Creditreform Bank Rating
Crédit Agricole SA (Group)

Creditreform Rating

Rating Object	Rating Information			
Crédit Agricole SA (Group)	Long Term Issuer Rating / Outlook: **A / negative**		Short Term: **L2**	Type: Update unsolicited
	Rating of Bank Capital and Unsecured Debt Instruments:			
Creditreform ID: 400993325	Preferred Senior Unsecured:	Non-Preferred Senior Unsecured:	Tier 2:	Additional Tier 1:
Incorporation: 1894	**A**	**A-**	**BBB-**	**BB+**
(Main-) Industry: Banks	Rating Date:	**17 November 2020**		
Management: Philippe Brassac (CEO), Xavier Musca (Deputy CEO), Jérôme Grivet (CFO), Alexandra Boleslawski (CRO)	Monitoring until:	withdrawal of the rating		
	Rating Methodology:	CRA “Bank Ratings v.2.0” CRA “Rating of Bank Capital and Unsecured Debt Instruments v.2.0” CRA “Environmental, Social and Governance Score for Banks v.1.0” CRA “Rating Criteria and Definitions v.1.3”		
	Rating History:	www.creditreform-rating.de		

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Key Rating Driver

Strengths

+ Large G-SIB, second largest banking group based in France by assets
+ Large presence in France, leading lender, insurer and asset manager/servicer
+ Good asset quality and capitalization
+ Solid earnings and cost figures

Weaknesses

- Despite the size, banking group predominantly based in France, little regional diversification
- High group structure complexity
- Large increase in cost of risk in the first three quarters of 2020 compared to 2019

Opportunities / Threats

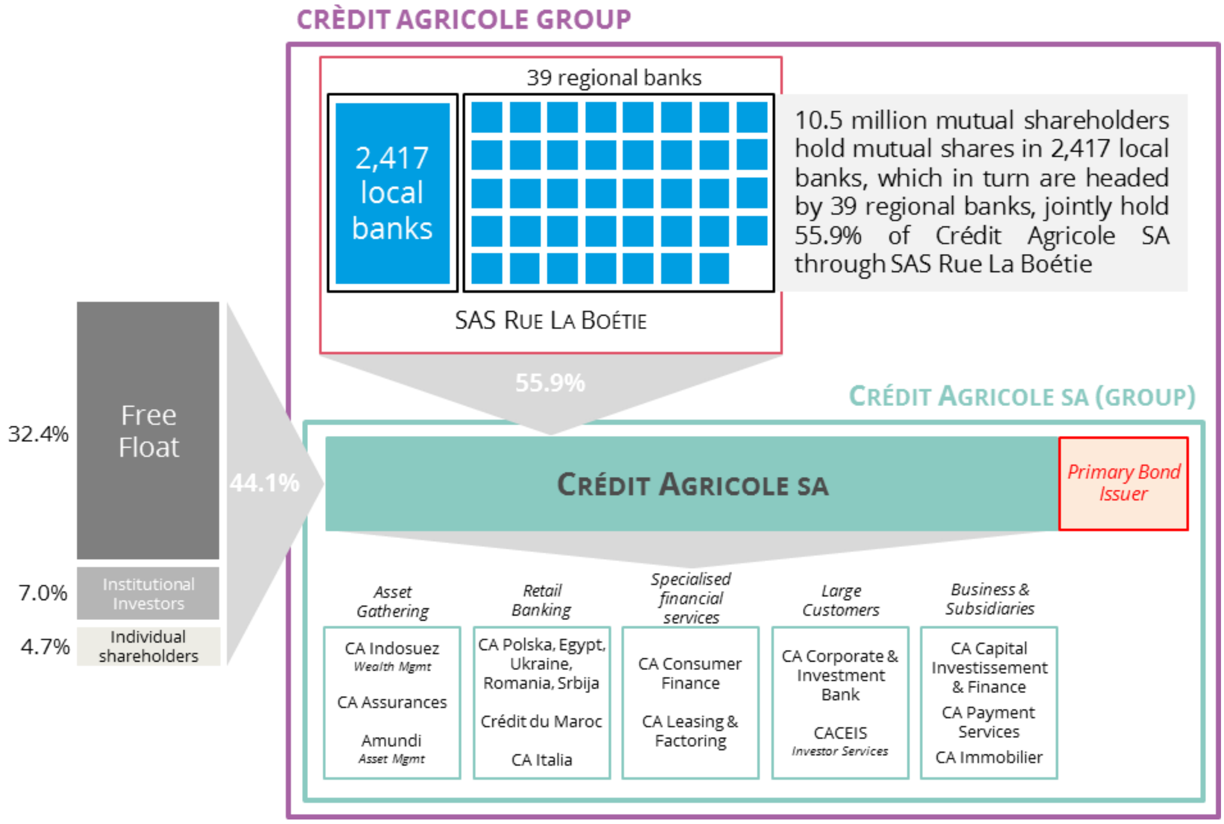
+/- MTP 2022 seeks to streamline the group

- Uncertainty about scope, consequences and duration of COVID-19 crisis

Company Overview

The Crédit Agricole Mutuel was founded as a mutual bank on 5 November 1894. The listed Crédit Agricole S.A. (hereinafter "CASA") acts as a central institution and, together with 2,417 local banks and 39 regional banks, forms the cooperative banking Group of Crédit Agricole S.A. (hereinafter "CA", "bank" or "Group"). The Group has over 10.5 million mutual shareholders and employs about 142,000 employees worldwide. The bank is active in 47 countries and operates 8,400 retail banking branches and serves around 51 million retail customers worldwide. The Group is a leading actor in many fields in its home market of France, for example as the biggest provider of credit to the French economy (€650bn loans outstanding). It is also the biggest European asset manager (€1.65tn AUM) and is the number one insurer in France.

Chart 1: Group Structure and Shareholders of Crédit Agricole SA| Source: Reg. Document 2019, Own Ilustration



Major changes in the scope of consolidation are outlined as follows. In July 2019 CACEIS made a cash takeover offer of KAS Bank (Netherlands), a major player in custody and asset servicing business with AUM of €196bn and AUA of €142bn. At the end of 2019, the merger between CACEIS and Santander Securities Services has been finalized. Santander Group transferred 100% of Securities Services ("S3") and 49.99% of its activities in Latin America to CACEIS for an increase in reserved capital in CACEIS. CASA and Santander Group hold the joint asset manager and servicer with 69.5% and 30.5%

of share capital, respectively. The purchase generated goodwill in the order of €0.25bn. CACEIS will hold €3.9tn in AUM and €2tn in AUA. In Romania, Crédit Agricole Bank Romania is up for sale, it's assets and liabilities reclassified in Non-current Assets/Liabilities held for sale (around €0.48bn each), the net income from operations discontinued or being sold being reported as -€46m. Specific items had a limited impact on income in 2019. A favorable ruling of the French Council of State on tax treatment of certain equity (+€1.04bn) was counteracted by goodwill impairment of LCL €0.67bn, after its annual valuation test of goodwill reported on the balance sheet as well as a provision on home purchase savings accounting for €0.28bn and several other small items. Overall, the impact of specific items was a mere €6m.

In June 2019, CA presented the Medium-Term Plan 2022 together with the "Purpose of CA", "to act every day in the interest of our customers and society". The objectives of the previous Medium-Term Plan "Strategic Ambition 2020" were fulfilled early on. The objectives of the Group project are excellence in customer relations, empowered teams for customers and commitment to society. Financial targets were set as follows: €5bn net income (Group share) at CASA (2019: €4.85bn), a return on equity of 11% (10% per MTP 2020), a CET1 ratio of over 16% (2019 Q3: 16.7%) and a cost income ratio of below 60% at CASA (2019: approx. 63% incl. SRF). In addition, CA seeks to increase synergies between the different entities that make up CA Group by €1.3bn to €10bn in 2022, especially in insurance. To aid the technological transformation, CA is allocating €15bn to IT over the course of the next 4 years. Part of MTP is also a simplification of the capital structure with the partial unwinding of the so-called Switch Guarantee. In this unwinding, in which CASA transferred regulatory requirements for insurance activities to regional banks in return for a fee, the net income of the CASA will be positively impacted by €70m per year, at the cost of 40 basis points (bp) of CET1 ratio.

In light of the COVID-19 crisis, CA granted a multitude of support measures to help customers weather the impact. CA granted a six-month moratorium on loan repayments to corporate and SME business customers impacted by the crisis. As of July 2020, 552,000 moratoria were granted for a total amount of €4.2bn in extended maturities. In addition, the French State introduced state guaranteed loans (Prêts Garantis par l'Etat) to meet cash flow requirements of affected businesses. Due to the size of CA and it's servicing of customers from very small to very large, the Group has received almost a quarter of all state guaranteed loan requests, totaling €28.7bn per end of July 2020. CA Italia's customers also benefitted from moratoria and state guaranteed loans in Italy, amounting to €2bn.

Business Development

Profitability

The fiscal year 2019 was a successful one for the Group. The bank posted yet another increase in net profit to €7.7bn. This increase however did not stem from increased intrinsic profitability, as the operating profit declined by 5% or €0.59bn over the previous year and the loan loss provisions remained practically unchanged. Merely the lessened tax charge led to the overall increase in net profit over the previous year.

The net interest income decreased by €0.52bn, as interest expense rose more rapidly than interest income. Net fee and commission income likewise decreased by €0.13bn, mainly due to a decrease in fee income. Net insurance income declined by €19.2bn. While insurance income climbed by €2.67bn, mainly through an increase in net inflows amounting to €3.5bn (four fifths of which were retirement savings). The change in insurance technical reserve was especially large this year, an increase of €21.14bn to €26.37bn vs. €5.24bn in the previous year. The reason for the increase was due to net positive in inflows and the adjustments evolution of the value on the unit-linked policies. Paired with reclassification of net losses of designated financial assets applying the overlay approach in terms of €0.45bn, the net insurance income was -€12.57bn, after posting a gain of €6.63bn in 2018. Net trading income, conversely, increased by over €20bn over the previous year, when the bank posted a loss of €3.8bn in this line item. €9.8bn of this increase came from net gains on unit-linked contracts, counter-acting the increase in insurance technical reserves to a degree. The rest of the increase stems predominantly from other financial instruments at fair value through profit or loss. In the end, operating income changed only very slightly by €0.5bn (+1.6%).

Operating expense increased slightly (+1.8%), as depreciation expense more than doubled in light of the application of IFRS16 (impact of about €0.42bn). Personnel expense increased modestly by €0.46bn or 3.8%, while other expense decreased by €0.6bn.

As a result, pre-impairment operating profit was slightly up on the previous year by €0.14bn (+1.2%). CA declared cost of risk of €1.76bn, remaining fairly unchanged compared to the previous two years, and impairment of goodwill (LCL Group) to the count of €0.66bn for a combined asset write-down figure of €2.4bn. A lower total tax charge in the order of €1bn lead to an overall increase of the net profit of €0.34bn to €7.7bn.

In the first half of 2020, CA felt the impact of COVID-19 thoroughly, as revenues were down 1.3% on the previous year's. Operating expense remained virtually unchanged. The gross operating profits declined by 6.3%. Cost of risk more than doubled, with a 143.1% increase over the previous half year. If the second half year turns out similar to the first half, as the second lockdown in France is in progress, CA might be looking at risk costs in excess of four billion Euro. As a result, income before tax is down about a third on the first half of 2019, and a little less than a fourth after tax due to a lesser tax charge. Without a significant worsening of the situation, we expect CA to post a positive net profit in 2020. This view is supported by the Q3 2020 performance of CA. Revenues in Q3 were up 1.3% over Q3 2019, and expenses even decreased by 1.2%. The operating result was thus up 8.3% over the previous year and up 2.8% in the first nine months of 2020 over 2019. Net income was 6.9% lower in the first months due to higher risk costs. Risk costs increased by 60% over the previous years' quarter.

A detailed Group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement	2016	2017	2018	%	2019
Income (€m)					
Net Interest Income	19.136	19.677	18.516	-2,8	17.997
Net Fee & Commission Income	8.770	9.709	9.688	-1,3	9.559
Net Insurance Income	-2.316	-5.291	6.634	< -100	-12.566
Net Trading Income	3.391	6.165	-3.806	< -100	16.235
Equity Accounted Results	499	732	266	+33,8	356
Dividends from Equity Instruments	1.572	1.763	1.103	+39,2	1.535
Other Income	174	296	828	-22,0	646
Operating Income	**31.226**	**33.051**	**33.229**	**+1,6**	**33.762**
Expenses (€m)					
Depreciation and Amortisation	1.175	1.227	1.188	+45,1	1.724
Personnel Expense	11.432	11.857	12.198	+3,8	12.656
Tech & Communications Expense	-	-	-	-	-
Marketing and Promotion Expense	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Expense	7.670	7.963	8.105	-7,4	7.505
Operating Expense	**20.277**	**21.047**	**21.491**	**+1,8**	**21.885**
Operating Profit & Impairment (€m)					
Pre-impairment Operating Profit	**10.949**	**12.004**	**11.738**	**+1,2**	**11.877**
Asset Writedowns	3.198	1.551	1.633	+46,9	2.399
Net Income (€m)					
Non-Recurring Income	58	63	-	-	-
Non-Recurring Expense	86	47	-	-	-
Pre-tax Profit	**7.723**	**10.469**	**10.105**	**-6,2**	**9.478**
Income Tax Expense	2.582	3.479	2.733	-36,5	1.736
Discontinued Operations	31	20	-3	> +100	-38
Net Profit (€m)	**5.172**	**7.010**	**7.369**	**+4,5**	**7.704**
Attributable to minority interest (non-controlling interest)	347	474	525	-3,6	506
Attributable to owners of the parent	4.825	6.536	6.844	+5,2	7.198

The relative decrease in operating profitability showed in the income ratios of 2019. The cost income ratio (CIR) increased by 0.14 percentage points to 64.82%. The robust growth of the balance sheet size (see part Asset Situation and Asset Quality), paired with lesser income growth depressed related income ratios. The return on assets (ROA) and return on equity (ROE) declined slightly. Overall, compared to a peer Group of other large European banks, CA performs at or slightly above average in terms of profitability.

The half-year report indicates that in 2020 the net profit is facing a significant decline over 2019. State guaranteed loan growth will increase balance sheet size, in turn lowering related income ratios, decreasing relative profitability.

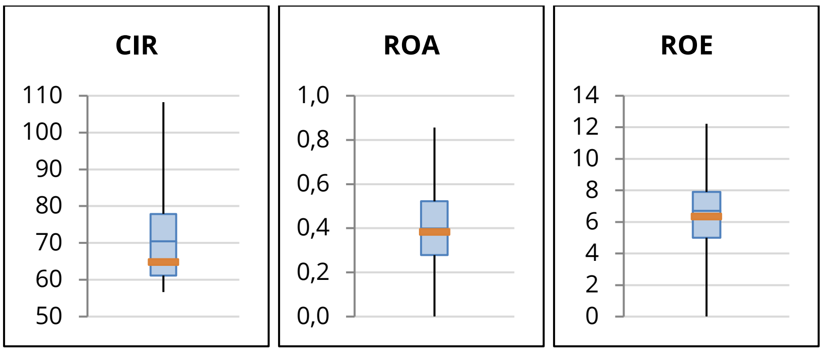
A detailed overview of the income ratios for the years of 2016 through 2019 can be found in Figure 2 below:

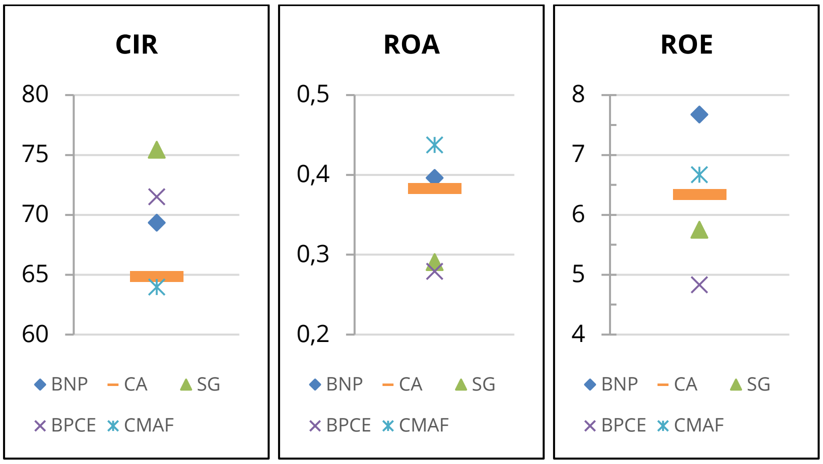
Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	64,94	63,68	64,68	+0,15	64,82
Cost Income Ratio ex. Trading (CIRex)	72,85	78,28	58,03	+66,84	124,86
Return on Assets (ROA)	0,30	0,40	0,40	-0,01	0,38
Return on Equity (ROE)	5,01	6,51	6,57	-0,23	6,34
Return on Assets before Taxes (ROAbT)	0,45	0,59	0,54	-0,07	0,47
Return on Equity before Taxes (ROEbT)	7,49	9,72	9,01	-1,21	7,80
Return on Risk-Weighted Assets (RORWA)	0,99	1,34	1,36	+0,02	1,38
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,48	2,01	1,87	-0,17	1,70
Net Interest Margin (NIM)	1,42	1,59	0,86	+0,99	1,84
Pre-Impairment Operating Profit / Assets	0,60	0,69	0,64	-0,08	0,56
Cost of Funds (COF)	1,22	1,07	1,07	-0,02	1,06
Change in %Points					

The peer group analysis is conducted using three box plot charts of representative earnings figures for an overall peer group and a peer group of large French bank each. The cost income ratio at 64.8% was noticeably below the peer group median of about 70%. Compared to its French peers, CA's CIR was second lowest, implying above average cost control and intrinsic profitability. Earnings measures such as ROA and ROE, however, were decidedly average, being very close to the overall peer group's median. Of the five banks covered in France, CA also places in the middle in terms of above mentioned ratios, indicating no major strength or weakness.

Chart 2: CIR, ROA & ROE of CA in comparison to the peer Group | Source: eValueRate / CRA





Asset Situation and Asset Quality

The balance sheet grew significantly in 2019, owing in large part to the robust increase in net loan growth.
The three major drivers of growth were in order by cash positions, total securities and net loans to customers. Cash positions grew by €26.6bn or 37.6%, being responsible for about 17% of overall growth. Total securities (loan and equity instruments) grew by €44.7bn or 9.6% over the previous year, both in equity (+30.7%) as well as in debt instruments (+7.8%). Of total securities, €461.7bn are held in debt instruments, or roughly 9/10th. The increase in total securities was responsible for about 28.6% of the total increase in assets. Net loans to customers grew €57.2bn or 6.7%, being responsible for 36.6% of the total increase in balance sheet size. Overall, total assets increased by €156.2bn or 8.4%, lifting total assets over the €2tn mark for the first time.

In the first half of 2020, loans outstanding grew by 8.7% from the first half 2019, roughly a third of this accounted for state guaranteed loans. As of the third quarter, €29.5bn of state guaranteed loans have been granted for almost 190,000 customers. €1.7bn in loans had maturities deferred, down almost 70% from the previous quarter, indicating an economic rebound in CA's market of operations. The renewed lockdown in France might well reverse this trend, however.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

Figure 3: Development of assets| Source: eValueRate / CRA

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	31.254	54.119	70.584	+37,6	97.135
Net Loans to Banks	75.314	85.467	91.768	+4,0	95.472
Net Loans to Customers	842.604	906.034	853.079	+6,7	910.319
Total Securities	432.048	439.447	465.089	+9,6	509.751
Total Derivative Assets	182.741	130.441	117.263	+12,8	132.257
Other Financial Assets	24.253	9.725	115.161	-3,1	111.569
Financial Assets	**1.588.214**	**1.625.233**	**1.712.944**	**+8,4**	**1.856.503**
Equity Accounted Investments	7.021	5.106	6.308	+12,6	7.103
Other Investments	6.129	6.744	6.967	+4,4	7.277
Insurance Assets	42.934	51.600	51.385	+15,8	59.520
Non-current Assets & Discontinued Ops	591	495	257	+84,8	475
Tangible and Intangible Assets	22.657	25.927	26.284	+11,7	29.355
Tax Assets	5.512	5.554	6.223	+1,1	6.293
Total Other Assets	49.791	42.510	44.395	+0,1	44.440
Total Assets	**1.722.849**	**1.763.169**	**1.854.763**	**+8,4**	**2.010.966**

The asset quality of CA continued to improve in the fiscal year 2019.

The NPL ratio declined a further 0.17 percentage points to 2.53%. Problem loans, defined by CRA to be Stage 2 exposures, declined to 7.05% relative to loans to customers (2018: 7.7%). The RWA ratio was reported at a low 27.8%, declining steadily in the observed timeframe. Nominally, RWA increased by €17.2bn (+3.1%) to €559bn, generated mainly by insurance activities (+€5bn) and retail banking activities (+€6.1bn).

The NPL ratio remained stable at 2.4% in the first half of 2020, mirroring the development in other major banks in which only Stage 2 exposures grew significantly, but NPL ratios remained largely the same level. The reserves to NPL ratio remained high at 84.5%. Total risk-weighted assets increased slightly by 2.4% over the course of the first half of 2020. The NPL ratio in Q3 increased only slightly to 2.5%, reserves to NPL stood at 80.4% on Group level.

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

Figure 4: Development of asset quality| Source: eValueRate / CRA

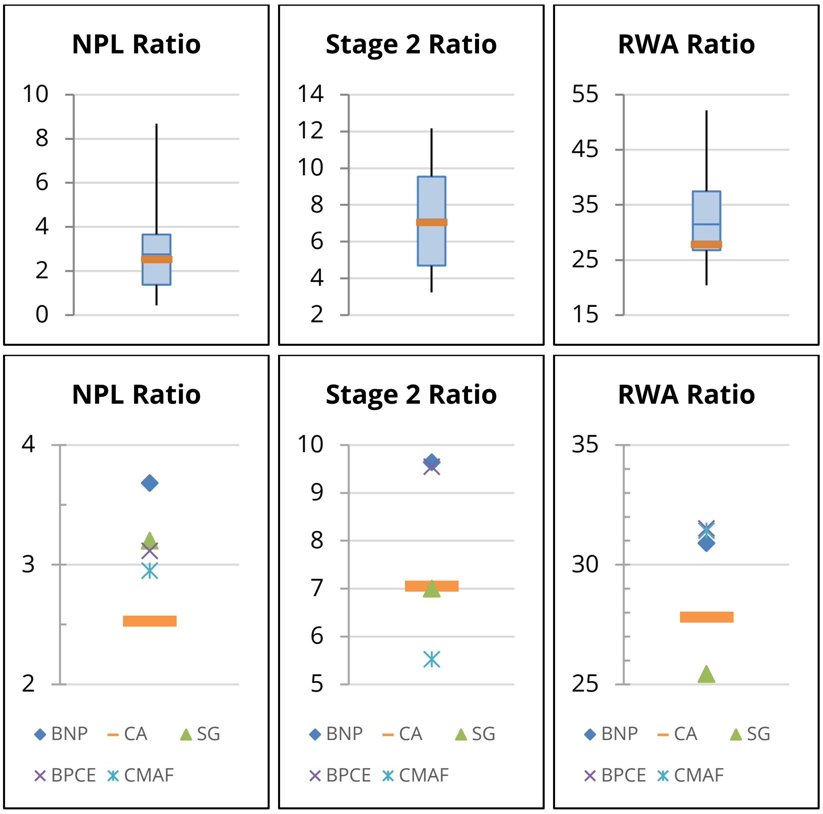
Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	48,91	51,39	45,99	-0,73	45,27
Risk-weighted Assets/ Assets	30,24	29,58	29,21	-1,41	27,80
NPLs*/ Net Loans to Customers	3,35	3,13	2,70	-0,18	2,53
NPLs*/ Risk-weighted Assets	5,42	5,44	4,25	-0,14	4,11
Potential Problem Loans**/ Net Loans to Customers	1,30	0,31	7,70	-0,65	7,05
Reserves/ NPLs*	76,76	71,48	84,50	-1,92	82,57
Reserves/ Net Loans	2,57	2,24	2,28	-0,20	2,09
Net Write-offs/ Net Loans	0,32	0,19	0,20	-0,01	0,19
Net Write-offs/ Risk-weighted Assets	0,51	0,33	0,32	-0,00	0,31
Net Write-offs/ Total Assets	0,15	0,10	0,09	-0,01	0,09
Level 3 Assets/ Total Assets	0,50	0,45	0,64	+0,70	1,34
Change in %Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

The peer group analysis of asset quality is conducted using three box plots of representative asset ratios for the overall peer group and a peer group of French banks.

The NPL ratio was reported at 2.5% and registered very close to the median of the observed overall peer group. Compared to other large French lenders, CA had a much lower NPL ratio, indicating above average asset quality among its local peers. In terms of problem exposures that have not yet been impaired (Stage 2), CA registers again close to the median of the overall peer Group and on the third rank of the French peer group. The RWA ratio paints a slightly different picture, registering clear of the median of the overall peer group and being second lowest among French lenders. However, the range between the lowest and the highest ratio is quite small. The asset quality can be described as good, especially in a French comparison.

Chart 3: NPL and RWA ratios of CA in comparison to the peer Group | Source: eValueRate / CRA



Refinancing and Capital Quality

The growth of the asset side was carried by a large degree very robust customer deposits growth as well as similarly robust growth in insurance liabilities, both line items accounted for a little less than 2/3rd of total balance sheet growth.

Financial liabilities grew by €110.5bn, of which €65bn accounted for growth in customer deposits. Customer deposits have continuously grown at an accelerated rate in the observed period. More than half of the balance sheet growth between 2016 and

2019 (+€288.1bn) was due to customer deposits growth (+€165.4bn). Total debt outstandings grew by €16.46bn, an increase of 6.6% over the previous year. Overall, financial liabilities grew by €110.5bn. Insurance liabilities grew by €32.3bn amid good growth in the insurance business. Total equity increased by €9.34bn to €121.5bn (+8.3%).

In the first half of 2020, deposits grew 11% from the first half of 2019, as personal saving increased amid uncertainty and lack of consumer spending due to the COVID-19 crisis.

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy| Source: eValueRate / CRA

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	58.069	69.070	74.554	-0,7	74.058
Total Deposits from Customers	688.499	730.623	788.935	+8,2	853.914
Total Debt	223.321	228.540	248.641	+6,6	265.104
Derivative Liabilities	181.960	130.324	114.977	+11,4	128.118
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	99.567	119.689	130.771	+12,6	147.213
Total Financial Liabilities	**1.251.416**	**1.278.246**	**1.357.878**	**+8,1**	**1.468.407**
Insurance Liabilities	307.998	322.051	325.910	+9,9	358.249
Non-current Liabilities & Discontinued Ops	374	354	229	> +100	478
Tax Liabilities	2.658	2.618	2.442	+63,6	3.996
Provisions	6.510	6.365	8.107	-14,4	6.937
Total Other Liabilities	50.719	45.799	48.009	+7,0	51.366
Total Liabilities	**1.619.675**	**1.655.433**	**1.742.575**	**+8,4**	**1.889.433**
Total Equity	**103.174**	**107.736**	**112.188**	**+8,3**	**121.533**
Total Liabilities and Equity	**1.722.849**	**1.763.169**	**1.854.763**	**+8,4**	**2.010.966**

The capital ratios of CA generally increased in the fiscal year 2019, as the RWA ratio declined. Total equity in relation to total assets has remained stable in the observed period, indicating no significant increase in overall capitalization. Similarly, the Leverage ratio increased only slightly as well, after a brief dip in 2018. Regulatory ratios, however, increased due to relatively lower RWA ratios, which only increased by 3.1% as balance sheet equity and regulatory capital increased by 8.3% and 9.9% (CET1), respectively. As a result, the CET1 ratio increased by 0.9 percentage points over the previous year, where only a 0.2% percentage point increase was reported. The SREP own funds requirement per 1 Jan 2019 was 9.5%, and the combined buffer requirement was 3.7%, taking the overall capital requirements to 13.2%. With 15.9%, the CET1 ratio satisfied this requirement handily. As per 1 January 2020, the SREP requirements is 9.7%.

As the RWA ratio increased 2.4% in the first half of 2020, and the CET1 capital only 1.8%, the CET1 ratio declined slightly from 15.9% to 15.8%. The Leverage ratio was reported at 5.3%. In Q3 2020, the CET1 ratio climbed by almost a percentage point to

16.7%, the Total Capital ratio in turn climbed to 20%. This increase was due to a nearly €3bn increase in common equity capital as well as a decrease in RWA back to 2019 levels.

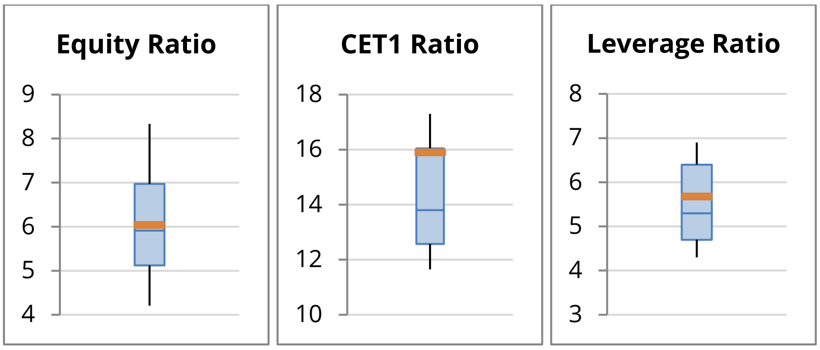
A detailed overview of the development of capital ratios for the years of 2016 through 2019 can be found in Figure 6 below:

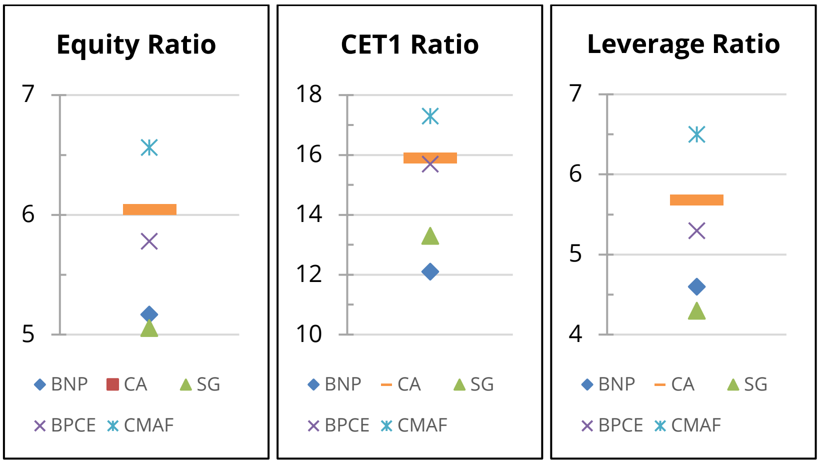
Figure 6: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	5,99	6,11	6,05	-0,01	6,04
Leverage Ratio	5,50	5,60	5,43	+0,25	5,68
Phased-in: Common Equity Tier 1 Ratio (CET1)	14,40	14,80	15,00	+0,90	15,90
Phased-in: Tier 1 Ratio (CET1 + AT1)	16,10	16,20	16,20	+0,60	16,80
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	19,30	18,60	18,70	+0,60	19,30
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	14,50	14,90	15,00	+0,90	15,90
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	15,50	15,80	15,90	+0,70	16,60
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	18,60	18,20	18,30	+0,60	18,90
SREP Capital Requirements	7,76	8,63	8,65	+1,05	9,70
Change in %Points					

The peer group analysis of the capital ratios is conducted using three representative box plots for the overall peer Group and a peer Group of large French banks each. The equity ratio for CA was reported at 6% in 2019, slightly above the peer Group median. In comparison to its French peers, the ratio was above average, registering second highest. The CET1 ratio by contrast was higher than the peer Group's median by over 2 percentage points, owning in part due to the below average RWA ratio, given that the equity ratio was not far above average. In comparison to other large French lenders, the CET1 ratio was second highest with little room to spare, however. The Leverage ratio was reported at 5.7% in 2019, almost half a percentage point in excess of the peer Group's median figure. In comparison to the French peer Group, the Leverage ratio stood comfortably at the second position. Overall, CA enjoys a slightly above average capitalization. CRA views the decision to allocate the 2019 profit to its reserves account favorably, in light of the uncertain repercussions of the COVID-19 epidemic.

Chart 4: CET1 and Leverage ratios of CA in comparison to the peer Group | Source: eValueRate / CRA





Due to the capital and debt structure, the class of Preferred Senior Unsecured Bonds at Group level is not downgraded compared to the Long-Term Issuer Rating. Due to the seniority structure, bonds in the Non-Preferred Senior Unsecured class are downgraded by one notch below the Long-Term Issuer Rating. Tier 2 capital is downgraded four notches below the Long-Term Issuer Rating due to the capital and debt capital structure and due to the seniority structure, Additional Tier 1 capital is downgraded five notches below the Long-Term Issuer Rating reflecting the high bail-in risk in case of a resolution.

Liquidity

The Liquidity ratios have not changed fundamentally in 2019. The interbank ratio was at 128.9% in 2019, up slightly by 5.8 percentage points, while the Liquidity Coverage Ratio (LCR) stood at 128.8%, slightly down by 4.6 percentage points from the previous year. At the end of 2019, the Group had almost €193bn in cash in cash/central bank and interbank funds at its disposal. We deem CA's liquidity position as satisfactory.

A detailed overview of the development of liquidity for the years of 2016 through 2019 can be found in Figure 7 below.

Figure 7: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	122,38	124,01	108,13	-1,52	106,61
Interbank Ratio	129,70	123,74	123,09	+5,83	128,92
Liquidity Coverage Ratio	-	133,00	133,36	-4,56	128,80
Customer Deposits / Total Funding (excl. Derivates)	47,89	47,91	48,47	+0,01	48,48

Change in %Points

Environmental, Social and Governance (ESG) Score Card

CA has one significant and two moderate ESG rating drivers

• Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated positive due to CA's solid and sustainable earning figures, good asset quality and capitalization, convincing MTP 2022.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated positive due to a convincing portfolio of green bonds, Coporate Behaviour is rated neutral due the misconduct in recent years in relation with money laundering allegations or previous misdemeanors for example in the rigging of the LIBOR. Alleviating circumstance is the lack of current material legal proceedings against CA.

ESG Score

3,9 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
< = 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2020	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	3	(+)
	1.2 Exposure to Environ-mental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated very positive in terms of the CRA ESG criteria.	1	(+ +)
Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)
Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated positive in terms of the CRA ESG criteria.	4	(+)
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	( )
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage https://creditreform-rating.de/en/about-us/regulatory-requirements.html. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

Conclusion

The 2019 financial year was essentially another successful one for CA, with net income for the year once again up on the previous year. However, this increase was not due to an intrinsic improvement, but was mainly the result of lower tax expenses. The operating result before special items and risk costs remained essentially unchanged from the previous year for the third year in succession. Risk costs also remained virtually unchanged, only the goodwill impairment of LCL had an additional negative impact on the result. Since the growth in earnings could not keep up with the general growth in the balance sheet and equity, this had a corresponding impact on CA's key earnings figures. The persistently low interest rate environment continues to burden interest income, which has been falling steadily for three years now despite the steady expansion of business. Asset quality continued to improve in a favorable business environment in the 2019 financial year. COVID-19 has also had only a minor impact on asset quality so far, although the true impact is not expected to become apparent until next year. The Group's capitalization continued to improve in 2019 and is well on track compared to other major French banks. In particular, the Bank is doing well in terms of asset quality and capitalization; however, there are no significant weaknesses in terms of earnings and liquidity, either.

The COVID-19 crisis has made the forecasts for 2020 an exercise in futility in the banking industry as a whole. Across the sector, risk provisions and the volume of problem loan exposures are rising sharply, with only the NPL ratios so far showing little sign of being affected. In the medium term, CRA expects decreasing margins and high risk costs, which will have a severe impact on results. Banks in the euro zone, which are already under strain, will find it increasingly difficult to live off traditional sources of income. The general shift towards commission income will not remain unaffected by the crisis, as income from payment transactions in particular is increasingly disappearing due to the crisis in the retail sector.

This development has a severe impact on the business model of CA. Retail banking will experience an accelerated shift towards online banking. At the same time, the commission-based business in retail payments is likely to be permanently lower, as shopping habits continue to steer towards online business and large online retailers with established proprietary payment methods or affiliated fintechs. Small and medium-sized enterprises, especially in the service sector, are severely affected by the crisis due to lack of reserves, possibly devastating local service based economies. France is one of the most severely affected countries, and credit exposure to the home market of France was still a staggering 82%. In addition, the other big markets of operation are similarly ravaged by COVID-19, such as Italy (5% exposure). Nevertheless, CA is still fairly diversified across income segments, especially in the insurance and asset servicing and management segments. Interim results indicate a sharp decline in annual results, especially with the currently deteriorating situation of the second

COVID-19 wave and the renewed lockdown in many European countries. Risk costs in particular are clouding CA's results, but the Group still expects a positive net profit for 2020, unlike some of its competitors. The good cost basis contributes to this development. Meanwhile, asset quality has not yet deteriorated significantly, and the true effects will probably not become apparent until next year.

The COVID-19 crisis and with it the worsening earnings prospects as well as declining asset quality put negative pressure on the Long-Term Issuer Rating of CA. The solid capital situation, as well as the updated rating methodology, which amongst others rewards size and diversification, exert positive pressure on the rating of CA. Hence, the Long-Term Issuer Rating is confirmed at 'A'. The Short-Term Issuer Rating is confirmed at 'L2'.

Outlook

The outlook of the Long-Term Issuer Rating of CA is 'negative'. In the medium term, CRA expects a deterioration in profitability and asset quality, with the recent Europe-wide lockdowns aggravating the situation. The bank already reported a drastic decrease in net profit in the first wave, but CRA expects no negative result for the whole of 2020.

Scenario Analysis

Best-case scenario: AA-

Worst-case scenario: BBB+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

In a scenario analysis, the bank is able to reach an 'AA' Long-Term Issuer Rating in the "best case" scenario and a 'BBB+' Long-Term Issuer Rating in the "worst case scenario". If the bank finds a way to significantly increase its earnings while at the same time keeping costs low and improving the general asset quality, we could upgrade CA's rating. On the downside, if the COVID-19 crisis lingers on and the world experiences recurring waves of infections, the bank might find itself amidst a continuously worsening earnings and asset quality situation. An accelerated drive towards e-commerce and online banking might leave the Group in a complicated situation to keep costs down while at the same time to deliver the same level of financial services that customers are used to. At this stage, CRA expects the downside risks to prevail over the chances of a rating upgrade.

The ratings of bank capital and (preferred/non-preferred) senior unsecured debt would behave similarly due to our rating mechanics. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A / negative / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A**
Non-Preferred Senior Unsecured Debt (NPS): **A-**
Tier 2 (T2): **BBB-**
Additional Tier 1 (AT1): **BB+**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 8: Rating History

Bank Issuer Rating	Rating Date	Result
LT / Outlook / Short-Term (Initial)	05.05.2017	A / stable / L2
Rating Update	01.02.2018	A / stable / L2
Rating Update	31.08.2018	A / stable / L2
Rating Update	22.11.2019	A / stable / L2
Monitoring	24.03.2019	A / NEW / L2
Rating Update	17.11.2020	A / negative / L2
Bank Capital and Debt Instruments	**Rating Date**	**Result**
Senior Unsecured / T2 / AT1 (Initial)	01.02.2018	A / BBB- / BB+
Senior Unsecured / T2 / AT1	31.08.2018	A / BBB- / BB+
PSU / NPS / T2 / AT1	22.11.2019	A / A- / BBB- / BB+
PSU / NPS / T2 / AT1	24.03.2020	A / A- / BBB- / BB+ (NEW)
PSU / NPS / T2 / AT1	17.11.2020	A / A- / BBB- / BB+

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer Group analysis were 24 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings as (Version 2.0), the methodology for the rating of bank capital and unsecured debt instruments (Version 2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (Version 1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (Version 1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

On 17 November 2020, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Crédit Agricole, and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy “Rating Committee,” all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate

2. Annual Report and interim reports

3. Investors relations information and other publications

4. Website of the rated bank

5. Public and internal market analyses

6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The “Basic data” information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the “Basic data” card as a “Rating action”; first release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within „Basic data“ information card.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

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