MOODY'S RATINGS

Rating Action: Moody's Ratings affirms A2 deposit and senior unsecured ratings of La Banque Postale; Outlook stable

09 Jul 2024

Paris, July 09, 2024 -- Moody's Ratings (Moody's) today affirmed the A2 long-term deposit, senior unsecured debt and issuer ratings of La Banque Postale (LBP). The outlook on these ratings remains stable. We also affirmed LBP's Baseline Credit Assessment (BCA) and Adjusted BCA of baa2, its short-term deposit and commercial paper ratings of Prime-1, its junior senior unsecured debt rating of Baa2, subordinated debt rating of Baa3, and non-cumulative preference share rating of Ba2(hyb). We also affirmed the (P)A2 senior unsecured MTN, (P)Baa2 junior senior unsecured MTN, (P)Baa3 subordinated MTN and (P)P-1 Other Short Term programme ratings. Finally, we also affirmed its long-term and short term Counterparty Risk (CR) Assessments of Aa3(cr) and Prime-1(cr) respectively, and long-term and short-term Counterparty Risk Ratings (CRR) of Aa3 and Prime-1 respectively.

RATINGS RATIONALE

Baseline Credit Assessment

The affirmation of the baa2 BCA reflects LBP's franchise as a large domestic bancassurer in the French market, its strong asset quality, robust liquidity and funding structure, and 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 the subdued profitability of its banking activities.

The baa2 BCA of LBP results from the combined assessment of LBP's banking activities and its insurance business that is reflected in the A2 senior unsecured debt rating equivalent of CNP (excluding any external support). In assessing the relative importance of the two activities, we consider the capital requirements applicable to the banking operations compared to the capital requirements CNP is subject to.

Our credit assessment of LBP's banking activities is firstly driven by its sound asset quality, underpinned by the good performance of its domestic retail-focused lending activities. We however factor into our assessment the risks associated with the change in the composition of the loan portfolio as the bank develops its corporate lending and consumer finance businesses. We also expect some deterioration in the bank's asset quality in the coming quarters due to still high interest rates and low macroeconomic growth.

We also consider that LBP's solvency is significantly lower than suggested by its consolidated Common Equity Tier 1 ratio of 18.1% at year-end 2023. This ratio benefits from the so-called "Danish compromise", which allows financial conglomerates to reflect their equity stakes in insurance companies in their risk-weighted assets instead of deducting them from their regulatory capital. Hence, a large portion of the capital allocated to CNP is also allocated to cover the bank's own risks, implying double-counting of capital which boosts LBP's regulatory solvency ratio.

Excluding CNP's contributions, the bank's profitability is weak. This reflects its business portfolio primarily composed of low risk-low margin activities and high cost base. 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 has been more gradual. We expect operating expenses to remain high relative to the bank's net banking income (cost to income ratio was 110% in 2023), reflecting the high cost of carrying out retail banking with a large distribution network. Overall, we expect the recovery to be slow, and LBP to remain loss-making on its banking operations in 2024 and 2025.

Long-term ratings

The affirmation of LBP's long-term deposit and senior unsecured ratings at A2 stems from a low loss severity on these instruments under our Advanced Loss Given Failure (LGF) analysis, which results in a one-notch uplift from the baa2 Adjusted BCA.

LBP's deposit and senior unsecured 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.

Outlook

The stable outlook on LBP's long-term deposit, senior unsecured debt 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 OR DOWNGRADE OF THE RATINGS

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 affect ratings positively.

The deposit, issuer 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.

LBP's BCA could be downgraded as a result of a material deterioration in asset quality or solvency, or if the group were unable to restore the profitability of its banking activities. 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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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