Financial Institutions Ratings
Crédit Agricole SA – AT1 rating report

Security Ratings

Outlook	Stable
7.875% USD 1.75bn undated deeply subordinated additional Tier 1 notes (issued Jan. 2014)	BBB-
6.5% EUR 1.0bn undated deeply subordinated additional Tier 1 notes (issued April 2014)	BBB-
7.5% GBP 0.5bn undated deeply subordinated additional Tier 1 notes (issued April 2014)	BBB-
6.625% USD 1.25bn undated deeply subordinated additional Tier 1 notes (issued Sept. 2014)	BBB-
8.125% USD 1.25bn undated deeply subordinated additional Tier 1 notes (issued Jan. 2016)	BBB-

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

Rating rationale

On 7 April 2016, Scope upgraded the ratings of the above noted undated deeply subordinated additional Tier 1 notes to BBB- from BB+, following the upgrade of Credit Agricole's issuer credit-strength rating (ICSR). Scope is now also assigning an initial rating to the 8.125% USD 1.25bn undated deeply subordinated AT1 notes issued in January 2016 which has similar terms and conditions to the other rated securities. The ratings on the securities are based on the following:

- Senior unsecured debt rating: A+, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our recently updated rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt rating and no longer the issuer credit-strength rating (ICSR). Please refer to Scope's *Bank Capital Instruments Rating Methodology* published in May 2016 for more details. The additional notch for these securities reflects the following:

- Complexity of the notes. There are two triggers – one for CASA consolidated (the issuer) at 5.125% and one for CA Group at 7%. Meanwhile, coupon payments depend exclusively on the available distributable items of CASA parent. Upon a breach of the Combined Buffer Requirement (CBR), the relevant Maximum Distributable Amount would be the lower of CASA or CA Group.
- With the Eureka transaction, CASA will no longer benefit from the contribution of the Regional Banks and the weight of asset management, insurance and corporate and investment banking activities will increase. This may lead to increased volatility in earnings and affect capital formation.

Lead Analyst
Pauline Lambert
p.lambert@scoperatings.com

Back-up Analyst
Chiara Romano
c.romano@scoperatings.com

Team Leader
Sam Theodore
s.theodore@scoperatings.com

Scope Ratings AG
Suite 407
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Headquarters
Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100
Service +49 30 27891 300

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Issuer credit profile

The A+ ICSR on Crédit Agricole reflects the success of the group's de-risking and refocusing on its core businesses, mainly domestic and selected international retail, while leveraging its size and expertise in savings products (asset management and insurance). The group is well positioned to benefit from closer integration – cross-selling products and services group-wide. We note that the 2016-2020 medium-term plan continues to be underpinned by a focus on core businesses and a commitment to financial prudence.

Summary terms

Issuer	Crédit Agricole SA
Issue Date	23 January 2014
Amount	USD 1.75bn
Coupon	• 7.875% p.a. until first call date, reset every five, or a multiple of five, years after that at 5Y Mid-swap rate + 4.898% • If any, payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes
ISIN	US225313AD75 (Rule 144A)/ USF22797RT78 (Regulation S)
Issue Date	8 April 2014
Amount	EUR 1.0bn
Coupon	• 6.5% p.a. until first call date, reset every five, or a multiple of five, years after that at 5Y Mid-swap rate + 5.120% • If any, payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes
ISIN	XS1055037177
Issue Date	8 April 2014
Amount	GBP 0.5bn
Coupon	• 7.5% p.a. until first call date, reset every five, or a multiple of five, years after that at 5Y Mid-swap rate + 5.120% • If any, payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes
ISIN	XS1055037920
Issue Date	18 September 2014
Amount	USD 1.25bn
Coupon	• 6.625% p.a. until first call date, reset every five, or a multiple of five, years after that at 5Y Mid-swap rate + 4.697% • If any, payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes
ISIN	US225313AE58 (Rule 144A)/ USF22797YK86 (Regulation S)

Issue Date	19 January 2016
Amount	USD 1.25bn
Coupon	• 8.125% p.a. until first call date, reset every five, or a multiple of five, years after that at 5Y Mid-swap rate + 6.185% • If any, payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes
ISIN	US225313AJ46 (Rule 144A)/ USF2R125CD54 (Regulation S)

Capital Treatment	Additional Tier 1
Coupon Cancellation	• Fully discretionary • Mandatory (i) based on the regulator's assessment of CASA's financial and solvency situation, (ii) if there are insufficient Distributable Items at CASA parent, (iii) if a distribution would cause the lower of the MDA of CASA consolidated or CA Group to be exceeded.
Principal Loss Absorption	• Temporary Write-down upon Trigger Event: reduce the current principal amount of each note (pro rata with other notes and equal Loss absorbing instruments) by the relevant write-down amount– i.e. the amount by which either the capital ratio event would be cured; or, if not enough, the amount necessary to reduce the principal amount of the note to one cent. • A write-up can occur at the Issuer discretion, after a positive net income at CASA parent is recorded, subject to the MDA limit. • Write-down or conversion at point of non-viability (PONV)
Trigger for Principal Loss Absorption	CET1 of CA Group < 7% **or** CET1 of CASA consolidated <5.125% (transitional basis)

Source: Prospectuses, Scope Ratings

Key risk: coupon cancellation

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

CASA can only pay coupons provided there are enough distributable items at the level of CASA parent. As of YE2015, Crédit Agricole's distributable items (ADI) were EUR 26.7bn. This figure includes EUR 11.2bn of share premium and EUR 15.5bn of reserves, and does not take into consideration the impact of the Eureka transaction which is expected to have a positive impact.

It is noted in the "Risk Factors" of the prospectus that in order for the share premium to be included in ADI, shareholders must adopt a resolution to reallocate it to reserves. This happened in May 2015, with shareholders approving a transfer of EUR 10.7bn of issue premium to a reserve item. Hence, the level of reserves at YE2015 stands at a reassuring level of EUR 15.5bn.

Combined buffer requirement (CBR)

In Opinion 2015/24 dated 18 December 2015, the EBA clarified the interaction between Pillar 1 and Pillar 2 capital requirements and the CBR (see "EBA Opinion 24/2015: Clarity added to the MDA debate", January 2016). The buffers sit on top of Pillar 1 and Pillar 2 requirements and restrictions on distributions apply when CET1 capital falls below the buffers. These restrictions became effective from 1 January 2016 and are based on transitional CET1 requirements.

Helpfully for investors, banks have started to disclose their capital requirements stemming from the Supervisory Review and Evaluation Process (SREP). The SREP capital requirement comprises the minimum Pillar 1 CET1 requirement, an institution-specific Pillar 2 CET1 requirement for risks not covered explicitly under CRD IV and a front-loading of the capital conservation buffer.

CASA's SREP requirement for 2016 stands at 9.5% and must be met as of 30 June 2016. CA Group's SREP requirement for 2016 is also 9.5% but as the group is a G-SIB, it is subject to an additional 1% G-SIB buffer imposed by the FSB, to be phased-in from 2016 over four years. As of 1 January 2016, CA Group's minimum CET1 capital requirement was 9.75%. As CA Group's domestic risk buffer is at the same level as the G-SIB buffer, overall CET1 requirements do not change.

The countercyclical capital buffer rate for exposures in France is currently set at 0% and will be reviewed quarterly. Assuming the countercyclical buffer remains at 0% in 2019, CASA would be subject to a CET1 requirement of 9.5% in 2019, while CA Group would be subject to a CET1 requirement of 10.5%. It is our understanding that SREP capital requirements should not change materially between now and 2019 as the capital conservation buffer has been front-loaded by the ECB.

A breach of the CBR would lead to the calculation of the relevant Maximum Distributable Amount (MDA) which in the Terms & Conditions of the notes is defined as "the lower of the amount resulting from the calculation at the level of the Crédit Agricole S.A. Group or the Crédit Agricole Group". However, in the "Risk Factors" section, it states that in case of a CBR breach "it is not completely clear which Group's consolidated net income will be taken into account in determining the Maximum Distributable Amount of either Group" and hence the Relevant MDA.

As there are two possible MDAs, we assess two distances to CBR (one for CASA consolidated and one for CA Group) and consider the smaller to be more relevant. As of YE2015, CA Group was 375bs above the SREP requirement of 9.75% for 2016. And CASA was 130bps above the SREP requirement of 9.5% for 2016 (Table 1).

In its medium-term plan, management has set new fully-loaded CET1 targets. CA Group targets a fully-loaded CET1 ratio of 16% by end-2019 while CASA intends to keep a buffer of 150bps above minimum requirements over the period of the medium-term plan.

Table 1: Combined buffer requirements for CA Group and CASA consolidated

CA Group	2016 E	2017 E	2018 E	2019 E
Combined buffer:				
- Capital Conservation Buffer	0.63%	1.25%	1.88%	2.50%
- Systemic[1]	0.25%	0.50%	0.75%	1.00%
- Countercyclical[2]	0.00%	0.00%	0.00%	0.00%
ECB SREP requirement add-on[3]	4.38%	3.75%	3.13%	2.50%
Minimum CET1 (Pillar I)	4.50%	4.50%	4.50%	4.50%
Required CET1 associated with distribution restrictions	**9.75%**	**10.00%**	**10.25%**	**10.50%**
CA Group transitional CET1 / FL target	13.5% YE2015			16% FL target
Distance to CBR (%)	3.75%			5.50%
Distance to CBR (EUR bn)[4]	19			
CASA consolidated				
Combined buffer:				
- Capital Conservation Buffer	0.63%	1.25%	1.88%	2.50%
- Systemic[1]	0.00%	0.00%	0.00%	0.00%
- Countercyclical[2]	0.00%	0.00%	0.00%	0.00%
ECB SREP requirement add-on[3]	4.38%	3.75%	3.13%	2.50%
Minimum CET1 (Pillar I)	4.50%	4.50%	4.50%	4.50%
Required CET1 associated with distribution restrictions	**9.50%**	**9.50%**	**9.50%**	**9.50%**
CASA consolidated transitional CET1 / FL target	10.8% YE2015	≥11% FL target		
Distance to CBR (%)	1.3%	≥1.5%		
Distance to CBR (EUR bn)[4]	4			

Notes: 1. Buffer for G-SIB equivalent to national buffer. Phased-in between 2016 and 2019. 2. If applicable, may range from 0-2.5%. Would normally be phased-in between 2016 and 2019. 3. Based on SREP capital requirement of 9.5%. 4. Based on RWAs of EUR 509.4bn for CA Group and EUR 305.6bn for CASA as of YE2015.
Source: Company data, Scope Ratings

CA Group has an ample buffer before potentially breaching the CBR. For CASA, we note that the buffer is less. The Eureka transaction, in which CASA will transfer to SACAM Mutualisation, an entity 100% owned by the Regional Banks, its 25% stake in the Regional Banks, is expected to close in 3Q 2016. As a result, CASA Group will no longer consolidate the 25% equity interest in the Regional Banks – equivalent to around EUR 1bn in profit annually.

Post the transaction, CASA's business mix will change, with asset gathering and corporate and investment banking activities becoming larger contributors to earnings. On an underlying pro forma basis as of YE2015, Asset Gathering would increase to 38% from 33% and Large Customers would increase to 29% from 22% while Retail Banking would account for 20% of net income group share. Consequently, the volatility of earnings may increase although we acknowledge that the group significantly de-risked its corporate and investment banking activities in 2011 and 2012. The Eureka transaction also provides a one-off boost to CASA's fully-loaded CET1 ratio of 41bps.

Key risk: principal loss absorption

Both CASA and CA Group show a considerable distance to trigger as seen below. For CASA, the potential volatility of future earnings may affect the capacity to maintain the buffer at the current level.

At the same time, we note that CASA as the Central Body of the organization must "take all necessary measures, in particular to guarantee the liquidity and the solvency of every affiliated company as well as of the network as a whole" (article L511-31 of the French Monetary and Financial code). This means there is a legal obligation to preserve its own capital position and the position of each entity of the network, providing some reassurance for investors.

Table 2: Distance to trigger – CA Group

	2015	2016 E	2017 E	2018 E	2019 E
Trigger level	7.0%	7.0%	7.0%	7.0%	7.0%
CA Group transitional CET1 / FL target	13.5%				16% FL target
Gap (%)	6.5%				9%
Gap (bn EUR)[1]	33				

Note: 1. Based on RWAs of EUR 509.4bn at YE2015.
Source: Company data, Scope Ratings

Table 3: Distance to trigger – CASA consolidated

	2015	2016 E	2017 E	2018 E	2019 E
Trigger level	5.125%	5.125%	5.125%	5.125%	5.125%
CASA consolidated transitional CET1 / FL target	10.8%	11% FL target			
Gap (%)	5.675%	5.875%			
Gap (bn EUR)[1]	17				

Note: 1. Based on RWAs of EUR 305.6bn at YE2015.
Source: Company data, Scope Ratings

Regulatory Disclosures

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund.

The rating analysis has been prepared by Pauline Lambert, Executive Director

Responsible for approving the rating: Sam Theodore, Managing Director

The rating concerns a newly-issued financial instrument which was evaluated for the first time by Scope Ratings AG.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings without a mandate (unsolicited rating) and with participation of the issuer / rated entity

As at the time of the analysis, neither Scope Ratings AG nor companies affiliated with it hold any interests in the rated entity or in companies directly or indirectly affiliated to it. Likewise, neither the rated entity nor companies directly or indirectly affiliated with it hold any interests in Scope Ratings AG or any companies affiliated to it. Neither the rating agency, the rating analysts who participated in this rating, nor any other persons who participated in the provision of the rating and/or its approval hold, either directly or indirectly, any shares in the rated entity or in third parties affiliated to it. Notwithstanding this, it is permitted for the above-mentioned persons to hold interests through shares in diversified undertakings for collective investment, including managed funds such as pension funds or life insurance companies, pursuant to EU Rating Regulation (EC) No 1060/2009. Neither Scope Ratings nor companies affiliated with it are involved in the brokering or distribution of capital investment products. In principle, there is a possibility that family relationships may exist between the personnel of Scope Ratings and that of the rated entity. However, no persons for whom a conflict of interests could exist due to family relationships or other close relationships will participate in the preparation or approval of a rating.

Key sources of Information for the rating

Website of the rated entity/issuer, Annual reports/quarterly reports of the rated entity/issuer, Current performance record, Data provided by external data providers, Other public information.

Scope Ratings considers the quality of the available information on the evaluated company to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The methodologies applicable for this rating "Bank Rating Methodology" (May 2015) & "Bank Capital Instruments Rating Methodology" (May 2016) are available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's credit rating, definitions of rating symbols and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

Conditions of use / exclusion of liability

Rating issued by

Scope Ratings AG

Lennéstraße 5

10785 Berlin

Scope Ratings AG

Headquarters Berlin
Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main
Rüsterstraße 1
D-60325 Frankfurt

Phone +49 69 97944 754

Paris
21, Boulevard Haussmann
F-75009 Paris

Phone +33 1 53 43 29 89

London
Suite 407
2 Angel Square
London EC1V 1NY

Phone +44 20 3457 0444

Madrid
Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

info@scoperatings.com
www.scoperatings.com