FitchRatings

Banks
Universal Commercial Banks
France

La Banque Postale S.A.

Update

Key Rating Drivers

Business Profile, Capital Drive Ratings: La Banque Postale S.A.'s (LBP) ratings primarily reflect its insurance-heavy business mix, as fully owned CNP Assurances SA (CNP; A/Negative) represents around 60% of its assets and drives earnings. The group's capitalisation also drives the ratings and is commensurate with risks, although capital is not fully fungible between LBP and CNP. The ratings also consider a market-risk-sensitive risk profile, higher vulnerability to its sovereign exposure than peers, sound asset quality and strong funding and liquidity.

Operating Environment, Sovereign Drive Negative Outlook: The Negative Outlook on the Long-Term Issuer Default Rating (IDR) reflects downside risks stemming from the Negative Outlooks on France and on the French operating environment, which create pressure on LBP's asset quality, capitalisation, and funding profile. The Outlook also considers the group's much higher exposure to domestic sovereign debt than peers, including through its insurance subsidiary and its less diversified business profile.

Public-Sector-Owned Bancassurer: LBP is a fully-fledged and integrated bancassurance group, with CNP as its main performance driver. LBP has a significant but underperforming franchise in French retail banking, with strong deposit market shares in Livret A savings. CNP holds strong market positions in life and creditor insurance in France and has well-performing operations in Brazil and Italy. Following management turnover in 2023, the group has refocused on core businesses to improve performance.

Market Sensitive Risk Profile: Credit underwriting standards in the banking business are low-risk. LBP continues to improve its risk governance and control framework. However, LBP's risk profile reflects weaker risk controls than large French peers and higher vulnerability to sovereign risk and market and interest shocks due to its structure and lower diversification. The risk profile also considers CNP's interest and investment risk, which is high relative to European peers but in line with French bancassurers.

Sound Asset Quality, Large Sovereign Exposure: LBP's impaired loans ratio is sound and remains the lowest among large French banks, despite a material increase since end-2021, mainly due to two large corporate exposures. We forecast the ratio will stay slightly above 2% by end-2026, driven by vulnerable corporates and unsecured consumer credit to fragile households, while LBP's large home loans portfolio will not markedly weaken.

CNP Drives Adequate Profitability: CNP's reasonable performance in insurance again mostly outweighed the underperformance in French retail banking, which has been structurally loss-making over recent years. LBP's operating profit/risk-weighted assets (RWAs) should remain above 2% over 2024–2026, driven by organic growth in insurance, better cost control and a gradual recovery in French retail, but retail could be challenged by the weakening operating environment.

Danish Compromise Drives Capital: LBP's regulatory capital ratios are strong. The common equity Tier 1 (CET1) ratio (18.3% at end-June 2024) greatly benefits from the favourable treatment of insurance under the Danish Compromise. This overstates loss-absorbing capital available to LBP's creditors. Fitch Ratings therefore negatively adjusts our assessment of capitalisation as CNP's capital is not fully fungible with LBP's, despite CNP's dividend record.

Strong Funding and Liquidity: The Negative Outlooks on the French sovereign and operating environment add downside risks to LBP's funding profile. Our view on LBP's funding and liquidity incorporates the bank's substantial excess liquidity. LBP also has one of the lowest loans/deposits ratios among rated large western European banks. It has low reliance on wholesale funding, driven by its very stable and granular retail-deposit base with a very high share of insured deposits.

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+
Derivative Counterparty Rating	A+(dcr)
Viability Rating	a
Government Support Rating	a-

Sovereign Risk (France)

Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Revises CNP's Outlook to Negative on LBP's Outlook Change; Affirms IFS Rating (October 2024)

Large French Banks' Ratings Intact After Sovereign Action; Outlook Changes for SG, LBP (October 2024)

Fitch Revises La Banque Postale's Outlook to Negative; Affirms IDR at 'A' (October 2024)

Global Economic Outlook (September 2024)

What Investors Want to Know: Rating Approach for CNP, LBP and La Poste (December 2023)

Analysts

Rafael Quina, CFA
+33 1 44 29 91 81
rafael.quina@fitchratings.com

Charlotte Pernel
+33 1 44 29 91 23
charlotte.pernel@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The most likely trigger for a downgrade of LBP's ratings would be a downgrade of the French sovereign or of the operating environment score, given LBP's limited rating headroom compared to other large French banks, driven by its less diversified business model and more sensitive risk profile and capitalisation.

The ratings could also be downgraded should the group's CET1 ratio drop durably below 14%, or on evidence of material obstacles to capital fungibility within the group, such as regulatory measures preventing regular dividends being routinely upstreamed to LBP. Fitch could also downgrade LBP's ratings if the group's operating profit sustainably declines to below 2% of RWAs and if LBP's impaired loans ratio durably increases to above 3%.

LBP's ratings are also sensitive to severe market shocks if Fitch expects these to result in a durable and significant impact on the group's capitalisation or earnings. We could also downgrade LBP if operating losses in the retail banking operation widen to the extent they would meaningfully affect the group's overall earnings or capital trajectory.

A downgrade of CNP's Insurer Financial Strength Rating to 'A' would likely put pressure on LBP's ratings, due to the size of the insurance activities in its business mix and their key contribution to the group's profitability and internal capital generation.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of LBP's ratings is unlikely in the short term given the Negative Outlook. In the longer term, positive rating action would require a stabilisation of the Outlooks on the French sovereign and operating environment. Under this scenario, further evidence of improved capital fungibility between CNP and LBP, as well as greater business diversification with a stronger franchise in some key areas, for instance in asset management, private banking or in specialised financial services, could be rating positive.

To be rating positive, an increased business diversification would have to result in the group having structurally improved earnings generation, including through a successful turnaround of the retail banking business, and a CET1 ratio remaining well above 16%. This could be manifested by further franchise growth in insurance (particularly non-life), private banking, asset management or low-risk corporate and investment banking activities, an operating profit/RWAs ratio sustainably at 2.5%–3%, and a return on equity closer to higher-rated peers.

We could affirm LBP's ratings at their current levels and revise the Outlook on the Long-Term IDR back to Stable, even if the French sovereign and operating environment score were downgraded by one notch, provided that LBP sustainably delivers an operating profit/RWAs ratio of around 3% and materially reduces its sensitivity to a potential stress on its large sovereign holdings.

An upgrade of CNP's Insurer Financial Strength rating would not automatically lead to an upgrade of LBP's ratings, as our assessment of the group's consolidated profile would likely remain constrained by our views on capital fungibility and business diversification relative to higher-rated banking peers.

Other Debt and Issuer Ratings

Debt Level	Rating
Deposits	A+/F1+
Senior preferred debt	A+/F1+
Derivative Counterparty Rating	A+(dcr)
Senior non-preferred debt	A
Subordinated (Tier 2) debt	BBB+
Additional Tier 1	BBB-

Source: Fitch Ratings

LBP's long-term senior preferred debt rating of 'A+' is one notch above the Long-Term IDR, reflecting Fitch's expectation that LBP will continue to maintain large amounts of subordinated and senior non-preferred debt to comfortably meet its total resolution buffer requirement without senior preferred debt. For the same reason, LBP's senior non-preferred debt is rated in line with its Long-Term IDR.

Fitch expects LBP to meet its total minimum requirement for own funds and eligible liabilities (MREL) without using senior preferred debt. LBP has to comply with a total MREL of 26% from 2024, including the 1% countercyclical buffer in force since 2 January, and we project that its subordinated MREL ratio will be slightly below 29% at end-2025 (end-June 2024: 28.7%). To meet this requirement, we expect LBP will continue issuing senior non-preferred debt, and potentially more junior instruments, over the next 12 to 24 months.

Fitch rates LBP's Derivative Counterparty Rating (DCR) and long-term deposits in line with its senior preferred debt because non-guaranteed depositors and derivative counterparties in France benefit from the same level of protection from bank resolution buffers.

The short-term senior preferred debt and deposit ratings are in line with LBP's Short-Term IDR of 'F1+', which is the higher of the two ratings mapping to a long-term debt rating of 'A+'. This reflects Fitch's assessment of LBP's funding and liquidity at 'aa-', with a negative outlook driven by the negative outlook on the French operating environment.

LBP's subordinated Tier 2 notes are rated 'BBB+', two notches below the bank's VR, to reflect poor recovery prospects in case of a non-viability event. Fitch does not apply further notches for non-performance risk because the terms of the notes do not include contingent conversion triggers.

The bank's additional Tier 1 (AT1) notes are rated 'BBB-', four notches below its VR. This includes two notches for loss severity and two notches for non-performance risk. Our assessment is based on LBP's large consolidated regulatory capital buffers above coupon-omission triggers, estimated at about 850bp of RWAs, and sufficient distributable reserves supported by the dividends received from CNP, which more than offset the loss-making banking operations.

Significant Changes from Last Review

Weaker Momentum in Insurance and Weak French Retail Revenue in 1H24

Revenue decreased by 5% in 1H24, mainly driven by a contraction of insurance revenue. This contrasts with the exceptionally positive factors that supported the group's 1H23 performance. As result, LBP's operating profit/RWAs ratio fell to 2.3% in 1H24 – while this was still above that of previous years (2023: 2.2%; 2022: 1.9%), it was materially lower than the cyclically high European average of close to 3%.

The growth in operating expenses was controlled in 1H24, at just under 1.5%, and the bank's cost/income ratio stabilised to a still-high 68%. We expect progress in cost efficiency to be moderate, as IFRS17 has already led to a massive improvement. Further cost efficiency improvements will likely result from the revenue recovery in LBP's retail banking operations and a cost savings plan launched by the bank (with EUR200 million cost savings planned in 2024, equivalent to 5% of LBP's retail banking operating costs in 2023).

The recent weakening in asset quality metrics notably resulted from some large corporate exposures, which also affected domestic peers. We expect only limited further weakening from current ratios, due to LBP's large share of low-risk housing loans and larger than peers' public sector exposure. Loan impairment charges remained low at 14bp of gross loans, and we expect them to remain contained at 20bp–25bp in 2024–2025.

LBP's CET1 ratio of 18.3% at end-June 2024 includes EUR1 billion of exceptional dividend to its parent La Poste. The ratio remains at the higher-end of European peers, although it was boosted by IFRS17 effects in 2023 (+320bp on 1 January 2023) and by the bank's use of the Danish Compromise.

Ratings Navigator

La Banque Postale S.A.

ESG Relevance:

Banks
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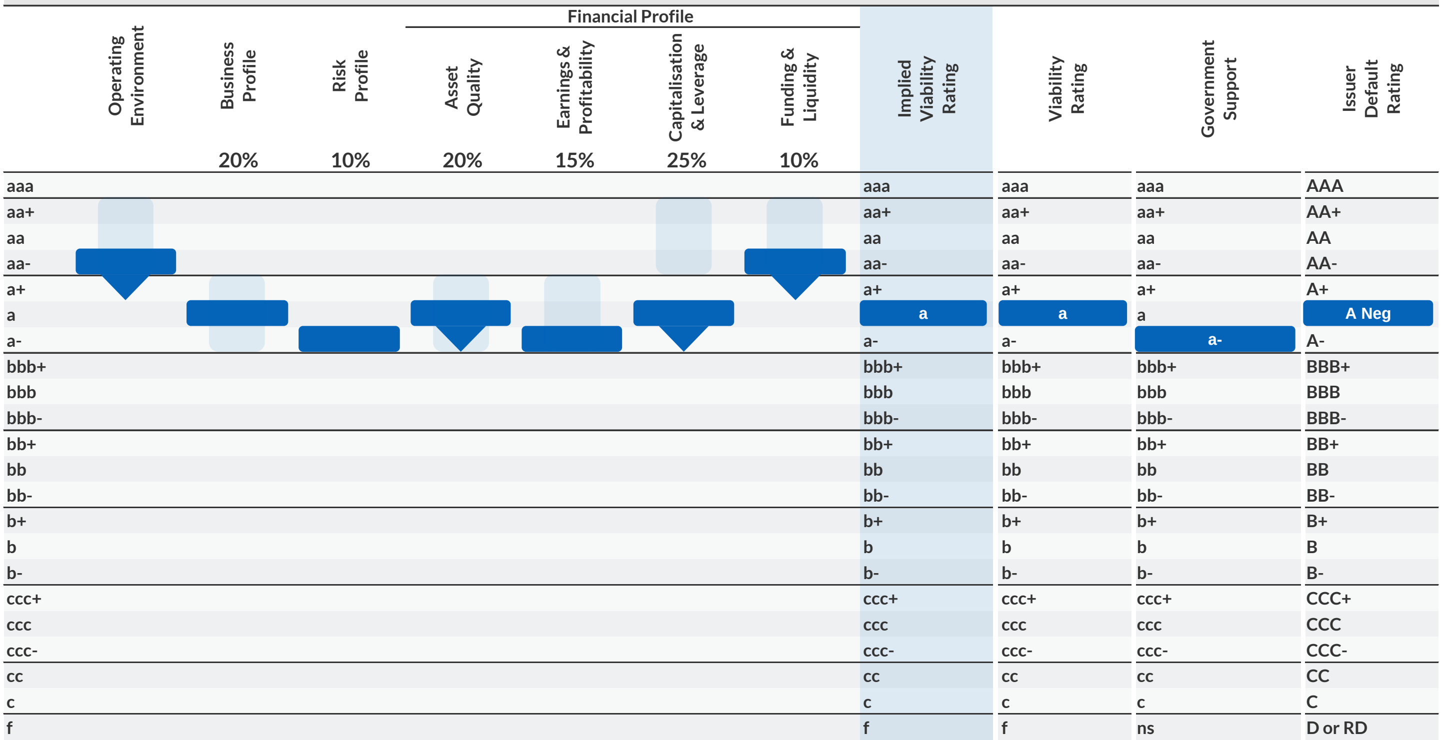

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The capitalisation and leverage score of 'a' has been assigned below the 'aa' implied range for the following adjustment reasons: capital flexibility and ordinary support (negative).

Financials

Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	3,977	3,701	7,258	7,055	5,355
Net fees and commissions[a]	1,214	1,130	2,028	-1,436	-1,243
Other operating income	-1,249	-1,162	-2,009	2,728	4,007
Total operating income	3,942	3,669	7,277	8,347	8,119
Operating costs	2,663	2,478	4,950	6,406	6,215
Pre-impairment operating profit	1,280	1,191	2,327	1,941	1,904
Loan and other impairment charges	115	107	197	216	268
Operating profit	1,165	1,084	2,130	1,725	1,636
Other non-operating items (net)	-13	-12	-83	52	1
Tax	460	428	782	427	514
Net income	692	644	1,265	1,350	1,123
Other comprehensive income	-1,270	-1,182	575	-4,345	393
Fitch comprehensive income	-578	-538	1,840	-2,995	1,516
Summary balance sheet					
Assets					
Gross loans	138,112	128,536	127,522	125,950	117,567
- Of which impaired	2,801	2,607	2,504	2,086	1,627
Loan loss allowances	1,748	1,627	1,575	1,460	1,346
Net loans	136,364	126,909	125,947	124,490	116,221
Interbank	69,268	64,465	67,034	66,843	67,508
Derivatives	5,809	5,406	6,102	8,667	3,371
Other securities and earning assets	513,899	478,268	481,437	487,651	520,104
Total earning assets	725,339	675,048	680,520	687,651	707,204
Cash and due from banks	33,616	31,285	40,577	39,355	50,812
Other assets	22,249	20,706	17,054	18,638	14,294
Total assets	781,204	727,039	738,151	745,644	772,310
Liabilities					
Customer deposits	223,932	208,406	213,728	212,499	211,543
Interbank and other short-term funding	58,143	54,112	64,777	67,179	61,751
Other long-term funding	44,928	41,813	32,694	26,352	25,183
Trading liabilities and derivatives	5,701	5,306	5,899	7,142	3,043
Total funding and derivatives	332,705	309,637	317,098	313,172	301,520
Other liabilities	417,333	388,397	391,485	408,319	438,207
Preference shares and hybrid capital	4,596	4,277	4,255	4,277	4,236
Total equity	26,570	24,728	25,313	19,876	28,347
Total liabilities and equity	781,204	727,039	738,151	745,644	772,310
Exchange rate		USD1 = EUR0.930665	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

[a] Net fees and commissions turned positive in 2023 due to the implementation of IFRS17, which led to a reclassification of costs linked to insurance distribution contracts.
Source: Fitch Ratings, Fitch Solutions, LBP

Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.3	2.2	1.9	1.8
Net interest income/average earning assets	1.1	1.1	1.0	0.8
Non-interest expense/gross revenue	67.8	68.3	77.0	77.5
Net income/average equity	5.2	5.4	5.9	3.8
Asset quality				
Impaired loans ratio	2.0	2.0	1.7	1.4
Growth in gross loans	0.8	1.3	7.1	3.8
Loan loss allowances/impaired loans	62.4	62.9	70.0	82.7
Loan impairment charges/average gross loans	0.1	0.2	0.2	0.2
Capitalisation				
Common equity Tier 1 ratio	19.0	18.1	14.7	19.1
Tangible common equity/tangible assets	2.8	2.7	1.8	3.1
Basel leverage ratio	7.3	7.3	5.6	7.2
Net impaired loans/common equity Tier 1 capital	5.5	5.3	4.6	1.6
Funding and liquidity				
Gross loans/customer deposits	61.7	59.7	59.3	55.6
Gross loans/customer deposits + covered bonds	n.a.	56.6	56.6	53.4
Liquidity coverage ratio	167.0	146.0	147.0	186.0
Customer deposits/total non-equity funding	67.5	67.8	68.5	69.9
Net stable funding ratio	133.0	132.0	129.1	142.7

Source: Fitch Ratings, Fitch Solutions, LBP

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a or a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	a-
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Negative
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Positive

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Very High Probability of Support

LBP's 'a-' Government Support Rating (GSR) reflects a very high probability of state support, but is currently not a driver in LBP's IDRs. Provision of support would most likely be through LBP's direct parent, La Poste (A+/Stable), the French postal service operator, whose public-sector ownership is enshrined in French law.

LBP's GSR is three notches below France's sovereign IDR as support would most likely be provided under the limitations of the EU Bank Recovery and Resolution Directive and state aid considerations. This assessment builds on LBP's indirect public-sector ownership, and on the bank's high importance to its parent and to the French state given LBP's public-service mission.

Environmental, Social and Governance Considerations

FitchRatings **La Banque Postale S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
La Banque Postale S.A. has 6 ESG potential rating drivers La Banque Postale S.A. has exposure to services for underbanked and underserved communities: SME and community development programs; financial literacy programs but this has very low impact on the rating. La Banque Postale S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating. Governance is minimally relevant to the rating and is not currently a driver.	key driver	0	issues	5
	driver	0	issues	4
	potential driver	6	issues	3
	not a rating driver	3	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	3	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

LBP's ESG Relevance Scores are in line with the standard scoring for western European banks except the Human Rights, Community Relations, Access and Affordability sub factor, which we score at '3' for LBP instead of '2' for most banks. This is to reflect LBP's public-sector mission in supporting financially vulnerable clients, which we believe has some influence on its business generation and earnings profile. This is because LBP has a higher share of financially vulnerable, and so less profitable, customers than French peers.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.