Financial Institutions Ratings
BNP Paribas – AT1 rating report

Security ratings

Outlook	Stable
6.125% EUR 0.75bn perpetual fixed rate resettable Additional Tier 1 notes (June 2015) Temporary write down	BBB-
7.375% USD 1.5bn perpetual fixed rate resettable Additional Tier 1 notes (August 2015) Temporary write down	BBB-
7.625% USD 1.5bn perpetual fixed rate resettable Additional Tier 1 notes (March 2016) Temporary write down	BBB-
6.75% USD 750mn perpetual fixed rate resettable Additional Tier 1 notes (December 2016) Temporary write down	BBB-
5.125% USD 750mn perpetual fixed rate resettable Additional Tier 1 notes (November 2017) Temporary write down	BBB-
6.125% EUR 0.75bn perpetual fixed rate resettable Additional Tier 1 notes (June 2015) Temporary write down	BBB-
7.375% USD 1.5bn perpetual fixed rate resettable Additional Tier 1 notes (August 2015) Temporary write down	BBB-

The ratings have not been solicited by the issuer; the analysis is based solely on public information.

Rating rationale

Scope rates BNP Paribas (BNPP)'s above-referenced Additional Tier 1 notes at BBB with a Stable Outlook. The ratings are based on the following considerations:

- Senior unsecured debt rating: A+, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 0

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating rather than the Issuer Rating. The minimum four notches reflect the deeply subordinated status of AT1 capital instruments in the priority of claims, their going concern loss absorbing features and investors' exposure to coupon-cancellation risks. Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2018 for more details.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 15 June 2017. For further information on the last rating action and regulatory information please click here.

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Issuer credit profile

The Issuer Rating of AA- for BNPP reflects our view that the group, which ranks as the euro area's largest banking group by total assets, continues to preserve reassuring, stable credit fundamentals, underpinned by a relatively well-balanced universal-bank business model. Besides being one of the dominant players in the French banking market, BNPP has over the years built or acquired retail and commercial bank franchises – among them on the US West Coast, and in Italy and Belgium. Its wholesale and investment banking businesses remain substantial, but the group has been able to reduce risk and scale back during and after the crisis without fundamentally altering its business model. The earning profile is also well supported by its profitable consumer finance and insurance businesses.

BNPP displays reassuring prudential and financial metrics, with asset quality and ROAA each on an improving trend in FY17. We are also confident that internal controls and risk management, including business conduct across the group, have been reinforced in the aftermath of the financially painful settlement with US authorities in 2014. The remediation plan agreed as a result remains a key focus but is nearing completion.

Summary terms

Issuer	BNP Paribas SA
Issue Date	**17 June 2015**
Amount	EUR 0.75bn
Coupon	• 6.125% fixed until first call date (17 June 2022), reset on each five-year anniversary thereafter at the 5-year Mid-Swap Rate plus 5.23%. • If any, payable semi-annually in arrears on 17 June and 17 December of each year
Format	Perpetual fixed rate resettable additional Tier 1 notes under the EUR 90bn EMTN programme
ISIN	XS1247508903

Issue Date	19 August 2015
Amount	USD 1.5bn
Coupon	7.375% fixed until first call date (19 August 2025), reset every five years after the first call date at the 5-Year Mid-Swap Rate plus 5.15%. If any, payable semi-annually in arrears on 19 February and 19 August of each year from (and including) 19 February 2016.
Format	Perpetual fixed rate resettable additional Tier 1 notes programme
ISIN	US05565AAN37 (Rule 144A)/ USF1R15XK367 (Regulation S)

Issue Date	30 March 2016
Amount	USD 1.5bn
Coupon	• 7.625% fixed until first call date (30 March 2021), reset on each five-year anniversary thereafter at the 5-year Mid-Swap Rate plus 6.314%. • If any, payable semi-annually in arrears on 30 March and 30 September of each year
Format	Perpetual Fixed Rate Resettable Additional Tier 1 Notes
ISIN	US05565AAQ67 (Rule 144A)/ USF1R15XK441 (Regulation S)

Issue Date	16 December 2016
Amount	USD 750mn
Coupon	• 6.75% fixed until first call date (14 March 2022), reset on each five-year anniversary thereafter at the 5-year Mid-Swap Rate plus 4.916%. • If any, payable semi-annually in arrears on 14 March and 14 September of each year
Format	Perpetual Fixed Rate Resettable Additional Tier 1 Notes
ISIN	US05565ACA97 (Rule 144A)/ USF1R15XK698 (Regulation S)

Issue Date	15 November 2017
Amount	USD 1.5bn
Coupon	• 7.625% fixed until first call date (30 March 2021), reset on each five-year anniversary thereafter at the 5-year Mid-Swap Rate plus 6.314%. • If any, payable semi-annually in arrears on 30 March and 30 September of each year
Format	Perpetual Fixed Rate Resettable Additional Tier 1 Notes
ISIN	US05565AAQ67 (Rule 144A)/ USF1R15XK441 (Regulation S)

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory (1) if the relevant regulator notifies the issuer that it has determined that the interest amount (in whole or part) should be cancelled based on its assessment of the financial and solvency situation of the issuer; or (2) if the coupon payable under the Notes, together with the interest payments or distributions to be paid on own funds items would be higher than the amount of distributable items available to the issuer or if the interest payments under the notes together with other distributions of the kind referred to in Article 141 (2) of CRD IV would cause the applicable Maximum Distributable Amount to be exceeded.
Principal Loss Absorption	• Temporary write-down - If a trigger event occurs (i.e. if at any time the CET1 ratio of the group is below 5.125%), the issuer reduces the then prevailing outstanding amount of each note by the relevant write-down amount. Write downs can occur on more than one occasion and the principal amount of a note may never be reduced to below one cent. - If a positive group net income is recorded at any time, the issuer may at its discretion reinstate some or all of the principal amount of the notes on a pro-rata basis with all other discretionary temporary loss absorption instruments (if any) which would, following such reinstatement, constitute additional Tier 1 capital. • Permanent write-down following the exercise of the Bail-in power by the relevant resolution authority
Trigger for Principal Loss Absorption	CET1 <5.125% on a transitional basis

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

Coupon payments on the security are fully discretionary and are subject to distribution restrictions

We note that to be permitted to pay coupons on the notes, BNPP must report sufficient distributable items, which are determined based on its individual accounts, i.e. at the parent company level. Coupons are mandatorily cancelled if there are insufficient distributable items or if payments would exceed the Maximum Distributable Amount (MDA). The MDA is calculated when the issuer does not meet its combined buffer requirement.

In the Terms and Conditions of the notes issued 15th November 2017 we note that the issuer considers distributable items to be equivalent to distributable retained earnings. At the Annual General Meeting on 24 May 2018, the Board of Directors proposed an appropriation of income for the year ended 31 December 2017 based on retained earnings of EUR 29.3bn. We do not consider distributable items to be a constraint for BNPP's payment of coupons.

Combined buffer requirement

Article 141 of CRD IV imposes restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when CET1 capital falls below the level of the combined buffer (CBR). The CBR is defined as the sum of the capital conservation buffer, the countercyclical buffer and systemic risk buffers as applicable. To determine whether the MDA needs to be calculated, banks supervised by the ECB should meet both Pillar 1 and Pillar 2 capital requirements as well as the CBR.

By 2019, we estimate that BNPP will need to maintain a CET1 ratio of at least 9.83% on a fully loaded basis, a Tier 1 capital ratio of 11.33%, and a total capital ratio of 13.33% in order to avoid distribution restrictions (Table 1). This assumes that the Pillar 2 Requirement (P2R) of 1.25% does not change, the capital conservation buffer is fully phased in up to 2.5%, the G-SIB buffer applicable to BNPP is phased in up to 1.5% and the countercyclical buffer rate for BNPP remains as estimated for Jan 1 2019, at 0.08%.

As of Q1 2018 BNP reported a transitional CET1 ratio of 11.6%, 244bps above its requirement for 2018. On a fully-loaded basis, the CET1 ratio was 11.6%. The further sale of part of BNPP's stake in First Hawaiian, announced 9th May 2018, following earlier share offerings in 2016 and 2017, is expected to have a positive impact of c.5 basis points on BNP Paribas' CET1 ratio. If the underwriters' option is exercised in full, BNP Paribas' remaining stake would decrease to about 48.81%.

As of the end of 2017, BNPP estimated that its countercyclical buffer rate would be c.0.08% by 1 January 209. Subsequently, in June 2018, France's High Council for Financial Stability announced that it would set a countercyclical buffer of 0.25% with effect from July 2019. In our projections below, we have included an estimate of the impact on BNPP's countercyclical buffer.

BNPP has demonstrated strong organic capital generation over the last few years, which has been sufficient to absorb the impact of significant litigation charges. Management targeted and met a CET1 ratio of 11.5% on a fully loaded basis by end-2016. A CET1 ratio of 12% by 2020 has been targeted in the Group's 2017-2020 business plan, which would allow a buffer of 213bps above the minimum SREP CET1 requirement, assuming that the countercyclical buffer reaches 0.12%. This process should be aided by the reduction in the Group's target G-SIB capital buffer (i.e. the systemic risk buffer rate) by the Financial Stability Board to 1.5% from 2.0% during 2017.

Table 1: Estimated CET1 requirements

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**8.0%**	**9.2%**	**9.9%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	1.00%	1.50%	1.50%
- Countercyclical	0.00%	0.03%	0.12%
Pillar 2 CET1 requirement	1.25%	1.25%	1.25%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
BNP Paribas SA CET1, transitional (%)	11.9%	11.6%	12% FL target
Distance to CET1 requirement incl. CBR (%)	**3.9%**	**2.5%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**24.9**	**15.8**	
BNP Paribas SA Tier 1, transitional (%)	13.2%	13.0%	
Required Tier 1 incl. CBR (%)	9.5%	10.7%	11.4%
Distance to Tier 1 requirement incl. CBR (%)	**3.7%**	**2.3%**	
BNP Paribas SA total capital, transitional (%)	14.8%	14.7%	
Required total capital, incl. CBR (%)	11.5%	12.7%	13.4%
Distance to total capital requirement incl. CBR (%)	**3.3%**	**2.1%**	
RWAs (EUR bn)	641	638	

Notes: Systemic Buffer = Buffer for G-SIBs, phased-in between 2016 and 2019. Countercyclical buffer, If applicable, may range from 0-2.5%. Would normally be phased in between 2016 and 2019
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The notes are subject to temporary write-down as a consequence of a breach of the trigger level.

The trigger level is breached when BNPP's transitional CET1 ratio hits the 5.125% threshold.

As shown in Table 2. BNPP's distance to trigger is ample, at 650bps or EUR 41.5bn as of Q1 2018

Table 2: Distance to trigger

	Q1 2017	2018	2019
Trigger level	5.125%	5.125%	5.125%
BNP Paribas SA CET1, transitional (%)	11.9%	11.6%	
Distance to trigger (%)	**6.8%**	**6.5%**	
Distance to trigger (EUR bn)	**43.3**	**41.5**	

Source: Company data, Scope Ratings

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