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Update: La Banque Postale

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Update: La Banque Postale

Credit Highlights

Issuer Credit Rating
A+/Negative/A-1

Overview	
Key strengths	**Key risks**
Support from parent La Poste, either on its own or with the support of its owner Groupe Caisse des Dépôts et Consignations (CDC), and ultimately the French government.	High-cost base of the banking activities resulting in lower efficiencies than peers.
Profitable insurance activities through fully owned CNP Assurances (CNP) which mainly drive LBP's profit and strong retail footprint in France.	Interest margin might remain under pressure in 2024 with elevated funding cost due to higher regulated savings shares than peers while assets repricing benefit will be gradual.
Good liquidity and minimal reliance on wholesale funding.	Loan book recently expended from low domestic housing loans into riskier but also higher margin lending.

We expect La Banque Postale (LBP) to maintain an integral role within the La Poste group. LBP is fully integrated in the La Poste group, and we see the reputations of LBP and La Poste as closely linked. Among other things, they share the same distribution network and certain personnel, and have related brand names and similar customer recognition. We also believe that LBP benefits from La Poste's strong long-term commitment of financial support, as seen in the past. We therefore see LBP as a core subsidiary of the La Poste group and align our rating on LBP with that on La Poste (A+/Negative/A-1), resulting in a four-notch uplift above our assessment of the group's 'bbb' group credit profile (GCP).

We analyze LBP primarily as an insurance entity with associated banking activities. LBP is the sole shareholder of CNP since mid-2022. The two financial entities of La Poste group have increased their integration over the past years, and we see strong alignment of their governance. We consider CNP, which represents substantially all of LBP's consolidated profit and core equity, to be willing to support its direct parent if needed. We expect the business cooperation of LBP and CNP to provide synergies and support the current below peers' insurance equipment rate in the long term.

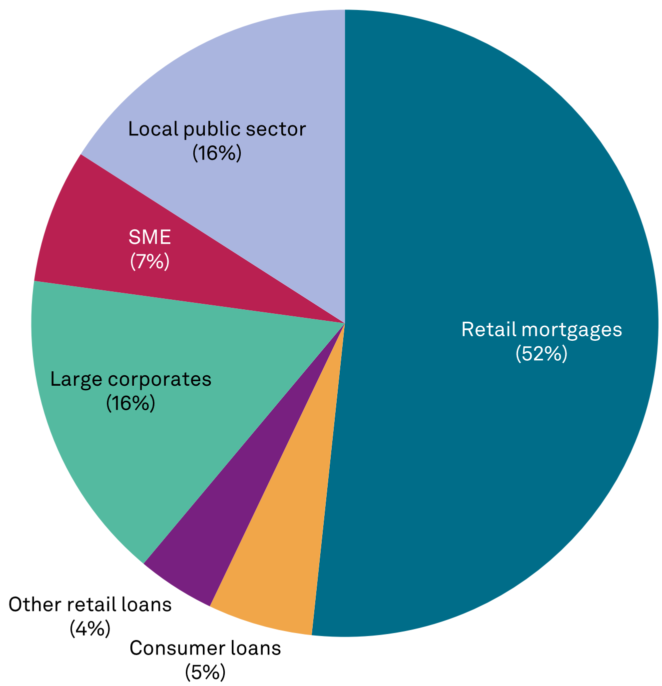
We see CNP as the relevant entity to assess LBP's credit quality, considering the considerable support LBP derives from its subsidiary's successful insurance activities. As we expect CNP to upstream capital to support LBP hybrids' creditors if necessary, we rate LBP's hybrid debts based on our issuer credit rating on CNP. We also consider the structural subordination of LBP's hybrids to CNP's hybrids in the notching of LBP's hybrids (see "Research Update: La Banque Postale Hybrid Debt Ratings Raised On Integration With CNP; Issuer Credit Ratings Affirmed; Outlooks Negative," published Oct. 9, 2023).

LBP benefits from a strong domestic franchise in the French retail segment. We view the bank's position as a large domestic retail player with solid market shares in deposits, but also the modest business diversification compared with larger French peers and notably with domestic cooperatives banks. We positively view LBP's increased lending diversification toward consumer finance and corporate lending. This diversification improves LBP's overall net interest margin (NIM), thanks to higher yields, albeit relying on riskier exposures than its traditional retail mortgages and loans to French local and regional governments. Nevertheless, we believe that French residential mortgage loans will continue to represent a large proportion of the loan book in the coming years.

Chart 1

La Banque Postale's credit exposures reflects past years lending diversification

Customer credit risk exposures at mid-2023



Source: S&P Global Ratings.

The group's net banking income and net income have been fully driven by CNP over the last years. As of June 2023, we estimate that CNP contributes to 45% of the net banking income (50% at year-end 2022) and 102% of the net profit (100% at year-end 2022) when excluding the corporate center, and thus despite the application of IFRS 17 which reduces CNP profits compared to IFRS 4 accounting standard. The full consolidation of CNP helps LBP to mitigate the impact of the challenging economic environment on its NIM and earnings generation coming from its retail banking activities.

Despite higher income and capital volatility induced by International Financial Reporting Standard (IFRS) 17, we think insurance activities will still be the main driver of LBP's financial performance over 2023 and 2024. For historical reasons, LBP has a larger proportion than peers of regulated savings (Livret A notably), which are sight deposits carrying an interest rate of 3% until January 2025. Furthermore, LBP's mortgage portfolio significantly grew under the previous low interest rate environment and its assets, being mostly long-term fixed rates, will take time to reprice. The repricing lag was amplified by the 41% drop in new French mortgage production in 2023 and its impact bolstered by sub-optimal hedging strategy. Mortgage origination in France should remain below the 2017-2022 levels and S&P Global Ratings forecasts a 3.5% decrease in the nominal housing price in 2024 (see "European Housing Markets: Forecast Brightens Amid Ongoing Correction," published Jan. 25, 2024, on RatingsDirect). Thus, we expect LBP's NIM and banking profitability to remain under pressure in 2024.

While LBP's regulatory capitalization is strong, we acknowledge the capital strength of the subgroup is at CNP level. We do no longer calculate risk-adjusted capital ratio for LBP. As for other insurance groups with banking activities, we analyze LBP and CNP through a holistic perspective on the back of increased integration and capital fungibility between LBP and CNP.

LBP's regulatory capitalization is on the high side, with a common equity tier 1 (CET1) ratio of 18.3% in June 2023, strongly above 14.7% at year-end 2022, thanks to the implementation of IFRS 17. We note that LBP's regulatory metrics strongly benefit from the 100% risk-weighting of its insurance activities. Conversely, LBP uses standard risk-weighting for credit risk, contrary to its larger domestic peers. Overall, we view favorably the strong capital buffer over requirement (standing at 8.9%) and the prepositioning of €1 billion of cash at the CNP Assurances Holding level in September 2023 to support future dividends to LBP.

CNP's equity accounted for €19.5 billion of LBP's CET1 instruments in June 2023 for a total CET1 capital of €17.8 billion after regulatory adjustments, the entirety of LBP's regulatory capital is held at CNP, thus meaning CNP bears the tail-risk of recapitalizing LBP if needed.

We expect risk to remain contained, with resilient asset quality and slight deterioration in cost of risk in 2024. LBP's risk profile remains fundamentally low, French mortgage standing for half of its customer exposures. However, in recent years, the bank has expanded its lending to larger corporates and consumer financing while aggressively growing its domestic mortgage market share.

In the first half of 2023, LBP's net loan book growth was driven mainly by home loans (2.1% over the same period) thus adding €1.6 billion to LBP housing loans portfolio thanks to the supportive French housing context.

In our view, LBP's credit risks remain contained at mid-year 2023 given the low and below peers cost of risk at 16 basis points (bps) and nonperforming loans ratio at 1.97%, while nonperforming coverage is quite good at 59%. Recent developments in riskier segments (such as consumer assets or small and midsize enterprises) are supporting LBP's interest margin, while the cost of risk remained low and coverage quite high. The recent strategic inflexions are reducing previous concerns about the former all-round aggressive growth strategy and we believe LBP will focus in the next few years on returning its retail banking operations to profitability by enhancing its offers and operational performance, while cutting costs. We see the discontinuation project of Ma French Bank, LBP's online bank, as indicative of LBP's willingness to cut costs and rationalize its investments.

Strong and resilient franchise in retail deposit supports LBP's funding and liquidity position LBP's strong and resilient franchise in retail deposit is historically supported by the status of its parent, La Poste, as a government-related entity (GRE). The historical background of LBP and the ultimate support from the French state led to lower-than-peers' sensitivity to market confidence.

The bank's retail deposits are quite resilient and are expected to continue to grow, notably with planed transfers of part of Livret A regulatory savings to LBP from the CDC until 2027.

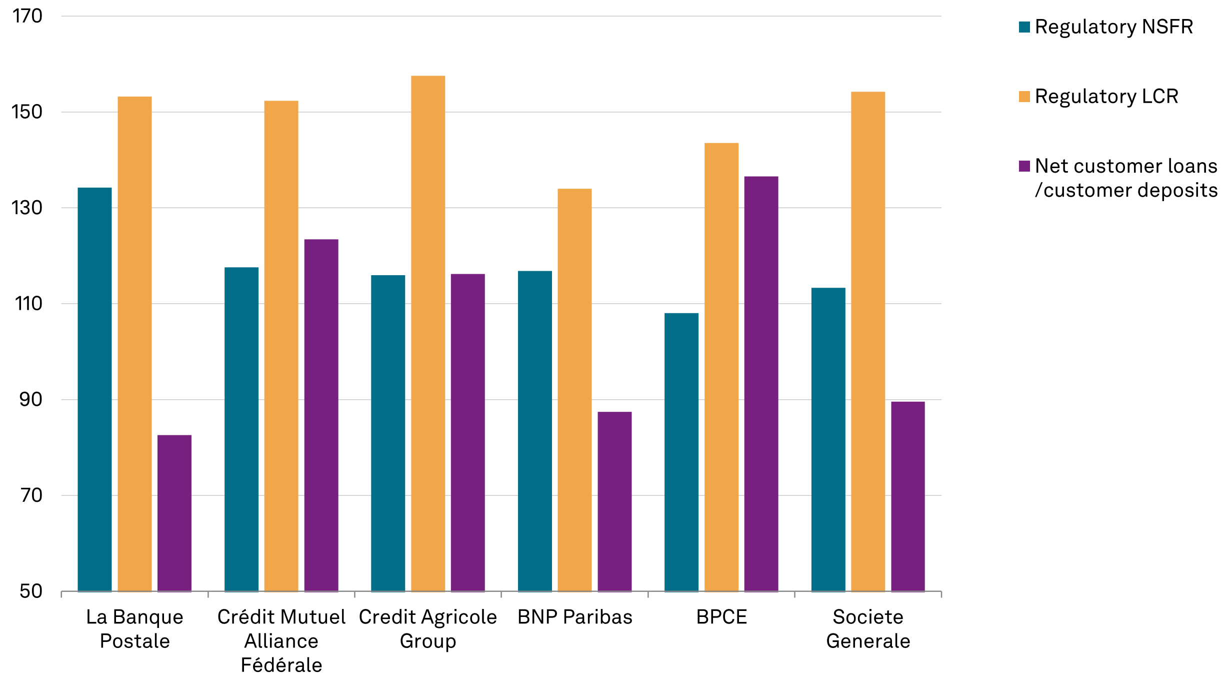
Wholesale funding reliance is low, with estimated outstanding of €11.7 billion of covered bonds (issued by LBP's "Société de Financement de l'Habitat" created in 2013), €2.6 billion of senior preferred, €6.4 billion of senior nonpreferred €2.5 billion of Tier 2 and €1.5 billion of additional Tier 1 debts. All in all, the long-term wholesale funding issued by LBP stands for only 14% of its funding (comprised of customer deposits and long-term wholesale funding).

Furthermore, LBP exhibits strong liquidity, even if the distance with its peers recently reduced, as illustrated with a liquidity coverage ratio standing at 153% at mid-year 2023. Deposits not invested in held-to-maturity securities or used to fund loans are invested in highly liquid and negotiable assets that the bank accounts for as available-for-sale securities. Thanks to tight management of its liquidity, LBP is able to use high-quality securities for sale and repurchase agreements with the European Central Bank. LBP's liquidity relies on its cash at the central banks (€50.6 billion as of June 30, 2023) and on its liquid securities portfolio eligible to pledge at central banks, which amounted to €10.9 billion as of June 30, 2023. Lastly, LBP can mobilize up to €8 billion of additional covered bond to secure additional funding from central bank in case of needs.

Chart 2

La Banque Postale still shows slightly stronger funding and liquidity profile than domestic peers

Loans to deposits ratio, regulatory NSFR and LCR as of half year 2023 (in %)



NSFR--Net stable funding ratio. LCR--Liquidity coverage ratio. Source: S&P Global Ratings.

Outlook

The negative outlook on LBP mirrors that on La Poste. We continue to see LBP as a core subsidiary of La Poste group, and any rating action on the parent would lead to a similar action on LBP. We expect La Poste 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, La Poste, which could follow a negative rating action on France or a weakening of our La Poste group stand-alone credit profile (SACP).

Given the enduring, strategic, and operational integration of LBP into La Poste, 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 La Poste 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 issuer credit rating, 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.

Environmental, Social, And Governance

We see environmental, social, and governance credit factors for LBP as neutral for the ratings, which we equalize with those on its GRE parent. We expect the best governance practices and values to be aligned at all layers of the organization. LBP has a prudent risk culture, and the group prioritizes the stability of earnings and sustainability above absolute returns.

Social considerations are very important for LBP as it is the only bank in France to which a banking accessibility mission has been entrusted, and for which the bank is partly compensated. We believe the bank's positioning in terms of social inclusion, its support to the local economy, and unparalleled local presence throughout France, will continue to remain important.

Environmental risks and the transition to a greener economy are also very important to LBP's strategy. Its exposures to carbon-intensive sectors are very marginal compared with larger corporate and investment houses. Therefore, we see environmental risks as minimal versus those of larger peers.

Key Metrics

Table 1

La Banque Postale--Key figures

	--Fiscal year end Dec. 31--				
(Mil. €)	**2023***	**2022**	**2021**	**2020**	**2019**
Adjusted assets	672,088.0	675,184.0	701,781.0	664,114.0	200,849.7
Customer loans (gross)	128,908.0	131,105.0	124,498.0	126,471.0	114,450.0
Adjusted common equity	(908.3)	862.9	4,479.8	6,983.4	5,381.3
Operating revenues	3,866.0	8,347.0	8,119.0	7,777.0	5,929.3
Noninterest expenses	2,443.0	6,406.0	6,216.0	5,711.0	4,692.0
Core earnings	732.5	1,310.5	1,121.3	1,277.8	785.9

*2023 figures as of end June 2023.

Table 2

La Banque Postale--Business position

	--Fiscal year end Dec. 31--				
	2023*	**2022**	**2021**	**2020**	**2019**
Total revenues from business line (currency in millions)	3,866.0	8,399.0	8,120.0	12,990.0	5,929.1
Commercial and retail banking/total revenues from business line	55.6	53.4	57.4	38.3	88.4
Insurance activities/total revenues from business line	49.6	56.2	47.4	25.2	8.9
Asset management/total revenues from business line	4.3	3.6	3.6	1.2	2.7
Other revenues/total revenues from business line	(9.4)	(13.3)	(8.4)	35.2	N/A
Return on average common equity	6.5	5.9	3.3	27.9	7.6

*2023 figures as of end June 2023.

Table 3

La Banque Postale--Capital and earnings

	--Fiscal year end Dec. 31--				
	2023*	**2022**	**2021**	**2020**	**2019**
Tier 1 capital ratio	19.8	16.3	20.7	21.3	13.2
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	6.5	8.6	7.4
Net interest income/operating revenues	62.1	65.5	48.6	33.3	39.4
Fee income/operating revenues	24.7	(17.2)	(15.3)	(10.0)	39.4
Market-sensitive income/operating revenues	113.1	(163.2)	139.8	49.2	9.1
Cost to income ratio	63.2	76.7	76.6	73.4	79.1
Preprovision operating income/average assets	0.4	0.3	0.3	0.4	0.5

RAC--Risk-adjusted capital. N/A--Not applicable. *2023 figures as of end June 2023.

Table 4

La Banque Postale--Risk position

	--Fiscal year end Dec. 31--				
	2023*	**2022**	**2021**	**2020**	**2019**
Growth in customer loans	(3.4)	5.3	(1.6)	10.5	18.6
New loan loss provisions/average customer loans	0.2	0.2	0.2	0.6	0.2
Gross nonperforming assets/customer loans + other real estate owned	2.0	1.6	1.3	1.3	1.2
Loan loss reserves/gross nonperforming assets	58.7	70.0	82.7	75.5	59.8

*2023 figures as of end June 2023.

Table 5

La Banque Postale--Funding and liquidity

	--Fiscal year end Dec. 31--				
	2023*	**2022**	**2021**	**2020**	**2019**
Customer loans (net)/customer deposits	82.3	87.8	84.1	90.8	94.0
Regulatory net stable funding ratio	134.0	129.0	142.7	N/A	N/A
Regulatory liquidity coverage ratio (LCR) (x)	1.5	1.5	1.9	N/A	N/A

N/A--Not applicable. *2023 figures as of end June 2023.

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
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- European Housing Markets: Forecast Brightens Amid Ongoing Correction, Jan. 25, 2024
- La Poste, Dec. 18, 2023
- La Banque Postale Hybrid Debt Ratings Raised On Integration With CNP; Issuer Credit Ratings Affirmed; Outlooks Negative, Oct. 9, 2023
- La Poste, La Banque Postale, And CNP Assurances Outlooks Revised To Negative After Same Action On France, Dec. 7, 2022

Ratings Detail (As Of February 22, 2024)*	
La Banque Postale	
Issuer Credit Rating	A+/Negative/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BB+
Senior Subordinated	BBB+
Senior Unsecured	A+
Short-Term Debt	A-1
Subordinated	BBB
Issuer Credit Ratings History	
07-Dec-2022	A+/Negative/A-1
04-Nov-2021	A+/Stable/A-1
27-Mar-2020	A/Stable/A-1
Sovereign Rating	
France	AA/Negative/A-1+
Related Entities	
CNP Assurances	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	A+/Negative/--
Junior Subordinated	A-
Junior Subordinated	BBB+
Subordinated	A-
CNP Caution	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	A+/Negative/--
La Banque Postale Home Loan SFH	
Senior Secured	AAA/Stable
La Poste	
Issuer Credit Rating	A+/Negative/A-1
Commercial Paper	
Local Currency	A-1
Junior Subordinated	BB+
Senior Unsecured	A+
Short-Term Debt	A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.