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	BBB-
6.5% EUR 1.0bn undated deeply subordinated additional Tier 1 notes	BBB-
7.5% GBP 500m undated deeply subordinated additional Tier 1 notes	BBB-
6.625% USD 1.25bn undated deeply subordinated additional Tier 1 notes	BBB-
8.125% USD 1.25bn undated deeply subordinated additional Tier 1 notes	BBB-

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

Rating rationale

Scope rates at BBB-, Stable the above referenced undated deeply subordinated AT1 notes issued by Credit Agricole SA (CASA). The ratings are based on the following considerations:

- Senior unsecured debt rating (MREL/TLAC eligible): A+, Stable Outlook
- Minimum notches down from senior unsecured debt rating: 4
- Additional notches: 1

In accordance with our rating methodology, the starting point for notching down when rating capital instruments is the senior unsecured debt 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 additional notch for these securities reflects some complexity in the terms of the Notes:

- There are two triggers – one for CASA consolidated (the issuer) at 5.125% and one for CA Group at 7%. The business and earnings profiles of the two entities are not identical as CA Group benefits from a greater proportion of more stable retail-related banking activities while CASA is also involved in potentially more volatile corporate and investment banking activities.
- Upon a breach of the combined buffer requirement, the relevant maximum distributable amount (MDA) would be the lower of CASA or CA Group. There is some uncertainty as to how the relevant maximum distributable amount would be calculated.

The release of this rating report does not constitute a rating action. Last rating action was assigned on 7 April 2016. For further information on the last rating action and regulatory information please click here.

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Issuer credit profile

CASA is the central body of the Credit Agricole Group. The Issuer Rating of AA- for CASA is based on the credit fundamentals of the Credit Agricole Group. With cooperative and mutual roots, the group is a market leader in France pursuing a universal banking model. In recent years, management has successfully de-risked and refocused on core businesses, primarily domestic and selected international retail while leveraging its size and expertise in savings products (asset management and insurance).

As detailed in its 2016-2020 medium-term plan, the group's key priorities are to improve operational efficiency and to increase integration to cross-sell more products and services offered by CASA and other group entities to customers. This should further support and enhance the group's earnings; increasingly important in light of evolving competitive dynamics and changing customer behaviour. We note positively that the 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 years thereafter at 5Y Mid-swap rate + 4.898% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 January 2024 and every five years thereafter
ISIN	US225313AD75 (Rule 144A)/ USF22797RT78 (Reg S)

Issue Date	8 April 2014
Amount	EUR 1.0bn
Coupon	• 6.5% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 5.120% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 June 2021 and every five years thereafter
ISIN	XS1055037177

Issue Date	8 April 2014
Amount	GBP 500m
Coupon	• 7.5% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 4.535% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 June 2026 and every five years thereafter
ISIN	XS1055037920

Issue Date	18 September 2014
Amount	USD 1.25bn
Coupon	• 6.625% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 4.697% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 September 2019 and every five years thereafter
ISIN	US225313AE58 (Rule 144A)/ USF22797YK86 (Reg S)

Issue Date	19 January 2016
Amount	USD 1.25bn
Coupon	• 8.125% p.a. until first call date, reset every five years thereafter at 5Y Mid-swap rate + 6.185% • Payable quarterly in arrears
Format	Undated deeply subordinated additional Tier 1 fixed rate resettable notes, callable 23 December 2025 and every year thereafter
ISIN	US225313AJ46 (Rule 144A)/ USF2R125CD54 (Reg S)

Main Risks	
Coupon Cancellation	• Fully discretionary • Mandatory if there are insufficient Distributable Items to pay coupons on all Tier 1 capital instruments or coupons and other distributions referred to in Article 141(2) of CRD IV would exceed the maximum distributable amount (MDA) • Regulatory decision based upon an assessment of CASA's financial and solvency situation
Principal Loss Absorption	• Temporary write-down upon trigger breach. The write-down will be in an amount that when taken together with other loss absorbing instruments is sufficient to restore the relevant ratio above the trigger level. If a full write-down is not sufficient to restore the relevant ratio, then each Note will be written down to a principal amount of one cent • A write-up can occur at the issuer's discretion, i.e. after CASA records positive net income, subject to the relevant MDA on a pro rata basis with other loss absorbing instruments. • Write-down or conversion at point of non-viability (PONV)
Trigger for Principal Loss Absorption	CA Group CET1 ratio < 7% or CASA consolidated CET1 ratio < 5.125% (transitional basis)

Source: Prospectuses, Scope Ratings

Key risks

A. Coupon cancellation

Key risk: Coupon cancellation

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

Coupons are mandatorily cancelled if there are insufficient distributable items (based on issuer accounts on an unconsolidated basis) to pay coupons on all Tier 1 capital instruments (including these securities). We do not consider distributable items to be constraining factor for CASA to pay coupons. As of end-2017, distributable items were EUR 37.9bn, comprised of EUR 12.2bn in share issue premium and EUR 25.7bn in reserves.

Combined buffer requirement (CBR)

Article 141 of CRD IV imposes certain restrictions on discretionary distributions (dividends, variable remuneration and payments on AT1 securities) when the combined buffer requirement (CBR) is not met. The CBR is comprised 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.

When assessing whether the CBR is being met, this must be done at the level of CASA as well as CA Group. With respect to the Notes, the relevant MDA is defined as the lower of the amount resulting from the calculation at the level of CASA or CA Group. The distance to the MDA trigger level is lower for CASA and therefore this is the relevant one.

However, in the “risk factors” of the prospectuses, it highlights that in the case of a CBR breach it is not completely clear which entity’s consolidated net income would be used to determine the MDA.

By 2019, we estimate that CASA will need to maintain a CET1 ratio of at least 8.6%, a Tier 1 capital ratio above 10%, and a total capital ratio above 12% to avoid distribution restrictions (Table 1). This assumes that the Pillar 2 requirement (P2R) of 1.5% does not change, the capital conservation buffer is fully phased-in to 2.5% and the countercyclical buffer does not substantially change. Due to small exposures in Sweden, Hong Kong and Norway, the countercyclical buffer is currently immaterial. 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. Scope’s projections include an estimate of the impact on the group’s countercyclical buffer.

In its medium-term plan, management has set fully loaded CET1 targets of at least 11% for CASA and 16% for CA Group by end-2019.

Table 1: Estimated capital requirements for CASA

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**7.3%**	**7.9%**	**8.6%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.00%	0.00%	0.00%
- Countercyclical	0.00%	0.01%	0.10%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Credit Agricole SA CET1, transitional (%)	11.7%	11.4%	≥ 11% FL target
Distance to CET1 requirement incl. CBR (%)	**4.5%**	**3.5%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**13.3**	**10.3**	
Credit Agricole SA Tier 1, transitional (%)	14.1%	13.6%	
Required Tier 1 incl. CBR (%)	8.8%	9.4%	10.1%
Distance to Tier 1 requirement incl. CBR (%)	**5.4%**	**4.2%**	
Credit Agricole SA total capital, transitional (%)	18.3%	18.0%	
Required total capital, incl. CBR (%)	10.8%	11.4%	12.1%
Distance to total capital requirement incl. CBR (%)	**7.6%**	**6.6%**	
RWAs (EUR bn)	296	299	

Note: Countercyclical buffer in 2019 based on estimate of 0.25% countercyclical rate for exposures in France.
Source: Company data, Scope Ratings

Table 2: Estimated capital requirements for CA Group

	2017	Q1 2018	2019
Required CET1 associated with distribution restrictions:	**7.8%**	**8.6%**	**9.6%**
Combined buffer (CBR)			
- Capital conservation	1.25%	1.88%	2.50%
- Systemic	0.50%	0.75%	1.00%
- Countercyclical	0.00%	0.01%	0.10%
Pillar 2 CET1 requirement	1.50%	1.50%	1.50%
Pillar 1 CET1 requirement	4.50%	4.50%	4.50%
Credit Agricole Group CET1, transitional (%)	14.8%	14.6%	16% FL target
Distance to CET1 requirement incl. CBR (%)	**7.1%**	**6.0%**	
Distance to CET1 requirement incl. CBR (EUR bn)	**37.0**	**31.4**	
Credit Agricole Group Tier 1, transitional (%)	16.2%	15.9%	
Required Tier 1 incl. CBR (%)	9.3%	10.1%	11.1%
Distance to Tier 1 requirement incl. CBR (%)	**6.9%**	**5.7%**	
Credit Agricole Group total capital, transitional (%)	18.6%	18.6%	
Required total capital, incl. CBR (%)	11.3%	12.1%	13.1%
Distance to total capital requirement incl. CBR (%)	**7.4%**	**6.5%**	
RWAs (EUR bn)	522	525	

Note: CA Group is considered a G-SIB and is subject to a 1% G-SIB buffer. Countercyclical buffer in 2019 based on estimate of 0.25% countercyclical rate for exposures in France.
Source: Company data, Scope Ratings

B. Principal loss absorption

Key risk: Principal loss absorption

The mechanism for loss absorption is temporary write down.

The securities have two triggers:

- CA Group CET1 ratio < 7%, transitional basis, or
- CASA consolidated CET1 ratio < 5.125%, transitional basis

Both CASA and CA Group maintain a considerable distance to their respective trigger levels as shown below. Going forward, there may be some divergence between the two entities considering their different capital targets. Nevertheless, we would expect the distances to remain at comfortable levels. Further, due to the intragroup support mechanisms, it is unlikely that CASA's CET1 ratio would reach 5.125% before CA Group's CET1 ratio would reach 7%.

Table 3: Distance to trigger – CASA

	2017	Q1 2018	2019
Trigger level	5.1%	5.1%	5.1%
Credit Agricole SA CET1, transitional (%)	11.7%	11.3%	≥ 11% FL target
Distance to trigger (%)	**6.6%**	**6.2%**	
Distance to trigger (EUR bn)	**19.6**	**18.6**	

Source: Company data, Scope Ratings

Table 4: Distance to trigger – CA Group

	2017	Q1 2018	2019
Trigger level	7.0%	7.0%	7.0%
Credit Agricole Group CET1, transitional (%)	14.8%	14.6%	16% FL target
Distance to trigger (%)	**7.8%**	**7.6%**	
Distance to trigger (EUR bn)	**40.9**	**40.0**	

Source: Company data, Scope Ratings

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