the group's franchise as a large domestic bancassurer in the French market, its strong asset quality, robust liquidity and funding structure. Moreover it factors in the sound fundamentals of CNP Assurances (CNP, A1 Insurance Financial Strength Rating or IFSR, stable), its main insurance subsidiary. These strengths are nonetheless offset by the group's low solvency and subdued profitability of its banking activities.

LBP's deposit and senior unsecured ratings of A2 benefit from a low loss severity under our Advanced Loss Given Failure (LGF) analysis, which results in a one-notch uplift from the Adjusted BCA. LBP's senior ratings also reflect our assumption of a high probability of government support from the Government of France (Aa2 stable), resulting in two additional notches of uplift. This assessment is justified by (i) the French government's indirect stake in LBP, (ii) the public service mission entrusted with the bank for the provision of universal banking access to low income households in France, and (iii) the bank's status of "other systemically important institution" recognized by the French Autorité de Contrôle Prudentiel et de Résolution.

Exhibit 1

Rating scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

- » Solid bancassurer franchise in the domestic market
- » Strong asset quality
- » Robust liquidity and funding structure
- » Sound fundamentals of CNP Assurances

Credit challenges

- » Low solvency
- » Subdued profitability

Rating outlook

The stable outlook on LBP's long-term deposit and issuer ratings reflects our view that despite the uncertain operating environment, the group's strong asset quality and prudent underwriting policies, robust liquidity as well as the sound fundamentals of the insurance business will continue to support its creditworthiness.

Factors that could lead to an upgrade

- » Although unlikely over the outlook horizon, the BCA could be upgraded as a result of an improved solvency or profitability at the bank. The BCA could also be upgraded if CNP's IFSR were to be upgraded. A positive change of the BCA could then affect ratings positively.
- » The deposit, senior unsecured and junior senior unsecured debt ratings could also be upgraded if the loss-given-failure of these classes of debt were to decrease significantly as a result of the issuance of senior unsecured, junior senior unsecured debt or subordinated instruments.

Factors that could lead to a downgrade

- » LBP's BCA could be downgraded as a result of a material deterioration in asset quality or solvency or if the profitability of its banking activities were to further decline. A downgrade of CNP's IFSR could also trigger a downgrade of LBP's BCA. A lower BCA could trigger a downgrade of the ratings.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

La Banque Postale (Consolidated Financials) [1]

	12-22 ²	12-21 ²	12-20 ²	12-19 ²	12-18 ²	CAGR/Avg. ³
Total Assets (EUR Million)	737,063.0	768,774.0	737,176.0	269,296.1	243,432.3	31.9 ⁴
Total Assets (USD Million)	786,628.5	871,102.4	901,976.0	302,284.4	278,278.3	29.7 ⁴
Tangible Common Equity (EUR Million)	12,091.0	13,174.0	12,392.0	9,115.4	8,937.3	7.8 ⁴
Tangible Common Equity (USD Million)	12,904.1	14,927.5	15,162.3	10,232.0	10,216.6	6.0 ⁴
Problem Loans / Gross Loans (%)	1.7	1.4	1.4	1.3	1.5	1.4 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	13.0	14.5	14.5	11.9	12.8	13.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.4	11.2	11.8	13.8	14.9	13.4 ⁵
Net Interest Margin (%)	0.7	0.5	0.4	0.9	--	0.7 ⁵
PPI / Average RWA (%)	2.0	2.0	2.3	1.2	--	1.9 ⁶
Net Income / Tangible Assets (%)	0.2	0.1	0.2	0.3	0.3	0.2 ⁵
Cost / Income Ratio (%)	79.4	79.0	76.4	84.5	84.1	80.7 ⁵
Market Funds / Tangible Banking Assets (%)	27.9	25.4	27.1	20.6	15.4	23.3 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	53.2	56.2	50.2	55.3	55.2	54.0 ⁵
Gross Loans / Due to Customers (%)	59.3	55.6	55.1	57.1	53.0	56.0 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

La Banque Postale (LBP) is a French bancassurance group with total consolidated assets of €751 billion at end-June 2023. It is fully owned by La Poste, which itself is 34% owned by the Government of France and 66% owned by the [Caisse des Dépôts et Consignations](#) (CDC, Aa2).

LBP became a fully-fledged bancassuror in March 2020 when the bank took control of CNP Assurances (CNP) by raising its stake in the company to 62.1%¹ through the transfer of ownership of the shares previously owned by the government and CDC. This transaction was part of a larger project of the French government (initially announced on 30 August 2018), aimed at creating a large public financial group. This decision then involved changes in the ownership structure and reorganisation of existing public entities, including the CDC, La Poste, LBP, CNP and SFIL.

On 28 October 2021, LBP announced its intention to take full ownership of CNP shares by acquiring the 16.1% stake owned by Groupe BPCE, and the remaining free float of 21.1% before delisting CNP. The acquisition of Groupe BPCE's stake was completed in 2021. LBP completed its tender offer on CNP's remaining free float in June 2022, which brought its ownership to 100%. These acquisitions were financed with LBP's own funds without any increase in capital.

The combination of the 6th largest bank and the 2nd largest life insurance company in France resulted in the creation of a bancassuror whose insurance activities are significantly larger than its banking activities contrary to its French peers.² Post-merger, CNP has maintained its multi-partnership approach: LBP's retail banking network is one of the insurer's distribution channels, whereas peer bancassurors' insurance subsidiaries are primarily dedicated to serving their respective parents' networks.

Excluding CNP's business abroad, the bancassuror's activities are primarily domestic. LBP reports along four business lines: (1) Bancassurance France (generated 64% of the group's total business lines' net profit³ in 2022); (2) International bancassurance (19% of 2022 net profit); (3) Corporate and investment banking (11% of 2022 net profit); and (4) Wealth and asset management (6% of 2022 net profit).

LBP was established in 2005 as a spin-off of La Poste's financial service businesses. Financial activities that were initially transferred to LBP included deposits (including regulatory savings such as Livret A accounts) and home loans (yet limited to customers who had accumulated savings). It progressively expanded its activities to all home loans, consumer loans (2007), property and casualty insurance (2009), loans to corporate entities including SMEs and associations (2011), and loans to local authorities (2012). The bank also launched investment banking activities in 2017 to complement its product offer to corporate and institutional clients.

Although progressively being broadened, LBP's banking activities are primarily retail banking, with private individuals representing the vast majority of its customer base. LBP's market share is high for regulated savings (18% as of year-end 2022), where it enjoyed an oligopolistic position until 2008, but is lower for business activities in which the bank ventured later on, such as home loans (5.4%) or consumer finance (3%). The other businesses (e.g corporate, local public sector and SMEs) have a shorter track record, but business volumes have increased significantly over the past few years. The main distribution channels are the 17,000 contact points⁴ across the country, 43 business centers, call centers, internet and mobile banking⁵ and third-party brokers.

Excluding CNP, LBP's active client base⁶ comprises around 10 million individuals and 8,500 corporate and public-sector clients as of year-end 2022. While we believe that the risk profile of the vast majority of the bank's clients is comparable to that of the other large French banks, LBP continues to have a larger share of financially vulnerable clients (around 1.7 million⁷). This is inherited from its shareholder La Poste and the public service mission LP is entrusted with. LBP also continues to provide banking access to around 1.4 million people who would otherwise be deprived of banking services. To cover the cost of these services, which consist of the free-of-charge provision of a Livret A account and basic payment transactions into and from this account, LBP receives a compensation from the French State.⁸

Detailed credit considerations

Given the weight of insurance activities (the vast majority of which is carried out by CNP) relative to banking activities in LBP's income and balance sheet, we adopted a specific rating approach. This approach involves both our Banks methodology, which we use to assess the creditworthiness of LBP's banking activities and the Life Insurers' methodology, which is currently used to assign ratings to CNP.

The baa2 BCA assigned to LBP results from the weighted average of the ba1 standalone credit assessment of the group's banking activities and the A2 senior debt rating equivalent of CNP (corresponding to the company's A1 IFSR minus one notch). In assessing the relative weight of the two activities, we factored in the capital requirements applicable to the banking operations versus the insurance operations, which resulted in a 33% weight for banking and 67% for insurance activities (as of year-end 2022).⁹

As detailed in the analysis below, the ba1 standalone credit assessment of LBP's banking activities reflects the bank's sound asset quality, robust funding structure and liquidity; it also reflects its low solvency and weak profitability. For a detailed analysis of CNP, please refer to [CNP's credit opinion](#).

Asset quality is sound

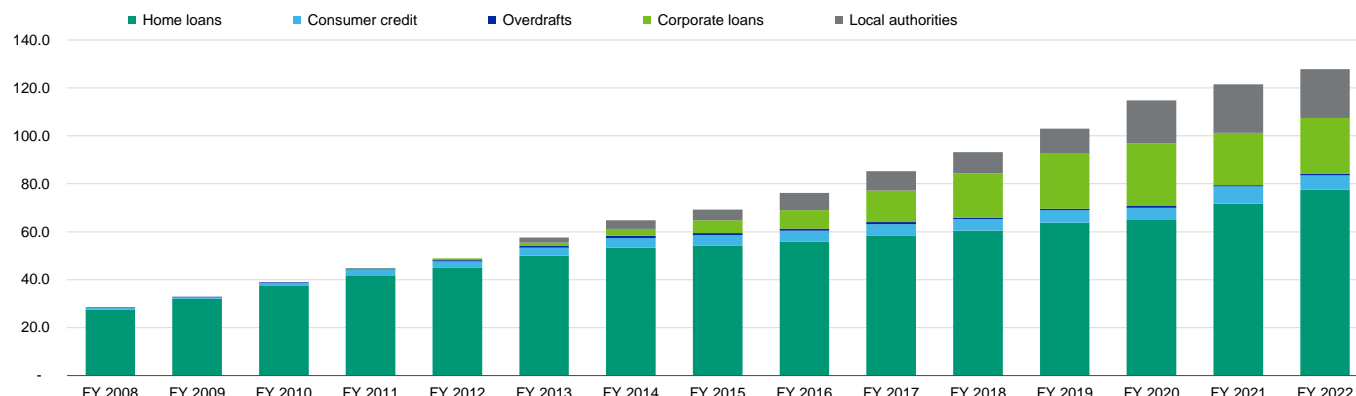
Due to its domestic retail-focused loan portfolio and high-quality securities portfolio, we consider that LBP' asset risk is relatively low. We however factor into our assessment the risks associated with the rapid growth and change in the composition of the loan portfolio as the bank aims to develop its corporate lending and consumer finance businesses. We also take account of the fact that, despite its good performance, LBP's loan portfolio is still less seasoned than main peers' portfolios. We also expect some deterioration in the bank's asset quality in the coming quarters due to recessionary pressures and prolonged inflation. We reflect these risks through a negative adjustment of two notches to a3 from the a1 macro-adjusted score.

At end-December 2022, the loan book (€130 billion) was 60% composed of home loans, 4.3% of consumer loans, 16% of exposures to local authorities, 18% of corporate loans and 0.7% of overdrafts. The size of the portfolio has increased at a high pace (9% CAGR) and its composition has changed materially since 2013 as the bank has been developing its corporate and public sector lending (Exhibit 3).

Exhibit 3

LBP has developed loans to corporate and the public sector since 2013

Composition of LBP's loan book (in billion €)



Source: Company data, Moody's Investors' Service

The overall credit quality of LBP's retail loan portfolio is sound. Based on stage 3 loan ratio, the performance of home loans and consumer credit¹⁰ is broadly in line the average levels observed at other large French banks. The stage 2 loans on housing loans temporarily soared to 22.5% at year-end 2022 from 5.3% at year-end 2021 as the bank reclassified into stage 2 all the loans to customers with limited savings at LBP or small disposable income because those customers are highly exposed to the current macroeconomic headwinds and inflationary environment. The bank subsequently narrowed its criteria for reclassifying housing loans into stage 2, which now reflects exposures to borrowers deemed the most vulnerable. As a consequence, the stage 2 ratio on housing loans decreased to 12.8% at end-June 2023, which is still materially higher than at year-end 2021. Customers' overdrafts, although smaller than the rest of the portfolio (€0.7 billion or 0.7% of the bank's loan book), also heavily weigh on the bank's cost of risk and reflect LBP's exposure to vulnerable customers.

As of year-end 2022, around half of the corporate loan book was composed of large to very large corporates and the other half of medium-sized and small companies. A large portion of the corporate customers are sourced via participations in syndicated loans, while lending to SMEs is sourced through LBP's own network and business centers. The performance of the corporate portfolio has so far been relatively good. The problem loan ratio of this book nonetheless increased to 3.3% at end-June 2023 from 2.3% at year-end 2022 and 1.4% at year-end 2021, primarily as a result of the transfer of the exposure to a single large corporate customer to stage 3,¹¹ reflecting some single name concentrations due to the bank's focus on very large companies. Stage 2 loans on the same book¹² was 10.5% at end-June 2023, down from 12% at year-end 2022 but up from 9% at year-end 2021. Exposures to the sectors the bank considers as the most vulnerable in the current economic environment remain relatively low at €2 billion or 7% of its corporate exposures at end-June 2023,¹³ and included commercial real estate, automotive, agriculture, retail and solar energy. The bank's overall exposure to commercial real estate,¹⁴ a portion of which is included in the aforementioned exposures to the most vulnerable sectors, amounted to €5.6 billion or 19% of its corporate exposures at end-June 2023.¹⁵ Risks stemming from the commercial real estate portfolio is partly mitigated by the fact that the underlying assets are exclusively located in France and that exposures to real estate development is relatively limited. The non-performing exposures on this sector amounted to 1.4%.

Loans to local authorities developed rapidly since the beginning of the partnership with SFIL, the major provider of financing to the French public sector, in 2014. Loans to local authorities are sourced by LBP through its distribution network, a large portion of which are refinanced by CAFFIL, SFIL's covered bond issuing vehicle. Some loans, including short-term financing and loans to the social housing sector are not eligible for CAFFIL's refinancing and are retained on LBP's balance sheet.

Although up from 1.4% at year-end 2021 and 1.7% at year-end 2022¹⁶ (essentially due, as explained earlier, to the transfer of one corporate borrower to stage 3), the 2% problem loan ratio on LBP's total loan book at end-June 2023 is still below the average problem ratio of the French banking system (2.3% as of end-June 2023 based on EBA Risk Dashboards). While the surge in stage 2 loans to 13.4% at end-June 2023 from 7.1% at year-end 2021,¹⁷ the majority of which stems from the aforementioned reclassification of a portion of housing loans to stage 2 highlights the weaker creditworthiness of a material portion of the bank's individual borrowers.

Cost of risk amounted to €216 million or 16 bps of gross loans in 2022, stable compared to 2021 and down from 46 bps in 2020. Although the cost of risk is still low in H1 2023 (€101 million or 12 bps), we expect some asset quality deterioration in the coming quarters given the uncertainties related to inflation and gloomy economic outlook.

Consolidated regulatory ratio overstates the group's solvency

LBP's regulatory capital ratios are high thanks to the use of the so-called Danish Compromise,¹⁸ but the economic solvency of the group (i.e. without the benefit of the Danish Compromise) is materially lower than that reflected in its regulatory ratios. This is reflected in an assigned capital score of caa2.

LBP's consolidated Common Equity Tier 1 (CET1) capital ratio and total capital ratios were 18.3% and 22.4% respectively at end-June 2023 (versus 14.7% and 19% respectively at year-end 2022¹⁹), at the higher-end of the French large banks' regulatory capital ratios. The CET1 ratio is significantly above the 8.9% CET1 requirement under the Supervisory Review and Evaluation Process (SREP).²⁰ The regulatory leverage ratio was 6.9%²¹ at end-June 2023, up from 5.6% at year-end 2022 reported under IFRS 4 and well-above the minimum requirement of 3%.

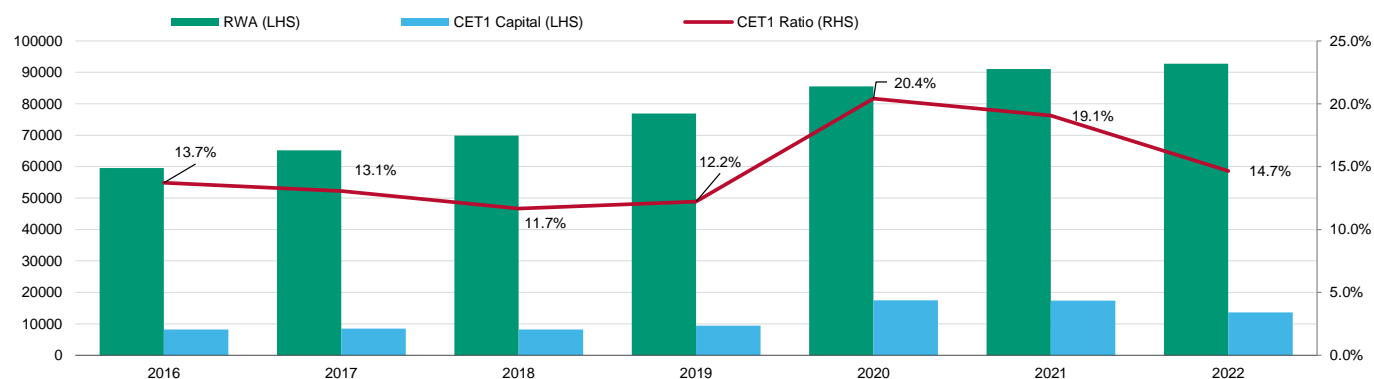
LBP also comfortably meets both its total and subordinated Minimum Requirement for own funds and Eligible Liabilities (MREL) requirements. At end-June 2023, its MREL-eligible liabilities represented 30.2% of risk-weighted assets (RWAs) versus a requirement of 25.2%. As of the same date, its subordinated MREL ratios were 28.2% of RWAs and 9.9% of leverage ratio exposure (LRE) versus requirements of 22.5% and 7.6% respectively.

However, we consider that LBP's solvency is overstated in its consolidated CET1 ratio of 18.3%. This ratio benefits from the Danish compromise, which allows financial conglomerates to include their equity stakes in insurance subsidiaries in their risk-weighted assets (with a risk-weight of 100% in the case of LBP) instead of deducting them from their regulatory capital. Hence a large portion of the capital allocated to its insurance subsidiaries (mainly CNP) is also allocated to cover the bank's own risks, implying double-counting of capital which boosts LBP's regulatory solvency ratio. The benefit of the Danish compromise is particularly high at LBP because of the materially higher weight of insurance relative to its banking operations than at French peer bancassurers. Owing to the fact that LBP calculates its risk-weighted assets (RWAs) under the standardized approach, its stakes in insurance subsidiaries are 100% risk-weighted as per current rules (Danish compromise), whereas its peers that are subject to the advanced internal risk based approach (A-IRB) must apply a higher risk weight of up to 370%.

The use of the Danish compromise explains why the contribution of the French government and CDC's equity stakes to LBP in April 2020 drove to the substantial improvement of LBP's CET1 ratio at year-end 2020 (Exhibit 4) while the group's economic solvency was unchanged in our view. This is also why the acquisition of the remaining capital of CNP in 2021 and 2022 only financed with LBP's own funds without additional capital being injected was detrimental to the group's solvency notwithstanding the positive impact on its regulatory capital ratio.

Exhibit 4

LBP's CET1 ratio soared in 2020 as a result of the contribution to the bank of the French government and CDC's equity stakes in CNP



Source: Company data, Moody's Investors Service

To the extent supervisors continue to use the consolidated capital ratio with the benefit of the Danish compromise as the principal metric to monitor LBP's solvency, the current level of consolidated CET1 ratio provides the bank with ample room not only to develop its activities but also to pay dividends to its shareholder. A decrease in the consolidated CET1 ratio will imply further depletion of its economic solvency (i.e. calculated without the Danish compromise).

The future dividends to be paid by CNP to LBP (pay-out ratio of 40% to 50%) will have a limited positive impact on LBP's standalone capital. This is because 45% of the consolidated results of LBP-CNP (as per LBP's dividend policy) will be upstreamed to La Poste.

Profitability is weak

Excluding CNP's contributions, LBP's profitability is low. This reflects the bank's business portfolio primarily composed of low risk-low margin activities, its relatively high cost base, its strong income sensitivity to the ultra-low interest rate environment until the end of 2021, and a slow repricing of its loan book. Despite low cost of risk, LBP's standalone net profit decreased to close to 0 in 2021 and further down into the negative territory since 2022 from some 25 basis points of tangible banking assets in 2016.

Net interest income continued to fall in 2022 and H1 2023 in the context of strongly rising interest rates²² after having dropped by close to 30% between 2015 and 2021 against the backdrop of ultra-low interest rates, reflecting a substantial fall in net interest margins.

Since the beginning of monetary normalization by the European Central Bank, LBP, like the other French banks with a business strongly focused on French retail banking, has incurred a fast and material repricing of a large share of its deposits (regulated savings) while the repricing of a large portion of its loans will only take place over time. Net interest income fell in both 2022 and H1 2023 as a result of the successive hikes in the interest rate of the regulated savings²³ and the usury rate²⁴ which made it more complicated for banks in France to extend new housing loans at an economically viable price from the middle of 2022 until recently. The French government's decision to freeze the interest rate on the main regulated savings at current levels until the beginning of 2025²⁵ and the increase in the usury rate which is progressively catching up with market rates will likely help improve net interest margins on new production. But we expect the rally will come only gradually with the repricing of the loan portfolio.

During the low interest period, the interest paid on retail deposits could not be lowered at the same pace as the interest rates charged on assets. LBP's interest income was then more sensitive than peer banks to interest rate cuts because of its materially higher share of retail customer deposits in its funding base, and notably of regulated savings for which interest rates were floored at 0.75% until 2020 and then at 0.5% until the beginning of 2022. The bank's low loan-to-deposit ratio also implied substantial investments in low yielding assets. The bank also sold significant amounts of investment securities between 2017 and 2020, realizing capital gains which at least partly offset the decrease in net interest income during the period. The proceeds of the sales were reinvested at lower yields, exacerbating the decline in net interest margins.

Operating expenses remain high relative to the bank's net banking income, reflecting the weight of carrying out retail banking with a large distribution network. The average cost-to-income ratio over the five years to the end of 2021 was 84%. Because of the substantial drop in revenues since then due to further pressure on net interest income, we estimate that the cost-to-income ratio of the bank is slightly above 100% in H1 2023.²⁶

The slow decrease in staff costs invoiced from La Poste as a result of cost-cutting efforts has been offset by an increase in LBP's own staff cost and expenses as the bank develops new businesses and strengthens its corporate functions (compliance, risks). We expect this trend to continue, limiting the bank's ability to significantly reduce its cost base over the outlook horizon.

LBP's high cost base also reflects the weight of the tasks it must fulfil under the public service mission it inherited from La Poste (i.e. banking services to financially vulnerable clients and people who otherwise have limited access to a bank). The compensation it receives from the French State for fulfilling this mission only partly covers the cost of handling these time-consuming operations.

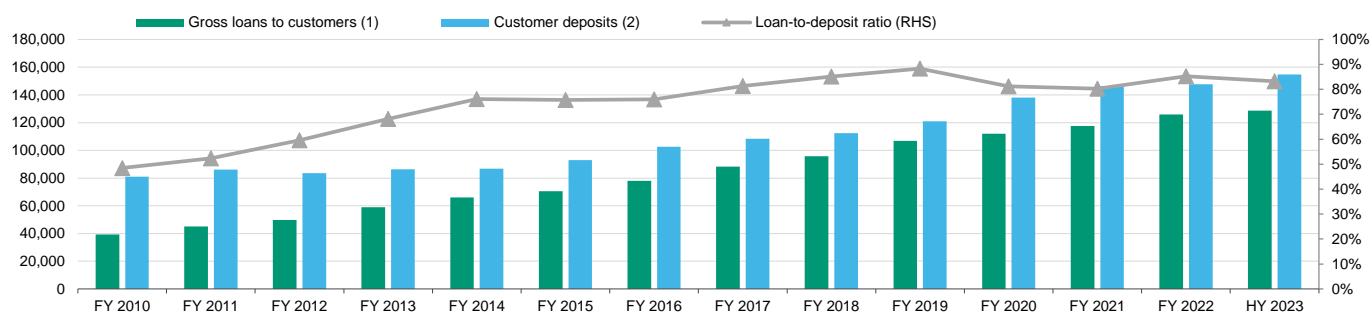
Funding structure is robust and liquidity is ample

Because of its long history as a collector of customer savings with significant market shares and its more recent involvement in the lending business, LBP's deposits have long exceeded its loan book (Exhibit 5). As of end-June 2023, the loan-to-deposit ratio (excluding centralised deposits and repo transactions from the deposit base) was 83%.²⁷ We expect the ratio to further increase as the bank develops its lending business. The bank still benefits from a comfortable room for maneuver for growth in lending, all the more so as

the expected “decentralisation” of regulated savings²⁸ will progressively raise the amount of deposits available for its own activities in the coming years.

Despite some transfers from sight deposits to regulated savings and term deposits,²⁹ LBP's total deposit based has been very stable from year-end 2021 through end-June 2023. The stability of LBP's customer deposits despite its limited offer in term deposit products is underpinned by the fact that 95% is retail deposits, 87% of which are insured by the French deposit insurance scheme.

Exhibit 5

LBP's deposits have long exceeded its loan book

(1) Excluding reverse repo transactions (2) Excluding repo transactions

Source: Company data, Moody's Investors Service

The bank's reliance on confidence-sensitive wholesale funding is relatively limited. At year-end 2022, interbank borrowings (excluding repos³⁰) and debt securities issued together represented 20% of the total adjusted banking assets (around €40 billion, including €5.8 billion TLTRO). Based on our estimation, close to half of this amount had a residual maturity of less than one year at year-end 2022, which is not negligible. Risks stemming from the short-term portion of market funds are mitigated by the liquidity portfolio.

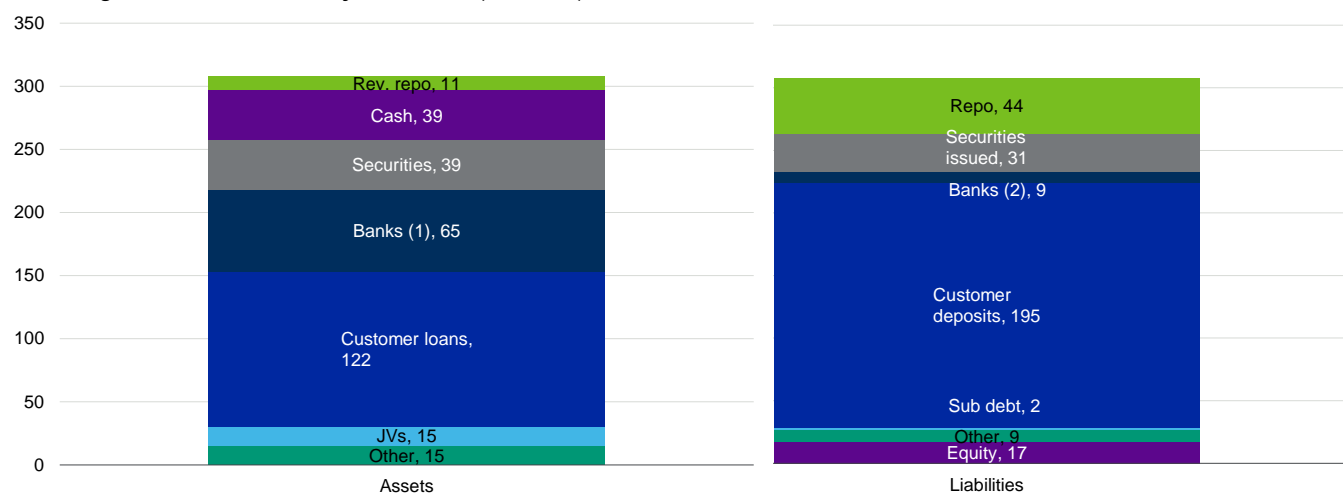
The excess of deposits over loans combined with market funding enables LBP to finance a large portfolio of liquid assets. At year-end 2022, LBP held a securities portfolio of €39 billion (Exhibit 7). A large portion of the portfolio consisted of high-quality assets primarily composed of sovereign and bank debt. Around 85% of these securities were lent to counterparties through repo transactions, the cash proceeds of which were deposited with the European Central Bank (ECB). LBP is very active in providing repos and reverse repos as part of its investment banking services to its institutional clients. This activity allows the bank to improve revenues from its large securities portfolio without affecting its liquidity (i.e. with no impact on the amount of HQLA and LCR).

The amount of unencumbered on-balance-sheet liquid assets,³¹ primarily composed of cash, amounted to €45 billion at year-end 2022 and represented close to 25% of the bank's adjusted banking assets. Although this represents a comfortable buffer, this is 12% less than €51 billion at year-end 2021.³² We believe this decrease partly stems from the decline in the value of the securities portfolio which resulted from the rise in interest rates. As of year-end 2022, the unrealized loss on the €27 billion securities booked at amortised cost³³ amounted to €3.7 billion (or 27% of the group's consolidated CET1 capital as of year-end 2022), reflecting the large share of long-term fixed-rate bonds in the portfolio. Since LBP does not intend to sell these bonds but will rather continue to monetize them through repo transactions, the likelihood of being constrained to crystallize a loss is low. Also, given the strong stability of its customer deposit base, the scenario of fire sales of the securities that would crystallize these losses is unlikely.

The Liquidity Coverage ratio (LCR) and Net Stable Funding ratio (NSFR) were comfortable at 153% and 134% respectively at end-June 2023, slightly up from 147% and 129% at year-end 2022, but down from 186% and 142% respectively at year-end 2021.

Exhibit 6

The excess of deposits over loans combined with market funding enables LBP to finance a large portfolio of liquid assets
LBP's banking assets and liabilities as of year-end 2022 (in € billion)



(1) Including €65 billion centralized deposits (2) Including €5.8 billion TLTRO

Source: Company data, Moody's Investors Service

The Combined Liquidity score of baa1 reflects the bank's robust funding and liquidity. The assigned scores are based on market funds and liquid resources ratios that exclude centralised deposits and repo transactions. This explains the difference between the assigned scores and the Macro-Adjusted scores.

ESG considerations

La Banque Postale's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 7

ESG credit impact score

CIS-2



ESG considerations do not have a material impact on the current rating.

Source: Moody's Investors Service

LBP's **CIS-2** indicates that ESG considerations do not have a material impact on the ratings to date. LBP faces moderate exposure to governance risks stemming from potential conflicts of interest related to LBP's concentrated ownership. The **CIS-2** score nonetheless reflects the mitigating rating impact of the support from the French government over LBP's ESG risk profile.

Exhibit 8

ESG issuer profile scores

Source: Moody's Investors Service

Environmental

LBP faces moderate environmental risks mainly because of its loan portfolio's exposure to carbon transition risk. Because of its recently undertaken activities in the corporate financing sector, the bank is exposed to increasing business risks and stakeholder pressure to meet more demanding carbon transition targets. In response, LBP committed to transforming its lending book towards less carbon-intensive assets and to totally exiting fossil fuel financing by 2030.

Social

LBP faces high industrywide social risks related to regulatory risk and litigation exposure, in particular in the area of customer relations. The bank is required to meet high compliance standards. High cyber and personal data risks are mitigated by technology solutions and organizational measures to prevent data breaches.

Governance

LBP faces moderate governance risks. LBP's risk management policies and procedures are in line with industry best practices. The group's legal structure is simple and its risk appetite is limited. CNP has thus far been smoothly integrated into the bank's strategic decision-making, risk management and control processes since it took the control of the insurance company in 2020. LBP's full ownership by La Poste poses governance risks related to board independence, which for example could lead to decisions that are not fully aligned with LBP's creditors' interests. These risks are partly mitigated by France's developed institutional and regulatory framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations**Loss Given Failure (LGF) analysis**

LBP is subject to the European Union Bank Recovery and Resolution Directive, which we consider an operational resolution regime. We assume a residual tangible common equity of 3%, post-failure losses of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits, a 5% runoff in preferred deposits and a 25% probability of junior deposits being preferred to senior unsecured debt (even though they rank pari passu in liquidation/resolution). Because LBP's deposits are mainly retail in nature, we assume 90% of them will be preferred (and 10% being junior given the bank's predominant reliance on retail deposits) in an event of failure.

Our LGF analysis indicates a low loss-given-failure for the long-term bank deposit and senior unsecured ratings, which translates in one-notch uplift from the baa2 Adjusted BCA.

It shows a moderate loss-given-failure for the long-term junior senior (senior non-preferred) unsecured rating, which hence is in line with the baa2 Adjusted BCA.

For the other junior securities, the LGF analysis points to a high loss-given-failure. This leads to the subordinated debt rating one notch below the bank's Adjusted BCA at Baa3. For LBP's preferred stocks (Additional Tier 1 securities), we also incorporate an additional downward adjustment of two notches to Ba2(hyb), reflecting coupon suspension risk ahead of failure.

Government support considerations

The long-term bank deposit and issuer ratings also reflect our assumption of a high probability of government support from the Government of France, resulting in two additional notches of uplift. This assessment is justified by (i) the French government's indirect stake in LBP, (ii) the public service mission entrusted with the bank for the provision of universal banking access to low income households in France, and (iii) the bank's status of "other systemically important institution" recognized by the French Autorité de Contrôle Prudentiel et de Résolution (ACPR). We also believe that the full ownership of CNP further increased LBP's systemic importance.

Given that the purpose of junior instruments is to provide additional loss absorption and improve the ability of authorities to conduct a smooth resolution of ailing banks, we attribute only a low probability to government support for these debt classes and hence there is no further uplift.

Counterparty Risk (CR) Assessment

LBP's CR Assessment is Aa3(cr)/Prime-1(cr)

LBP's CR Assessment, before government support, is three notches above the bank's BCA of baa2, based on the buffer against default provided by instruments subordinated to the senior obligations represented by the CR Assessment. The CR Assessment also benefits from two notches of government support uplift, in line with our support assumptions on deposits and senior unsecured debt.

Counterparty Risk Ratings (CRRs)

LBP's CRRs are Aa3/Prime-1

LBP's CRR, before government support, is three notches higher than the Adjusted BCA of baa2, based on the level of subordination to CRR liabilities in the bank's balance sheet and assuming a nominal volume of such liabilities. The CRR also benefits from two notches of government support uplift, in line with our support assumptions on deposits and senior unsecured debt.

Exhibit 9

La Banque Postale

Macro Factors													
Weighted Macro Profile		Strong +		100%									
Factor		Historic Ratio		Initial Score		Expected Trend		Assigned Score		Key driver #1		Key driver #2	
Solvency													
Asset Risk													
Problem Loans / Gross Loans		1.7%		a1		↓		a3		Unseasoned risk		Loan growth	
Capital													
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		13.0%		a2		↔		caa2		Risk-weighted capitalisation			
Profitability													
Net Income / Tangible Assets		0.2%		b1		↓↓		b2		Expected trend			
Combined Solvency Score				a3				ba3					
Liquidity													
Funding Structure													
Market Funds / Tangible Banking Assets		27.9%		baa2		↑		baa1		Market funding quality			
Liquid Resources													
Liquid Banking Assets / Tangible Banking Assets		53.2%		aa2		↓↓		a3		Asset encumbrance			
Combined Liquidity Score				a2				baa1					
Financial Profile								ba1					
Qualitative Adjustments								Adjustment					
Business Diversification								0					
Opacity and Complexity								0					
Corporate Behavior								0					
Total Qualitative Adjustments								0					
Sovereign or Affiliate constraint								Aa2					
BCA Scorecard-indicated Outcome - Range								baa3 - ba2					
Assigned BCA								baa2					
Affiliate Support notching								0					
Adjusted BCA								baa2					
Balance Sheet				in-scope (EUR Million)		% in-scope		at-failure (EUR Million)		% at-failure			
Other liabilities				49,204		16.8%		65,017		22.2%			
Deposits				225,907		77.1%		210,094		71.7%			
Preferred deposits				203,317		69.4%		193,151		65.9%			
Junior deposits				22,591		7.7%		16,943		5.8%			
Senior unsecured bank debt				1,200		0.4%		1,200		0.4%			
Junior senior unsecured bank debt				4,000		1.4%		4,000		1.4%			
Dated subordinated bank debt				2,500		0.9%		2,500		0.9%			
Preference shares (bank)				1,500		0.5%		1,500		0.5%			
Equity				8,793		3.0%		8,793		3.0%			
Total Tangible Banking Assets				293,104		100.0%		293,104		100.0%			
Debt Class		De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned	Additional	Preliminary		
	Instrument	Sub-instrument	Instrument	Sub-instrument	De Jure	De Facto		Notching	LGF	Notching	Rating		
	volume + ordination		volume + ordination					vs. Adjusted BCA	notching		Assessment		
Counterparty Risk Rating		11.9%	11.9%	11.9%	11.9%	2	2	2	3	0	a2		
Counterparty Risk Assessment		11.9%	11.9%	11.9%	11.9%	3	3	3	3	0	a2 (cr)		
Deposits		11.9%	5.7%	11.9%	6.1%	1	1	1	1	0	baa1		
Senior unsecured bank debt		11.9%	5.7%	6.1%	5.7%	1	0	1	1	0	baa1		

Junior senior unsecured bank debt	5.7%	4.4%	5.7%	4.4%	0	0	0	0	0	baa2
Dated subordinated bank debt	4.4%	3.5%	4.4%	3.5%	-1	-1	-1	-1	0	baa3
Non-cumulative bank preference shares	3.5%	3.0%	3.5%	3.0%	-1	-1	-1	-1	-2	ba2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	2	Aa3	Aa3
Counterparty Risk Assessment	3	0	a2 (cr)	2	Aa3(cr)	
Deposits	1	0	baa1	2	A2	A2
Senior unsecured bank debt	1	0	baa1	2	A2	A2
Junior senior unsecured bank debt	0	0	baa2	0	Baa2	Baa2
Dated subordinated bank debt	-1	0	baa3	0	Baa3	(P)Baa3
Non-cumulative bank preference shares	-1	-2	ba2	0	Ba2 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
LA BANQUE POSTALE	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A2/P-1
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A2
Senior Unsecured	A2
Junior Senior Unsecured	Baa2
Junior Senior Unsecured MTN	(P)Baa2
Subordinate -Dom Curr	Baa3
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)
Commercial Paper -Dom Curr	P-1
Other Short Term	(P)P-1

Source: Moody's Investors Service

Endnotes

- 1 From 20.1% previously
- 2 As of year-end 2022, insurance-related assets accounted for around 60% of LBP's consolidated assets.
- 3 I.e. excluding corporate center's results
- 4 Including 7000 post offices
- 5 In addition to the one-line and mobile services offered to LBP's customers, the group launched "Ma French Bank" in July 2019, a 100% online bank targeting young customers.
- 6 Clients are defined as active if they have a current account (compte cheque postale "CCP" and have their salaries directly paid to their accounts at LBP
- 7 Out of total 4.1 million financially vulnerable clients identified by the Observatoire de l'Inclusion Bancaire as of year-end 2022. Financially vulnerable customers are those whose income is estimated below the poverty line, or subject to a debt management plan, or have missed vital payments, etc.
- 8 In addition to the "normal" remuneration of the centralized deposits, LBP receives a compensation to cover the operation cost incurred in the completion of its public service mission. LBP's latest compensation plan was set for the 2021-2026 period and approved by the European Commission (2021: €338 million; 2022: €321 million; 2023: €303 million; 2024: €287 million; 2025: €269 million; 2026: €252 million).
- 9 For the weight of banking activities, we have retained the Tier 1 SREP requirement (excluding the impact of insurance business). For insurance activities, we have retained CNP's solvency capital requirement (SCR) under Solvency 2.
- 10 The stage 3 ratio on housing loans was 0.85% of gross outstanding amount at end-June 2023, broadly stable from both year-end 2022 and year-end 2021. The stage 3 ratio on consumer loans was 6.1% at end-June 2023, slightly down from 6.4% at year-end 2022 and 7% at year-end 2021.
- 11 The corporate loan book used for the calculation of the problem loan ratio also includes loans to local authorities as well as the factoring and leasing portfolios. The inclusion of loans to local authorities in the denominator tends to understate the ratio.

- [12](#) I.e. also including loans to local authorities
- [13](#) This represents 11% of LBP's CET1 capital as of end-June 2023.
- [14](#) Referred to by the bank as exposures to "real estate professionals"
- [15](#) This represents 31% of the bank's CET1 capital as of year-end 2022.
- [16](#) We exclude Reverse repo transactions from both the numerator and the denominator for the calculation of the problem loan ratio.
- [17](#) We exclude Reverse repo transactions from both the numerator and the denominator for the calculation of the stage 2 loan ratio.
- [18](#) The Danish compromise (Article 49 of European Union's (EU) Capital Requirements Regulation 2 [CRR2]) is a special treatment of insurance companies' capital within financial conglomerates for the purpose of calculating the group's regulatory capital ratios.
- [19](#) The bulk of the progression in the CET1 and total capital ratios compared to year-end 2022 comes from the impact of the implementation since 1 January 2023 of IFRS 17 - essentially on insurance activities -. The capital ratios as of year-end 2022 were reported under IFRS 4. Including the impact of IFRS 17, LBP's CET1 ratio as of 1 January 2023 was 17.9%
- [20](#) The SREP ratio is composed of 4.5% Pillar 1 requirement, 1.125% Pillar 2 requirement, 2.5% capital conservation buffer, 0.25% systemic risk buffer, and 0.5% countercyclical buffer. The indicated SREP ratio excludes Pillar 2 guidance.
- [21](#) The denominator excludes the portion of regulated savings centralised at CDC.
- [22](#) Net interest income fell by 20% in H1 2023 compared to H1 2022.
- [23](#) Regulated savings, the best-known of which is the Livret A, are liquid savings products that depositors can use at any time without a penalty. They are tax-free and benefit from a government guarantee, as well as the protection of a domestic deposit insurance scheme. Following two hikes in 2022 (on 1 February to 1% from 0.5%, and on 1 August to 2% from 1%), the interest rate on the Livret A further increased to 3% from 2% in February 2023.
- [24](#) The taux d'usure, or usury rate, is a legal cap designed to protect borrowers from abusive interest rates. It is calculated as the average of banks' interest rates for similar home loans over the past quarter, plus 33%.
- [25](#) In July 2023, Finance Minister Bruno Le Maire announced that the Livret A rate will be maintained at the current level of 3% until January 2025. The government enacted similar measures for other regulated savings such as the Livret de développement durable et solidaire.
- [26](#) The average underlying cost-to-income for the five largest French banks was 67% in H1 2023.
- [27](#) While the long-term trend has been a gradual increase in the loan-to-deposit ratio, the ratio reduced in 2020 as a result of the higher-than-historical-average growth in deposits in the context of the pandemic.
- [28](#) The amount of regulated savings centralized with the CDC is set, by law, at 60% of the collected deposits. However, in 2016, nearly all French banks took the option of centralizing the entirety of their regulated savings deposits to the CDC (the so-called "over-centralisation" option) in an effort to lower their funding costs as regulated savings rates were above market rates. This transferred the excess funding cost of regulated savings to CDC, reducing CDC's own profitability. In February 2018, the government addressed this issue by abolishing the over-centralization option. Banks have been obliged to re-absorb (or "de-centralize") the deposits they had transferred in excess of their centralization targets within a timeframe of either three or ten years. At year-end 2022, 75% of the Livret A collected by LBP is still centralized (versus 84% at year-end 2021). This is expected to fall to 60% by 2027.
- [29](#) Sight deposits decreased by 3.7% between year-end 2021 and end-June 2023. At year-end 2022, sight deposits accounted for 56% of LBP's customer deposits (excluding regulated savings centralised at CDC and repo transactions).
- [30](#) We do not consider repos as a source of funding for LBP. Please see explanation below.
- [31](#) Unencumbered liquid assets is calculated as the sum of cash, reverse repo and securities portfolio minus repo transactions
- [32](#) At year-end 2021, unencumbered liquid assets represented 30% of the bank's adjusted assets.
- [33](#) This portfolio is included in the aforementioned €39 billion securities portfolio

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