

Research Update:

La Poste And La Banque Postale Affirmed At 'A+' Amid Progress On Strategic Plan; Outlooks Stable

November 23, 2022

Overview

- La Poste (LP) group continues to consolidate its activities and accelerate the development of its banking, insurance, parcels, and e-commerce businesses, which are sources of growth and profit generation.
- In June 2022, LP's subsidiary La Banque Postale (LBP) finalized the full acquisition of CNP Assurances (CNP), with the buyout of the remaining minority shareholdings, to form a large public-sector-owned financial services hub.
- CNP's 'a+' stand-alone credit profile is a significant contributor to our overall assessment of LP's creditworthiness, while the group also continues to benefit from a very high likelihood of extraordinary support from the French government in the event of financial distress.
- We therefore affirmed all the ratings of LP and LBP.
- The outlooks on both entities are stable, reflecting our view that the group will progress with its ambitious 2030 strategic plan, and mirroring the outlook on France.

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Rating Action

On Nov. 23, 2022, S&P Global Ratings affirmed its 'A+/A-1' long- and short-term issuer credit ratings on La Poste (LP) and its core subsidiary La Banque Postale (LBP). We also affirmed all our issue ratings on LP's and LBP's debt. The outlooks on the long-term ratings are stable for both entities.

Rationale

We assess LP's creditworthiness by looking at the individual creditworthiness of key group members LBP and CNP Assurances (CNP) and La Poste's corporate activities. We use a cross-sector group approach to determine LP group's stand-alone credit profile (SACP). This entails determining the intrinsic creditworthiness of each business: banking, insurance, and corporate (mainly mail and parcels). Then, we derive the group SACP by weighting each of the

three credit assessments. The group SACP is not only a sum of the parts, but reflects elements not fully captured in the individual assessments, such as synergies, as well as obstacles to full fungibility of cash flows and capital within the group. We see insurance business CNP's operating income as the strongest and most resilient of the three (see "CNP Assurances," published Oct. 20, 2022, on RatingsDirect). Over first-half 2022, LBP's operating profit including CNP was €915 million. LP's operating profit was €445 million and €1,514 million excluding provisions for impairment of Mail and DPD Russia assets.

We believe LBP and CNP's move toward closer integration and implementation of the bank-insurance model could strengthen LBP's SACP.

This would particularly be the case if we conclude that capital fungibility within the group is significantly strengthened. The group setup is progressing with the full integration of CNP since June 2022, and the more recently announced transfer of all LBP's insurance activities under a nonoperating holding company that aims to consolidate the insurance perimeter.

LBP standalone creditworthiness takes into account its lower capitalization after the acquisition of minorities in CNP.

Although broadly neutral for regulatory purposes as insurance investments are risk-weighted only at 100%, the ownership of CNP continues to materially affect our measure of LBP's capitalization. This is even though we reflected part of CNP's capital surplus in LBP's risk-adjusted capital (RAC) ratio since it took full ownership of CNP. The ratio was 6.5% at year-end 2021 and we expect it will fall below 4% at year-end 2022, before rising to above 6% at year-end 2024. Our projection takes into account additional Tier 1 amounts initially not included in our total adjusted capital measure, since they currently exceed the applicable threshold for hybrid instruments. LBP's SACP and our ratings on LBP's hybrids could benefit from increased capital fungibility with CNP and upstreaming of excess capital to LBP.

LP's government ownership remains a key rating strength.

LP is directly, and indirectly, owned by France (unsolicited AA/Stable/A-1+). In our view, the group maintains a very high likelihood of receiving extraordinary support from the French government in the event of financial distress, even after expanding its activities beyond public service obligations. The 'A+' long-term rating on LP includes four notches of uplift for expected government support. This support also benefits our ratings on LBP and CNP, since we consider them core to LP group and therefore equalize the ratings on them with those on LP.

Outlook

La Poste

The stable outlook on LP reflects our expectation of stable financial performance for the group's key businesses and further progress on the 2030 strategic plan, which aims to consolidate and optimize historical activities and its public service missions; accelerate the development of the bank, insurance, parcels, and e-commerce activities that spur growth and profit generation; and continue its digitization. We also expect the group to continue to benefit from a very high likelihood of receiving extraordinary support from the French government.

Downside scenario

We could lower the ratings in the next two years if we see a material decline in the group's overall

financial performance that reduces diversification benefits and strains the 'bbb' group SACP. For example, the creditworthiness of LP's mail and parcel business could be hit by a further drop in mail volumes or a surge in express business competition, both of which could weaken profitability and leverage metrics.

A negative rating action on France would also trigger a similar rating action on LP.

Upside scenario

Ratings upside is currently very limited. Although a positive rating action on France would not automatically lead us to take a positive rating action LP, it is a prerequisite. Therefore, we could upgrade LP due to increased synergies between its divisions alongside a positive rating action on France. Under this scenario, we would expect the three main activities' profitability metrics to materially improve.

La Banque Postale

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

Downside scenario

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

Although also unlikely at this stage, we could revise down our assessment of LBP's SACP and lower our ratings on its hybrids if:

- LBP fails to deliver its new strategic plan or is unable to develop and adjust its business to the evolving interest-rate environment. This could be indicated by materially reduced earnings prospects or erosion of revenue; or
- Our RAC metric fails to increase in line with our expectations.
- LBP's robust funding and liquidity profile weakens compared with that of other French banks, and this is not offset by strengthening of other factors.

Upside scenario

We could take a positive rating action on LBP if we take a similar action on LP, which we view as unlikely at this time.

A positive rating action on France would not automatically trigger a positive rating action on LP, although it is a prerequisite.

We could revise our assessment of LBP's SACP upward and raise our ratings on its hybrids if the

bank rebuilds its capital base significantly faster than expected, potentially through more active capital management between LBP and CNP. This would require asset quality resilience over the cycle and the maintaining of higher funding and liquidity than domestic peers. We will also take into account the potential effects of deeper integration between insurance and banking business.

Ratings Score Snapshot

La Poste

Issuer credit rating	A+/Stable/A-1
SACP	bbb

La Banque Postale

Issuer credit rating	A+/Stable/A-1
SACP	bbb
Anchor	bbb+
Business position	Adequate (0)
Capital and earnings	Moderate (-1)
Risk position	Moderate (-1)
Funding and liquidity	Strong (+1)
Support	(+4)
ALAC support	0
GRE support	0
Group support	(+4)
Government support	0
Additional factors	0

La Banque Postale

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- CNP Assurances, Oct. 20, 2022

Ratings List

***** La Poste *****

Ratings Affirmed

La Banque Postale

La Poste

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

Certificate Of Deposit	
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Foreign Currency	A+
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Local Currency	A+/A-1
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La Banque Postale

Senior Unsecured	A+
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Senior Subordinated	BBB-
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Subordinated	BB+
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***** La Poste *****

Ratings Affirmed

Junior Subordinated BB-

Commercial Paper A-1

La Poste

Senior Unsecured A+

Junior Subordinated BB+

Commercial Paper A-1

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