# Operating and financial information

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# Presentation of Crédit Agricole S.A.'s consolidated financial statements

## PRESENTATION OF CRÉDIT AGRICOLE S.A.'S CONSOLIDATED ACCOUNTS

### Changes to accounting principles and policies

Changes to accounting principles and policies are described in Note 1 to the consolidated financial statements for the year ended 31 December 2012.

### Changes in the scope of consolidation

Changes in the scope of consolidation are described in Notes 2.1.1, 2.1.4 and 2.1.5, and in Note 12 to the consolidated financial statements for the year ended 31 December 2012.

## ECONOMIC AND FINANCIAL ENVIRONMENT

In 2012, Greece once again dominated the headlines, with a new financial aid package, the cancellation of its debt resulting in a severe haircut for private investors, and chronic political and social instability fuelling fears that the country would leave the Eurozone.

Spain entered a difficult period, amidst doubts about the strength of its banking system, the deterioration of its public finances, record unemployment and deepening recession. Embodying these concerns, risk premiums on sovereign debt climbed considerably, sporadically exceeding the symbolic 7% threshold at which bailouts for Greece, Ireland and Portugal were triggered. Despite reform efforts undertaken by the technocratic government led by Mario Monti, Italy was not spared, with yields on its debt rising as well. **Together, this sparked fears for the very integrity of the Eurozone.**

**This was the very tense backdrop to the European summit in late June.** To break the bonds of interdependence between sovereign risk and banking risk, the European Stabilisation Mechanism, the new permanent relief fund (which began operations in October), has been authorised to provide financial assistance to banks directly, independently of Member States, in exchange for the implementation of banking supervision at European level under the aegis of the European Central Bank (ECB). Aid totalling €100 billion was also granted to Spain to reinforce its banking sector. This declared willingness to move towards banking union did not fully convince the markets, which remained worried about the time it would take to implement.

Spain's financial difficulties and disturbing signals heralding a slowdown in the global economy continued to fuel a sense of mistrust toward the Eurozone, to the point of sparking fears of a resurgence of the disaster scenario that prevailed in the summer of 2011. **26 July marked a real turning point, when ECB President Mario Draghi declared that the ECB was prepared, within the limits of its mandate, to take all necessary measures to safeguard the integrity of the Eurozone.** The head of the ECB joined his actions to his words in early September, announcing a programme of unlimited bond purchases under strict conditions (known as OMT, for Outright Monetary Transactions). This helped avert the extreme scenario of a pure and simple collapse of the Eurozone, triggering a bull run in the markets that corrected the excessive pessimism of the past.

Despite the stabilisation of expectations and the market environment, it will not be possible to render debt trajectories achievable without growth. The issue of growth will therefore dominate 2013.

## CRÉDIT AGRICOLE S.A. OPERATIONS AND CONSOLIDATED INCOME STATEMENTS

| *(in millions of euros)* | 2012 | 2011 *pro forma*[1] | Change 2012-2011 |
|---|---|---|---|
| **Revenues** | **16,315** | **19,385** | **(15.8%)** |
| Operating expenses | (12,037) | (12,393) | (2.9%) |
| **Gross operating income** | **4,278** | **6,992** | **(38.8%)** |
| Cost of risk | (3,736) | (4,252) | (12.1%) |
| **Operating income** | **542** | **2,740** | **(80.2%)** |
| Share of net income of equity-accounted entities | 503 | 230 | x 2.2 |
| Net income on other assets and change in value of goodwill | (3,207) | (1,578) | n.m. |
| **Pre-tax income** | **(2,162)** | **1,392** | **n.m.** |
| Income tax charge | (360) | (885) | (59.3%) |
| Net income from discontinued or held-for-sale operations | (3,991) | (1,705) | x 2.3 |
| **Net income** | **(6,513)** | **(1,198)** | **x 5.4** |
| **NET INCOME GROUP SHARE** | **(6,471)** | **(1,470)** | **X 4.4** |
| Basic earnings per share *(in euros)* | (2.61) | (0.60) | - |

*(1) Pro forma reclassification of Emporiki, Cheuvreux and CLSA as per IFRS 5.*

2012 was a year of defined by structuring measures for the Group, implemented as part of thorough work to adjust to the new financial and regulatory environment: disposals of non-core businesses, revaluation of balance sheet assets, enhancement of operational efficiency. The sale of the Greek subsidiary Emporiki was thus completed during the second half, with no residual funding lines. At the same time, the Group stepped up its efforts to refocus its assets in southern Europe: in addition to its entire stake in Intesa Sanpaolo, it sold its stake in BES Vida, while keeping its interest in BES unchanged; it also reduced its stake in Bankinter from more than 20% in early 2012 to 15.1% at year's end, and to less than 10% since then.

**Revenues** for the year amounted to €16,315 million, a decline of 15.8% compared with 2011. The decline was attributable chiefly to the negative impact of value adjustments of own debt stemming from the improvement of the credit quality of Crédit Agricole S.A. and Crédit Agricole CIB, in the amount of -€1,551 million over the year. It also included capital losses on the disposal of portfolios as part of the adjustment plan in Corporate and investment banking and Specialised financial services, in the amount of -€498 million.

Lastly, it stemmed from transactions relating to the Group's strategic refocus, including impairment losses on Intesa Sanpaolo securities in the amount of -€427 million, relative to the permanent impairment of available-for-sale securities, followed by the sale of all relevant securities. Moreover, various losses on securities at the beginning of the year, in the amount of €93 million, reduced the positive impact of €864 million of the redemption of hybrid debt carried out early in the year.

Excluding these specific items, the decline in revenues was limited to 5.7% over the year, reflecting a sluggish economic environment.

**Operating expenses** amounted to €12,037 million, a decline of 2.9% compared with 2011 thanks to efforts to rein in expenses. Excluding expenses recognised in 2011 with respect to the adjustment plan, the decline was 0.2%.

**Gross operating income** was €4,278 million, a decline of 38.8% compared with the previous year. Excluding specific items, the decline was 15.0%.

The **cost of risk** was €3,736 million, of which €327 million of specific items (impact of the adjustment plan, provisions related to Greece). At end-December 2012, impaired outstanding loans (excluding lease finance transactions with customers) amounted to €15.6 billion, very close to the end-2011 level (+0.5%). This represented 3.5% of gross outstanding loans to customers and credit institutions, compared with 3.3% at end-September 2012 and end-December 2011. The coverage ratio of impaired loans by specific reserves continued to increase: it was 57.3% at end-December 2012, compared with 55.4%[1] at end-December 2011. Including collective provisions, the coverage ratio of impaired loans was 75.7%.

*(1) Pro forma, excluding Emporiki, CA Cheuvreux and CLSA reclassified as per IFRS 5.*

**Income from equity affiliates** was +€503 million. This includes the impact of the impairment of SAS Rue La Boétie and SACAM International securities, and the value adjustment of securities following the merger of Regional Banks. These items represented a negative amount of €210 million in the Regional Banks' contribution to Crédit Agricole's 2012 net income. It also includes the impairment of BES in the amount of -€267 million and the impact of the deconsolidation of Bankinter in August 2012, after the stake was taken below 20% and significant influence was lost (-€193 million).

**Change in the value of goodwill** was -€3,395 million in 2012 following the carrying out of impairment tests and taking primarily into account the impact of the reinforcement of regulatory requirements, as well as deterioration in the macroeconomic and financial environments in the relevant countries and business lines. These impairments relate to Corporate and investment banking (-€826 million in net income Group share), Consumer finance (-€1,495 million in net income Group share) and International retail banking (-€921 million in net income Group share).

**Pre-tax income** was accordingly -€2,162 million, and a +€3,934 million excluding specific items.

**Net income from discontinued or held-for-sale operations** was -€3,991 million over the year, reflecting progress in the disposals of Emporiki, Cheuvreux and CLSA.

**Net income Group share** for 2012 was a -€6,471 million. Excluding specific items, it was €3,009 million.

**Implementation of the adjustment plan: sharp reduction of funding needs and risk weighted assets**

The Group vigorously pursued the implementation of the adjustment plan announced on 14 December 2011, exceeding its initial targets in respect of both debt reduction and the optimisation of equity consumption. Accordingly, the Group reduced its liquidity requirements by €68 billion at current exchange rates between June 2011 and December 2012, *i.e.* 136% of the €50 billion target. Risk weighted assets were reduced by €57 billion at constant exchange rates over the same period (160% of the target), including the impact of Basel 3 and the Marylebone transaction, which cut risk weighted assets by €14 billion.

These reductions reflect measures taken within three business lines. In Retail banking, the loan-to-deposit ratio improved considerably, easing from 129% in June 2011 to 122% at end-December 2012. Specialised financial services reduced its requirements and successfully carried out external refinancing operations through the gathering of retail deposits in Germany, securitisations and bond issues, which generated €7 billion in deposits over the duration of the plan. Lastly, in addition to implementing its new model, Crédit Agricole CIB sold €10.3 billion in loan portfolios (with an average discount of only 2.3%), as well as CDO and RMBS portfolios and the market risk of its correlation book.

| | Funding | Solvency |
|---|---|---|
| *(in billions of euros)* | Reduction in funding needs at 31/12/2012(1) | Reduction in risk weighted assets at 31/12/2012(2) |
| Retail banking | (22) | |
| Specialised financial services | (13) | (6) |
| Corporate and investment banking | (33) | (51) |
| **TOTAL** | **(68)** | **(57)** |

*(1) At current exchange rates.*

*(2) At constant exchange rates, including the Basel 3 impact.*

## Liquidity

Crédit Agricole Group's cash balance sheet totalled €1,032 billion at end-December 2012, €2 billion more than a year earlier.

Short-term debt, corresponding to outstanding debt due within 370 days raised by the Group from market counterparties (excluding the netting of repos and reverse repos, and excluding central bank refinancing in the amount of €34 billion), was €137 billion at 31 December 2012, compared with €136 billion at 31 December 2011. Short-term market funds and repos declined by €12 billion over the year, while liquid assets, primarily deposits with central banks, interbank assets and the securities portfolio, increased by €36 billion over the year.

The surplus of long-term sources of funds over long-term uses of funds at 31 December 2012 was €47 billion. Long-term funding sources totalled €861 billion at 31 December 2012 and comprised long-term market funds, customer-related funds and equity (and similar items). Long-term funding sources increased by €14 billion between 31 December 2011 and 31 December 2012. Funding requirements in respect of customer-related assets and tangible and intangible assets amounted to €814 billion at 31 December 2012, a reduction of €34 billion compared with 31 December 2011.

The €68 billion reduction in funding requirements achieved under the adjustment plan comprises the €21 billion reduction recorded at end-2011 and a €47 billion reduction in 2012. This €47 billion reduction stemmed chiefly from an increase in customer-related funding (€23 billion) and a reduction in customer assets and customer-related trading assets (€27 billion).

Reserves of available assets (after haircut) eligible for central bank refinancing or securities which can be made liquid on the markets, including central bank deposits, totalled €230 billion at end-December 2012, an increase of €29 billion compared with end-September 2012. They amply covered short-term market funds (168%), which amounted to €137 billion at end-2012.

Available reserves comprised €95 billion in securities which can be made liquid on the markets also eligible for central bank refinancing (41% of total reserves), €15 billion in securities which can be made liquid on the markets (7%), €53 billion in deposits with central banks (23%), €58 billion in assets eligible for central bank refinancing (25%) and €9 billion in securitisation and self-securitisation tranches eligible for central bank refinancing (4%).

As regards medium- and long-term funding, Crédit Agricole S.A. exceeded its market issuance programme of €12 billion in 2012, raising €18.8 billion between 1 January and 31 December 2012. The average term of funds raised was 6.3 years and the average spread was 121.9 basis points *versus* mid-swap. Crédit Agricole S.A.'s 2013 medium- and long-term funding programme is €12 billion, the same level as the 2012 programme.

Concurrently, the Group is developing its access to additional funding sources *via* its retail bank networks and specialised subsidiaries, notably through debt issuance. At 31 December 2012, €3.7 billion had been raised through the Regional Bank network, €4.9 billion *via* the LCL and Cariparma networks, €7.6 billion *via* Crédit Agricole CIB (mainly in structured private placements) and €4.4 billion *via* Crédit Agricole Consumer Finance (mainly issues and securitisations). Total medium- and long-term issues carried out *via* the Group's retail networks and the specialised subsidiaries amounted to €20.6 billion in 2012.

# OPERATIONS AND RESULTS BY BUSINESS LINE

Crédit Agricole S.A. Group is organised into six business lines:

- French retail banking – Crédit Agricole Regional Banks;
- French retail banking – LCL;
- International retail banking;
- Specialised financial services (SFS);
- Savings management (SM);
- Corporate and investment banking (CIB);

as well as the Corporate Centre.

The Group's business lines are defined in Note 5 to the consolidated financial statements for the year ended 31 December 2012 – "Operating segment information". The organisation and activities are described in section 1 of Crédit Agricole S.A.'s registration document.

### CONTRIBUTION BY BUSINESS LINE TO CRÉDIT AGRICOLE S.A.'S NET INCOME GROUP SHARE

| *(in millions of euros)* | 2012 | 2011 *pro forma*(1) |
|---|---|---|
| French retail banking – Regional Banks | 824 | 1,008 |
| French retail banking – LCL | 663 | 675 |
| International retail banking | (4,880) | (2,458) |
| Specialised financial services | (1,613) | 91 |
| Savings management | 1,720 | 951 |
| Corporate and investment banking | (880) | (147) |
| Corporate centre | (2,305) | (1,590) |
| **TOTAL** | **(6,471)** | **(1,470)** |

*(1) Pro forma reclassification of Emporiki, Cheuvreux and CLSA as per IFRS 5.*

## 1. French retail banking – Crédit Agricole Regional Banks

| *(in millions of euros)* | 2012 | 2011 | Change 2012-2011 |
|---|---|---|---|
| **Revenues** | **12,870** | **13,420** | **(4.1%)** |
| Operating expenses and amortisation | (7,652) | (7,377) | 3.7% |
| **Gross operating income** | **5,218** | **6,043** | **(13.6%)** |
| Cost of risk | (853) | (1,008) | (15.4%) |
| **OPERATING INCOME** | **4,365** | **5,035** | **(13.3%)** |

Consolidated data for the 38 Regional Banks restated for intragroup transactions (including Crédit Agricole S.A. dividends received by the Regional Banks)

| *(in millions of euros)* | 2012 | 2011 | Change 2012-2011 |
|---|---|---|---|
| **Net income accounted for at equity (approximately 25%)** | **674** | **854** | **(21.1%)** |
| Change in share of reserves | 150 | 154 | (2.6%) |
| Share of net income of equity-accounted entities | 824 | 1,008 | (18.4%) |
| **NET INCOME GROUP SHARE** | **824** | **1,008** | **(18.4%)** |

In 2012, the Regional Banks continued to pursue their strategy of achieving balanced growth in their franchise, while maintaining innovation and customer relations at the centre of their business.

In the retail market, the Regional Banks continued to roll out offers such as the "*Compte à Composer*" and the "*Démarche retraite*". In insurance and services, the sluggish economic environment in France limited the growth of day-to-day banking, while property & casualty insurance business grew by 2.6% year-on-year, driven by property insurance. In terms of innovation, the Regional Banks launched "CA-Store", a cooperative combining players in the digital sector, allowing Crédit Agricole to co-create, with its customers, web and mobile banking applications that went on to win awards at the *Palmes de la Relation Client*.

Despite a difficult economic environment, which limited the growth of the franchise which was virtually stable year-on-year, the Regional Banks reported a robust overall deposit-gathering performance. Deposits totalled €574.3 billion at end-December 2012, an increase of 4.4% year-on-year.

On-balance-sheet deposits closed the year at €333.7 billion, an increase of 5.7% year-on-year. This growth was driven in particular by term accounts and deposits which increased by 18.1%, while savings accounts grew by 10.8%, with most of the increase focused on regulated accounts. *Livret A* and LDD (sustainable development) savings accounts benefited greatly from an increase in ceilings in the second half of the year, largely at the expense of demand deposits of which volumes were down 1.9% year-on-year. As such, the number of *Livret A* savings accounts increased by approximately one million to nearly seven million, with deposits totalling €30.6 billion at end-2012, compared with €23.2 billion at end-2011 (+31.9% year-on-year). The increase in deposits resulted in a corresponding increase in the rate of centralisation with the *Caisse des Dépôts et Consignations*. It rose to 36.0% at end-2012 (based on volumes at 30 September), compared with 31.2% at end-2011.

Meanwhile, the Regional Banks maintained good momentum in respect of off-balance-sheet deposits, buoyed by a positive market effect. They totalled €240.6 billion at end-December 2012, an increase of 2.6% year-on-year. This performance was notable in securities which benefited from the recovery in financial markets in 2012, with volumes up 13.3% year-on-year. Life insurance also experienced renewed interest after a difficult start to the year (funds under management up 2.0% over the year).

In lending, the Regional Banks maintained their commitment to their customers and their regions, with a 1.4% year-on-year increase in outstanding loans to €396.0 billion at end-2012. The overall growth in outstanding loans reflects contrasting trends between the various markets. Outstanding housing loans ended the year at €218.9 billion, with growth slowing on the back of flagging demand (+2.2% year-on-year, compared with +5.7% a year before). Outstanding loans to farmers and local authorities continued to grow, while consumer finance continued its decline in the wake of new regulatory constraints and slower demand (-6.5% year-on-year). Lastly, outstanding loans to small businesses and SMEs edged down in a difficult economic environment.

The loan-to-deposit ratio improved slightly in 2012. It was 126% at end-December 2012, compared with 129% a year earlier. Since the launch of the adjustment plan in June 2011, it has improved by four percentage points.

The revenues of the Regional Banks (restated for intragroup transactions) were €12.9 billion in 2012, down 4.1% compared with 2011. Over the period, revenues from customer business excluding home purchase savings plans were virtually stable thanks to higher margins on loans, which partially offset lower volumes. Fee and commission income was down 1.3% year-on-year, penalised by a poor performance in securities (-15.5%), although fee and commission income on banking services held up well (+6.3% year-on-year). The decline also reflects the recognition in the accounts of the Regional Banks of the impairment of SAS Rue La Boétie securities following the change in their valuation method (-€650 million). This impact was partially offset, in the amount of €161 million, by the cancellation of consolidation entries in conjunction with the merger of Regional Banks. Lastly, revenues also included the impairment of Sacam International securities in the amount of €330 million. Excluding these effects and the impact of home purchase savings plans, revenues would have increased by 1.5% in 2012 compared with 2011.

Expenses were up 3.7% in 2012 compared with 2011. They include new taxes introduced in 2012 under the amended Finance Law and the Social Security Finance Law. They also include a cost overrun of €14 million related to the NICE project, the full-year cost of which was €223 million, up slightly compared with the €209 million recorded in 2011. 2012 saw the completion of this major IT project which will allow the Regional Banks to share a single information system. From 2014, the Regional Banks' IT spending is expected to decline by €250 million per annum. Excluding this additional cost and the effects of taxes introduced under the amended Finance Law, expenses were up 1.9% in 2012 compared with 2011.

Operating income was €4.4 billion in 2012, factoring in a cost of risk of €853 million, down 15.4% compared with 2011. Total provisions outstanding at end-2012 represented 107.6% of impaired loans at end-December 2012, compared with 108.8% at end-December 2011. Impaired loans represented 2.4% of the loan book at end-December 2012, stable since end 2010.

Consequently, the Regional Banks' contribution to Crédit Agricole S.A.'s net income Group share was €824 million in 2012, down 18.4% compared with 2011. Excluding the negative impact of impairments and value adjustments of securities, the contribution was €1,032 million, up 1.9% year-on-year.

## 2. French retail banking – LCL

| *(in millions of euros)* | 2012 | 2011 | Change 2012-2011 |
|---|---|---|---|
| **Revenues** | **3,891** | **3,822** | **1.8%** |
| Operating expenses and amortisation | (2,522) | (2,497) | 1.0% |
| **Gross operating income** | **1,369** | **1,325** | **3.3%** |
| Cost of risk | (311) | (286) | 8.6% |
| **Pre-tax income** | **1,059** | **1,040** | **1.8%** |
| Income tax charge | (361) | (330) | 9.5% |
| **Net income** | **698** | **710** | **(1.8%)** |
| **NET INCOME GROUP SHARE** | **663** | **675** | **(1.8%)** |

In 2012, LCL continued its development around the "*Centricité Clients*" business project, which places customer satisfaction at the centre of its commercial approach. It accordingly enhanced the "*Contrat de reconnaissance*" by adding the "*SAV bancaire*". This new service includes a satisfaction questionnaire that allows customers to assess the bank at any time, with the commitment that complaints will be dealt with in a timely manner. LCL also confirmed its role in the financing of the French economy, with outstanding loans up 1.6% year-on-year at €89.2 billion at end-December 2012. At the same time, deposit gathering remained strong, with a rebalancing of on- and off-balance-sheet deposits at year end.

In loans, growth was driven significantly by outstanding housing loans, which were up 3.0% in 2012 compared with 2011. Outstanding loans to small businesses and companies were virtually stable at €27.1 billion (-0.2% in 2012 compared with 2011). At the same time, consumer finance outstandings almost reached end-2011 level at €7 billion, after falling at the start of the year.

Deposit gathering was strong (+3.9% over the year), with a rebalancing of on- and off-balance-sheet deposits at year-end. Total deposits amounted to €156.7 billion at 31 December 2012, up 3.9% year-on-year, with increases of 5.0% in on-balance-sheet deposits and 2.8% in off-balance-sheet deposits over the same period. The positive momentum in off-balance-sheet deposits at year's end, coupled with a positive market effect, allowed funds under management in life insurance to grow by 5.4% over the year to €51.2 billion. Similarly, inflows in securities increased by 10.3% year-on-year, while bond issues, mainly at the beginning of the year, allowed €500 million to be raised in the networks, with total outstandings of €2.2 billion at end-December 2012. In on-balance-sheet deposits, after substantial inflows early in the year, higher ceilings on *Livret A* and LDD saving accounts resulted in inflows of €3.1 billion, an increase of 34.4% year-on-year. These inflows came at the expense of other savings accounts, ultimately capping the overall increase in savings accounts at 3.2%. For the same reasons, volumes in demand deposits were virtually stable year-on-year (+0.3%).

Under the combined impact of changes in lending and deposits, the loan-to-deposit ratio was 116% at end-December 2012, stable over the years despite the increase in ceilings on *Livret A* and LDD savings accounts in the fourth quarter of 2012. Since end-June 2011 and the implementation of the adjustment plan, the loan-to-deposit ratio has improved by 13 percentage points.

LCL also maintained strong commercial activity throughout the year. In the retail and small business markets, comprehensive home, car and health insurance policies were up 16.6% year-on-year, while the number of cards remained stable thanks to a good performance in high-end cards, and despite a reduction in the take-up of credit cards following the adoption of a new law on consumer credit.

Revenues were €3.9 billion, an increase of 1.8% year-on-year thanks to firmer margins on loans, offsetting the decline in margins on deposits, penalised by an unfavourable yield curve. Overall, the interest margin rose by 7.2% year-on-year. By contrast, fee et commission income was down 4.9% year-on-year, adversely impacted by lower volumes of customer securities transactions, which were down 23.3% over the same period, due mainly to the falling popularity of UCITS.

Operating expenses, excluding the impact of the new taxes introduced under the amended Finance Law (including the doubling of the systemic tax and the increase in the employer tax on incentive and profit-sharing payments from 8 to 20%) and the Social Security Finance Law (enlargement of the base subject to payroll tax), were down 0.5% year-on-year. Including this negative impact, they remained under tight control, rising only 1.0% over the same period. To adjust to the difficult economic environment, LCL has also implemented a programme to improve the management and control of its expenses, giving priority to projects that improve the quality of customer service. Thus, despite the increase in costs, the cost-income ratio declined to 64.8% in 2012, an improvement of 0.5 percentage points year-on-year.

The cost of risk was up 8.6% in 2012 compared with 2011. It represented 33 basis points of average outstanding customer loans over the full year in 2012, a slight increase compared with 2011 (31 basis points of average outstanding customer loans). The rate of impaired outstanding loans improved at 2.4% compared with 2.5% a year earlier. At the same time, the coverage ratio, including collective provisions, increased to 76.8%, compared with 75.5% at end-December 2011.

Net income Group share totalled €663 million in 2012, down 1.8% compared to 2011.

## 3. International retail banking

The 2012 results of International retail banking were marked by Greece and the search for a way to withdraw from the country that would best serve the Group's interests. A solution was found in the third quarter of 2012 and finalised in early 2013.

At the end of the year, the business line was also affected by the impairment of goodwill and investments totalling €1,188 million in net income Group share.

Prior to the impairments over the year and excluding Emporiki, International retail banking's contribution to Crédit Agricole S.A.'s net income Group share was €203 million in 2012, *versus* €280 million the previous year.

| *(in millions of euros)* | 2012 | 2011 *pro forma* | Change 2012-2011 |
|---|---|---|---|
| **Revenues** | **2,472** | **2,380** | **+ 3.9%** |
| Operating expenses and depreciation | (1,707) | (1,568) | + 8.9% |
| **Gross operating income** | **765** | **812** | **(5.8%)** |
| Cost of risk | (522) | (441) | 18.4% |
| Share of net income of equity-accounted entities | (393) | (911) | (56.9%) |
| Net income (loss) on disposal of other assets and change in the value of goodwill | (1,069) | (275) | x 3.9 |
| **Pre-tax income** | **(1,219)** | **(815)** | **49.6%** |
| Income tax charge | (50) | (84) | (40.2%) |
| Net income from discontinued or held-for-sale operations | (3,742) | (1,610) | x 2.3 |
| **Net income** | **(5,011)** | **(2,509)** | **99.7%** |
| **NET INCOME GROUP SHARE** | **(4,880)** | **(2,458)** | **98.5%** |

*Financial years 2011 and 2012 were restated for reclassification of Emporiki as per IFRS 5.*

**In Italy**, the environment was significantly impacted by the measures taken to reduce public indebtedness and to reform the country's economic framework. GDP was down 2% for the year in comparison to 2011. The market is affected by the recession and increased risk.

Under the circumstances, Cariparma held up well due to its status as a regional network based primarily in northern Italy with a limited decline in outstanding loans and a rise in revenues.

In 2012, Cariparma took measures to boost its operational efficiency and reduce costs, such as implementing a voluntary redundancy plan, streamlining its commercial network, adopting a new customer service model and outsourcing its back office. These actions, launched in 2012, will continue in 2013.

### CARIPARMA GROUP'S CONTRIBUTION TO CRÉDIT AGRICOLE S.A.'S INCOME

| *(in millions of euros)* | 2012 | 2011 | Change 2012-2011 |
|---|---|---|---|
| **Revenues** | **1,634** | **1,592** | **2.6%** |
| Operating expenses and depreciation | (1,124) | (1,006) | 11.6% |
| **Gross operating income** | **510** | **586** | **(13.0%)** |
| Cost of risk | (373) | (278) | 34.3% |
| **NET INCOME GROUP SHARE EXCLUDING IMPAIRMENT OF GOODWILL** | **89** | **181** | **(50.9%)** |

At 31 December 2012, outstanding loans totalled €33.4 billion, representing a 1.2% decrease compared to 31 December 2011, while the market fell by 2.9%[1]. Off-balance sheet customer deposits were strong, rising 11%. Total customer deposits reached €35.6 billion, up 5.5% for the year, while the market fell by 3.5%[1]. Thus, Cariparma has excess liquidity that enables it to contribute to the funding of the Group's other activities in Italy.

Revenues increased by 2.6% in 2012, driven by a strong performance in the retail segment.

Expenses were up 11.6% *versus* 2011, with the year being marked by the launch of a voluntary redundancy plan. €118 million was provisioned for this purpose in 2012. Under the plan, a total of 720 redundancies is planned by 2015. Excluding the cost of this plan and the integration costs of new branches in 2011, and on a like-for-like basis, operating expenses increased 0.9% over the year.

The cost of risk increased by 34.3% in 2012 *versus* 2011 to €373 million, as a result of the deterioration of the economic situation. Bad loans represented 8.1% of outstanding loans, with a coverage ratio of 45.4% (*versus* 45.5% at 31 December 2011).

In addition, within a central provision booked in the corporate centre, a €35 million provision was allocated to the risk related to the control of the Bank of Italy currently underway.

Overall, Cariparma's contribution to net income Group share was €89 million in profit for the year, before impairment of goodwill (€852 million), compared to €181 million the previous year.

**In Greece**, efforts made since early 2012 allowed Crédit Agricole to successfully negotiate an agreement to sell Emporiki to Alpha Bank.

Crédit Agricole S.A. announced that it has signed an agreement on 16 October for the sale of the entire share capital of Emporiki to Alpha Bank. After the deal was approved by the relevant authorities, the sale took place on 1 February 2013.

The transaction resulted in a net loss Group share of -€706 million in Crédit Agricole S.A.'s consolidated financial statements in the fourth quarter of 2012. This figure includes writebacks of funding provisions that are no longer applicable as Crédit Agricole CIB acquired assets in Emporiki's shipping portfolio representing USD1.4 billion and Emporiki repaid the remaining funding to Crédit Agricole S.A. After the sale, Emporiki no longer receives any funding from Crédit Agricole S.A. On the other hand, the tax effects forecast in the third quarter of 2012, and up to 18 February 2013, were modified following the French Government's decision to apply the new rules of non-tax deductibility (*loi de finance rectificative* of 16 August 2012) to losses resulting from the disposal of shares issued at the time of Emporiki's capital increase on 17 July 2012.

**Outside Italy and Greece,** the Group's other entities reported balanced loan-to-deposit ratios at 31 December 2012, with €10.2 billion in on-balance sheet customer deposits for a total of €9.8 billion in gross loans outstanding. Of these entities, Crédit Agricole Bank Polska had the largest proportion of revenues, at 37%, followed by Crédit du Maroc (22%), Crédit Agricole Egypt (22%), Crédit Agricole Ukraine (13%) and Crédit Agricole Srbija (4%).

Net income Group share of the International retail banking entities other than those in Italy and Greece amounted to €115 million, up 15% for the year, thanks to strong operational performance. This figure includes €33 million for the Ukrainian subsidiary, €37 million for the Polish subsidiary, €23 million for Crédit du Maroc and €21 million for Crédit Agricole Egypt. It should be noted that as a result of the downturn in Egypt's economic situation, €69 million in goodwill were impaired on the Egyptian subsidiary.

*(1) Source: Associazione Bancaria Italiana.*

As regards investments in equity-accounted entities, Crédit Agricole S.A. restructured its investment in BES. During the first half of 2012, its investment in BES Vida was sold for €225 million while taking part in BES' capital increase, in proportion to Crédit Agricole S.A.'s rights, for the same amount. During the fourth quarter, the value of the 20.2% stake in BES was written down by €267 million.

In addition, Crédit Agricole S.A. withdrew from certain subsidiaries or investments.

Concerning Bankinter, Crédit Agricole S.A. implemented a divestment strategy. Crédit Agricole S.A.'s stake in Bankinter fell to below 20% during the third quarter of 2012 after the Spanish bank carried out a capital increase in which Crédit Agricole S.A. did not participate. This dilution, which coincided with its business refocusing strategy, led Crédit Agricole S.A. to review the criteria for its significant influence on Bankinter and to deconsolidate the latter. As a result of this deconsolidation, the corresponding securities were recognized as available-for-sale securities and a €193 million loss was recorded. This strategy was pursued during the second half of the year with disposals of other securities and, in January 2013, with the announcement that 5.2% of the capital of Bankinter would be sold under a private placement with institutional investors, bringing Crédit Agricole S.A.'s stake down to 9.9%.

Lastly, BNI Madagascar was recognised as a non-current asset held for sale.

## 4. Specialised financial services

| *(in millions of euros)* | 2012 | 2011 *pro forma* | Change 2012-2011 |
|---|---|---|---|
| **Revenues** | **3,445** | **3,926** | **(12.3%)** |
| Operating expenses and depreciation | (1,601) | (1,744) | (8.2%) |
| **Gross operating income** | **1,844** | **2,182** | **(15.5%)** |
| Cost of risk | (2,105) | (1,606) | 31.1% |
| Share of net income of equity-accounted entities | 19 | 14 | 37.9% |
| Change in the value of goodwill | (1,495) | (247) | n.m. |
| **Pre-tax income** | **(1,737)** | **343** | **n.m.** |
| Income tax charge | (101) | (242) | (58.5%) |
| Net income from discontinued or held-for-sale operations | - | 5 | n.m. |
| **Net income** | **(1,838)** | **106** | **n.m.** |
| **NET INCOME GROUP SHARE** | **(1,613)** | **91** | **n.m.** |

In 2012, the **Specialised financial services business lines** achieved its targets under the adjustment plan by continuing to down-size its business and to diversify its funding sources.

As a result, the consolidated outstandings of Crédit Agricole Consumer Finance (CACF) stood at €47.6 billion at 31 December 2012, down by €4.6 billion since June 2011. Agos Ducato accounted for €1.4 billion of the reduction in outstandings between June 2011 and December 2012. The organic decrease in outstandings represented approximately €3.6 billion over the period, due to a slowdown in the consumer credit market in Europe coupled with deliberate efforts to tighten credit approval criteria and the discontinuation of insufficiently profitable partnerships. Furthermore, disposals of bad loans represented €1.1 billion over the course of the plan, including one transaction carried out by Agos Ducato in late 2012 concerning a fully provisioned portfolio of €0.5 billion. Outstandings managed on behalf of third parties dropped by €0.6 billion since June 2011 while outstandings managed for Crédit Agricole Group remained stable. Thus, total outstandings managed by CACF were €73.2 billion at 31 December 2012, down by €5.2 billion since June 2011. Their geographical breakdown was relatively unchanged, with 38% of outstandings in France, 34% in Italy and 28% in other countries.

In terms of diversification of external sources of funding, CACF was able to secure over €7 billion in additional funding since June 2011. Thus, retail deposits in Germany totalled more than €1 billion at 31 December 2012 while €5.6 billion were raised though securitisations and bond issues.

At the same time, Crédit Agricole Leasing and Factoring (CAL&F) also intensified its efforts under the adjustment plan, both to shrink its outstandings and to diversify its external funding. As a result, at 31 December 2012, outstandings under management in lease finance were 6.5% lower than at 31 December 2011 and amounted to €18.6 billion. In France, they declined by 8.2% over the period. Factored receivables amounted to €56.3 billion at 31 December 2012, down by 6.0% from 31 December 2011, with nearly half of the decline coming from international operations.

This down-sizing policy affected the business line's revenues, which were down 12.3% in 2012 in comparison with 2011. Operating expenses followed suit, falling 8.2% over the same period. The cost-income ratio thus stood at 46.5%.

Cost of risk rose 31.1% over the year to €2.1 billion, as a result of additional provisions totalling €364 million recorded for the Italian consumer finance subsidiary Agos. Adjusted for these additional provisions, the cost of risk increased by only 8.4% between December 2011 and December 2012. The impact of the adjustment plan, a €77 million cost of risk writeback, partially offset this increase of provision on Agos.

In 2012, goodwill impairments represented almost €1.5 billion, all of which can be attributed to the consumer finance business line.

Overall, on account of the additional provisions for Italy, the costs of the adjustment plan and goodwill impairments, the business line recorded a net loss Group share of -€1,613 million.

In **consumer finance**, the down-sizing of this business line, the impact of the additional provisioning for Agos and goodwill impairments caused CACF to record a net loss Group share of €1,616 million for the year 2012.

The decline in the business line's activity led to a 13.3% drop in revenues between 2011 and 2012, to €2,907 million. In this context, the measures taken by CACF to strengthen its operational efficiency resulted in an 8.0% drop in expenses over the same period, as well as an automatic increase in the cost-income ratio, which stood at 44.1% at end-2012.

Total cost of risk rose sharply *versus* 2011 to €2,105 million (+ 31.1%), reflecting a variety of circumstances and trends. CACF France continues to steadily improve and posted its lowest cost of risk since the third quarter of 2008. All international subsidiaries except Agos also saw their overall cost of risk fall by 1.8% between end-2011 and end-2012. Conversely, current cost of risk remained high for Agos in 2012 on account of additional provisions totalling €364 million over the year. Significant measures have been taken to reform Agos' governance – such as changes within its Board of Directors – and its risk management and collection – with various projects launched and reinforcement of the dedicated teams. At 31 December 2012, Agos' impaired loans stood at 13.5% of its total outstandings, with a high coverage ratio of 96.4%, including collective provisions.

CACF recognized a total of €1,495 million in goodwill impairments in 2012.

In **lease finance and factoring,** CAL&F's net income Group share was €4 million for the year 2012, compared to a net loss of €257 million in 2011.

In conjunction with the slowdown in business, revenues fell by 6.1% between 2011 and 2012 to €538 million. Expenses decreased significantly over the period at - 9.3%, which made it possible to limit the decline in gross operating income to 1.3%. The cost-income ratio improved by 2.1 points over the twelve-month period to 59.1% for the year. At €131 million, the cost of risk was down by 37.0% over the year. Lastly, CAL&F's tax charge increased by a factor of 2.5 between 2011 and 2012 due to depreciation of deferred tax assets totalling €30 million in 2012 and non-activation of deferred tax assets for Emporiki Leasing from 1 January 2012.

## 5. Savings management

The Savings management business line includes asset management, insurance, private banking and investor services.

At 31 December 2012, the business line's funds under management had risen by €83.3 billion over the year, with positive net inflows over the year of €15.2 billion for Amundi and €1.9 billion for CA Assurances. In addition to strong business momentum across all segments, the business line benefited from highly favourable market and exchange rate effects (+ €68.9 billion). Total funds under management amounted to €1,084.4 billion at 31 December 2012.

The business line reported €1,720 million in net income Group share for the year 2012, up 80.9% from the previous year, which induded the negative impact of the European bailout plan for Greece (€712 million in net income Group share in 2011). In 2012, net income Group share was again affected by this bailout plan, for -€35 million. The cost-income ratio was low at 46.5% in 2012, down 1.3 points from 2011.

| *(in millions of euros)* | 2012 | 2011 *pro forma* | Change 2012-2011 |
|---|---|---|---|
| **Revenues** | **5,160** | **5,243** | **(1.6%)** |
| Operating expenses and depreciation | (2,401) | (2,508) | (4.3%) |
| **Gross operating income** | **2,759** | **2,735** | **0.9%** |
| Cost of risk | (55) | (1,075) | (94.9%) |
| Share of net income of equity-accounted entities | 10 | 11 | (3.7%) |
| Net gains (losses) on other assets | 28 | (1) | n.m. |
| **Pre-tax income** | **2,742** | **1,670** | **64.2%** |
| Income tax charge | (848) | (620) | 36.8% |
| **Net income** | **1,894** | **1,050** | **80.4%** |
| **NET INCOME GROUP SHARE** | **1,720** | **951** | **80.9%** |

In asset management, Amundi benefited from high inflows of €15.2 billion plus a very favourable market effect (+ €54 billion). As a result, it saw its assets under management increase by 10% over the course of the year 2012, reaching €727.4 billion at the end of the year. The aggressive policy taken towards institutional, corporate and third-party distributors paid off, more than offsetting the outflows from the networks. New inflows excluding branch networks achieved record-breaking levels at €26 billion.

In the institutional and insurers segment, inflows amounted to €18.8 billion, driven primarily by Group and non-Group insurers and French pension plans. In the corporates segment, Amundi significantly strengthened its positions in France and abroad: inflows into employee savings schemes came to €5.2 billion, increasing Amundi's market share by more than three points in France to over 40%. For its other products, Amundi brought in €3.1 billion in inflows and significantly increased its penetration rate among major European corporations. With third-party distributors, Amundi recorded €2.0 billion in net inflows thanks to a very strong performance in Europe and Japan, as well as with global distributors through its expertise in volatility, bonds (especially high yield and global) and long-term money market investments.

As for the branch networks, while flows remained negative in Europe (-€10.8 billion over the year), outflows slowed significantly as a result of less pressure on on-balance sheet customer savings. Joint ventures in India, Korea and China continued to grow. Amundi thus reinforced its positions in France and abroad with significant increases in its market share. In France its market share grew almost 2 points to 26.6%. Amundi is the second-largest deposit gatherer on the European market.

In terms of expertise, the year 2012 affirmed the success of the money market line, thanks to secure products that offer strong management performance. In Europe, Amundi was No. 1 in money market products for the year, as well as No. 1 in assets under management since June 2012, with a 12.2% market share. For ETFs, an area launched only four years ago, assets under management amounted to €8.9 billion at end-2012, placing Amundi among the European top players in this market after several consecutive years of inflows that outperformed the market. The large inflows seen on products such as the volatility, high yield, global bond or real estate instruments are also testament to Amundi's strong performance in active management.

Amundi posted revenues of €1,456 million in 2012, up 4.6% over 2011, including the gain on the disposal of Hamilton Lane (€60 million). The disposal of this investment at the beginning of the year completed Amundi's efforts to streamline its operations in the United States. Excluding the gain, Amundi's revenues remained stable in relation to 2011 despite a downward trend in margins within the asset management sector. High performance-based commissions, 2.3 times higher than in 2011, almost entirely offset the decline in other asset management products affected by the weakening of the product mix. Revenues also benefited from the positive trends seen in the financial markets.

Amundi kept a tight rein on its costs: operating expenses fell by 1.4%, despite the tax increases affecting employee expenses. As a result of these factors, gross operating income rose by +2.4% to €688.9 million, excluding the disposal of Hamilton Lane, with a cost-income ratio of 55.0%.

Amundi posted a total of €480 million in net income in 2012, up 16.3% from 2011. Its contribution to net income Group share is €351 million (+16.5%).

As for **Investor services,** CACEIS continued to show strong momentum since the beginning of the year, with organic growth based on genuine commercial successes in its two business activities, custody and administration. In addition, CACEIS benefited from a favourable market effect, in both its fixed income business (decrease in long-term rates) and its equity business (CAC 40 up by 15% since December 2011). Consequently, assets under custody rose by 10.3% over the year to €2,491 billion, while assets under administration increased by 20.3% to €1,251 billion over the same period.

Revenues increased by 3.3% under the combined effect of pressure on margins and tightening spreads on cash, especially at the end of the year. Gross operating income increased by 8.2% as a result of virtually unchanged operating expenses (+1.1%). Net income Group share was €148 million, up 7.6%.

**Private banking** held up well amidst the financial crisis. Assets under management in private banking totalled €132 billion at 31 December 2012, up by 4.7% from end-2011, owing to a positive market and currency impact. Outflows amounted to €2.7 billion over the year, in a general climate unfavourable to off-balance sheet savings and following the sale of non-core assets in Latin America. However, over the past year, the pace of these outflows has slowed in every quarter. As a result, in France, assets under management rose by 5.6% over end-2011 to €60.4 billion. Internationally, they increased by 3.9% over the same period to €71.8 billion.

Revenues were up 5.4% in 2012 to €712 million, due especially to the increase in assets under management. Operating expenses were down 0.7% at €516 million, due in part to a €17 million non-recurring reduction in expenses related to a pension fund (+ €14 million impact after taxes). Net income Group share was €139.2 million, up 23.4% from 2011.

In **Insurance,** total premium income was €23.2 billion for the year 2012, as a result of mixed activity levels and trends across the various markets.

Life insurance (restated for BES Vida which was sold to BES in the second quarter of 2012) delivered very good results after weathering difficult market conditions at the beginning of the year. In France, business grew sharply during the fourth quarter but was down 11% over the year as a whole, in line with the market (source: FFSA). Internationally, business grew by 7% over the year. All in all, owing primarily to positive net new inflows of €1.9 billion in 2012, life insurance volumes rose by 4% year-on-year to nearly €225 billion euros at 31 December 2012. At end-2012, 18.5% of these funds were in unit linked accounts.

Property & casualty insurance continued to grow, both in France and internationally, where premium income increased by 6% between 31 December 2011 and 31 December 2012. In France, premium income amounted to almost €2.5 billion for the year 2012, up 7%, while the market grew by 4% over the same period (source: FFSA). The claims ratio for the business line (net of reinsurance) remained under control, at 70.1% in 2012.

Although home loans continued to support this area in 2012, the creditor insurance business declined by 6.0% due to the slowdown in the consumer credit market. Premium income totalled €964 million in 2012.

On an international level, 2012 was marked by two changes in the scope of consolidation. In April 2012, Crédit Agricole Assurances (CAA) sold BES Vida, which had €5.4 billion in funds under management at 31 December 2011, to BES. In addition, CAA increased its stake in CA Vita to 100% with the purchase, on 30 March 2012, of the shares held by Cariparma. In international business, total premium income (in life insurance and property & casualty insurance, excluding creditor insurance and restated for BES Vida) continued to grow. It rose by 7.0% between December 2011 and December 2012 to €3.5 billion, while property & casualty insurance saw its premium income increase by 6.0% over the same period.

Investments are managed prudently. As such, €7.4 billion in sovereign debt of peripheral countries was sold in 2012 so that, at end-2012, CAA's aggregate exposure to Italy, Spain, Ireland and Portugal was less than €8 billion, compared with €15.3 billion at end-2011. Exposure to Greek sovereign debt was nil at end-2012 (*versus* €1.9 billion one year earlier). In addition, fixed income products continue to account for a predominant share of investments in euros (79.4% of the total at end-2012). At the same time, short-term investments accounted for 6.9%, real estate for 4.9% (buildings, shares in property and property investment companies, etc.), alternative investments for 1.6%, other shares (adjusted for hedging) for 5.5%, and other products (private equity, convertible bonds, etc.) for 1.7%. Lastly, in 2012, Crédit Agricole Assurances confirmed its major role in financing of the French economy alongside the Group's banks by offering financing solutions to corporate customers and local community institutions. CAA thus invested a total of over €10 billion in the French economy, including €3 billion in innovative financing, mainly in the form of loans to local community institutions (€1.0 billion) and underwriting of bond issues by unrated companies (€1.7 billion).

CAA's revenues fell by 8.9% between December 2011 and December 2012 due to an unfavourable basis of comparison and the exclusion of BES Vida from CAA's scope of consolidation in the second quarter of 2012. Operating expenses fell apparently by 15.5% year-on-year, but remained stable excluding one-off impacts related to the treatment of Greek sovereign debt on the calculation basis of certain taxes (negative impact of €69 million in 2011 followed by a positive effect of €45 million in 2012). Cost of risk in 2012, as in 2011, is attributable to the European bailout plan for Greece; however, it represented only €51 million in 2012 *versus* €1,079 million in 2011. Lastly, the Insurance business line recorded a €28 million gain on the sale of BES Vida shares to BES in 2012.

Net income Group share thus amounted to €1,081 million for the year 2012.

## 6. Corporate and investment banking

*NB*: All figures for 2011 are presented *pro forma* of the transfers from financing activities and capital markets and investment banking to discontinuing operations during 2012 (see press release from 5 October 2012). They are also *pro forma* of the reclassification of CA Cheuvreux and CL Securities Asia (CLSA) as discontinued operations (IFRS 5) in 2012.

Corporate and investment banking pursued its transformation strategy in keeping with the adjustment plan announcements made on 14 December 2011. In order to adapt to constraints related to liquidity, risk weighted assets and equity, the adjustment plan led Crédit Agricole CIB to refocus its efforts on the businesses where it shows excellency for a portfolio of strategic customers (large corporates and financial institutions) and on major financial centres representing 85% of global GDP. The decision was made to discontinue equity derivative and commodities activities and to sell its equity broking businesses. Thus, in 2012, Crédit Agricole CIB finalised the sale of CLSA to CITICS and signed an agreement to sell Cheuvreux to Kepler. These transactions will be finalised in 2013 after the regulatory authorities have given the necessary approvals.

| *(in millions of euros)* | 2012 | 2012 Cost of the adjustment plan | 2012 Impact of the revaluation of debt and loan hedges | 2012 restated[(1)] | 2012[(1)] o/w restated ongoing activities |
|---|---|---|---|---|---|
| **Revenues** | **3,188** | **(477)** | **(855)** | **4,520** | **4,358** |
| Operating expenses and depreciation | (2,890) | - | - | (2,890) | (2,596) |
| **Gross operating income** | **298** | **(477)** | **(855)** | **1,630** | **1,762** |
| Cost of risk | (468) | (151) | - | (317) | (292) |
| **Operating income** | **(170)** | **(628)** | **(855)** | **1,313** | **1,470** |
| Share of net income of equity-accounted entities | 165 | - | - | 165 | 165 |
| Net gains (losses) on other assets | 39 | - | - | 39 | 37 |
| Change in the value of goodwill | (834) | - | - | - | - |
| **Pre-tax income** | **(800)** | **(628)** | **(855)** | **1,517** | **1,672** |
| Income tax charge | 146 | 227 | (293) | (374) | (428) |
| Net income from discontinued or held-for-sale operations | (249) | - | - | - | - |
| **Net income** | **(903)** | **(401)** | **(562)** | **1,143** | **1,244** |
| **NET INCOME GROUP SHARE** | **(880)** | **(392)** | **(549)** | **1,130** | **1,211** |

*(1) Restated for revaluation of debt, loan hedges, impacts of the adjustment plan, reclassification of CA Cheuvreux and CL Securities Asia (CLSA) as discontinued operations (IFRS 5) and changes in the value of goodwill.*

In an environment still affected by the financial crisis, the year 2012 marked a strategic turning point for Crédit Agricole CIB as the first impacts of the adjustment plan took effect and its "Distribute to Originate" model, focusing on distributing to and serving its key customers, was rolled out. Excluding the significant impact of non-recurring items, operating income was satisfactory, on par with that of 2011 despite the effects of the adjustment plan. This bears testament to the resilience and pertinence of the new model in a context of reduced liquid resources.

Excluding equity brokerage activities, the capital markets segment performed very well after a difficult year in 2011. Financing activities saw a drop in revenues as a direct result of the liquidity constraints under the adjustment plan.

Corporate and investment banking recorded a net loss Group share for the year 2012 of -€880 million, *versus* -€147 million in 2011. These figures primarily reflect the impacts of the adjustment plan, which took a -€392 million toll on net income Group share in 2012, *versus* -€334 million in 2011 (excluding changes in the value of goodwill).

It also encompasses a €549 million expense recognised under net income Group share for the revaluation of debt and loan hedges related to the easing of credit spreads. For purposes of comparison, this figure was €456 million in income for the year 2011.

The year 2012 also saw a €826 million goodwill impairment in net income Group share. This impairment stems mainly from the impact of more stringent regulatory requirements. It pertains to both financing activities and investment banking, excluding brokerage, (€466 million) and Newedge (€360 million), of which the restructuring, announced in December 2012, led to the splitting of its trade execution and clearing businesses.

These non-recurring items represented just over €1.7 billion for the year 2012, to which may be added the estimated losses on the ongoing disposal of CA Cheuvreux (-€187 million in net income Group share) and the net operating loss of CLSA, reclassified as a discontinued operation (IFRS 5) for the year 2012 (-€56 million). Adjusted for these various items, 2012 net income Group share stands at €1,130 million, of which €1,211 million for ongoing activities alone.

Adjustment plan costs for the year 2012 stem mainly from discontinuing operations (net loss Group share of -€321 million) related to disposals of the CDO and RMBS portfolios and the review of impairment assumptions for CDOs in the banking book. Excluding the impact of the adjustment plan, discontinuing operations represented a cost of only €81 million in 2012, compared to -€416 million in 2011.

## Ongoing operations

| *(in millions of euros)* | 2012 | 2012(1) | 2011(1) | Change 2012(1)-2011(1) |
|---|---|---|---|---|
| **Revenues** | **(3,389)** | **4,358** | **4,508** | **(3.3%)** |
| Operating expenses and depreciation | (2,596) | (2,596) | (2,440) | 2.8%(2) |
| **Gross operating income** | **793** | **1,762** | **2,068** | **(14.8%)** |
| Cost of risk | (292) | (292) | (328) | (11.0%) |
| **Operating income** | **501** | **1,470** | **1,740** | **(15.5%)** |
| Share of net income of equity-accounted entities | 165 | 165 | 134 | 22.7% |
| Net gains (losses) on other assets | 37 | 37 | 1 | n.m. |
| Change in the value of goodwill | (834) | - | - | n.m. |
| **Pre-tax income** | **(131)** | **1,672** | **1,875** | **(10.9%)** |
| Income tax charge | (94) | (428) | (558) | (23.4%) |
| Net income from discontinued or held-for-sale operations | (249) | - | - | n.m. |
| **Net income** | **(474)** | **1,244** | **1,317** | **(5.6%)** |
| **NET INCOME GROUP SHARE** | **(478)** | **1,211** | **1,284** | **(5.7%)** |

(1) *Restated for revaluation of debt, loan hedges, impacts of the adjustment plan, reclassification of CA Cheuvreux and CL Securities Asia (CLSA) as discontinued operations (IFRS 5) and changes in the value of goodwill.*

(2) *At constant exchange rates.*

Ongoing activities in 2012 recorded a net loss Group share of -€478 million *versus* + €383 million in 2011.

Adjusted for impairment of goodwill (-€826 million), revaluation of debt and loan hedges (-€549 million), adjustment plan costs related to loan disposals (-€71 million) and reclassification of CA Cheuvreux's and CLSA's income as discontinued operations (IFRS 5) (-€243 million), net income Group share for ongoing activities stood at €1,211 million, down slightly by 5.7% compared to 2011.

Restated revenues totalled €4,358 million, down slightly by 3.3% year-on-year. These results reflect the strong performance by capital market activities in 2012 and a limited decline in financing activities in a climate of tight liquidity. At constant exchange rates, operating expenses declined steadily but were negatively impacted throughout the year by taxes and social measures enacted in the summer of 2012 representing €37 million (doubling of the systemic tax and increase in the tax on salaries) as well as non-recurring items (costs related to the rationalisation of the real estate portfolio, IT expenses, etc.).

The cost-income ratio thus stands at 59.6%, up 5.5 points from 2011.

Net gains (losses) on other assets amounted to +€37 million over the year 2012, including the disposal of the registered office in La Défense for €7 million and of the Turkish subsidiary CA Yatirim Bankasi Turk AS for €18 million. The residue stems mainly from gains earned on the disposal of securities.

The -€249 million net loss from discontinued or held-for-sale operations includes the estimated impact of the ongoing sale of CA Cheuvreux as well as the operating income of CLSA in accordance with IFRS 5.

The cost of risk in its core business activities continues to fall, illustrating the quality of the portfolio as well as the Group's prudent risk management strategy.

## Financing activities

| *(in millions of euros)* | 2012 | 2012 Cost of the adjustment plan | 2012[(1)] | 2011[(1)] | Change 2012[(1)]-2011[(1)] |
|---|---|---|---|---|---|
| **Revenues** | **2,092** | **(114)** | **2,128** | **2,538** | **(16.2%)** |
| Operating expenses and depreciation | (947) | - | (947) | (868) | 6.6%[(2)] |
| **Gross operating income** | **1,145** | **(114)** | **1,181** | **1,670** | **(29.3%)** |
| Cost of risk | (293) | - | (293) | (319) | (8.2%) |
| **Operating income** | **852** | **(114)** | **888** | **1,351** | **(34.2%)** |
| Share of net income of equity-accounted entities | 164 | - | 164 | 134 | 22.6% |
| Net gains (losses) on other assets | 26 | - | 26 | 2 | x 12.8 |
| **Pre-tax income** | **1,042** | **(114)** | **1,078** | **1,487** | **(27.5%)** |
| Income tax charge | (278) | 41 | (291) | (485) | (40.0%) |
| **Net income** | **764** | **(73)** | **787** | **1,002** | **(21.4%)** |
| **NET INCOME GROUP SHARE** | **749** | **(71)** | **771** | **980** | **(21.3%)** |

*(1) Restated for loan hedges, excluding the cost of the adjustment plan.*

*(2) At constant exchange rates.*

Financing activities were impacted this year by the new Distribute to Originate model, which involves strategic adjustments to adapt to new economic and regulatory requirements (less buoyant markets, increased competition, implementation of Basel 3, etc.) with the aim of maintaining its origination volumes while boosting its distribution capacities. This new model draws particularly on the worldwide expertise of the structured finance, corporate and loan syndication teams.

Crédit Agricole CIB modified its organisational structure accordingly and created a new business line, "Debt Optimisation & Distribution" (DOD). Business relationships with financial institutions were strengthened in order to develop partnerships. Commercial banking activities were grouped with those of export finance and international trade in order to offer clients comprehensive financing that covers the entire business cycle.

Furthermore, throughout the year 2012, the targets of the adjustment plan in terms of reduced liquidity consumption continued to affect most **Financing activities**.

Facing a difficult market environment, structured finance posted lower revenues as a result of the reduction in outstandings; nevertheless, it managed to retain its competitive positions. Crédit Agricole CIB thus maintained its No. 2 position in project financing in the EMEA region and moved up to fourth place in project finance in the Americas region (source: Thomson Financial).

Revenues from structured finance amounted to €1,154 million for the year 2012 compared with €1,382 million for the year 2011 (restated for loan hedges and impacts of the adjustment plan).

Despite its status as leader in the French syndication market (source: Thomson Financial), commercial banking saw its earnings fall as a result of intense competition in the bank loan market, especially in Asia (where banks do not face the same liquidity constraints), and of corporate clients' preference for bond issues rather than loans.

Likewise, the efforts made since 2011 to reduce assets under the adjustment plan continued throughout 2012 at a somewhat slower pace but on nonetheless satisfactory terms. The loans sold from the financing activities portfolio, totalling €3.9 billion in 2012, had a negative impact of €114 million on revenues (€71 million on net income Group share). A total of €10.3 billion in loans have been sold since the adjustment plan was launched at an average discount of 2.3%.

Regarding loan hedges, €78 million were recorded in revenues in 2012 due to the drop in credit spreads during the year. As a comparison, this figure was equal to + €40 million for the year 2011.

Over the year, cost of risk amounted to -€293 million; this figure comprises relatively small specific reserves on a limited number of loans.

Overall, net income Group share for 2012 for financing activities was €749 million, or €771 million after being restated for loan hedges and excluding the cost of the adjustment plan.

## Capital markets and investment activities

| *(in millions of euros)* | 2012 | 2012 Impairment of goodwill | 2012[1] | 2011[1] | Change 2012[1]-2011[1] |
|---|---|---|---|---|---|
| **Revenues** | **1,297** | **-** | **2,230** | **1,970** | **13.2%** |
| Operating expenses and depreciation | (1,649) | - | (1,649) | (1,572) | 0.7%[2] |
| **Gross operating income** | **(352)** | **-** | **581** | **398** | **45.9%** |
| Cost of risk | 1 | - | 1 | (9) | n.m. |
| **Operating income** | **(351)** | **-** | **582** | **389** | **49.4%** |
| Share of net income of equity-accounted entities | 1 | - | 1 | - | n.m. |
| Net gains (losses) on other assets | 11 | - | 11 | (1) | n.m. |
| Change in the value of goodwill | (834) | (834) | - | - | n.m. |
| **Pre-tax income** | **(1,173)** | **(834)** | **594** | **388** | **52.7%** |
| Income tax charge | 184 | - | (137) | (73) | 86.4% |
| Net income from discontinued or held-for-sale operations | (249) | - | - | - | n.m. |
| **Net income** | **(1,238)** | **(834)** | **457** | **315** | **44.9%** |
| **NET INCOME GROUP SHARE** | **(1,227)** | **(826)** | **440** | **304** | **44.5%** |

*(1) Restated for revaluation of debt, impacts of the adjustment plan, reclassification of CA Cheuvreux and CL Securities Asia (CLSA) as discontinued operations (IFRS 5) and changes in the value of goodwill.*

*(2) At constant exchange rates.*

Capital markets and investment activities posted a 13.2% increase in revenues for the year 2012. The business segment was driven by a solid performance by the capital markets activities in a context of easing credit spreads and lower long-term interest rates.

In capital markets, bond activities performed particularly well due to the upswing in business in debt markets and the increase in issue volumes. Crédit Agricole CIB ranks second worldwide for euro issues by financial institutions and fourth worldwide for all euro issues combined. The bank rose to third place in EMTN private placements in euros. It should also be noted that the Group is leader on the French corporate bond market (Dealogic) and was awarded "Best Uridashi Dealer 2012" (bond issues in Japan).

Crédit Agricole CIB also became the European leader in the socially responsible bonds market: the bank broke new ground by arranging four socially responsible bond issues.

In investment banking, the socially responsible mergers and acquisitions teams won major advisory mandates, such as for the acquisition of Vermandoise de Sucreries by Cristal Union and the acquisition of CFAO by Toyota Tsusho Corporation, reinforcing Crédit Agricole CIB's position as number one in public takeover offers in the French market in 2012 (source: Thomson). In Equity Capital Markets, Crédit Agricole CIB finalised capital increases (Alstom) or convertible bond issues (Faurecia and Unibail), as well as employee savings operations, thus confirming its position as No. 1 in employee savings schemes in France.

The year 2012 also reflects Crédit Agricole CIB's refocusing of its business. For instance, it sold off part of its brokerage business:

- agreement finalised with Kepler Capital Markets for the merger between CA Cheuvreux and Kepler;
- on 25 October 2012, Crédit Agricole CIB exercised a put option for the remaining 80.1% of CLSA. The expected gain on the sale of CLSA will not be recognised until the transaction is finalised.

Overall, Capital markets and investment activities recorded a net loss Group share of -€1,227 million for the year 2012. Adjusted for revaluation of debt (-€598 million), goodwill impairments (-€826 million) and the ongoing disposal of CA Cheuvreux and CLSA, net income Group share is equal to €440 million, up by 44.5% from 2011.

VaR remains under control at a mere €10 million at 31 December 2012, down 34% from 31 December 2011.

### Discontinuing operations

| *(in millions of euros)* | 2012 | 2012 Cost of the adjustment plan | 2012(1) | 2011(1) | Change 2012(1)-2011(1) |
|---|---|---|---|---|---|
| **Revenues** | **(201)** | **(363)** | **162** | **(99)** | **n.m.** |
| Operating expenses and depreciation | (294) | - | (294) | (381) | (22.8%) |
| **Gross operating income** | **(495)** | **(363)** | **(132)** | **(480)** | **(72.6%)** |
| Cost of risk | (176) | (151) | (25) | (175) | (85.6%) |
| **Operating income** | **(671)** | **(514)** | **(157)** | **(655)** | **(76.1%)** |
| Net gains (losses) on other assets | 2 | - | 2 | - | n.m. |
| **Pre-tax income** | **(669)** | **(514)** | **(155)** | **(655)** | **(76.5%)** |
| Income tax charge | 240 | 186 | 54 | 205 | (73.6%) |
| **Net income** | **(429)** | **(328)** | **(101)** | **(450)** | **(77.8%)** |
| **NET INCOME GROUP SHARE** | **(402)** | **(321)** | **(81)** | **(416)** | **(80.7%)** |

*(1) Restated for impacts of the adjustment plan.*

Under the adjustment plan, the loan disposals which begun during the fourth quarter of 2011 were stepped up over 2012: almost the entire portfolio of CDOs recognised in the trading portfolio was sold as well as the US RMBSs, representing a total of €5.9 billion (€1.1 billion for the year 2011). These disposals had a -€251 million impact on net income Group share for the year and generated a reduction of around €14 billion in risk weighted assets (under CRD 4), which adds up to the €3.5 billion savings generated by the disposals carried out in the fourth quarter of 2011.

In addition, the transfer of the market risk of the correlation book to Blue Mountain in February 2012 had an impact of €14 billion in risk weighted assets.

Excluding the impacts of the plan, the net loss Group share from discontinuing operations was negligible for the year 2012, at -€81 million *versus* -€416 million in 2011.

Additional information on the nature of the main exposures is presented in the section entitled "Sensitive Exposures based on the Financial Stability Board Recommendations" under the heading "Risk factors".

## 7. Corporate centre

| *(in millions of euros)* | 2012 | 2011 *pro forma* | Change 2012-2011 |
|---|---|---|---|
| **Revenues** | **(1,841)** | **(845)** | **x 2.2** |
| Operating expenses and depreciation | (916) | (981) | (6.7%) |
| **Gross operating income** | **(2,757)** | **(1,826)** | **50.8%** |
| Cost of risk | (275) | (341) | (19.1%) |
| Share of net income of equity-accounted entities | (122) | (26) | x 4.6 |
| Net gains (losses) on other assets | 123 | (4) | n.m. |
| **Pre-tax income** | **(3,031)** | **(2,197)** | **37.9%** |
| Income tax charge | 854 | 796 | 7.2% |
| **Net income** | **(2,177)** | **(1,409)** | **54.5%** |
| **NET INCOME GROUP SHARE** | **(2,305)** | **(1,590)** | **45.0%** |

In 2012, the Corporate centre recorded several non-recurring items.

First, the intragroup elimination of debt instruments issued by Crédit Agricole S.A. and held by the insurance companies on behalf of policyholders under unit-linked contracts generated a negative impact of -€618 million over the year within the Corporate centre (-€405 in net loss Group share). The par value of the securities eliminated was €8.1 billion at 31 December 2012.

Second, the Corporate centre recorded impacts related to actions carried out throughout the year to reduce the risks faced by the Group and to rapidly adapt to the new environment. For instance, a loss of -€93 million on the disposal of securities was recorded at the beginning of the year, followed by €52 million in gains on the sale of Intesa Sanpaolo shares after major impairments at the beginning of the year, and Fransabank shares. Revenues also comprise a gain resulting from a debt buyback operation carried out in February 2012 that generated €864 million in revenues (€552 million in net income Group share).

As a reminder, 2011 revenues included high financial management earnings due to the sharp rise in returns on inflation-indexed assets.

In addition, operating expenses decreased by 6.7% compared to 2011.

Tax includes -€128 million for the impact of the exceptional 7% tax on insurance companies' capitalisation reserve.

Overall, net income Group share for the Corporate centre was a loss of -€2,305 million in 2012, *versus* -€1,590 million in 2011.

# ▶ CRÉDIT AGRICOLE S.A. CONSOLIDATED BALANCE SHEET

At end-2012, Crédit Agricole S.A. had consolidated assets of €1,842.4 billion, compared with €1,723.6 billion at 31 December 2011, an increase of €118.8 billion (+6.9%). The increase was attributable to a substantial rise in the value of financial assets and liabilities at fair value through profit or loss, which only partially offset the decrease in loans (-€69.6 billion) and debt (-€54.0 billion) to customers and credit institutions.

In 2012, the foreign exchange effect on the balance sheet amounted to €3.8 billion. It was negligible in 2011.

## Assets

The main asset items were financial assets at fair value through profit or loss (33.6%), loans and receivables to customers (20.9%) and to credit institutions (17.9%), and available-for-sale financial assets (14.1%). These items accounted together for 86.6% of assets, and recorded the biggest changes in absolute terms over the year (up €98.1 billion in total, including particularly increases of €129.7 billion in financial assets at fair value through profit or loss and €32.3 billion in available-for-sale financial assets, and a decrease of €63.9 billion in loans and receivables to customers and credit institutions).

### Financial assets at fair value through profit or loss

Total financial assets at fair value through profit or loss amounted to €620.0 billion at 31 December 2012, compared with €490.3 billion at 31 December 2011, a year-on-year increase of 26.5%.

The bulk of the portfolio (88.7% or €550.2 billion) consists of financial assets held for trading at fair value through profit or loss, which were up 23.1% over the year at €103.1 billion. It is comprised mainly of the positive fair value of derivative financial instruments (€418.5 billion at end-2012, compared with €349.5 billion at end 2011) and securities received under repurchase agreements (€82.6 billion at end-2012, compared with €21.7 billion at end-2011). At €48.7 billion, securities held for trading were down nearly €27 billion or 35.6% year-on-year. They consist of treasury bills and similar instruments (€34.9 billion), bonds and other fixed income securities (€9.4 billion), and equities and other variable-income securities (€4.4 billion).

The significant increase in the "Derivative instruments" item (19.8% or €69.1 billion) essentially reflects a positive price effect on interest rate swaps, recorded mainly by Crédit Agricole CIB. Securities received under repurchase agreements increased at the same time by €61 billion (multiplying the end-2011 amount by 3.8), while securities held for trading decreased by 35.6% or nearly €27 billion.

The remainder of the portfolio (€69.8 billion or 11.3% of the portfolio) is comprised of securities classified as financial assets at fair value through profit or loss as a result of an option taken by Crédit Agricole S.A.; these securities are mainly assets backing unit-linked contracts in insurance operations. They were up 61.7% compared with 2011, reflecting the improved performance of financial markets in 2012. This change is reflected symmetrically in the mathematical reserves in the liabilities on the balance sheet.

## Loans and receivables to customers and to credit institutions

This category records financial assets not listed on an active market, at fixed- or determinable-income, adjusted for potential impairment provisions. Total outstandings amounted to €715.3 billion, a decrease of 8.2% or €63.9 billion compared with 2011.

**Loans and receivables to customers** (including lease finance operations) totalled €329.8 billion at 31 December 2012, down by 17.4% or -€69.6 billion compared with 31 December 2011. This sharp decline reflects the slowdown in demand for credit in a sluggish European market and the impact of ongoing efforts by Crédit Agricole S.A. Group to adjust to both market and regulatory constraints.

Most of the decline in customer receivables, *i.e.* 52.6% of the decrease, related to the "Securities received under repurchase agreements" item, which stood at €16.7 billion at end-2012, compared with €53.3 billion at end-2011 (-68.7% year-on-year). "Other customer loans", which were down 9.2% over the year at €269.9 billion at end-2012, contributed 39.3% of the overall decline in loans and receivables to customers. There was a significant reduction in activity in securities received under repurchase agreements at Crédit Agricole CIB. Lending activity in the networks, both in France and Italy, was also highly impacted by the difficult macroeconomic environment and the ensuing slowdown in demand. Also noteworthy was the decrease in customer loans at Crédit Agricole CIB and in the consumer finance subsidiaries in France and Italy, in line with the adjustment plan announced in September 2011.

**Loans and receivables to credit institutions** totalled €385.5 billion at 31 December 2012, up 1.5% or €5.7 billion over the year. They included €267.2 billion from internal Crédit Agricole transactions, primarily term deposits and advances from Crédit Agricole S.A. to the Regional Banks. The components of this item reflect the financial mechanisms that govern the relationships between Crédit Agricole S.A. and the Regional Banks.

Amounts due from credit institutions outside the Group rose by 13.1% over the year to €118.3 billion at end-2012. This relative stability reflects both an increase in loans and receivables of 24.6% or €16.7 billion, and a reduction of 15.0% in securities received under repurchase agreements (-€5.4 billion).

Impairments on loans and receivables to customers and credit institutions, on principal and excluding amounts related to lease finance transactions, decreased by 25.7% over the year (€4.2 billion), *Pro forma* the reclassification to IFRS 5 of Emporiki, Cheuvreux and CLSA, the coverage ratio for doubtful loans and receivables moved from 76.9% at end-December 2011 to 75.7% at end-December 2012. This includes €2.9 billion in collective provisions. Excluding collective provisions, the *pro forma* coverage ratio was 57.3%, compared with 55.4% a year earlier.

## Available-for-sale financial assets

Available-for-sale financial assets (net of impairment losses) increased by €32.3 billion (+14.2%) to €259.7 billion between 31 December 2011 and 31 December 2012. Within Crédit Agricole S.A. Group, Predica was the largest holder of such securities, followed by Crédit Agricole S.A. Available-for-sale financial assets are recognised at fair value and recorded in gains and losses, recognised directly in other comprehensive income. If the securities are sold, these changes are transferred to the income statement. Amortisation of any premiums or discounts on fixed income securities is recognised in the income statement using the effective interest rate method.

These assets include bonds and other fixed income securities (€171.0 billion), treasury bills and similar securities (€66.6 billion), shares and other variable-income securities (€16.4 billion) and non-consolidated equity investments (€5.7 billion). The portfolio of bonds and other fixed income securities increased by €23.4 billion (+15.9%) in 2012. Since 2012, non-consolidated equity investments (€5.7 billion at end-2012) have included the stake in Bankinter, while the investment in Intesa Sanpaolo S.p.A has been removed from this item.

At 31 December 2012, after tax unrealised gains on available-for-sale financial assets totalled €8.5 billion (*versus* unrealised losses of €3.8 billion in 2011). They were partially offset by the deferred profit-sharing assets of €6.9 billion after tax of the Group's insurance companies (€1.9 billion at end-2011). The balance of €1.6 billion was recognised in equity.

At 31 December 2012, permanent impairment provisions on available-for-sale assets totalled €2.3 billion (€7.5 billion at 31 December 2011). The difference is mainly due to reversals and use in the amount of €5.8 billion stemming primarily from the impairment of Greek government bonds, recognised in Insurance activities (under the Greek bailout plan).

## Held-to-maturity financial assets

This category encompasses fixed- or determinable-income securities that Crédit Agricole S.A. Group has the intention and capacity to hold to maturity. They are recognised at amortised cost with any premiums or discounts being amortised using the effective interest rate method. Net of impairment, their value fell by €741 million (-4.8%) to €14.6 billion between 2011 and 2012.

## Investments in equity-accounted entities

Total investments in equity-accounted entities were virtually stable at €18.6 billion at end-2012, compared with €18.3 billion in 2011. This mainly reflects the impact of the deconsolidation of Bankinter and impairments on Eurazeo and BES, offset by gains relating particularly to the Regional Banks and Bank Al Saudi Al Fransi.

### Goodwill

At €13.9 billion net, goodwill was down by €3.5 billion year-on-year. The decline in the value of goodwill reflects the deterioration of macroeconomic conditions in the markets in which the Group operates, the tightening of valuation parameters for the entities on which Crédit Agricole S.A. Group carries goodwill, and impairment losses resulting from the implementation of the Crédit Agricole Group adjustment plan. In 2012, contributors to the impairment of goodwill were Crédit Agricole Consumer Finance (CACF) in the amount of €1,495 million, International retail banking in the amount of €1,066 million and Credit Agricole CIB in the amount of €834 million. In respect of CACF, the goodwill of Agos has been reduced to zero, while the partial impairment of goodwill on partnerships with car makers was made solely for technical reasons, namely the tightening of valuation parameters. For Credit Agricole CIB, the impairment was attributable to the cost of the adjustment plan and to Newedge, following the announcement of a reorganisation plan within that entity. Lastly, the impairment of goodwill on International retail banking stemmed chiefly from the deterioration of macroeconomic conditions in Italy.

## Liabilities

Liabilities mainly comprise debts due to credit institutions and customers (35.0%), financial liabilities at fair value through profit or loss (31.1%), technical reserves for insurance contracts (13.3%) and debt securities (8.2%). These items accounted for 87.4% of total liabilities including equity.

### Financial liabilities at fair value through profit or loss

At 31 December 2012, financial liabilities at fair value through profit or loss totalled €572.5 billion, up by €132.8 billion (+30.2%) year-on-year. The increase stemmed primarily from rises of €72.4 billion (+20.9%) in the fair value of derivative financial instruments held for trading and €54.6 billion in securities received under repurchase agreements.

The portfolio consists solely of financial liabilities held for trading. At end-December 2012, it was comprised of derivative financial instruments held for trading (€418.3 billion), securities received under repurchase agreements (€90.6 billion), debt securities (€31.1 billion) and short-sold securities (€32.5 billion).

### Amounts due to customers and credit institutions

Amounts due to customers and credit institutions totalled €644.3 billion at end-2012, a decrease of €54.0 billion over the year (-7.7% compared with 2011).

**Amounts due to credit institutions** totalled €160.6 billion, a decrease of €12.0 billion or 7.0% over the year. They included internal transactions within Crédit Agricole in the amount of €50.1 billion (fund movements resulting from internal financial relationships between the Regional Banks and Crédit Agricole S.A.).

**Amounts due to customers** totalled €483.6 billion at 31 December 2012, down nearly €42.0 billion over the year (-8.0%). They mainly comprised special savings accounts (€226.3 billion), current accounts in credit (€121.2 billion) and other liabilities (€113.0 billion).

Due to internal financial mechanisms within Crédit Agricole Group (see the general framework in the consolidated financial statements section of this document), savings deposits in the Regional Banks (passbook accounts, home-purchase savings schemes, savings bonds and term accounts, time deposits, etc.) are centralised on Crédit Agricole S.A.'s balance sheet. At 31 December 2011, they totalled almost €199 billion, an increase of nearly €8 billion compared with 2011.

The reduction in amounts due to customers was attributable primarily to the decline of €50.5 billion in securities received under repurchase agreements (-70.2%). Due to a good deposit-gathering performance in French retail banking (LCL and Regional Banks) in these products – particularly the *Livret A* savings account – deposits in special savings accounts grew by 2.1% (+€4.6 billion) to €226.3 billion at end-2012. Other amounts due to customers increased by €5.0 billion to €113.0 billion at end-2012, while current accounts in credit were stable compared with 2011 at €121.2 billion (-0.4%). In addition, the promissory notes in favour of the *Caisse de Refinancement à l'Habitat* (Refinancing Fund for Housing, CRH) were reclassified from amounts due to customers to debt securities, contributing to the decline in this item.

### Debt securities

Debt securities (excluding securities at fair value through profit or loss) increased by €2 billion (+1.4% between 2011 and 2012) to €150.4 billion, Crédit Agricole S.A. having reduced over the year the amount of funds raised in the market *via* issues of negotiable debt securities by €11.0 billion (-18.5%) and *via* bond issues by €1.5 billion to €76.7 billion. By contrast, the value of outstanding interbank market instruments was multiplied by 3.4 to €20.6 billion between 2011 and 2012.

### Insurance company technical reserves

Insurance companies' technical reserves increased by 5.9% to €244.6 billion in 2012 compared with 2011. Insurance liabilities remain partially valued under French GAAP, as required by the IAS and IFRS regulations applicable at the reporting date.

### Subordinated debt

Subordinated debt declined by €3.8 billion (-11.3%) to nearly €30.0 billion in 2012, reflecting reductions in both fixed-term and perpetual subordinated debt, which fell by €1.6 billion (-7.4%) and €2.2 billion (-18.0%) to €19.7 billion and €10.0 billion respectively.

### Capital

Equity amounted to €45.2 billion at 31 December 2012, down by €4.1 billion compared with 31 December 2011.

Equity Group share (including net income for the year) amounted to €39.7 billion at end-2012, compared with €42.8 billion at end-2011, down by €3.1 billion over the period. The change stemmed primarily from the following factors:

- the net loss of €6.5 billion in respect of 2012 (-€1.5 billion in 2011);
- the decline of €1.7 billion in consolidated reserves to €13.7 billion at end-2012;
- gains and losses recognised directly in equity of +€1.9 billion at end-2012, compared with -€1.3 billion at end-2011.

### Capital management and regulatory ratios

The amendment to IAS 1 adopted by the European Union on 11 January 2006 requires disclosure of quantitative and qualitative information on the capital of the issuer and on its management: the objectives, policy and procedures of its capital management. This information is provided in Note 3.6 to the financial statements and in "Basel 2 Pillar 3 disclosures", provided below.

## RELATED-PARTY TRANSACTIONS

The main transactions entered into with related parties are disclosed in the consolidated financial statements for the year ended 31 December 2012 in the "General framework - Related parties" section.

## INTERNAL CONTROL

As required by the French Financial Security Act of 1 August 2003, the Chairman of the Board of Directors must report on the preparation and organisation of the Board's work and on the internal control procedures implemented throughout the Company, on a consolidated basis in a report accompanying the management report.

This report, which is published in the manner set out by the *Autorité des Marchés Financiers* (AMF) and is incorporated into this document (section 3, Chairman's report), contains two parts:

- part I deals with the work of the Board of Directors of Crédit Agricole S.A.;
- part II contains information on the organisational principles underpinning the internal control systems and to the risk management and monitoring procedures in effect within Crédit Agricole Group. It contains descriptions of the risk management and permanent controls, non-compliance risk prevention and control and periodical control systems.

## RECENT TRENDS AND OUTLOOK

### Outlook for the first half of 2013

**In the Eurozone, the strategy for resolving the crisis** is reaching its limits in terms of growth. Domestic growth looks set to remain sustainably depressed, amidst high unemployment, wage disinflation or deflation, and a rising tax burden. This trend spans across the Eurozone with the notable exception of Germany, creating a recessive environment as declines in intra-zone markets coincide with flagging regional trade. As such, traction can only come from outside, but Member States look prepared compete fiercely among themselves to win market share. This is compounded by the current strength of the euro, which represents an additional handicap, although the upward trend is likely to reverse during the year to better reflect the weakness of Europe's economic fundamentals (EUR/USD estimated at 1.30 at end-June 2013).

Support factors do exist, however, namely a sustainably accommodative monetary policy, bearing in mind that the ECB has scope to make one final gesture (bringing its policy rate down to 0.5%, an all-time low), and low long-term yields, which will help the debt-reduction process (yields on 10-year German bonds seen at 1.8% mid-year). Projections point to a further decline in economic activity in the Eurozone in 2013 (-0.3% on average over the year), with very muted growth in the North (Germany: +0.4%; France: +0.2%) and another year of recession in the South (Italy: -1.2%; Spain: -1.6%).

A complicating factor will be the busy political agenda, with elections in Italy (February) and Germany (September). While campaign issues and extremist discourse, tinged with populism and euroscepticism, may fuel instability in the markets, Mario Draghi inspires confidence and should be able to prevent panic, now that belief in the survival of the Eurozone is deeply rooted.

**The United States, meanwhile, has opted for growth to ease the debt burden, with fiscal and monetary stimulus bolstering activity.** However, debt now exceeds 100% of gross domestic product, making the issue of fiscal consolidation more pressing. **It will be hard to remove fiscal stimulus in what remains a convalescent economy in which household consumption, the traditional engine of growth, is constrained by the need to rebalance private balance sheets.** The most likely outcome is that Democrats and Republicans will agree on an unambitious deficit reduction programme, with moderate impact on growth and not enough clout to stop the debt spiral. The Federal Reserve is expected to maintain an accommodative bias in its monetary policy, with additional quantitative easing measures as needed to help the Federal Government refinance on favourable terms (target of 2.5% on ten-year notes at end-June). **This should enable growth to remain at roughly 2% in the United States.**

## For Crédit Agricole S.A.

In-depth work was conducted by Crédit Agricole in 2012 to adapt to the new financial and regulatory environment. It allowed the Group to establish its future on new foundations, namely debt control, reduction of risks and prioritisation of organic growth. Crédit Agricole will build on these principles over two important steps: the reinforcement of Crédit Agricole S.A.'s solvency and the elaboration of a new medium-term plan that will be communicated in the autumn of 2013.

Crédit Agricole S.A. will thus strengthen its solvency in 2013 without recourse to a capital increase, by pursuing its work on the rigorous management of its assets and by setting up, with the Crédit Agricole Regional Banks, an extension of the existing internal solidarity mechanism ("Switch"). Crédit Agricole S.A.'s, solvency trajectory within that of Crédit Agricole Group will be disclosed in the medium-term plan.

This plan, established in the current economic, banking and regulatory environment, will determine Crédit Agricole S.A.'s targets within the ten year Group Project. Two major axes will structure this work: on the one hand, the acceleration of universal retail banking projects, based on the strong positions already established in retail banking and savings management; and, on the other, the continued implementation of changes undertaken in specialised business lines.

## Recent events

Events after the reporting period are disclosed in Note 11 to the consolidated financial statements for the year ended 31 December 2012.

# Information on parent company financial statements (Crédit Agricole S.A.)

## ANALYSIS OF CRÉDIT AGRICOLE S.A.'S (PARENT COMPANY) RESULTS

At 31 December 2012, Crédit Agricole S.A.'s revenues totalled €3,790 million, up **€2,605** million from the €1,185 million recorded in 2011. This change was attributable to:

- a reduction in the interest margin, which was down **€51** million over the period on the back of:
  - the €449 million increase in expenses on the Switch deposits put in place on 23 December 2011,
  - the €443 million increase in income following the change in presentation of the London branch's micro-hedging interest rate instruments. These are now included in the interest margin,
  - a fall in interbank rates, which automatically fed into an increase in the net interest expense.
- the "income from variable income securities" heading, which notably includes dividends and related income from our subsidiaries and associated companies, registered a gain of €4,419 million at 31 December 2012. This largely consisted of the following dividends and interim payments: €2,101 million from Crédit Agricole Assurances, €630 million from Crédit Agricole Corporate & Investment Bank, €522 million from LCL, €282 million from the Cooperative Investment Certificates (CCI) and Cooperative Associate Certificates (CCA) issued by the Regional Banks, €171 million from Amundi, €116 million from Delfinances, €115 million from Crédit Agricole Consumer Finance, €107 million from CACEIS and €82 million from Cariparma.

  The **€750** million change seen over the period was largely attributable to:
  - the higher dividends paid by the following entities: €1,196 million from Crédit Agricole Assurances (increase driven by its efforts to optimise its capital structure), €77 million from Delfinances, €65 million from CACEIS,
  - the reduction in the dividends paid by Crédit Agricole Corporate & Investment Bank of €300 million and Crédit Agricole Consumer Finance of €267 million.
- a **€33** million increase in net fees and commissions income on deposits and the €41 million refund in 2012 of the "cheque image" fine following the overturning of the Competition Authority's decision by the Paris Court of Appeal;
- a **€710** million increase in net income from the trading book following:
  - a €65 million increase in profits from the securities portfolio following the improvement in the bond markets (including €32 million on the CA Cheuvreux market-making agreement),
  - a €715 million increase in profits from the trading derivatives portfolio. This increase stemmed from net reversals of provisions on hedging items in the investment portfolio totalling €1,155 million (net reversal of €395 million in 2012 compared with a net charge of €760 million in 2011), offset by a €366 million reduction following the change in presentation of the London branch's micro-hedging interest rate instruments in the trading book in 2011. Finally, the change in the yield curve resulted in a €74 million reduction in interest rate derivatives,
  - a €70 million reduction was recorded from currency and related trading, due primarily to our exposure to the Polish zloty arising from hedging foreign exchange risk with derivatives on our investments in Crédit Agricole Bank Polska (formerly Lukas Bank) and CA EFL totalling €148 million, offset by a €65 million increase from currency derivatives.
- a **€1,168** million increase from the short-term investment portfolio mainly as a result of a €911 positive change following the reversal of impairment losses on fixed income securities in 2012.

At 31 December 2012, Crédit Agricole S.A. recognised €689 million in operating expenses, down **€32** million on 2011. Employee expenses (including provisions) were up €24 million as a result of the lower level of charge-backs for staff at Crédit Agricole Card & Payments (formerly Cedicam). At the same time, external services and other administrative expenses were down €58 million as a result of lower IT expenses connected with the implementation of Group projects in 2011 (Arpège, Nice, Pygmalion). Finally, the "Taxes other than on income or payroll-rated" heading rose €8 million in connection with the Levy tax in the UK, which affected the London branch.

As a result of these changes, gross operating income totalled €3,086 million at 31 December 2012, an increase of **€2,635** million over 2011 (€451 million).

A net charge of €1,004 million was recognised for the cost of risk in 2012, compared with a net charge of €295 million in 2011, representing a year-on-year change of **€709** million. This change was primarily due to a total charge of €942 million recognised in connection with the disposal of Emporiki, which was finalised on 1 February 2013 (including €585 million for the recapitalisation carried out in 2013).

The €7,026 million charge recognised under "Net gains (losses) on fixed assets" broke down as follows:

- A net impairment charge and bad debts written off totalling €5,599 million. This change was primarily due to the €3,612 million recapitalisation of Emporiki in February and July 2012. In addition, charges were recognized following the renewed impairment testing at the following entities: €1,249 million at Crédit Agricole Consumer Finance (this sum includes the losses at the Italian consumer credit subsidiary AGOS), €909 million at Cariparma and €907 million at Crédit Agricole Corporate & Investment Bank. These charges were partly offset by reversals of impairment losses totalling €1,302 million following the disposal of Intesa Sanpaolo and Bankinter (respectively for €1,161 million and €141 million);
- Net gains and losses on the disposal of equity investments and investments in related parties totalled €1,503 million mainly due to losses totalling €1,122 million on Intesa and €278 million on Bankinter;
- Gains on the disposal of fixed assets used in operations totalling €76 million, primarily as a result of the disposal of the Pasteur buildings, which generated a gain of €75 million.

The **€2,047** million year-on-year change in "Net gains (losses) on fixed assets" was largely attributable to:

- The higher impairment losses: €1,540 million at Emporiki, €1,249 million at Crédit Agricole Consumer Finance, €250 million at Cariparma and €167 million at Crédit Agricole Corporate & Investment Bank;
- The reversal of impairment losses on Intesa and Bankinter securities respectively generating positive changes of €1,692 million and €711 million;
- Increases in losses on Intesa and Bankinter respectively totalling €1,071 million and €278 million;
- A €75 million gain in connection with the disposal of the Pasteur buildings.

Tax gains, resulting largely from the tax consolidation mechanism in France, with Crédit Agricole S.A. at the head of the tax group, totalled €767 million in 2012 compared with €1,201 million in 2011, representing a **€434** million year-on-year reduction. This significant change stemmed from the sharp reduction in the total net income of the tax consolidation group.

At 31 December 2012, 1,311 entities had signed tax consolidation agreements with Crédit Agricole S.A., compared with 1,309 at 31 December 2011.

The fund for Bank Liquidity and Solvency Risks (FRBLS) was increased by €34 million in 2012 (compared with €28 million in 2011) and a net charge of €24 million was recognised on the regulated provisions in 2012 (compared with €6 million in 2011).

Overall, the net income of Crédit Agricole S.A. was minus €4,235 million at 31 December 2012, compared with minus €3,656 million in 2011.

## FIVE YEAR FINANCIAL SUMMARY

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| **Equity at year end** *(in euros)* | **6,679,027,488** | **6,958,739,811** | **7,204,980,873** | **7,494,061,611** | **7,494,061,611** |
| Number of shares outstanding | 2,226,342,496 | 2,319,579,937 | 2,401,660,291 | 2,498,020,537 | 2,498,020,537 |
| **Operations and net income for the period** *(in millions of euros)* | | | | | |
| Gross revenues | 33,916 | 20,008 | 16,436 | 17,854 | 21,646 |
| Earnings before tax, employee profit-sharing, depreciation, amortisation and provision expense | 1,296 | 1,227 | 312 | 1,171 | 692 |
| Employee profit-sharing | | 1 | 1 | 1 | 2 |
| Income tax charge | (373) | (544) | (1,136) | (1,201) | (767) |
| Earnings after tax, employee profit-sharing, depreciation, amortisation and provision expense | 249 | 1,066 | (552) | (3,656) | (4,235) |
| Distributable earnings at the date of the General Meeting of Shareholders | 1,002 | 1,044 | 1,081 | | |
| **Earnings per share** *(in euros)* | | | | | |
| Earnings after tax & employee profit-sharing but before depreciation, amortisation and provision expense | 0,750 | 0,760 | 0,600 | 0,949 | 0,583 (1) |
| Earnings after tax, employee profit-sharing, depreciation, amortisation and provision expense | 0,110 | 0,460 | (0,230) | (1,464) | (1,695) (1) |
| Dividend per share | 0,45 | 0,45 | 0,45 | - | - |
| **Employees** | | | | | |
| Average headcount (2) | 3,235 | 3,259 | 3,316 | 3,295 | 2,757 |
| Total payroll for the period *(in millions of euros)* | 232 | 227 | 243 | 239 | 203 |
| Cost of benefits paid during the period (costs and social welfare) *(in millions of euros)* | 143 | 141 | 162 | 117 | 106 |

*(1) Calculated based on the number of shares issued as of the General Meeting of Shareholders on 23 May 2013, or 2,498,020,537 shares.*

*(2) Refers to headquarters employees.*

## RECENT CHANGES IN SHARE CAPITAL

The table below shows changes in Crédit Agricole S.A.'s share capital over the last five years:

| Date and type of transaction | Amount of share capital *(in euros)* | Number of shares |
|---|---|---|
| **Share Capital at 31/12/2007** | **5,009,270,616** | **1,669,756,872** |
| **07/07/2008**<br>Capital increase by share issue for cash<br>*(Shareholders' General Meeting of 21/05/2008)* | +1,669,756,872 | +556,585,624 |
| **Share Capital at 31/12/2008** | **6,679,027,488** | **2,226,342,496** |
| **22/06/2009**<br>Payment of scrip dividends<br>*(Shareholders' General Meeting of 19/05/2009)* | +279,712,323 | +93,237,441 |
| **Share Capital at 31/12/2009** | **6,958,739,811** | **2,319,579,937** |
| **21/06/2010**<br>Payment of scrip dividends<br>*(Shareholders' General Meeting of 19/05/2010)* | +199,239,846 | +66,413,282 |
| **29/07/2010**<br>Capital increase reserved for employees<br>*(Shareholders' General Meeting of 19/05/2009)* | +47,001,216 | +15,667,072 |
| **Share Capital at 31/12/2010** | **7,204,980,873** | **2,401,660,291** |
| **20/06/2011**<br>Payment of scrip dividends<br>*(Shareholders' General Meeting of 18/05/2011)* | +288,935,580 | +96,311,860 |
| **05/10/2011**<br>Capital increase reserved for employees<br>*(Shareholders' General Meeting of 18/05/2011)* | +145,158 | +48,386 |
| **SHARE CAPITAL AT 31/12/2012** | **7,494,061,611** | **2,498,020,537** |

As the Crédit Agricole S.A. net income Group share for the year ended 31 December 2012 was negative, the Board of Directors decided, at its meeting of 19 February 2013, to propose to the General Meeting of Shareholders that no dividend will be distributed for the financial year ending 31 December 2012.

Since 5 October 2011, the share capital of Crédit Agricole S.A. has amounted to €7,494,061,611 divided into 2,498,020,537 shares with a par value of €3 each.

## CHANGE IN SHARE OWNERSHIP OVER THE PAST THREE YEARS

The table below shows changes in the ownership of Crédit Agricole S.A. over the past three years:

| | At 31/12/2012 | | | At 31/12/2011 | At 31/12/2010 |
|---|---|---|---|---|---|
| **Shareholders** | **Number of shares** | **% of voting rights** | **% of the share capital** | **% of the share capital** | **% of the share capital** |
| SAS Rue La Boétie [(1)] | 1,405,263,364 | 56.42% | 56.25% | 56.25% | 55.86% |
| Treasury shares [(2)] | 7,319,186 | - | 0.29% | 0.28% | 0.39% |
| Employee share ownership plans (ESOP) | 110,546,010 | 4.44% | 4.43% | 4.78% | 4.59% |
| Institutional investors | 695,978,777 | 27.94% | 27.86% | 27.89% | 31.90% |
| Retail investors | 278,913,200 | 11.20% | 11.17% | 10.80% | 8.25% |
| **TOTAL** | **2,498,020,537** | **100%** | **100%** | **100%** | **100%** |

*(1) SAS Rue La Boétie is wholly-owned by the Crédit Agricole Regional Banks.*

*(2) The treasury shares are directly held as part of the share buyback programme, which is recognised on Crédit Agricole S.A.'s balance sheet, designed to cover stock options and as part of a market-making agreement.*

### The ownership structure changed slightly in 2012

The Regional Banks consolidate their investment in Crédit Agricole S.A. through the SAS Rue La Boétie. Acting together and for the long term, they own the majority of the share capital: 55.86% at end-2010 and 56.25% at end-2011 and end-2012.

Institutional investor holdings remained unchanged at 27.9% between 31 December 2011 and 31 December 2012, while retail investors increased their holdings from 10.80% at end-2011 to 11.17% at end-2012.

Employee ownership through employee share ownership plans declined slightly in 2012, following increases in 2010 and 2011: it thus went from 119.3 million shares at end-2011 to 110.5 million shares at end-2012.

## AUTHORISATIONS TO EFFECT CAPITAL INCREASES

**Table summarising authorisations in force granted by the General Meeting of Shareholders to the Board of Directors to effect capital increases and use made of such authorisations during the year (information required by Order no. 2004-604 of 24 June 2004 reforming the system applicable to negotiable securities):**

| General Meetings Resolutions | Purpose of grant of authority to the Board of Directors | Maximum amounts authorised | Total ceilings, duration | Use during 2012 |
|---|---|---|---|---|
| General Meeting of Shareholders of 22/05/2012 22nd resolution | Share capital increase by issuance of ordinary shares and/or any other negotiable securities giving access to the ordinary shares, with pre-emptive subscription rights | Nominal amount of the capital increase:<br>• €3.75 billion<br>• €7.5 billion for debt securities | The nominal amount of capital increases approved pursuant to the 23rd, 24th and 26th resolutions will count towards the ceiling of this resolution.<br>Valid for a term of 26 months | None |
| General Meeting of Shareholders of 22/05/2012 23rd resolution | Share capital increase by issuing ordinary shares and/or securities granting rights to ordinary shares, without pre-emptive subscription rights [in situations other than public offerings] | Nominal amount of the capital increase:<br>• €1.125 billion<br>• €5 billion for debt securities | Up to the €3.75 billion ceiling on capital increases set by the 22nd resolution<br>Valid for a term of 26 months | None |
| General Meeting of Shareholders of 22/05/2012 24th resolution | Capital increase by issuing ordinary shares and/or securities granting rights to ordinary shares, without pre-emptive subscription rights [in the case of a public offering] | Nominal amount of the capital increase:<br>• €1.125 billion<br>• €5 billion for debt securities | Up to the €3.75 billion ceiling on capital increases set by the 22nd resolution<br>Valid for a term of 26 months | None |
| General Meeting of Shareholders of 22/05/2012 25th resolution | Increase the amount of the initial issue, in the event of an issue of ordinary shares and/or any securities granting rights to ordinary shares, with or without pre-emptive subscription rights, approved pursuant to the 22nd, 23rd, 24th, 26th, 27th, 31st and 32nd resolutions. | | Within the limits set by the 22nd, 23rd, 24th, 26th, 27th, 31st and 32nd resolutions<br>Valid for a term of 26 months | None |
| General Meeting of Shareholders of 22/05/2012 26th resolution | Issue ordinary shares and/or other securities granting rights to ordinary shares in consideration for contributions in kind to the Company, consisting of equity securities or other securities granting rights to the share capital, other than through a public exchange offer | Up to the legal ceiling of 10% of the share capital | Up to the €1.125 billion ceiling set by the 23rd and 24th resolutions<br>Valid for a term of 26 months | None |
| General Meeting of Shareholders of 22/05/2012 27th resolution | Determine the issue price of ordinary shares and/or any other securities giving access to ordinary shares in the event that pre-emptive subscription rights are waived (at a level at least equal to the weighted average over the three trading days prior to the date it is set, with the possibility of a maximum discount of 10%) | Up to a maximum of 5% of the share capital in each 12-month period | Up to the €1.125 billion ceiling set by the 23rd and 24th resolutions<br>Valid for a term of 26 months | None |
| General Meeting of Shareholders of 22/05/2012 28th resolution | Ceiling on authorisations to issue securities with or without pre-emptive subscription rights as a result of the adoption of the 22nd to 26th resolutions | Nominal amount of the capital increase approved pursuant to the 22nd to 26th resolutions:<br>• €3.75 billion | | None |
| General Meeting of Shareholders of 22/05/2012 29th resolution | Share capital increase by issuing securities granting rights to debt securities | Nominal amount of €5 billion | Independent of the amount of debt securities provided for in the 22nd to 26th resolutions.<br>Valid for a term of 26 months | None |

| General Meetings Resolutions | Purpose of grant of authority to the Board of Directors | Maximum amounts authorised | Total ceilings, duration | Use during 2012 |
|---|---|---|---|---|
| General Meeting of Shareholders of 22/05/2012 30th resolution | Share capital increase by incorporating reserves, earnings, share premiums or other items, either by increasing the nominal amount of ordinary shares outstanding or the free allocation of new ordinary shares, or by a combination of both | Maximum nominal amount: • €1 billion | Autonomous and distinct from other ceilings Valid for a term of 26 months | None |
| General Meeting of Shareholders of 22/05/2012 31st resolution | Share capital increase by issuance of ordinary shares reserved for employees of Crédit Agricole Group who subscribe to a company savings plan | Nominal amount of the capital increase: • €200 million | Autonomous and distinct from other ceilings on capital increases Valid for a term of 26 months | None |
| General Meeting of Shareholders of 22/05/2012 32nd resolution | Increase share capital by issuing ordinary shares reserved for Crédit Agricole International Employees | Nominal amount of the capital increase: • €50 million | Autonomous and distinct from other ceilings on capital increases Valid for a term of 18 months | None |

# PURCHASE BY THE COMPANY OF ITS OWN SHARES

**The twentieth resolution of the Ordinary General Meeting of Shareholders of Crédit Agricole S.A. of 22 May 2012 authorised the Board of Directors to trade in Crédit Agricole S.A. ordinary shares, in accordance with the General Regulations of the *Autorité des marchés financiers* (the French Financial Markets Authority - AMF) and with Articles L. 225-209 *et seq.* of the French Commercial Code.**

## Twentieth resolution (Authorisation to be granted to the Board of Directors to buy back the Company's ordinary shares)

1. The General Meeting of Shareholders, acting in accordance with the quorum and majority requirements applicable to Ordinary General Meetings of Shareholders, having reviewed the Board of Directors' report, authorises the Board of Directors, which may further delegate such authority as provided by law, to buy back the Company's ordinary shares in accordance with the provisions of the General Regulations of the *Autorité des marchés financiers* (AMF) and of Articles L. 225-209 *et seq*. of the French Commercial Code.
2. This authorisation, which supersedes the unused portion of the authorisation granted by the sixteenth resolution adopted at the Ordinary General Meeting of Shareholders of 18 May 2011, is granted to the Board of Directors until renewed at a future Ordinary General Meeting of Shareholders and, in all circumstances, for a maximum period of eighteen (18) months from the date of this General Meeting of Shareholders.
3. The purchases of the Company's ordinary shares carried out by the Board of Directors pursuant to this authorisation may not, under any circumstances, result in the Company holding more than ten per cent (10%) of the ordinary shares representing its share capital.
4. Trading in the Company's shares under the ordinary share buyback programme established by the Company may be effected in one or more transactions and by any means authorised by the applicable regulations, including on-market or off-market, over the counter notably by block purchases or sales, or *via* derivative instruments traded on regulated exchanges or over the counter (such as put and call options or any combination thereof), or warrants or, more generally, securities giving rights to ordinary shares of the Company, under the conditions permitted by the relevant market authorities and at such times as the Board of Directors or the person acting pursuant to powers delegated by the Board of Directors shall determine. It should be noted that the entire ordinary share buyback programme may be carried out through block purchases of ordinary shares.
5. The number of ordinary shares purchased may not exceed 10% of the total number of ordinary shares at the date on which the said purchases are carried out. However, the number of ordinary shares purchased by the Company to be held and delivered at a later date either as payment or in exchange for other securities in a merger, spin-off or asset transfer may not exceed 5% of the Company's ordinary shares.

The Board of Directors will ensure that these buybacks are executed according to the regulatory requirements as set by law and the *Autorité de contrôle prudentiel* (the French Prudential Supervisory Authority – ACP).

6. Such shares may not be purchased at a price higher than €10. However, in the event of capital transactions and, more particularly, capital increases with pre-emptive subscription rights or capital increases carried out by capitalisation of reserves, profits or share premiums followed by the creation and award of free ordinary shares, or a split or reverse split of ordinary shares, the Board of Directors may adjust the aforesaid maximum purchase price in order to factor in the effect of such transactions on the value of the ordinary share.

   In any event, the Company is only authorised to use a maximum of €1.25 billion to buy back ordinary shares under this resolution;

7. This authorisation is intended to allow the Company to buy back ordinary shares for any purpose that has been authorised or may be authorised under applicable laws and regulations. In particular, the Company may use this authorisation:

   a. to cover stock options granted to some or all of the Company's employees and/or to some or all of the eligible Corporate Officers of the Company or companies or groupings affiliated with it, now or in the future, as defined by Article L. 225-180 of the French Commercial Code,

   b. to allot ordinary shares to eligible Corporate Officers, employees and former employees of the Company or of the Group, or to certain categories thereof, as part of an employee profit-sharing or share ownership plan, as provided for by law,

   c. to allot free shares under a free share allocation plan as provided by Articles L. 225-197-1 *et seq*. of the French Commercial Code to some or all categories of eligible employees and Corporate Officers of the Company, and/or companies and economic interest groupings affiliated therewith under the conditions set out in Article L. 225-197-2 of the French Commercial Code, and, more generally, to allot ordinary shares in the Company to such employees and Corporate Officers, notably under variable compensation plans for employees who are financial market professionals and whose activities have a material impact on the Company's risk exposure, in which case such allotments are contingent upon such employees meeting performance targets,

   d. to hold purchased Company ordinary shares with a view subsequently to exchanging them or using them to pay for a potential acquisition, in compliance with the market practice accepted by the *Autorité des marchés financiers* (AMF),

   e. to ensure coverage of securities granting rights to the Company's ordinary shares,

   f. to ensure that market liquidity is provided for ordinary shares by an investment services provider under a market-making agreement that complies with the AMAFI (the French Association of Financial Market Professionals) Code of Conduct, in compliance with the market practice accepted by the *Autorité des marchés financiers* (AMF), it being specified that, for purposes of calculating the 10% limit set forth in paragraph 5 above, the number of ordinary shares purchased in this respect shall be the number of ordinary shares purchased less the number of ordinary shares sold during the term of this authorisation,

   g. to cancel all or part of the ordinary shares purchased, provided the Board of Directors holds a valid authorisation from the General Meeting of Shareholders, duly convened to conduct extraordinary business, to reduce the share capital by cancelling the ordinary shares purchased under the terms of an ordinary share buyback programme.

While the share buyback programme is in effect, the Board of Directors may effect transactions at any time, except during a public offer for the Company, under the authorisation hereby granted.

The Company may also use this resolution and carry out its buyback programme in accordance with the law and regulations, including in particular the provisions of Articles 231-1 *et seq*. of the General Regulations of the *Autorité des marchés financiers* (AMF), during a tender or exchange offer initiated by the Company.

The General Meeting of Shareholders fully empowers the Board of Directors, with the right to further delegate such powers as permitted by law, for the purpose of implementing this authorisation and determining the relevant terms and conditions, pursuant to the law and the terms of this resolution, including placing stock orders, signing all documents, entering into all agreements, filing all reports and carrying out all formalities, including with the French Prudential Supervisory Authority (ACP) and the *Autorité des marchés financiers* (AMF), and, more generally, to do all that is necessary.

## Information on the use of the share buyback programme given to the General Meeting of Shareholders according to Article L. 225-211 of the French Commercial Code

The Board of Directors informs the General Meeting of Shareholders of the following activities undertaken in accordance with the share buyback programme for the period from 1 January to 31 December 2012.

Transactions were carried out as part of the programme in order to:

- cover commitments made to employees, in the framework of stock option plans;
- to ensure market-making by an investment services provider under a market-making agreement that complies with the AMAFI (the French Association of Financial Markets Professionals) Code of Conduct.

| | |
|---|---|
| Number of shares registered in the Company's name at 31/12/2011 | 6,969,381 |
| *To cover commitments to employees* | *889,381* |
| *To provide volume to the market in the context of the market-making agreement* | *6,080,000* |
| Number of shares bought in 2012 | 40,434,343 |
| *To cover commitments to employees* | *1,808,121* |
| *To provide volume to the market in the context of the market-making agreement* | *38,626,222* |
| Volume of shares used to achieve the purpose set (1) | |
| *Coverage of commitments to employees* | *2,301,437* |
| *Market-making agreement (Procurements + Disposals)* | *78,217,444* |
| Number of shares reallocated for other purposes | 0 |
| Average purchase price of shares bought in 2012 | €4.37 |
| Value of shares bought in 2012 at purchase price | €176,531,782 |
| Trading costs | €375,389 |
| Number of shares sold in 2012 | 40,084,538 |
| *To cover commitments to employees* | *493,316* |
| *To provide volume to the market in the context of the market-making agreement* | *39,591,222* |
| Average price of shares sold in 2012 | €4.41 |
| Number of shares registered in the Company's name at 31/12/2012 | 7,319,186 |
| *To cover commitments to employees* | *2,204,186* |
| *To provide volume to the market in the context of the market-making agreement* | *5,115,000* |
| Gross carrying amount per share (2) | |
| *Shares bought to cover commitments to employees (historical cost)* | *€7.22* |
| *Shares bought as part of the market-making agreement (traded price at 31/12/2012)* | *€6.08* |
| Total gross carrying amount of shares | €47,043,428 |
| Par value | €3 |
| Percentage of the share capital held by the Company at 31/12/2012 | 0.29% |

*(1) Shares bought to cover commitments to employees are (a) shares sold or transferred to beneficiaries after they exercise options on Crédit Agricole S.A. shares, or sold on the stock market for the surplus coverage recorded at the closing date of the plans and (b) shares acquired and delivered or sold under deferred compensation plans as performance shares. Shares relating to the market-making agreement are shares bought and sold under the agreement during the period in question.*

*(2) Shares bought to cover commitments to employees are recognised as investment securities and valued at their purchase price, less any impairment; shares bought in relation to the market-making agreement are recognised as trading securities and valued at market value at each reporting date.*

# INFORMATION ON ACCOUNTS PAYABLE

Under Article L. 441-6-1 of the French Commercial Code, companies whose separate financial statements are certified by a Statutory Auditor are required to disclose in their management report the net amounts due to suppliers by due date, in accordance with the terms and conditions set out in Article D. 441-4 of Decree no. 2008-1492.

**AGING OF ACCOUNTS PAYABLE**
**At 31 December 2012**

| | | Not yet due | | | |
|---|---|---|---|---|---|
| *(in millions of euros)* | Due | < 30 days | > 30 days < 45 days | > 45 days | Total at 31/12/2012 |
| Accounts payable | 8 (1) | 4 | 1 | - | 13 |

*(1) Including €8 million paid by 31 January 2013.*

**At 31 December 2011**

| | | Not yet due | | | |
|---|---|---|---|---|---|
| *(in millions of euros)* | Due | < 30 days | > 30 days < 45 days | > 45 days | Total at 31/12/2011 |
| Accounts payable | 27 (1) | 5 | 5 | 1 | 38 |

*(1) Including €26 million paid by 31 January 2012.*

# INFORMATION ON CORPORATE OFFICERS

**Information on the remuneration, appointments and duties of the Corporate Officers**, as required by Articles L. 225-102-1 and L. 225-184 of the French Commercial Code, by the French Financial Security Act of 1 August 2003, and by Order no. 2004-604 of 24 June 2004 appears in the chapter entitled “Corporate governance” in the “Remuneration of Corporate Officers” and “Offices Held by Corporate Officers” sections of this registration document.

They meet the AFEP-MEDEF recommendations of October 2008 and the AMF recommendation of 22 December 2008 on executive compensation.

**A summary of trading in the Company’s shares by executives of Crédit Agricole S.A. in 2012**, as required by Article L. 621-18-2 of the French Monetary and Financial Code and Article 223-26 of the General Regulations of the *Autorité des marchés financiers* (AMF), is provided in the chapter entitled “Corporate governance” in the “Compensation of Corporate Officers” section of this registration document.

# Risk factors and Pillar 3

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# Risk factors

This part of the management report sets out the type of risks to which the Group is exposed, their extent and the systems used to manage them.

The information presented in accordance with IFRS 7, relating to disclosures on financial instruments, covers the following types of risks[1]:

- credit risks (including country risks): risk of losses arising from a default by a counterparty leading to that counterparty's inability to meet its commitments to the Group;
- market risks: risks of losses arising from changes in market parameters (interest rates, exchange rates, prices, credit spreads);
- particular risks attributable to the financial crisis;
- structural asset/liability management risks: risks of losses arising from changes in interest rates (global interest rate risk) and exchange rates (foreign exchange risk) and the risk of not having the necessary resources to meet commitments (liquidity risk), including risks in the insurance sector.

In order to cover all risks inherent in the banking business, additional information is provided concerning:

- operational risks: risks of losses resulting primarily from the unsuitability or failure of processes, systems or people in charge of transaction processing;
- legal risks: risks arising from the Group's exposure to civil or criminal proceedings;
- non-compliance risks: risks relating to failure to comply with laws and regulations governing the Group's banking and financial activities.

## Organisation of risk management

Risk management, which is inherent in banking activities, lies at the heart of the Group's internal control system. All staff involved, from the initiation of transactions to their final maturity, play a part in this system.

Measuring and supervising risk is the responsibility of the dedicated Risk Management and Permanent Controls function (DRG – Group Risk Management department), which is independent from Group functions and reports directly to the Executive Management.

Although risk management is primarily the responsibility of the business lines which oversee growth in their own operations, DRG's task is to ensure that the risks to which the Group is exposed are consistent with the risk strategies defined by the business lines (in terms of global and individual limits and selection criteria) and compatible with the Group's growth and profitability targets.

DRG performs consolidated Group-wide monitoring of risks using a network of risk management and permanent control officers who report hierarchically to the head of Risk Management and Permanent Controls and functionally to the executive body of their entity or business line.

To ensure a consistent view of risks within the Group, DRG has the following duties:

- it defines and/or validates methods and procedures for analysing, measuring and monitoring credit, market and operational risks;
- it takes part in the critical analysis of the business lines' commercial development strategies, focusing on the risk impact of these strategies;
- it provides independent opinions to Executive Management on risk exposure arising from business lines' positions (credit transactions, setting of market risk limits) or anticipated by their risk strategy;
- it lists and analyses Group entities' risks, on which data are collected in risk information systems.

The Financial Management unit of the Group Finance department (FIG) manages structural asset/liability risk (interest rate, exchange rate and liquidity) along with the refinancing policy and supervision of capital requirements.

Supervision of these risks by Executive Management is carried out through ALM (Asset Liability Management) Committee Meetings, in which DRG takes part.

## Governance

DRG organises a periodic review of the main credit risk and market risk issues through quarterly Risk Committee Meetings, which address the following issues: policies on risk-taking, portfolio analysis and analysis of cost of risk, market limits and concentration limits. These Risk Committees cover all of Crédit Agricole Group's risks (including those of the Regional Banks) and are chaired by the Chief Executive Officer of Crédit Agricole S.A.

DRG regularly informs Crédit Agricole S.A.'s Audit Committee about risk exposures, the methods used to measure them and its recommendations for managing them in accordance with the policies defined by the Board of Directors.

*(1) These disclosures are an integral part of the consolidated financial statements for the year ending at 31 December 2012 and as such are covered by the Statutory Auditors' report.*

# CREDIT RISKS

A credit risk is realised when a counterparty is unable to honour its obligations and when the carrying amount of these obligations in the bank's books is positive. The counterparty may be a bank, an industrial or commercial enterprise, a government and its various controlled entities, an investment fund, or an individual person.

The definition of default used in management, which is the same as the one used for regulatory calculations, complies with current prudential requirements in the various Group entities.

A debtor is, therefore, considered to be in default when at least one of the following conditions has been met:

- a payment is generally more than 90 days past due, unless specific circumstances point to the fact that the delay is due to reasons beyond the debtor's control;
- the entity believes that the debtor is unlikely to settle its credit obligations unless it avails itself of certain measures such as the provision of collateral surety.

The exposure may be a loan, debt security, deed of property, performance exchange contract, performance bond or unutilised confirmed commitment. The risk also includes the settlement risk inherent in any transaction entailing an exchange of cash or physical goods outside a secure settlement system.

## I. Objectives and policy

The risks taken by Crédit Agricole S.A. and its subsidiaries must comply with the risk strategies approved by the Group's Risk Management Committee, which is a sub-committee of Crédit Agricole S.A.'s Executive Committee and is chaired by its Chief Executive Officer. Risk strategies are adjusted to each business line and its development plan. They set out global limits, intervention criteria (types of eligible counterparties, nature and maturity of eligible products, collateral required) and arrangements for delegating decision-making authority. These risk strategies are adjusted as required for each business line, entity, business sector or country. Business lines are responsible for complying with these risk strategies, and compliance is controlled by the risk management and permanent control officers.

Crédit Agricole S.A. and its subsidiaries seek to diversify their risks in order to limit their counterparty risk exposures, particularly in the event of a crisis affecting a particular industry or country. To achieve this, Crédit Agricole S.A. and its subsidiaries regularly monitor their total exposures by counterparty, by trading portfolio, by business sector and by country (taking into account internal calculation methods, depending on the type of exposure).

Crédit Agricole CIB, the Group's Corporate and investment banking arm, also carries out active portfolio management in order to reduce the main concentration risks borne by Crédit Agricole S.A. Group. The Group uses market instruments such as credit derivatives or securitisation mechanisms which reduce and diversify counterparty risk that enable it to optimise its use of capital. Similarly, potential risk concentration is mitigated by syndication of loans with outside banks and use of risk hedging instruments (credit insurance, derivatives, sharing risk with *Oseo Garantie*).

When the risk is recognised, an impairment policy is implemented, on an individual or portfolio basis.

## II. Credit risk management

### 1. Risk-taking general principles

All credit transactions require in-depth analysis of the customer's ability to repay the debt and the most efficient way of structuring the transaction, particularly in terms of security and maturity. This analysis must comply with the risk strategy of the business line concerned and with all limits in force, both individual and aggregate. The final lending decision is based on an internal rating and is taken by the commitment units or by the Credit Committees, on the basis of an independent opinion given by a representative of the Risk Management and Permanent Control Group function as part of the authorisation system in place. The Group Risk Management Committee and its Chairman constitute the Group's ultimate decision-making authority.

Each lending decision requires an analysis of the risk taken in relation to the expected return. In Corporate and investment banking, an *ex ante* calculation of the transaction's expected return is carried out (on the basis of Raroc – risk-adjusted return on capital).

In addition, the principle of an individual risk limit applies to all types of counterparty, whether companies, banks, financial institutions, public sector or semi-public sector entities.

### 2. Risk measurement methods and systems

#### 2.1. INTERNAL RATING SYSTEMS AND CREDIT RISK CONSOLIDATION SYSTEMS

The internal rating systems cover all of the methods, procedures and controls used for assessment of credit risk, rating of borrowers and estimation of losses given default by the borrower. Governance of the internal rating system relies on the Standards and Methodologies Committee (CNM), chaired by the Group's head of Risk Management and Permanent Controls, whose task is to validate and spread standards and methodologies relating to measuring and controlling risks within Crédit Agricole Group. In particular, the Standards and Methodologies Committee reviews:

- rules for identifying and measuring risks, in particular, methods used to rate counterparties, estimate Basel 2 risk parameters (PD, CCF, LGD) and related organisational procedures;

- the performance of rating and risk assessment methods by periodically reviewing backtesting results;
- the use of ratings (validation of common syntaxes, glossaries and benchmarks).

For retail customers, including loans to individuals (in particular, home loans and consumer finance) and small businesses, each entity is responsible for defining, implementing and substantiating its rating system, in accordance with the Group standards established by Crédit Agricole S.A. LCL and the consumer credit subsidiaries (Crédit Agricole Consumer Finance) have their own rating systems. The Regional Banks have common risk assessment models which are managed at the Crédit Agricole S.A. level. Back-testing procedures of the parameters used in calculating the regulatory capital requirements have been defined and are operational in all entities. The internal models used by the Group are based on statistical models established on explanatory behavioural variables (e.g. average current account balance) and identifying variables (e.g. business sector). The approach taken can be either customer-centred (Individuals, Farmers, Small businesses) or product-centred. The estimated probability of default in year 1, to which the rating relates, is updated on a yearly basis.

For the large institutional customer category, a single fifteen-grade rating scale has been established on the basis of a segmentation of risk so as to provide a uniform view of default risk "over a full business cycle". The scale comprises thirteen ratings (A+ to E-) for counterparties that are not in default (including two ratings for counterparties that have been placed on credit watch) and two ratings (F and Z) for counterparties that are in default.

### COMPARISON BETWEEN THE INTERNAL GROUP RATINGS AND THE RATING AGENCIES

| Crédit Agricole Group rating | A+ | A | B+ | B | C+ | C | C- | D+ | D | D- | E+ | E | E- |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Indicative Moody's rating equivalent | Aaa | Aa1/Aa2 | Aa3/A1 | A2/A3 | Baa1 | Baa2 | Baa3 | Ba1 | Ba2 | Ba3 | B1/B2 | B3 | Caa/Ca/C |
| Indicative Standard & Poor's rating equivalent | AAA | AA+/AA | AA-/A+ | A/A- | BBB+ | BBB | BBB- | BB+ | BB | BB- | B+/B | B- | CCC/CC/C |
| Probability of default in year 1 | 0.001% | 0.01% | 0.02% | 0.06% | 0.16% | 0.30% | 0.60% | 0.75% | 1.25% | 1.90% | 5.0% | 12.0% | 20.00% |

Within Crédit Agricole Group, the large institutional customer category comprises primarily sovereigns and central banks, corporates, specialised financings as well as banks, insurance companies and other financial companies. An internal rating method tailored to each specific risk profile, based on financial and qualitative criteria, is applied to each type of large customer. For corporate clients, Crédit Agricole Group entities have common internal rating methodologies. A rating is assigned when a relationship with the counterparty is first initiated, and that rating is updated upon each request for a credit limit and upon any event that could affect risk quality. The rating assignment must be approved by a unit independent of the front office. The rating is reviewed at least annually. To ensure that each counterparty carries one and only one rating within Crédit Agricole Group, a single entity in the Group is responsible for rating it.

Whether these are large institutional or retail customers, rating methods must be approved by the Standards and Methodology Committee as follows:

- validation of rules for identifying and measuring risks, in particular, methods used to rate counterparties, to estimate the probability of default (PD) and loss given default (LGD) as well as related organisational procedures;
- oversight of the performance of rating and risk assessment methods by periodically reviewing backtesting results;
- validation of common syntaxes, glossaries and benchmarks.

The rating oversight system implemented by Crédit Agricole S.A., its subsidiaries and the Regional Banks across the entire rating process aims to ensure:

- rules for identifying and measuring risks, in particular, methods used;
- uniformity in the handling of default events on a consolidated basis;
- proper utilisation of the internal rating methodologies;
- reliability of data substantiating the internal rating.

Furthermore, Crédit Agricole S.A., its subsidiaries and the Regional Banks continue to focus on improving the risk-tracking system for:

- risk management of single clients and groups which is designed to ensure accurate identification of counterparties on which there is a risk within the entities and to improve cross-functional risk information management on single clients and groups, which is crucial to ensuring rating uniqueness and consistent allocation of exposures to Basel portfolios;
- the closing process, which aims to guarantee the quality of the process of production of the solvency ratio.

The French Prudential Supervisory Authority (ACP) has authorised Crédit Agricole Group to use internal rating systems to calculate regulatory capital requirements for credit risk of its retail and corporate loan portfolios on the greater part of its scope.

Having internal rating systems deployed throughout the Group enables it to implement counterparty risk management based on current prudential regulation-type risk indicators (CRD – Capital Requirement Directives). For large institutional customers, the single rating system (identical tools and methods, shared data) which has been implemented for several years now, has helped to improve counterparty monitoring, in particular, for counterparties common to several Group entities. The system has also made it possible to have a common reference framework on which to base standards and procedures, governance tools, alert procedures and risk provisioning policies.

Finally, in the corporate and investment banking businesses, expected loss, economic capital and risk-adjusted return measurements are used in the processes for making loan approval decisions, defining risk strategies and setting risk limits.

### 2.2. CREDIT RISK MEASUREMENT

The measurement of credit risk exposures includes both drawn facilities and confirmed unutilised facilities.

To measure counterparty risk on capital markets transactions, Crédit Agricole S.A. and its subsidiaries use different types of approaches to estimate the current and potential risk of derivative instruments (such as swaps and structured products).

Crédit Agricole CIB uses a specific internal methodology to estimate the risk of change in relation to such derivative instruments, using a net portfolio approach for each customer:

- current risk corresponds to the sum owing by the counterparty in the event of instantaneous default;
- the risk of change corresponds to our estimated maximum exposure over its remaining maturity, for a given confidence interval.

The methodology used is based on Monte Carlo-type simulations, enabling the risk of variation to be assessed on the basis of statistical calculations of the change in underlying market parameters. This model also makes it possible to consider the different risk reduction factors linked to the use of netting and collateralisation agreements negotiated with counterparties when documentation is drafted prior to transactions being conducted (see paragraph 4 below: "Credit risk mitigation mechanism"). The risk of change calculated using this methodology is used to manage counterparty credit limits and also to calculate Basel 2 pillar 2 economic capital *via* the determination of an expected positive exposure which corresponds to an average risk profile using a global portfolio approach.

For other Group entities, the risk basis is the sum of the positive market value of the instrument and an add-on coefficient applied to the nominal amount. This add-on coefficient represents the potential credit risk arising from the change in market value of derivative instruments during their residual lifespan. It is calculated using the type and residual lifespan of the instrument, based on a statistical observation of movements in its underlying instruments. When the netting and collateralisation agreements with the counterparty allow, counterparty risk is measured for the portfolio net of eligible collateral. This method is used for the purposes of internal management of counterparty risk, and it differs:

- from the regulatory approach used to meet the measurement requirements of European and international solvency ratios or for reporting major risks;
- from the accounting policies and principles used to prepare the consolidated financial statements.

## 3. Supervision system of commitments

Rules for dividing and limiting risk exposures, along with specific processes relating to commitments, are used to prevent any excessive concentration of the portfolio.

### 3.1. PROCESS FOR MONITORING CONCENTRATIONS BY COUNTERPARTY OR GROUP OF RELATED COUNTERPARTIES

The consolidated commitments of all Crédit Agricole Group's entities are monitored by counterparty and by group-related counterparties. A group of related counterparties is a set of French or foreign legal entities that are connected, regardless of their status and economic activity, in such a way that the total exposure to this group can be measured on the basis of exposure to one or more of these entities. Commitments to a counterparty or group of related counterparties include all loans granted by the Group as well as corporate finance transactions, bond portfolios, financing commitments and counterparty risks relating to capital market transactions. Exposure limits for counterparties and groups of related counterparties are recorded in the internal information systems of each subsidiary or business line. When several subsidiaries have a counterparty in common, a Group-level aggregate limit is set on the basis of commitment authorisation limits that depend on the internal rating.

Each operating entity reports the amount of its commitments by risk category on a monthly or quarterly basis to the Group Risk Management and Permanent Controls department. Exposures to major non-bank counterparties, *i.e.* those on which the aggregate commitments of Crédit Agricole Group exceed €300 million after netting, are reported separately to the Group Risk Management Committee.

At year-end 2012, lending commitments of Crédit Agricole S.A. and its subsidiaries to their ten largest non-sovereign, non-bank customers amounted to 6.4% of the total non-bank portfolio (compared with just under 6% at 31 December 2011). The diversification of the portfolio on an individual basis is still satisfactory, despite a slight increase in concentration.

Moreover, for the Regional Banks and LCL, major counterparty risks on the food-processing sector are monitored also *via* the Foncaris subsidiary. At 31 December 2012, Foncaris guaranteed 50% of the €8.2 billion outstanding portfolio due to major counterparties for these entities (€8.7 billion at 31 December 2011).

### 3.2. PORTFOLIO REVIEW AND SECTOR MONITORING PROCESS

Periodic portfolio reviews conducted by entity or business line serve to identify counterparties whose credit quality is deteriorating, update counterparty ratings, monitor risk strategies and check on changes in concentration ratios, for instance, per business sector. Moreover, the Corporate and investment banking business has a portfolio modelling tool that it uses to test how well portfolios hold up under stress scenarios.

### 3.3. PROCESS FOR MONITORING COUNTERPARTIES IN DEFAULT AND ON CREDIT WATCH

Counterparties in default and on credit watch are monitored closely by the business lines, in collaboration with risk management and permanent control officers. They are also the object of formal monitoring by the entities' Sensitive exposure committees and of quarterly monitoring by the Group Risk Management Committee and the Audit Committee on a consolidated basis.

### 3.4. CONSOLIDATED RISK MONITORING PROCESS

Every quarter, the Group Risk Management Committee examines the risk report produced by the Group Risk Management and Permanent Controls department. This document gives the Committee a detailed review of the Group's risk situation on a consolidated basis across all business lines. In addition, detailed periodic reviews of banking risks, country risks and the main non-banking risks are conducted during Group Risk Management Committee Meetings.

The unfavourable economic environment led Crédit Agricole S.A. to maintain a Risk Monitoring Committee chaired by Executive Management. This Committee meets twice a month and reviews all risk alerts collected centrally by the Group Risk Management and Permanent Controls department in accordance with the internal alert procedures.

### 3.5. COUNTRY RISK MONITORING AND MANAGEMENT SYSTEM

Country risk is the risk that economic, financial, political or social conditions in a foreign country will affect the financial interests of the Group. This risk does not differ in nature from "elementary" risks (credit, market and operational risks), but is an aggregate of risks resulting from vulnerability to a specific political, macroeconomic and financial environment.

The system for assessing and monitoring country risk within Crédit Agricole S.A. Group is based on the Group's own rating methodology. Internal country ratings are based on criteria relating to the structural solidity of the economy, ability to pay, governance and political stability. Annually reviewed limits and risk strategies are applied to each country whose rating is lower than the threshold specified in the procedures.

The introduction of regular reporting and reviews enables detailed country risk monitoring, on an overall portfolio basis, as a result of the use of quantitative tools. This approach is supplemented by scenario analyses aimed at testing the impact of adverse macroeconomic and financial assumptions. These tests enable the Group to develop an integrated view of the risks to which it may be exposed in situations of extreme tension.

The Group manages and controls its country risks according to the following principles:

- activities exposed to country risk are defined and identified through the development and monitoring of analytical country risk management tools;
- acceptable country risk exposure limits are determined through annual reviews of country strategies, depending on the vulnerability of the portfolio to country risk. The degree of vulnerability is determined by the type and structure of transactions, the quality of counterparties and the term of commitments. These exposure limits may be reviewed more frequently if developments in a particular country make it necessary. These strategies and limits are validated by Crédit Agricole CIB's Strategy and Portfolio Committee (CSP) or Country Risk Committee (CRP) and by Crédit Agricole S.A.'s Group Risk Management Committee (CRG);
- the Corporate and investment banking business maintains a system for regular assessment of country risk and for updating the country risk rating quarterly for each country in which the Group does business. This rating is produced using an internal country rating model based on various criteria (structural solidity, governance, political stability, ability and willingness to pay). Specific events may cause ratings to be adjusted before the next quarterly review;
- Crédit Agricole CIB's Country and Portfolio Risk department validates transactions whose size, maturity and degree of country risk could affect the quality of the portfolio.

Country risk exposure is monitored and controlled in both quantitative (amount and term of exposure) and qualitative (portfolio vulnerability) terms through regular specific reporting on all exposures to risky countries.

Euro zone countries with an internal rating that qualifies them for country risk monitoring undergo a separate *ad hoc* monitoring procedure.

### 3.6. STRESS SCENARIO IMPACTS

Credit stress scenarios are applied periodically in conjunction with the business lines, based on internal requirements or at the request of the French Prudential Supervisory Authority (ACP), to assess the risk of loss and consequent changes in capital requirements in the event of a sharp deterioration in the economic and financial environment. The results of these stress tests are examined by the Group Risk Management Committee or the Executive Committee, in particular as part of the annual budgetary process.

## 4. Credit risk mitigation mechanisms

### 4.1. COLLATERAL AND GUARANTEES RECEIVED

Guarantees or collateral are intended to provide partial or full protection against credit risk.

The principles governing the eligibility, utilisation and management of collateral and guarantees received as security are defined by Crédit Agricole Group's Standards and Methodology Committee (CNM), in accordance with the CRD system of calculating the solvency ratio. This common framework ensures a consistent approach across the Group's various entities. It documents aspects that include the conditions for prudential recognition, valuation and revaluation methods of all the various credit risk mitigation techniques that are used: collateral (notably for financing of assets: property, aircraft, ships, etc.), security in the form of guarantees, public export credit insurance, private credit insurance, financial guarantee insurance, credit derivatives, and cash collateral. The entities are in charge of implementing this framework at the operational level (management, monitoring of valuations, implementation).

Details of guarantee commitments received are presented in Note 3.1 and in Note 8 to the consolidated financial statements.

Regarding financial assets obtained by enforcement of guarantees or credit enhancement measures, the Group's policy on assets that have come into its possession by these means is to sell them as soon as possible.

### 4.2 USE OF NETTING CONTRACTS

If a "master" contract has been agreed with a counterparty, Crédit Agricole S.A. and its subsidiaries net their exposures to that counterparty. Crédit Agricole S.A. and its subsidiaries also use collateralisation techniques (deposits of cash or securities) to reduce their risk positions.

### 4.3. USE OF CREDIT DERIVATIVES

In managing its banking book, the Group's Corporate and investment bank uses credit derivatives and a range of risk-transfer instruments including namely securitisation. The aim is to reduce concentration of corporate credit exposure, diversify the portfolio and reduce loss levels.

The risks arising from such transactions are monitored using indicators such as VaR (Value at Risk) on all cash transactions to buy or sell protection for the bank's own account.

The notional amount of protection bought by Crédit Agricole CIB in the form of unitary credit derivatives outstanding at 31 December 2012 was €10.8 billion (€11.4 billion at 31 December 2011). The outstanding notional amount of protection sold by Crédit Agricole CIB was €867 million (€965 million at 31 December 2011).

# III. Exposure

## 1. Maximum exposure

The maximum exposure to credit risk of Crédit Agricole S.A. and its subsidiaries corresponds to the net carrying amount of financial assets (loans and receivables, debt instruments and derivative instruments) before the effect of non-recognised netting agreements and collateral.

**MAXIMUM EXPOSURE TO CREDIT AND COUNTERPARTY RISK OF CRÉDIT AGRICOLE S.A. GROUP**

| *(in millions of euros)* | 31/12/2012<br>Ongoing activities | 31/12/2011 |
|---|---|---|
| Financial assets at fair value through profit or loss (excluding equity securities and assets backing unit-linked contracts) | 573,567 | 432,721 |
| Hedging derivative instruments | 41,850 | 33,560 |
| Available-for-sale assets (excluding equity securities) | 237,601 | 206,353 |
| Loans and receivables to credit institutions (excluding internal transactions) | 118,333 | 104,610 |
| Loans and receivables to customers | 329,756 | 399,381 |
| Held-to-maturity financial assets | 14,602 | 15,343 |
| **Exposure to on-balance sheet commitments (net of impairment losses)** | **1,315,709** | **1,191,968** |
| Financing commitments given (excluding internal operations) (1) | 149,217 | 160,160 |
| Financial guarantee commitments given (excluding internal operations) | 93,435 | 98,898 |
| Provisions – financing commitments | (309) | (219) |
| **Exposure to off-balance sheet commitments (net of provisions)** | **242,343** | **258,839** |
| **Maximum exposure to credit risk (2)** | **1,558,052** | **1,450,807** |

*(1) At 31 December 2011, securities sold under repurchase agreements recognised at the transaction date were recorded for their notional amount as counterpart to the sundry debtors' account for €2 billion; at 31 December 2012, these operations, which represented €22 billion, were recorded in "financing commitments received" between the transaction date and the settlement date (see Note 8 Financing and guarantee commitments and other guarantees).*

*(2) The contribution for 31 December 2011 of entities reclassified as held-for-sale activities in 2012 came to €34,005 million.*

At 31 December 2012, the maximum exposure to credit and counterparty risk of Crédit Agricole S.A. and its subsidiaries amounted to €1,558 billion (€1,450.8 billion at 31 December 2011), up 7.4% in 2012.

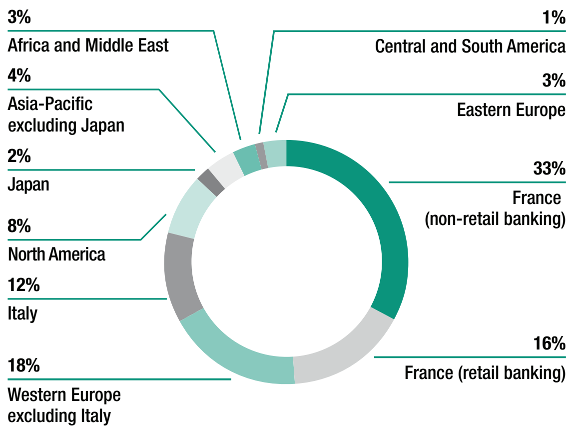
## 2. Concentration

An analysis of credit risk on commercial lending commitments excluding Crédit Agricole S.A. Group internal transactions and collateral given as part of repurchase agreements (loans and receivables to credit institutions, loans and receivables to customers, financing commitments given and guarantee commitments given for €705 billion) is presented below. This scope includes exposure to activities recognised in discontinued or held-for-sale operations. In particular, it excludes derivative instruments, which are primarily monitored in VaR (see section on Market risks), and financial assets held by insurance companies (€176 billion – see section on Risks in the insurance sector).

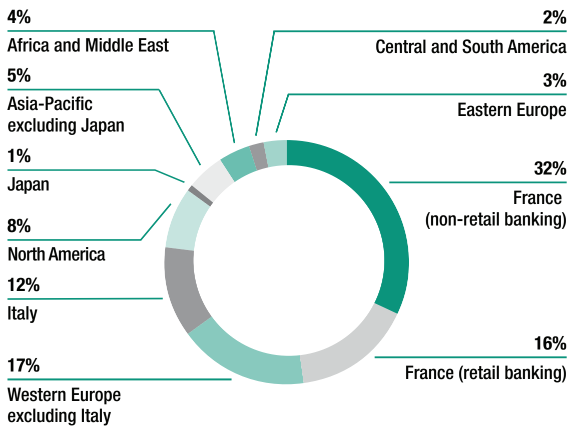
### 2.1. PORTFOLIO DIVERSIFICATION BY GEOGRAPHIC AREA

On the commercial lending portfolio (including banking counterparties outside the Group), the breakdown by geographic area covers a total portfolio of €675.8 billion at 31 December 2012, compared with €685.1 billion at 31 December 2011. The breakdown reflects the country in which the commercial lending risk is based.

**BREAKDOWN BY GEOGRAPHIC AREA OF COMMERCIAL LENDING OF THE CRÉDIT AGRICOLE S.A. GROUP AT 31 DECEMBER 2012**




**BREAKDOWN BY GEOGRAPHIC AREA OF COMMERCIAL LENDING OF THE CRÉDIT AGRICOLE S.A. GROUP AT 31 DECEMBER 2011**



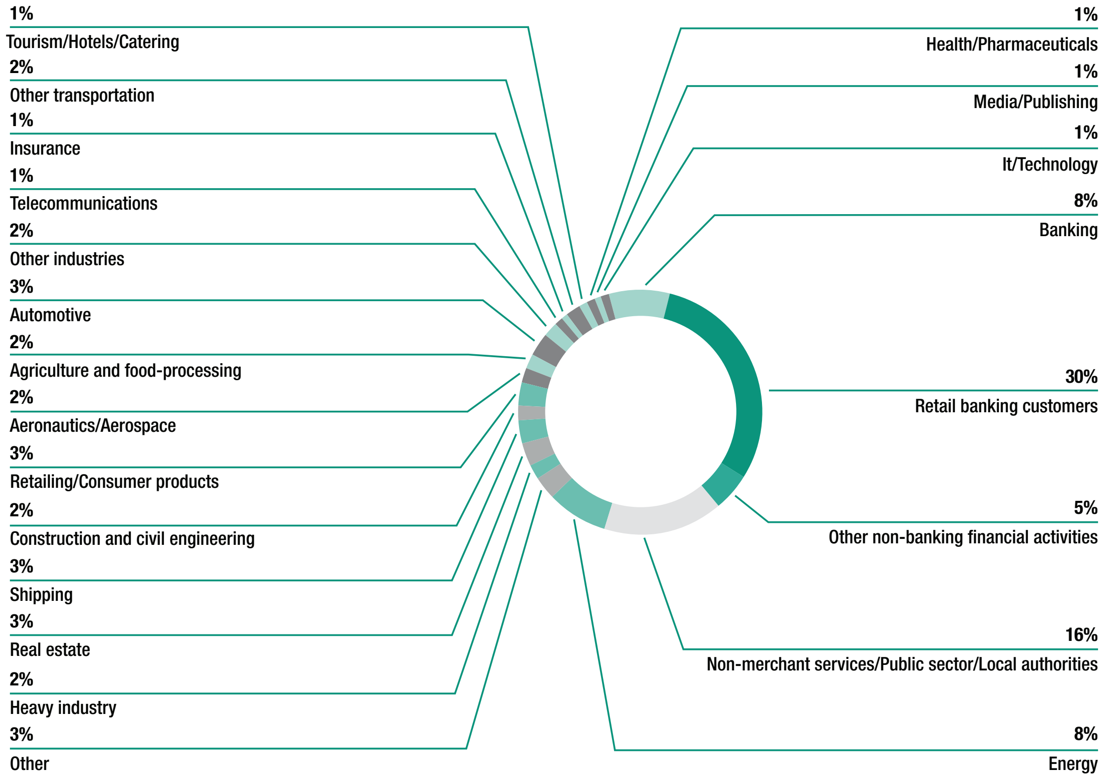

Commercial commitments based in France are up slightly in 2012 at 49% of total commitments, compared with 48% in 2011. Italy, the Group's second largest market, remained unchanged with 12% of commitments.

Note 3.1 to the financial statements presents the breakdown of loans and receivables and commitments to customers and credit institutions by geographic area on the basis of accounting data.

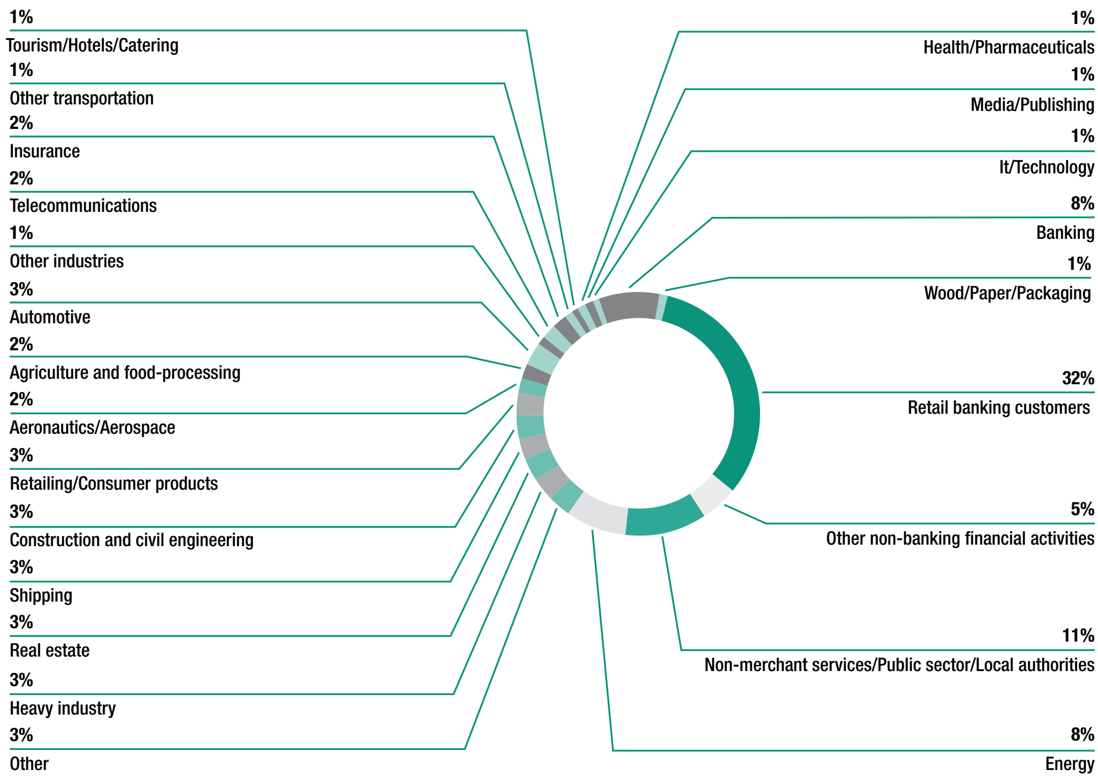
## 2.2. PORTFOLIO DIVERSIFICATION BY BUSINESS SECTOR

On the commercial lending portfolio (including banking counterparties outside the Group), the breakdown by business sector covers a total portfolio of €630.6 billion at 31 December 2012, compared with €639.4 billion at 31 December 2011. The breakdown reflects the business sector in which the commercial lending risk to customers is based.

**BREAKDOWN BY BUSINESS SECTOR OF COMMERCIAL LENDING OF THE CRÉDIT AGRICOLE S.A. GROUP AT 31 DECEMBER 2012**



**BREAKDOWN BY BUSINESS SECTOR OF COMMERCIAL LENDING OF THE CRÉDIT AGRICOLE S.A. GROUP AT 31 DECEMBER 2011**




Well diversified, the commercial lending portfolio breakdown by business sector continues to remain stable for 2012. Apart from the “Non-merchant/public sector/local authorities” sector, whose relative share grew from 11% at end-2011 to 16% at end-2012, and that of the Retail banking customers which fell from 32% at end 2011 to 30% at end-2012, no other sector experienced an annual variation higher than 1%.

### 2.3. BREAKDOWN OF LOANS AND RECEIVABLES BY TYPE OF CUSTOMER

Concentrations by customer type of loans and receivables and commitments given to credit institutions and customers are presented in Note 3.1 to the consolidated financial statements.

The gross amount of loans and receivables outstanding, including accrued interest (€461 billion at 31 December 2012), fell by 11.5% in 2012 (from €521 billion at 31 December 2011). It is split mainly between large corporates and retail customers (respectively, 31.4% and 32.8%, compared with 32.2% and 31.8% at 31 December 2011). The proportion of institutions other than banks and credit institutions fell slightly to 29.2% of these outstandings at 31 December 2012, compared with 30.2% at 31 December 2011.

### 2.4. EXPOSURE TO COUNTRY RISK

If 2011 was marked by the socio-political crisis in North Africa and the Middle East, the nuclear disaster in Japan and the increasing tensions over sovereign debt in a number of European nations, the mood throughout 2012 was again bleak. The global economy continued to experience reduced structural growth, with a deterioration in the social climate and increased unemployment in both developed and some emerging countries, fostering an upsurge in the "black" economy which does not bode well for the future. Budgetary and current account deficits will continue to be a major source of concern for governments in developed countries in the coming months. This may be reflected in an increased risk of protectionism threatening recovery and international cooperation. Emerging countries which have, in the main, been more resilient to the crisis due to the strength of domestic demand, have witnessed a rise in political risk which has weakened their economy.

Crédit Agricole S.A. Group's commercial lending (on and off balance sheet) to customers at risk in emerging counties comes mainly *via* Crédit Agricole CIB, *via* UBAF (47.01% owned by Crédit Agricole CIB) and *via* International retail banking. These exposures include guarantees received coming in deduction (export credit insurance, cash deposits, securities pledged, etc.).

At 31 December 2012, commercial lending (including to banking counterparties) amounted to €45.9 billion (compared with €50.7 billion at 31 December 2011).

Concentration of exposures on emerging countries was up slightly in 2012: the top 20 countries accounted for 88.3% of the portfolio at year-end 2012, compared with 84.5% at year-end 2011.

Three geographic areas are predominant: the Middle East/North Africa, Eastern Europe and Asia. They are following by Latin America and Sub-Saharan Africa.

#### The Middle East and North Africa

The Middle East and North Africa constitute the leading area of exposure for emerging countries at 34.4% at 31 December 2012 (€15.8 billion) compared with 35.7% at 31 December 2011 (€18.1 billion). The exposures are concentrated in Morocco, Egypt, the United Arab Emirates, Saudi Arabia and Algeria (80% of Middle Eastern and North African exposures). The drop recorded in 2012 was the result of a hike in exposure on Algeria, offset by more sizeable drops in exposures on the United Arab Emirates, Qatar, Egypt and Saudi Arabia.

#### Eastern Europe

Exposure in this region accounted for 29.6% of the Group's emerging-country risks, totalling €13.6 billion. It remains concentrated in five countries (89% of total exposures on Poland, Russia, the Ukraine, Serbia and Hungary). At 31 December 2011, this region accounted for 25.7% of emerging-country risks, totalling €13 billion.

#### Asia

Asia represents the third-largest exposure among emerging countries, with 23.9% of exposures at year-end 2012 (22.8% at year-end 2011), or €11 billion (€11.6 billion at 31 December 2011). Activity remained concentrated in the main countries of the region (China, India, and Indonesia).

#### Latin America

At year-end 2012 this region represented 8.7% of the exposure on emerging countries, with exposures of €4 billion concentrated in four countries: Mexico, Brazil, Cuba and Peru (compared with 10.4% at year end-2011 for €5.3 billion).

#### Sub-Saharan Africa

This region represented exposure of €1.6 billion (3.4% of emerging-country risks) at year-end 2012, including 32.1% on South Africa (compared with €2.7 billion at year-end 2011, including 37.6% on South Africa). This region's decline in absolute terms is due to the ongoing closure of the Crédit Agricole CIB entity in South Africa.

## 3. Credit quality

### 3.1. ANALYSIS OF LOANS AND RECEIVABLES BY CATEGORY

The breakdown of loans and receivables to credit institutions and customers is presented as follows:

| Loans and receivables *(in millions of euros)* | 31/12/2012 | 31/12/2011 |
|---|---|---|
| Neither past due nor impaired | 436,542 | 489,090 |
| Past due but not impaired | 7,011 | 7,146 |
| Impaired | 17,349 | 24,759 |
| **TOTAL** | **460,902** | **520,995** |

The portfolio of loans and receivables at 31 December 2012 consisted for 94.7% in amounts that were neither past due nor impaired (94.0% at 31 December 2011).

Under IFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The Group considers that there is no identified credit risk on loans and receivables that are less than 90 days past due, accounting for 89% of past due but not impaired loans.

Details of financial assets that were past due or impaired are presented in Note 3.1 to the consolidated financial statements.

### 3.2. ANALYSIS OF OUTSTANDINGS BY INTERNAL RATING

The internal rating policy used by Crédit Agricole Group aims to cover the entire Group customer portfolio, *i.e.*, retail customers, corporate customers, banks and financial institutions, government agencies and local authorities.

On the performing commercial lending portfolio excluding retail customers (€503.7 billion at 31 December 2012, compared with €500.8 billion at 31 December 2011), rated borrowers accounted for 75% of the total (compared with 74% at year-end 2011) (€375.8 billion at 31 December 2012, compared with €373.2 billion at 31 December 2011). The breakdown of this portfolio is presented according to the Standard & Poor's equivalents of the Group's internal ratings.

**CHANGE IN THE NON-BANK, NON-RETAIL CUSTOMERS COMMERCIAL LENDING PERFORMING PORTFOLIO OF CRÉDIT AGRICOLE S.A. GROUP BY INDICATIVE S&P EQUIVALENT OF INTERNAL RATING**


This breakdown reflects a credit portfolio of good quality, and which shows a consistent risk profile between 2011 and 2012. At 31 December 2012, 88% of exposures related to borrowers with investment-grade ratings (rating that is equal to or greater than BBB) compared with 88% at 31 December 2011, and 1% related to borrowers on watch.

### 3.3 IMPAIRMENT AND RISK COVERAGE

#### 3.3.1 Impairment and risk coverage policy

The policy for hedging loan loss risks is based on two kinds of impairment allowances:

- impairment allowances on an individual basis intended to cover probable losses on impaired receivables;
- collective impairment allowances under IAS 39, recognised when objective indications of impairment are identified on one or more homogeneous subgroups within the credit risk portfolio. These impairment allowances are intended to cover deterioration in the risk profile of exposures to certain countries, business sectors or counterparties, not because they are in default but because their rating has been lowered. Impairment losses on a portfolio basis are also made in retail banking. Collective impairments are, in the main, calculated on statistical bases on the amount of loss expected until the transactions mature, using Basel probability of default (PD) and loss given default (LGD) criteria.

#### 3.3.2 Impaired financial assets

The breakdown of impaired loans and receivables due from credit institutions and customers by customer type and geographic area is presented in Note 3.1 to the financial statements.

At 31 December 2012, total impaired loans and receivables stood at €17.3 billion (compared with €24.8 billion at 31 December 2011). The drop was mainly due to the reclassification of Emporiki Bank as discontinued operations (IFRS 5). These consist of non-performing loans and commitments on which the Group sees potential non-recovery. Impaired assets accounted for 3.8% of the Group's gross recorded outstandings at 31 December 2012 (4.8% at 31 December 2011). They were covered by €9.9 billion of individual impairment allowances (€13.5 billion at 31 December 2011), including lease finance transactions but not including collective impairment allowances.

Performing loans and receivables that were renegotiated amounted to €2.4 billion at 31 December 2012 (€3 billion at 31 December 2011).

### 4. Cost of risk

The overall cost of risk of Crédit Agricole S.A. and its subsidiaries amounted to €3.7 billion at 31 December 2012, compared with €4.3 billion in 2011 (restated for held-for-sale activities) *i.e.* a drop of about 12%. 2011 was marked by the worsening of the economic situation in Greece and the need to write down, in the banking and insurance subsidiaries, Greek sovereign bonds by between 70% and 75% depending on their maturity. Specialised financial services (Consumer Finance, Leasing and Factoring) recorded a sharp increase in cost of risk, due mainly to the need to strengthen the coverage of risks in Greece and in Italy. This trend continued in 2012, notably on an international level where the cost of risk continued to deteriorate on Agos Ducato. This deterioration is due to unsatisfactory debt-collection performances and non-recurring provisions for adjustments to the cost of litigations portfolio disposal and for methodological corrections.

Details of the movements that affected the cost of risk are presented in Note 4.8 to the consolidated financial statements. This is broken down by business line in note 5.1 to the consolidated financial statements.

### 5. Counterparty risk on derivative instruments

The counterparty risk on derivative instruments is established according to market value and potential credit risk calculated and weighted in accordance with regulatory standards. At 31 December 2012, the exposures of Crédit Agricole S.A. Group to counterparty risk on derivative instruments are presented in Note 3.1 to the consolidated financial statements.

## ▶ MARKET RISKS

Market risks are risks of a negative impact on the income statement or balance sheet of adverse fluctuations in the value of financial instruments following changes in market parameters, particularly:

- interest rates: interest rate risk is the risk of a change in the fair value of a financial instrument or the future cash flows from a financial instrument due to a change in interest rates;
- exchange rates: foreign exchange risk is the risk of a change in the fair value of a financial instrument due to a change in exchange rates;
- prices: price risk is the risk of a change in the price or volatility of equities and commodities, baskets of equities or stock market indices. The instruments most exposed to this risk are equity securities, equity derivative instruments and commodity derivative instruments;
- credit spreads: credit risk is the risk of a change in the fair value of a financial instrument resulting from movement in the credit spreads for indices or issuers. For more complex credit products, there is also the risk of a change in fair value arising from a change in correlation between issuer defaults.

## I. Objectives and policy

Crédit Agricole S.A. Group has a specific market risk management system with its own organisation independent of operational hierarchies, risk identification and measurement methods, monitoring and consolidation procedures.

The system covers all market risks arising from capital market activities, mainly directional positions taken by the trading desks and market making. The investment portfolios of the finance departments are monitored separately.

In 2012, the Group continued to apply a prudent market risk management policy. Moreover, its subsidiary Crédit Agricole CIB continued to implement the restructuring plan *via* the sale of correlation portfolio market risk and the sale of other activities considered to be non-strategic.

## II. Risk management

### 1. Local and central organisation

Crédit Agricole S.A. Group has two distinct but complementary levels of market risk management:

- at the central level, the Group Risk Management and Permanent Controls department coordinates all Group-wide market risk supervision and control issues. It standardises data and data processing to ensure consistency of both consolidated risk measurement and controls. It keeps the executive (Crédit Agricole S.A. Executive Management) and administrative (Board of Directors, Audit Committee) bodies informed of the status of market risks;
- at the local level, for each Crédit Agricole S.A. Group entity, a Risk Management and Permanent Controls officer monitors and controls market risks arising from the entity's businesses. Within the Crédit Agricole CIB subsidiary, the Risk Management and Permanent Controls department relies on decentralised teams of risk controllers, generally based abroad. These control functions are performed by different teams:
  a) Risk Management whose role is to ensure monitoring and control of market risks for all product lines worldwide: limit proposals which are approved by the Market Risk Committee and monitored for their compliance, analysis of limit excesses as well as significant variations in results brought to the attention of the Market Risk Committee,

b) activity monitoring: control and validation of market parameters used for the production of results and risk indicators, production of management results and risk indicators for all activities covered by market risk limits, reconciliation of management and accounting data,

c) cross-functional teams: quantitative research, internal VaR model, Market Data Management.

Operating agreements between the central and local levels determine the level of information, format and frequency of the reports that entities must transmit to Crédit Agricole S.A. (Group Risk Management and Permanent Controls).

### 2. Decision-making and Risk Monitoring Committees

Three governance bodies are involved in the management of market risk at Crédit Agricole S.A. Group level:

- the Group Risk Management Committee, chaired by the Chief Executive Officer of Crédit Agricole S.A., approves the aggregate limits on each entity's market risks when it presents its risk strategy and makes the main decisions in the matter of risk containment. The Committee examines the market situation and risks incurred on a quarterly basis, in particular through the utilisation of limits and any significant breaches of limits and incidents;
- the Risk Monitoring Committee, chaired by the Chief Executive Officer of Crédit Agricole S.A., reviews the main indicators of market risk twice a month;
- the Standards and Methodology Committee meets periodically and is chaired by the Head of Group Risk Management and Permanent Controls. Its responsibilities include approving and disseminating standards and methods concerning the supervision and permanent control of market risks.

In addition, each entity has its own Risk Committee. The most important of these is Crédit Agricole CIB's Market Risk Management Committee (CRM), which meets twice a month and is chaired by the Executive Management member of the Committee in charge of risks. It is made up of Crédit Agricole CIB's Head of market risk management and the risk managers responsible for specific activities. This Committee reviews Crédit Agricole CIB's positions and the results of its capital market activities and verifies compliance with the limits assigned to each activity. It is empowered to make decisions on requests for temporary increases in limits.

## III. Market risk measurement and management methodology

### 1. Indicators

The market risk measurement and supervision system is based on a combination of several indicators, most of which are subject to global or specific limits. It draws principally on Value at Risk, stress scenarios and complementary indicators (risk factor sensitivity, combined qualitative and quantitative indicators). Moreover, following regulatory changes relating to the measurement of capital requirements for market risks, Crédit Agricole CIB has put in place indicators relating to the CRD 3 Directive (stressed VaR, Incremental Risk Charge, Comprehensive Risk Measure).

The measurement system for the indicators relies on a process of evaluating positions for each entity that is subject to market risk. The permanent control process includes procedures for validating models and also procedures for structuring the back-testing of models.

#### 1.1 VAR (VALUE AT RISK)

The central element of the market risk measurement system is the Value at Risk (VaR). VaR can be defined as the maximum theoretical loss on a portfolio in the event of adverse movements in market parameters over a given timeframe and for a given level of confidence. Crédit Agricole S.A. Group uses a confidence level of 99%, a timeframe of one day, and one year of historical data. In this way, market risks incurred by the Group in its trading activities can be monitored on a daily basis by quantifying the estimated maximum level of loss in 99 out of 100 cases, after inclusion of a number of risk factors (interest rate, foreign exchange, asset prices, etc.). The inter-correlation of such factors affects the maximum loss amount.

The netting figure is defined as the difference between total VaR and the sum of VaRs by risk factor. It represents the effects of netting among positions held simultaneously on different risk factors. A procedure known as back-testing (comparing each day's result against VaR estimated the day before) is used to confirm the relevance of the methodology.

The main method used to measure VaR is the historical VaR method. The Monte Carlo method is used only for a marginal portion of Crédit Agricole CIB's commodity-related activities.

The internal VaR model of Crédit Agricole CIB, which is the main contributor to the VaR of Crédit Agricole S.A. Group, has been approved by the regulatory authorities.

The process of measuring a historical VaR for risk positions on a given date D is based on the following principles:

- compilation of an historical database of risk factors on positions held by Crédit Agricole S.A. Group entities (interest rates, share prices, exchange rates, commodity prices, volatilities, credit spreads, correlation, etc.);
- determination of 261 scenarios corresponding to one-day changes in risk factors, observed over a rolling one-year period;
- adjustment of parameters corresponding to date D according to the 261 scenarios;
- remeasurement of the day's positions based on the 261 scenarios.

The 99% VaR figure based on the 261 scenarios is equal to the average of the second and third worst risks observed.

The VaR calculation methodology undergoes constant improvement and adjustment to take into account, among other things, the changing sensitivity of positions to risk factors and the relevance of the methods to new market conditions. For example, efforts are made to incorporate new risk factors and to achieve finer granularity on existing risk factors. In 2012, the mark-to-market measurement of positions backed by CSAs (Collateral Service Agreements) was improved by recognising collateral cost.

### Limitations of the historical VaR calculation

The main methodological limitations of the VaR model are the following:

- the use of daily shocks assumes that all positions can be liquidated or covered in one day, which is not always the case for certain products and in certain crisis situations;
- the use of a 99% confidence interval leaves out losses that could occur outside that interval: VaR is consequently an indicator of risk under normal market conditions and does not take into account movements of exceptional magnitude;
- VaR does not provide any information on amounts of exceptional losses (outside the 99% confidence interval).

### Back-testing

A back-testing process is applied to check the relevance of the VaR model for each of the Crédit Agricole S.A. Group's entities which have capital market activities. This process verifies *a posteriori* whether the number of exceptions (days when actual losses exceeded estimated VaR) was within the 99% confidence interval (a daily loss should exceed the calculated VaR only two or three times a year). For Crédit Agricole CIB, for which the measurement of capital requirements for market risk partly depends on the number of exceptions observed over a rolling one-year period, only one exception was seen at the level of regulatory VaR for 2012.

## 1.2 STRESS SCENARIOS

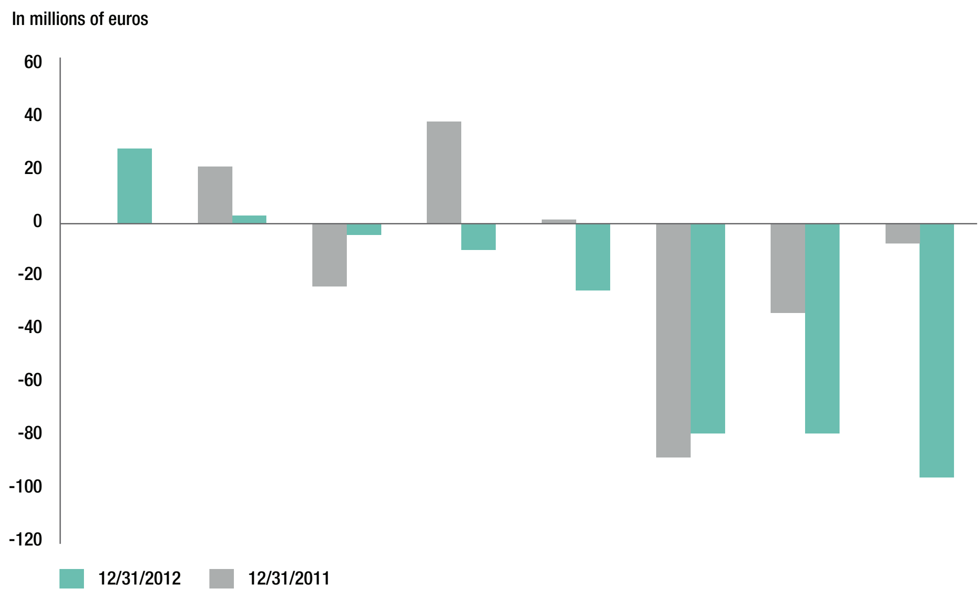
Stress scenarios complement the VaR measure which does not capture the impact of extreme market conditions. Stress scenarios are calculated following Group principles to simulate extreme market conditions and are the result of different complementary approaches:

- historical scenarios, which consist in replicating the impact on the current portfolio of major crises observed in the past. The past crises used in historical stress scenarios are the 1987 stock market crash; the 1994 bond market crisis; the 1998 credit market crisis coupled with falling equity markets, sharply rising interest rates and declining emerging-country currencies; the 2008 failure of Lehman Brothers (two stress scenarios measuring the impact of market movements after the failure);
- hypothetical scenarios anticipating plausible shocks, which are developed in conjunction with economists. The hypothetical scenarios used are: economic recovery (with rising equity and commodity markets, flattening yield curves, appreciation of the USD and narrowing credit spreads); liquidity crunch (with flattening yield curves, widening credit spreads and falling equity markets); and international tensions (with flattening yield curves, falling equity markets and rising volatility, fall in the USD, widening credit spreads and increasing volatility on the commodity markets).

The stress scenarios are calculated weekly.

At year-end 2012, the risk levels of Crédit Agricole S.A. Group (excluding the Crédit Agricole CIB business in run-off, which is monitored separately) as measured under historical and hypothetical stress scenarios were as follows:

**ESTIMATED LOSSES ASSOCIATED WITH STRESS SCENARIOS**



In addition other types of stress tests are performed:

- at the level of the entities, adverse stress tests enabling evaluation of the impact of major and unfavourable market movements for all business lines including businesses in run-off;
- at the level of Crédit Agricole CIB, extreme stress tests, calculated since the beginning of 2010, enabling measurement of the impact of even more severe market shocks without looking for the impacts of netting between different business lines.

### 1.3 COMPLEMENTARY INDICATORS

Other complementary indicators are also produced and can, as part of the risk containment system, be subject to limits. These include indicators of sensitivity to various risk factors, loss alerts, stop-loss indicators, nominal amounts, outstandings, remaining terms, etc. These indicators provide fine-grained measurements of exposure to different market risk factors, serve to identify atypical transactions and fill out the summary picture of risks supplied by VaR and global stress scenarios.

### 1.4 INDICATORS RELATING TO THE CRD 3 DIRECTIVE

#### Stressed VaR

The “stressed” VaR was implemented in June 2010. It is consistent with a one-day historical VaR with a confidence interval of 99%. Its unique feature lies in the history of shocks, which is identified as the most damaging one-year period since mid-2007. At year-end 2012, it includes, notably, the end of 2008 (bankruptcy of Lehman Brothers).

#### Incremental Risk Charge

The incremental risk charge is a calculation of incremental losses related to changes in a portfolio’s credit quality.

#### Comprehensive Risk Measure

Following the entry into force of CRD 3 on 31 December 2011, Crédit Agricole CIB introduced the CRM (Comprehensive Risk Measure). This indicator relates to the correlation portfolio. Given that the correlation portfolio market risk had been transferred to an external counterparty, the CRM showed a nil value at 31 December 2012.

### 1.5 INDICATORS RESPONDING TO REGULATION CHANGES

Following regulatory changes relating to capital requirements applicable to credit institutions, Crédit Agricole CIB introduced a VaR known as “CVA” (Credit Valuation Adjustment) which measures the potential loss arising from a deterioration in counterparties’ credit ratings.

## 2. Use of credit derivatives

As part of its capital markets activities, Crédit Agricole CIB deals in credit products (trading, structuring and sales) that entails the use of credit derivatives. The products currently traded are simple Credit Default Swaps (CDSs) in which credit spreads are the main risk factor. In early 2012, Crédit Agricole CIB transferred the market risk attached to the correlation portfolio.

The business in complex and structured products is managed in run-off. All of these positions are measured at fair value, with deductions for model and parameter uncertainties.

These activities are managed through a system of market-risk indicators and limits designed to cover all risk factors. These indicators are:

- VaR (historical, 99%, daily, including credit spread risk and correlation risk);
- credit sensitivity;
- sensitivity to correlation;
- sensitivity to interest rates.

Independent teams are responsible for valuing positions, calculating risk indicators, setting limits and validating models.

# IV. Exposure on capital markets (Value at Risk)

The VaR of Crédit Agricole S.A. Group is calculated by incorporating the impacts of diversification between the different entities of the Group.

Crédit Agricole CIB's capital market activities are taken to be those within the scope of the regulatory VaR measure (measured using an internal ACP-approved model).

The change in VaR on the capital markets activities of Crédit Agricole S.A. Group between 31 December 2011 and 31 December 2012, broken down by major risk factor, is shown in the table below:

### BREAKDOWN OF VAR (99%, ONE DAY)

| *(in millions of euros)* | 31/12/2012 | Minimum | Maximum | Average | 31/12/2011 |
|---|---|---|---|---|---|
| Fixed income | 7 | 5 | 17 | 10 | 8 |
| Credit | 4 | 3 | 16 | 6 | 13 |
| Foreign Exchange | 2 | 1 | 7 | 3 | 4 |
| Equities | 3 | 1 | 6 | 2 | 3 |
| Commodities | 0 | 0 | 5 | 2 | 5 |
| Netting | (7) | | | (10) | (13) |
| **VAR OF CRÉDIT AGRICOLE S.A. GROUP** | **9** | **7** | **25** | **13** | **20** |
| For reference: Total VaR of all entities | 11 | 9 | 27 | 15 | 21 |

The Group's VaR amounts to €9 million at 31 December 2012. The netting offset (-€7 million) is defined as the difference between total VaR and the sum of the VaRs by risk factor. For reference, without accounting for the diversification effect between different entities, the total VaR would be €11 million (of which €9 million for Crédit Agricole CIB).

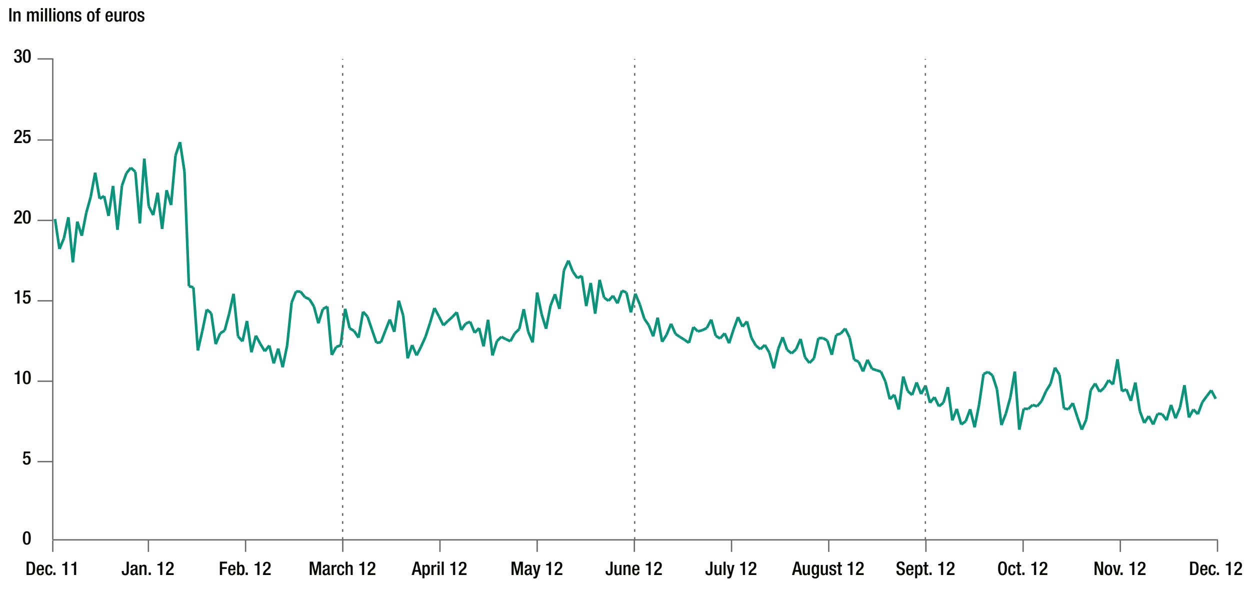
The "Fixed income" VaR, calculated for the aggregate cash and interest rate derivatives activities was reduced to €7 million at 31 December 2012 (compared with €8 million at 31 December 2011) in the light of low rates. The main risk factor at 31 December 2012 for the Group's capital market activities was the rate factor.

The "Credit" VaR, calculated for credit market activities, dropped sharply to €4 million. This drop followed the transfer, in early 2012, of the market risk attached to Crédit Agricole CIB's correlation portfolio.

"Equity" and "Exchange rate" VaRs made a more marginal contribution and, at 31 December 2012, stood at €3 million and €2 million respectively. Crédit Agricole CIB's commodities activities were sold.

The graph below shows the change in VaR during 2012, reflecting the maintaining of a conservative strategy in a period of significant market uncertainty:

### CRÉDIT AGRICOLE S.A. GROUP VAR BETWEEN 01/01/2012 AND 31/12/2012



## V. Equity risk

Equity risk arises in the trading and arbitrage of equity securities as well as on shares held in the investment portfolio and on treasury shares.

### 1. Equity risk from trading and arbitrage activities

Equity risk from trading and arbitrage activities arises from positions taken on shares and stock market indices *via* cash or derivatives markets (positions in exotic equity derivatives are being managed in run-off mode, and no new transactions of this kind are being made). The main risk factors are prices of shares and of stock indices, volatilities of those prices and smile parameters of those volatilities[1].

Measurement and containment of equity risk is addressed in the description of the processes indicated in section III above.

This risk is monitored by means of VaR. Equity VaRs during 2012 are shown in the table in section IV above. Equity VaR was €3 million at 31 December 2012 (unchanged from year-end 2011).

### 2. Equity risk from other activities

A number of Crédit Agricole S.A. Group entities hold portfolios of available-for-sale financial assets that are invested partly in equities and structured products whose market value depends on prices of underlying equities and equity indices. At 31 December 2012, total outstandings exposed to equity risk *via* these portfolios primarily comprise available-for-sale financial assets for €22 billion (including insurance company portfolios for €18.6 billion) and financial assets at fair value through profit or loss held by insurance companies for €7.6 billion.

Note 6.4 to the financial statements gives figures in particular on outstandings of equities, and unrealised gains and losses on "available-for-sale financial assets". Information on market risk (including equity risk) on the portfolios held by the insurance companies is presented below in the section on "insurance sector risks".

### 3. Treasury shares

In accordance with Articles L. 225-209 et seq. of the French Commercial Code and European Commission Regulation 2273/2003 of 22 December 2003, the Combined Ordinary and Extraordinary General Meeting of Shareholders may authorise the Board of Directors of Crédit Agricole S.A. to trade in treasury shares. Crédit Agricole S.A. uses such an authorisation mainly to cover its commitments to employees under stock options or to stimulate the market by a share liquidity agreement.

Details of 2012 transactions in treasury shares under the share buy-back programme are provided in chapter 3 of this registration document, in the section "Purchase by the Company of its own shares".

At 31 December 2012, holdings of treasury shares amounted to 0.29% of share capital, compared with 0.28% at 31 December 2011 (see Note 8 of the parent company financial statements and Note 6.19 of the consolidated financial statements).

Details of the 2012 treasury share buy-back programme are provided in section 8 of this registration document, "Information on the share capital".

*(1) The smile is the parameter that reflects the change in implied volatility on an option as a function of the exercise price.*

# SENSITIVE EXPOSURES BASED ON THE FINANCIAL STABILITY BOARD RECOMMENDATIONS

The exposures below correspond to the recommendations of the Financial Stability Board. This information forms an integral part of Crédit Agricole S.A. Group's consolidated financial statements at 31 December 2012. For this reason it is covered by the Statutory Auditors' report on the annual financial information.

## I. Summary schedule of exposures

| | Asset under loans and receivables | | | | | Assets at fair value | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(in millions of euros)* | Gross exposure | Discount | Collective provisions | Net exposure | Accounting category | Gross exposure | Discount | Net exposure | Accounting category |
| RMBS | 620 | (132) | (87) | 401 | | 155 | (103) | 52 | |
| CMBS | 115 | (4) | (18) | 93 | (1) | 10 | (2) | 8 | |
| Unhedged super senior CDOs | 2,071 | (1,086) | (241) | 744 | | 1,155 | (1,137) | 18 | |
| Unhedged mezzanine CDOs | | | | | | 585 | (585) | 0 | |
| Unhedged CLOs | 2,135 | (31) | (11) | 2,093 | (2) | 649 | (21) | 628 | (3) |
| Protection acquired from monolines | | | | | | 141 | (106) | 35 | |
| Protection acquired from CDPC | | | | | | 137 | (48) | 89 | (4) |

*(1) Loans and receivables to credit institutions and to customers – Securities not listed on an active market (see Note 6.5 to the consolidated financial statements).*

*(2) Loans and receivables to customers – Securities not listed on an active market (see Note 6.5 to the consolidated financial statements).*

*(3) Financial assets at fair value through profit or loss – Bonds and other fixed income securities and derivatives (see Note 6.2 to the consolidated financial statements).*

*(4) Financial assets at fair value through profit or loss – Derivatives (see Note 6.2 to the consolidated financial statements).*

## II. Mortgage Asset Backed Securities (ABS)

| *(in millions of euros)* | United States | | United Kingdom | | Spain | |
|---|---|---|---|---|---|---|
| **RMBS** | **31/12/2012** | **31/12/2011** | **31/12/2012** | **31/12/2011** | **31/12/2012** | **31/12/2011** |
| **Recognised under loans and receivables** | | | | | | |
| Gross exposure | 339 | 430 | 181 | 197 | 100 | 172 |
| Discount (1) | (161) | (132) | (32) | (68) | (26) | (47) |
| **Net exposure** *(in millions of euros)* | **178** | **298** | **149** | **129** | **74** | **125** |
| **Recognised under assets measured at fair value** | | | | | | |
| Gross exposure | 109 | 214 | 40 | 66 | 6 | 31 |
| Discount | (97) | (185) | (5) | (7) | (1) | (5) |
| **Net exposure** *(in millions of euros)* | **12** | **29** | **35** | **59** | **5** | **26** |
| % underlying subprime on net exposure | 95% | 98% | | | | |
| **Breakdown of gross exposure, by rating** | | | | | | |
| AAA | 5% | 5% | | 7% | | 34% |
| AA | 4% | 2% | | 34% | | 19% |
| A | 3% | 7% | 79% | 41% | 58% | 19% |
| BBB | 5% | 3% | | | 13% | |
| BB | 3% | 1% | 21% | 18% | | 3% |
| B | 5% | 4% | | | 7% | 25% |
| CCC | 3% | 21% | | | | |
| CC | 3% | 9% | | | | |
| C | 43% | 28% | | | | |
| Not rated | 26% | 20% | | | 22% | |

| *(in millions of euros)* | United States | | United Kingdom | | Other | |
|---|---|---|---|---|---|---|
| **CMBS** | **31/12/2012** | **31/12/2011** | **31/12/2012** | **31/12/2011** | **31/12/2012** | **31/12/2011** |
| **Recognised under loans and receivables** | | | | | | |
| Net exposure (1) | | | 25 | 63 | 68 | 97 |
| **Recognised under assets measured at fair value** | | | | | | |
| Net exposure | | | 5 | 5 | 3 | 4 |

*(1) Including a €106 million collective provision at 31 December 2012 compared with €93 million at 31 December 2011.*

Purchases of protection on RMBSs and CMBSs measured at fair value are as follows:

- 31 December 2012: nominal = €93 million; fair value = €79 million.
- 31 December 2011: nominal = €320 million; fair value = €87 million.

Mortgage ABSs are measured at fair value based on information provided by outside sources.

## III. Measurement methodology for super senior CDO tranches with US residential mortgage underlyings

### 1. Super senior CDOs measured at fair value

Super senior CDOs are measured by applying a credit scenario to the underlyings (mainly residential mortgages) of the ABSs making up each CDO.

The final loss percentages on loans at the end of their term are:

- determined on the basis of the quality and origination date of each residential loan;
- expressed as a percentage of the nominal amount. In particular, this approach enables the assessment of loss assumptions on the basis of the risks present on the Bank's statement of financial position.

| | Loss rates on subprime produced in | | |
|---|---|---|---|
| **Closing date** | **2005** | **2006** | **2007** |
| 31/12/2011 | 50% | 60% | 60% |
| **31/12/2012** | **50%** | **60%** | **60%** |

The future cash flows obtained are then discounted at a rate which takes market liquidity into account.

### 2. Super senior CDOs at amortised cost

Since the fourth quarter of 2012, impairment has been calculated using the same methodology as for super senior CDOs measured at fair value, but the future cash flows obtained are discounted at actual interest rates on the reclassification date.

## IV. Unhedged super senior CDOs with US residential mortgage underlyings

At 31 December 2012, Crédit Agricole CIB's net exposure to unhedged super senior CDOs was €762 billion (after taking into account a collective provision of €241 million).

### 1. Breakdown of super senior CDOs

| *(in millions of euros)* | Assets at fair value | Asset under loans and receivables |
|---|---|---|
| **Nominal** | **1,155** | **2,071** |
| Discount | (1,137) | (1,086) |
| Collective provisions | | (241) |
| **Net amount** | **18** | **744** |
| *Net amount at 31/12/2011* | *975* | *1,290* |
| **Discount rate(1)** | **98%** | **64%** |
| **Underlying** | | |
| % of underlying subprime assets produced before 2006 | 24% | 27% |
| % of underlying subprime assets produced in 2006 and 2007 | 29% | 3% |
| % of underlying Alt-A assets | 1% | 21% |
| % of underlying Jumbo assets | 0% | 10% |

(1) *After inclusion of fully written down tranches.*

## 2. Other exposures at 31 December 2012

| *(in millions of euros)* | Nominal | Discount | Collective provisions | Net |
|---|---|---|---|---|
| Unhedged CLOs measured at fair value | 649 | (21) | | 628 |
| Unhedged CLOs recognised in loans and receivables | 2,135 | (31) | (11) | 2,093 |
| Unhedged Mezzanine CDOs | 585 | (585) | | 0 |

# V. Protection

## 1. Protection purchased from monolines at 31 December 2012

### 1.1. EXPOSURES TO MONOLINE COUNTERPARTY RISKS

| | Monolines covering | | | | |
|---|---|---|---|---|---|
| *(in millions of euros)* | US residential CDOs | Corporate CDOs | CLOs | Other underlying | Total protection acquired from monolines |
| Gross notional amount of purchased protection | 93 | 2,611 | 276 | 335 | 3,315 |
| Gross notional amount of hedged items | 93 | 2,611 | 276 | 335 | 3,315 |
| Fair value of hedged items | 88 | 2,609 | 258 | 219 | 3,174 |
| **Fair value of protection before value adjustments and hedges** | **5** | **2** | **18** | **116** | **141** |
| Value adjustments recognised on protection | (1) | (1) | (16) | (88) | (106) |
| **Residual exposure to counterparty risk on monolines** | **4** | **1** | **2** | **28** | **35** |

### 1.2. BREAKDOWN OF NET EXPOSURE TO MONOLINES


Lowest rating issued
by Standard & Poor's or Moody's
at 31 December 2012

Baa1: Assured Guaranty
Caa2: MBIA
B: Radian
NR: CIFG

## 2. Protection purchased from CDPC (Credit Derivative Product Company)

At 31 December 2012 the net exposure to CDPC was €89 million (compared with €985 million at 31 December 2011), mainly on corporate CDOs, after taking into account a discount of €48 million (compared with €160 million at 31 December 2011).

# ASSET/LIABILITY MANAGEMENT

## I. Asset/liability management – Structural financial risks

Crédit Agricole S.A.'s Financial Management department defines the principles of financial management and ensures their consistent application within Crédit Agricole S.A. Group. It has responsibility for organising financial flows, defining and implementing refinancing rules, performing asset/liability management and managing prudential ratios.

Optimising financial flows within Crédit Agricole S.A. Group is an ongoing objective. Pooling of surplus resources and making it systematically possible to hedge the associated risks contribute to this objective.

Thus the principles of the Group's ALM approach ensure that any surpluses and shortfalls in terms of customer resources in particular at the Regional Banks are centralised in the books of Crédit Agricole S.A. This resource pooling helps in refinancing other Group entities as needed (including Crédit Agricole Leasing & Factoring and Crédit Agricole Consumer Finance).

This system for centralising the management of liquidity at Crédit Agricole S.A. serves to control and optimise cash management, especially since it is accompanied by partial interest rate matching.

Consequently, the Group has a high level of financial cohesion, with limited diffusion of financial risks, particularly liquidity risk. However, the Group's various entities are responsible for managing the risk that remains at their level, within the limits assigned to them.

Limits are defined by order of the Chief Executive Officer of Crédit Agricole S.A. in the framework of the Group Risk Management Committee, approved by the Board of Directors of Crédit Agricole S.A., and apply throughout Crédit Agricole S.A. Group:

- subsidiaries that carry asset/liability risks comply with limits set by Crédit Agricole S.A.'s Group Risk Management Committee;
- methods of measuring, analysing and managing assets and liabilities of the Group are defined by Crédit Agricole S.A. Regarding retail banking balance sheets in particular, a consistent system of conventions and run-off planning has been adopted for the Regional Banks, LCL and the foreign subsidiaries;
- Crédit Agricole S.A. consolidates the subsidiaries' measurements of their asset-liability risks. Results of these measures are monitored by Crédit Agricole S.A.'s Treasury and ALM Committee;
- Crédit Agricole S.A.'s Financial Management department and Risk Management and Permanent Controls department take part in meetings of the ALM committees of the main subsidiaries.

## II. Global interest rate risk

### 1. Objectives and policy

Global interest rate risk management aims to protect the net asset value of Group entities and optimise and stabilise their interest margins over time.

Net asset value and interest margins vary according to the sensitivity of net present values of cash flows of financial instruments, held on or off the balance sheet, to changes in interest rates. This sensitivity arises when the interest rate reset dates on assets and liabilities do not coincide.

Much of the Group's exposure to global interest rate risk relates to retail banking.

These include:

- in France, the Regional Banks (for which the Group's financial centralisation rules provide structural backing from Crédit Agricole S.A. to cover a substantial portion of the risk) and LCL. With regard to LCL, the system of delegating global interest rate risk management to Crédit Agricole S.A., introduced in 2007, underwent a significant change in 2012 with the reintegration of matching of savings in the LCL balance sheet;
- on an international level, Cariparma in particular.

Given the nature of their business, other subsidiaries such as Crédit Agricole CIB, Crédit Agricole Consumer Finance, Crédit Agricole Leasing & Factoring, Crédit Agricole Bank Polska and EFL also bear a global interest rate risk.

When new acquisitions are made, Crédit Agricole S.A. organises the incoming entity's adoption of the global interest rate risk management standards and methods in force and prepares a calibration report on the limits for the entity. This report is then presented to the Group Risk Management Committee for a decision.

### 2. Risk management

Each entity, in accordance with the Group's limits and standards, manages its exposures under the supervision of its ALM Committee.

The Group's exposure to global interest rate risk is presented regularly to Crédit Agricole S.A.'s Treasury and ALM Committee.

This Committee is chaired by the Chief Executive Officer of Crédit Agricole S.A. and includes several members of the Executive Committee along with representatives of the Risk Management and Permanent Controls department:

- examines the individual positions of Crédit Agricole S.A. and its main subsidiaries along with consolidated positions at each quarterly closing;

- examines compliance with limits applicable to Crédit Agricole S.A. Group and to entities authorised to bear global interest rate risk;
- validates the guidelines for global interest rate risk of Crédit Agricole S.A. managed by the Financial Management department.

The financial management department and the Risk Management and Permanent Controls department are represented on the main subsidiaries' ALM committees. They ensure harmonisation of methods and practices across the Group and monitor compliance with the limits assigned to each of the subsidiaries' entities.

Each Regional Bank's situation as regards global interest rate risk is reviewed quarterly by the Regional Banks' Risk Management Committee.

## 3. Methodology

The rate risk measurement is, in the main, based on the calculation of rate gaps or impasses. This methodology consists of creating future projections of outstandings at known rates and inflation-indexed outstandings according to their contractual features (maturity date, amortisation profile). The future behaviour of certain outstandings must, however, be modelled when:

- the maturity profile is not known (products with no contractual maturity such as demand deposits, passbook accounts or capital);
- implicit options sold to customers are incorporated (early loan repayments, home purchase savings etc.).

At the moment, these models are essentially based on statistical analysis of customers' past behaviour, possibly supplemented by expert appraisals. They must adhere to the modelling principles approved by the Standards and Methodology Committee, must be approved by the entity's ALM Committee and their relevance monitored on an annual basis.

The reference gap is the gap observed at the end of the reporting period. This is the "static" gap. Forecasts of loan production can then be employed to generate a projected gap.

The gaps are consolidated quarterly at Group level. When their management requires it, some entities, particularly the major ones, measure their gaps more frequently.

The rules that apply in France to the *Livret A* interest rate, which is a benchmark for part of the deposits collected by the Group's retail banking business (regulated products and others), index a portion of the interest to inflation over a rolling 12-month period. As a result, the Group hedges the risk associated with these balance sheet items using instruments (carried on or off the balance sheet) for which the underlying is an inflation rate.

Option risks are included in the gaps using a delta-equivalent measure of the residual position. A significant portion of these risks is hedged using other option-based products, however. These various measurements have been complemented by the implementation, for the Group's main entities, of the basis risk measurement, which relates to adjustable- and variable-rate transactions for which the rate-setting conditions are not consistent for both assets and liabilities.

The Group is primarily exposed to changes in interest rates in the euro zone (real rates, reflecting inflation, and nominal rates). The Group also manages interest rate positions related to other currency zones, mainly the US dollar, the Polish zloty and the Swiss Franc.

The limits set at Group and entity levels put bounds on the extent of the maximum discounted loss over the next 30 years and the maximum annual loss over the next 15 years in the event of a rate shock. The rules for setting limits are intended to protect the Group's net asset value in accordance with the second pillar of the Basel 2 regulations regarding global interest rate risk and to limit the volatility, over time, of net interest income by avoiding sizeable concentrations of risk on certain maturities. As well as being validated by the Group's Risks Committee, these limits must be approved by each entity's decision-making body.

Each entity (including Crédit Agricole S.A.) hedges the interest rate risks entailed by this method of financial organisation at its own level, by means of financial instruments (on- and-off-balance sheet, firm or optional). For example, fair value hedging is put in place as a result of monitoring fixed-rate gaps.

## 4. Exposure

The Group's interest rate gaps are broken down by type of risk (nominal rate/real rate) in the various currencies. They measure the surplus or deficit on sources of fixed-rate funds. By convention, a positive (negative) figure represents a downside (upside) risk on interest rates in the year considered. The figure indicates the economic sensitivity to a change in interest rates.

The results of these measures for Crédit Agricole S.A. Group in the aggregate at 31 December 2012 are as follows:

**GAPS IN EUROS (AT 31 DECEMBER 2012)**

| *(in billions of euros)* | 2013 | 2014-2018 | 2019-2023 | > 2023 |
|---|---|---|---|---|
| Gaps in euros | (1.1) | (3.9) | (2.6) | (0.9) |

In terms of revenues sensitivity during the first year (2013), Crédit Agricole S.A. Group is exposed to a hike in interest rates (Eonia) in the euro zone and would lose €10.8 million in the event of a sustained hike of 100 basis points, giving a revenues sensitivity of 0.07% (reference revenues: €16.31 billion).

At 31 December 2011, in terms of revenues sensitivity in the first year (2012), Crédit Agricole S.A. Group was exposed to a drop in the euro zone interest rates (Eonia) and would have lost €22.4 million in the event of a sustained drop of 100 basis points, giving a revenues sensitivity of 0.11% (reference revenues of €20.78 billion).

Based on these sensitivity figures, the net present value of losses incurred over the next 30 years in the event of a 200-basis-point upward shift in the euro zone yield curve is less than 2% of Crédit Agricole S.A. Group's regulatory capital (Tier 1 + Tier 2) after deduction of equity investments.

**OTHER CURRENCY GAPS (AT 31 DECEMBER 2012)**

| *(in billions of euros)* | 2013 | 2014-2018 | 2019-2023 | > 2023 |
|---|---|---|---|---|
| Other currency gaps[1] | 4.6 | 0.5 | 0.3 | 0.1 |

*(1) Sum of all gaps in all currencies in absolute values countervalued in billions of euros.*

The aggregate sensitivity of the 2013 revenues to a change (primarily to a rise) in interest rates across all other currencies amounts to 0.28% of the reference (2012) revenues of Crédit Agricole S.A. Group. The main foreign currencies to which Crédit Agricole S.A. Group had exposure were the US dollar, the Polish zloty and the Swiss franc.

At 31 December 2011, the aggregate sensitivity of the revenues over the first year to a change (primarily to a rise) in interest rates across all other currencies amounted to 0.26% of the reference revenues.

## III. Foreign exchange risk

Foreign exchange risk is treated differently depending on whether the currency position is structural or operational.

### 1. Structural foreign exchange risk

The Group's structural foreign exchange risk arises from long-term investments by the Group in assets denominated in foreign currencies (equity of the foreign operating entities, whether resulting from acquisitions, transfers of funds from the head office, or capitalisation of local earnings), with the Group's reference currency being the euro.

At 31 December 2012, the Group's main structural foreign currency positions, on a gross basis before hedging, are in US dollars and currencies pegged to it (such as the Hong Kong dollar), sterling pounds, Swiss francs, Polish zlotys and yen.

Foreign exchange risks are borne mainly by Crédit Agricole S.A. and its subsidiaries. The Regional Banks retain only a residual risk. Positions are determined on the basis of financial statements.

In most cases, the Group's policy is to borrow in the currency in which the investment is made in order to immunise that asset against foreign exchange risk.

The Group's policy for managing structural foreign exchange positions has two overall objectives:

- first, to immunise the Group's solvency ratio against currency fluctuations. Unhedged structural foreign exchange positions are sized to obtain such immunisation;
- second, to hedge the risk of asset impairment due to changes in foreign exchange rates.

Five times a year, the Group's foreign exchange positions are presented to the Treasury and ALM Committee, which is chaired by the Chief Executive Officer. General decisions on how to manage positions are taken during these meetings. In this case, the Group documents net investment hedges in foreign currencies.

### 2. Operational foreign exchange risk

Operational foreign exchange risk arises mainly from revenues and expenses of all kinds that are denominated in currencies other than the euro (provisions, net income generated by foreign subsidiaries and branches, dividends in foreign currencies etc.).

Crédit Agricole S.A. manages the positions affected by foreign currency revenues and expenses that appear on its books, as does each entity within the Group that bears significant risk. The Foreign Subsidiaries' Treasury departments manage their operational foreign exchange risk in their local currency.

The Group's general policy is to limit its operational currency positions and not to hedge revenues that have not yet materialised, unless there is a strong probability that losses will materialise and unless the impairment risk is high.

In accordance with the foreign exchange risk monitoring and management procedures, operational currency exposure positions are updated monthly, or daily for foreign exchange trading operations.

## IV. Liquidity and financing risk

Like all credit institutions, the Group is exposed to a risk of not having sufficient funds to honour its commitments. This risk may materialise, for example, in the event of massive withdrawals of customer deposits, a crisis of confidence or a general shortage of liquidity in the market (limited access to inter-bank and money markets).

### 1. Objectives and policy

The Group's primary objective in managing liquidity is to ensure that it has sufficient resources to meet its requirements in the event of a severe, prolonged liquidity crisis.

The Group relies on a system for assessing and monitoring liquidity risk based on maintaining liquidity reserves, organising its refinancing seeking to curb short-term refinancing, achieve an appropriate long-term refinancing timeframe and diversify sources of refinancing, and ensuring a balanced development between loans and deposits.

The system is underpinned by a series of limits, indicators and procedures.

It is applied consistently across Crédit Agricole Group, thereby allowing liquidity risk to be assessed and managed on a consolidated basis.

This system was approved by the Board of Directors of Crédit Agricole S.A. in February 2010. It aims to organise the funding of Crédit Agricole Group by bringing its structure (volume, components, maturities) into line with the liquidity risk tolerance thresholds the Group sets for itself. These tolerance thresholds are expressed by the Group's duration of resistance to different stresses. There are three aggregate limits on the liquidity risk relating to short-term debt and one aggregate limit on long- and medium-term debt.

This internal approach complies with the liquidity ratio set out in the ministerial order of 5 May 2009 on identifying, measuring, monitoring and managing liquidity risks. This order applies to all of the Group's credit institutions.

### 2. Risk management

Crédit Agricole S.A. is responsible for rolling out and consolidating the risk management system across the entire Crédit Agricole Group.

Within Crédit Agricole S.A., this responsibility falls to both the Financial Management department which manages refinancing at an operational level, monitors reserves and coordinates Treasury departments; and the Risk Management department, which validates the risk management system and ensures that limits and other rules are respected.

The management of short-term refinancing involves:

- setting spreads on short-term funds raised under the various programmes (mainly negotiable CDs);
- centralising assets eligible for refinancing by the central banks of Group entities and specifying the terms and conditions of use in the framework of tenders;
- monitoring and forecasting cash positions.

The management of long-term refinancing involves:

- surveying needs for long-term funds and tradeoffs that might be made;
- planning refinancing programmes to meet these needs;
- executing and monitoring these programmes over the course of the year;
- reallocating the funds raised to Group entities;
- setting prices for liquidity in intragroup flows.

Long-term refinancing programmes comprise various instruments. The main ones are shown, in detail, in item 3 below.

The body in charge of these tasks at an operational level is the Group's Treasury and Liquidity Committee, which reviews all matters relating to liquidity issues ranging from intraday to medium/long-term. This Committee also acts as the liaison between the Treasury departments of Crédit Agricole S.A. and Crédit Agricole CIB (the Group's two most active Treasury departments). It proposes policy directions for the Group's Asset-Liability Management and Capital Liquidity Committee.

The Asset-Liability Management and Capital Liquidity Committee, chaired by the Chief Executive Officer of Crédit Agricole S.A. (who is also informed of the Group's liquidity positions), is responsible for all key decisions concerning the management of funding programmes, the launch of new programmes, the validation of funding budgets, and management of the balance between loans and deposits.

The Group Risk Management Committee, chaired by the Chief Executive Officer of Crédit Agricole S.A., is responsible for approving aggregate liquidity limits.

If funding markets tighten, a committee is set up by the Executive Management, the Group Risk Management and Permanent Controls department and the Group Finance department in order to keep a close watch on the Group's liquidity situation. This Committee, ushered in by a new phase of the sovereign debt crisis in June 2011, continued to meet throughout 2012 despite the ongoing improvement in funding conditions over the period.

### 3. Funding conditions in 2012

Extraordinary mechanisms put in place by the ECB in late 2011 and early 2012, kickstarted funding in the first quarter. Major tensions returned to the funding markets in the second quarter in the period prior to the Greek and French elections. The ECB's July announcements gave rise to an upturn in business in the second half, and a severe tightening of funding costs, which continued on into 2013.

Under these conditions, the Crédit Agricole Group continued to follow a prudent liquidity management policy. This prudence was reflected in its ongoing deleveraging plan, as well as in its adjustment plan which aimed to reduce funding requirements by €50 billion. This objective was achieved from the third quarter of 2012 by means of a strategy to increase its reserves in the form of securities, in line with the new Basel regulatory plans.

These initiatives enabled the Group to reduce its dependency on the funding markets and to increase its resistance to their closure, notably by hedging its customer and illiquid assets with stable structural liabilities: customer deposits, equity and medium/long-term debt.

In 2012, Crédit Agricole S.A. realised 157% of its medium- and long-term market issue programme, set at €12 billion for the year. Issues therefore exceeded the initial programme of €6.8 billion.

The Group continued its policy of diversifying across the various debt markets, notably by launching a vehicle, Crédit Agricole Public Sector SCF, which enables it to fund loans guaranteed by export credit agencies under favourable terms.

Debt issues and refinancing operations guaranteed by collateralised receivables represented €9 billion and had an average maturity of nine years. These included:

- Crédit Agricole Home Loan SFH (e.g. Crédit Agricole Covered Bonds): €4.5 billion;
- Crédit Agricole Public Sector SCF: €1 billion;
- CRH (Caisse de refinancement de l'habitat): €2.4 billion;
- Supranational organisations (CDC, EIB, CEDB): €1.1 billion.

It also issued senior unsecured debt (Euro Medium Term Note – EMTN, USMTN, currency placements and private placements in euros) for a total of €9.8 billion and an average maturity of 3.8 years.

Furthermore, to enhance its Core Tier 1 capital, on 26 January 2012, Crédit Agricole S.A. launched a buyback offer on eight series of subordinated bonds in circulation.

These offers resulted in the repurchase of:

- US$610 million as a nominal amount of perpetual deeply subordinated notes issued on 31 May 2007;
- and the repurchase of €1,633 million as a nominal amount for seven series of securities denominated in euros, sterling pounds and Canadian dollars (six series of perpetual deeply subordinated notes and a series of perpetual subordinated notes).

The gains concerning this operation, net of tax, amounted to €552 million.

At the same time, the Group is developing access to additional funding, *via* its retail networks and specialised subsidiaries:

- the issue of Crédit Agricole S.A. bonds in the networks of the Regional Banks amounted to €3.7 billion in 2012 with an average maturity of 9.5 years;
- the issues carried out by LCL and Cariparma in their networks amounted to €4.9 billion in 2012;
- Crédit Agricole CIB issued €7.6 billion, mainly in structured private placements with its international customers;
- Crédit Agricole Consumer Finance raised €4.4 billion in 2012.

## 4. Methodology

Crédit Agricole Group's liquidity risk management and control system is built around indicators divided into four separate groups:

- short-term indicators derived largely from simulations of crisis scenarios. The purpose of these is to schedule maturities and volumes of short-term refinancings as a function of liquidity reserves, cash flow from commercial business and repayment of long-term borrowings;
- long-term indicators used to assess the risk of a rise in Crédit Agricole issue spreads and to schedule maturities of long-term debt so as to anticipate Group funding requirements;
- diversification indicators which are used to limit concentration in sources of funding;
- cost indicators used to measure the short-term and long-term trends in the Group's issue spreads and evaluate the impact of a higher or lower liquidity cost.

The definition of these indicators and the way in which they are to be managed are set out in a series of standards which were reviewed and validated by various Group bodies.

Crédit Agricole Group continues to:

- monitor the work of regulators relating to the management of the liquidity risk, particularly by taking part, through French and European professional associations, in consultations carried out by European bodies in this field. The Group has noted the announcements of the Basel group on the revision of the regulatory definition of liquidity reserves;
- analyse and perform regular simulations of two future Basel liquidity ratios, the Liquidity Coverage Ratio (LCR) governing one-month liquidity and the Net Stable Funding Ratio (NSFR).

This regulatory environment of profound change and the lessons learnt from the 2011 crisis, led the Group to conduct a review of the Crédit Agricole Group's liquidity management and oversight system. A thorough overhaul was begun at the end of the first quarter and has been continued with, in particular, the introduction of the notion of liquidity reporting (preparation of a cash balance sheet) and related distribution principles.

## 5. Exposure

Credit institutions in France are subject to the "standard" liquidity ratio set out in the ministerial order of 5 May 2009 and introduced in June 2010. This liquidity ratio is the ratio of cash and other short-term assets to short-term liabilities. It is calculated monthly, on a company basis, with the minimum figure being 100%.

At 31 December 2012, the liquidity ratio of Crédit Agricole S.A. was 150%, compared with 122% at 31 December 2011.

## V. Hedging policy

Within Crédit Agricole S.A. Group, derivative instruments are used for three main purposes:

- to meet demand from Group customers;
- to manage the Group's financial risks;
- to take positions for the Group's own account as part of specific trading activities.

Derivatives not held for hedging purposes (as defined by IAS 39) are recognised in the trading portfolio. Accordingly, these derivatives are monitored for market risk as well as counterparty risk, where applicable. Certain derivative instruments may be held for the economic hedging of financial risks, but without meeting the IAS 39 criteria (prohibition on equity hedging, etc.). For this reason, they are likewise recognised in the trading portfolio.

In all cases, the intent of the hedge is documented at the outset and verified quarterly by appropriate tests (forward-looking and backward-looking).

Each Group entity manages its financial risks within limits set by the Group Risk Management Committee chaired by the Chief Executive Officer of Crédit Agricole S.A.

The tables in Note 3.4 to the consolidated financial statements give the market values and notional amounts of hedging derivative instruments.

### 1. Fair value hedges and cash flow hedges

Global interest rate risk management aims to reconcile two approaches:

- protection of the Group's net asset value, which requires matching balance sheet and off-balance sheet items that are sensitive to interest rate variations (*i.e.* fixed-rate items, for the sake of simplicity) against instruments that are also fixed-rate, so as to neutralise the variations in fair value that occur when interest rates change. If the matching is done by means of derivative instruments (mainly fixed-rate swaps, inflation swaps and market caps), the derivatives are classified as **fair value hedges** if the instruments (micro FVHs) or groups of instruments (macro FVHs) identified as the hedged items (fixed-rate assets and inflation: loans and receivables due to customers, fixed-rate liabilities and inflation: demand deposits and savings deposits) are eligible under IAS 39. As mentioned above, these derivatives are recognised in the trading portfolio by default, even though they represent economic hedging of risk.

  To check hedging suitability, hedging instruments and hedged items are grouped by maturity using contract characteristics or, for certain balance sheet line items (particularly deposits), using assumptions based on the financial characteristics of the products and historical behaviour. The comparison between the two maturity schedules (hedges and hedged items) means that hedging can be documented in a forward-looking manner for each maturity;
- protection of the interest margin, which requires neutralising variations in future cash flows associated with instruments or related balance sheet items that are affected by interest rate resets on the instruments, either because they are indexed to interest rate indices that fluctuate or because they will be refinanced at market rates by some point in the future. If this neutralisation is effected using derivative instruments (mainly interest rate swaps), the derivative instruments are classified as **cash flow hedge (CFH) instruments**. This neutralisation can also be carried out for balance sheet items or instruments that are identified individually (micro CFHs) or portfolios of line items or instruments (macro CFHs).

The table below shows the amount of cash flows covered by cash flow hedges, broken down by projected maturity date, for the main relevant subsidiaries:

| *(in millions of euros)* | At 31/12/2012 | | | |
|---|---|---|---|---|
| **Remaining time to maturity** | **Less than one year** | **One to five years** | **More than five years** | **Total** |
| Hedged cash flows | 25 | 230 | 1,456 | 1,711 |

### 2. Net investment hedge in foreign currencies

A third category of hedging is protection of the Group's net asset value against fluctuations in exchange rates and resulting changes in the value of assets or liabilities held in currencies other than the Group's reference currency, which is the euro. The instruments used to manage this risk are classified in the **net investment hedge** category.

# RISKS IN THE INSURANCE SECTOR

The Crédit Agricole Assurances Group markets savings, death and disability, property & casualty and creditor insurance in its French and foreign subsidiaries.

Four types of risks are monitored and managed by Crédit Agricole Assurances entities:

- market risks, mainly ALM related: interest rate, equity, foreign exchange, liquidity or redemption risks. These risks are measured based on the guarantees given to the customer (guaranteed minimum return, floor rate, etc.);
- counterparty risks on portfolio assets (issuer credit quality) and on reinsurers;
- technical risks associated with the insurance business, which vary depending on levels of claims and premiums. These mainly depend on pricing, marketing and medical screening. Part of these risks can be reinsured by paying a premium to reinsurance entities;
- operational risks, particularly in process execution. These risks may be specific to insurance but are monitored and managed in accordance with Crédit Agricole S.A. Group standards and procedures.

Crédit Agricole Assurances (CAA) risks are monitored under the current regulatory framework for solvency requirements, known as "Solvency 1", which applies at entity level as well as at consolidated level. Crédit Agricole Assurances Group is in compliance with all applicable solvency requirements.

The adjusted solvency ratio calculated on the basis of the consolidated financial statements is reported annually to the French Prudential Supervisory Authority (ACP).

At the same time, Crédit Agricole Assurances Group is preparing itself for "Solvency 2". It has planned and launched projects, at subsidiary and Group level, to implement the new rules and monitor their smooth progress towards full compliance with the directive. All Crédit Agricole Assurances entities took part in the European QIS5 (quantitative impact study no. 5) carried out on the 31 December 2009 financial statements under the aegis of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). The QISs consist in assessing the solvency margins required by Crédit Agricole Assurances Group based on its consolidated financial statements after taking into account the diversification effect between Group entities.

The simulations applied to the financial statements at 31 December 2010 and 31 December 2011 showed that capital qualifying under the transitional rules covers the capital requirements defined by Solvency 2. Moreover, an additional stress test exercise conducted by the EIOPA in 2011 confirmed the sufficient level of capital in the various scenarios.

## I. Risk monitoring and management

### 1. Risk strategy

Crédit Agricole Assurances risks are managed as part of Crédit Agricole S.A.'s insurance business risk strategy for common and uniform risks. Each entity in France and abroad applies it in order to draw up its risk strategy, based on a schematic mapping of its major risk exposures (market, technical, counterparty and operational risks specific to their business) and their valuation.

These risk strategies, coordinated at the level of the Crédit Agricole Assurances holding (CAA) holding company by its head of Risk Management and Permanent Controls, are the formal expression of the different policies entities use to manage their life insurance risks (financial, subscription, pricing, provisioning, reinsurance, claims management policies, etc.). They notably fix global limits in between which these risk exposures are kept (through asset allocation, counterparty limits, hedging rules, for instance) and prescribe management and supervision procedures. These are reported to Crédit Agricole S.A.'s Group Risk Management department (DRG) in a process coordinated with the CAA's heads of Risk Management and Permanent Controls (RCPR) at each entity. They are submitted for validation to the Group Risk Management Committee chaired by Crédit Agricole S.A.'s CEO.

### 2. Operational risk management

Risk management policies defined by each company are reviewed at least once a year and approved by their Board of Directors.

Operational management of the risks specific to each entity's business is based around regular committees (financial or investment committees, ALM committees in life insurance, technical committees, reinsurance committees in property & casualty, etc.). These committees are responsible for monitoring the risk situation, based on the reporting system of the particular business line (investment, actuarial items, ALM reports, etc.), and presenting analyses to support the risk management process. If necessary, they can draw up proposals for action, which are then submitted to the Board of Directors.

The Crédit Agricole Assurances holding company has also drawn up a set of standards for foreign subsidiaries to be applied in each subsidiary. These define limits on the scope of decentralised decisions and lay down rules for the decision process.

### 3. Risk monitoring

Risk monitoring procedures within the entities implement the directives of Crédit Agricole S.A. as they apply to the insurance business. They are examined during meetings of the Internal Control or Risk Management and Permanent Control Committees, in light of the permanent and periodic control reports. The same committees also examine the risk scoreboards which report relevant indicators for each risk type and monitor compliance with limits. The head of Risk Management and Permanent Controls can submit to the committees operational limits and alert thresholds in addition to the global limits set by the Risk strategy. Any alteration to these global limits must be resubmitted for approval to the Crédit Agricole S.A. Group Risk Management and Permanent Controls department.

Whenever execution of financial management is entrusted to investment service providers, delegation agreements are signed setting out in detail the risk management and control procedures as well as the monitoring methods (limit monitoring, monitoring of Risk Strategy targets, etc.).

The Crédit Agricole Assurances holding company has set up a group-wide Risk Management and Permanent Control Committee to make high-level policy for Risk Management and Permanent Controls in the insurance business and to monitor risks at consolidated level. The Crédit Agricole Assurances holding company thus produces a Group Risk scorecard on a quarterly basis, which is updated with entities' management indicators and provides an overall, consolidated view of the Group's risks.

In order to improve capacity for prevention, assessment and consistency, a Risk Monitoring Committee was set up in 2012, meeting twice monthly, providing a shared RCPR forum. This committee analyses the occurrence of, and changes in, risks on an *ad hoc* basis and submits a summary report to the Crédit Agricole Assurances Executive Committee. In addition, the heads of Risk Management and Permanent Controls in Companies dealing with a major risk area play a cross-functional role as risk specialists for their area of expertise.

Finally, as part of its consolidated supervision process, Crédit Agricole S.A. carries out quarterly risk reviews of the entities belonging to Crédit Agricole Assurances Group based on reports from the RCPRs to the Crédit Agricole S.A. Risk department (DRG). Committees organised by DRG meet several times a year with each subsidiary. They are attended by the local CEO, local RCPRs and Crédit Agricole Assurances holding company RCPRs, to examine risk management and control processes as well as any current risk issues affecting the entity. The RCPRs alert DRG of any breaches to global limits. An action plan is then drawn up to rectify the breach.

### 4. Risk measurement tool for the savings and retirement business

In the savings and retirement business, risk measurement relies on modelling to assess the entity's risks by simulating its asset-liability matching on the basis of economic methods. This modelling is used to make MCEV (Market Consistent Embedded Value) and capital requirement calculations under Solvency 2. This modelling tool is used in the main entities outside France active in savings and in the death and disability business (Italy, Greece and Japan).

The tool replicates the insurer's policy choices in different market environments (asset allocation, contract revaluation, fees charged, etc.) and the behaviour of policyholders (mortality tables, simulation of structural and cyclical redemption patterns, etc.). It also takes into account the regulatory constraints (minimum policyholder profit participation, technical provisions, asset class limits, etc.). Simulations carried out using this tool shed light of the major decisions made by each company, whether commercial (products, rates paid), financial (asset allocation, hedging, etc.) or underwriting (reinsurance) and inform debates on governance issues.

## II. Market risk

In each Crédit Agricole Assurances entity, transactions on financial markets are governed by policies appropriate to the entity's asset portfolio and matching of their liabilities (ALM). These take into account regulatory limits, internal limits (those approved under the Risk strategy or operational limits set by the entity), financial diagnosis based on the market outlook in a range of probable economic scenarios, and stress scenarios.

Crédit Agricole Assurances is continuously aware of the need to manage financial risks. Its strategy of diversifying allocations across all asset classes (fixed income, equities, alternative investment, real estate) allows it to control the total volatility of the value of its investment portfolio. Depending on portfolio size, profit targets and risk profiles, some types of investment may be forbidden or only authorised under certain conditions, e.g. *via* collective investment vehicles.

Crédit Agricole Assurances savings, pension and death and disability businesses are particularly affected by market risks owing to the very large volume of financial assets held to cover policyholder liabilities. Market risks are tested under stress scenarios to see how changes in the main risk factors would impact profitability (policyholder participation company profit or loss) and solvency: fall in equities, rise in rates, looking at their consequences for new inflows, redemptions (based on laws used in the internal modelling tool).

### 1. Interest rate risk

Interest rate risk is the risk of a change in the value of the fixed income portfolio due to interest rates level. Investments at floating rates expose the Group to fluctuations in future cash flows, whereas investments at fixed rates expose it to variations in the fair value of portfolio instruments.

A fall in rates may reduce the profitability of portfolios and ultimately create problems in meeting guaranteed minimum returns. A rate rise could make Crédit Agricole Assurances savings policies less competitive and create a risk of mass redemptions (potentially leading to forced sales of part of the fixed income portfolio in unfavourable market conditions and at a loss).

The bond portfolio (excluding units and securities issued by Crédit Agricole S.A.) amounts to €176 billion at 31 December 2012, compared with €162 billion in 2011.

To address this risk, Crédit Agricole Assurances has drawn up the following hedging and management rules:

- risk of decline in interest rates, owing to the presence of liabilities that feature a minimum guaranteed return superior to zero. This risk is managed by setting a minimum allocation to bonds, and a minimum share in fixed-rate bonds and hedging instruments (swaps, swaptions, floors);
- in France, regulation calls for recognition of a "provision for financial hazard" if the return on assets becomes insufficient to meet the insurer's liabilities to policyholders on guaranteed returns. No such provision was recognised by Crédit Agricole Assurances at 31 December 2012 or at 31 December 2011;
- risk of rate rises, to protect the entity against the risks of policyholders redeeming their policies in the event of a sharp and lasting rise in long-term yields making savings policies uncompetitive compared with other savings vehicles. This risk is managed by caps against a rise in rates which at end-2012 covered more than a third of assets managed under the fixed income portfolio and by keeping 25% of the portfolio invested in assets that can be quickly mobilised (liquid assets with low capital risk).

The sensitivity to rate risk of Crédit Agricole Assurances fixed-income portfolio excluding assets of unit-linked contracts, assuming a 100 basis point rise or fall in interest rates, is as follows (net of the impact on deferred policyholder surplus and tax):

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| *(in millions of euros)* | Impact on net income | Impact on equity | Impact on net income | Impact on equity |
| 100 basis point rise in risk-free rates | (18) | (720) | (21) | (578) |
| 100 basis point fall in risk-free rates | 18 | 704 | 16 | 576 |

Impacts on securities held as available-for-sale financial assets are recognised in equity. Impacts on securities held for trading are recognised in profit or loss.

The Group's technical liabilities are largely insensitive to rate risks for the following reasons:

- savings reserves (more than 90% of technical reserves excluding unit-linked policies): these are based on the pricing rate which is unchanging over time for any particular policy. As a result, a change in interest rates will have no impact on the value of these commitments;
- property and casualty reserves: these technical reserves are not discounted to present value and changes in interest rate therefore have no impact on the value of these commitments;
- mathematical reserves for benefits (personal injury, disability): the discount rate used in calculating these reserves is based on the interest rate in force at the calculation date. Therefore, the size of these commitments varies with interest rates. However, given the small amount of these technical commitments, they represent no significant risk for Crédit Agricole Assurances.

Borrowings arranged by Crédit Agricole Assurances pay fixed rates. Interest is therefore insensitive to rate changes.

## 2. Equity risk

Equity market risk is the risk of a decline in the value of investments in equities consequent to a decline in stock market indices.

Falls in equity asset values can have multiple consequences: a negative impact on income if values are significantly impaired with implications for future profitability, guaranteed minimum return reserves and withdrawals.

Asset allocation studies performed on a regular basis have led the Group to cap the proportion of diversification assets based on the implied volatility of the equity markets. The optimal long-term allocation is estimated accordingly.

Crédit Agricole Assurances has also defined rules for hedging and managing risks relative to the valuation of diversification assets and can use options to partially hedge the risk of a fall in equity markets.

Investments in equities (including mutual funds and excluding assets of unit-linked contracts) amount to €26 billion at 31 December 2012, compared with €24 billion at 31 December 2011.

Crédit Agricole Assurances sensitivity to equity risk, assuming a 10% rise or decline in equity markets, is as follows (impacts are shown net of deferred policyholder surplus and tax):

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| *(in millions of euros)* | Impact on net income | Impact on equity | Impact on net income | Impact on equity |
| 10% rise in equity markets | 60 | 95 | 60 | 109 |
| 10% decline in equity markets | (65) | (93) | (70) | (108) |

These sensitivity measurements include the impact of changes in the benchmark equity index on assets measured at fair value, reserves for guaranteed minimum return and reserves for the right to withdraw from unit-linked policies as well as any additional impairment provisions required by a decline in equity markets.

Changes to the fair value of available-for-sale financial assets are recognised in reserves for unrealised gains or losses, all other items are recognised in profit or loss.

### 3. Foreign exchange risk

Foreign exchange risk is the risk of a change in the fair value of a financial instrument due to a change in exchange rates.

Crédit Agricole Assurances holding has one subsidiary which operates using a foreign currency, Crédit Agricole Life Insurance Japan. This investment is partially hedged by a loan denominated in yen.

The residual exposure to foreign exchange risk of this investment is negligible.

Furthermore, the diversification of investments to international financial markets (equities, fixed income) automatically creates exposure to foreign exchange risk. For dollar, yen and sterling pounds assets held through dedicated mutual funds, a minimum coverage ratio is set for each currency. Fixed income mutual funds are systematically hedged against foreign exchange risk, and direct holdings of securities (bonds, equities) are denominated in euros as a matter of course.

At year end-2012, residual foreign exchange exposure was low.

### 4. Liquidity risk

Liquidity risk is the risk of not being able to cover liabilities when due, as a result of a mismatch between the cash requirement and the Group's available cash. It is a concern mainly for entities conducting savings and death and disability insurance business.

Liquidity risk can result from:

- illiquid investments. To deal with this risk, Crédit Agricole Assurances entities pay specific attention to liquidity when selecting their investments. Most are securities listed on liquid regulated markets. The valuation of other asset classes – private equity, over-the-counter derivatives, etc. – is monitored by the investment managers to whom responsibility has been delegated;
- a mismatch between the maturity schedules of investments (assets) and insurance contracts (liabilities). Crédit Agricole Assurances entities have established a prudential framework for managing liquidity as part of their ALM policy.

Furthermore, life entities have defined a "reactivity" ratio intended to reflect the entity's ability to come up with short-term liquidity without risking loss of value. This indicator is calculated as the ratio of assets maturing in less than two years to the total portfolio. Liquid assets maturing in less than two years include cash, money-market mutual funds, fixed income mutual funds whose sensitivity is controlled, floating-rate and inflation-indexed bonds, as well as hedges on two- to five-year CMS indices and fixed-rate bonds with a remaining maturity of less than two years. Also, a payability test analyses the ability of each subsidiary to meet massive outflows (tripling of historical redemptions).

Against a backdrop of significant uncertainty in terms of business and, therefore, net inflows, liquidity management may be adapted by setting targets for amounts of liquidity to be held in the very short term (weeks and months).

In the non-life business, internal simulations are also carried out to quantify any liquidity risk following shocks to liabilities (increase in claims) and/or assets (deterioration of financial markets).

## III. Credit or counterparty risk

A second dimension of the policy for containing financial risks is containment of counterparty risk, that is, the risk of payment default by one or more issuers of instruments held in the investment portfolio. Counterparty risk on reinsurers is treated in the section on reinsurance (see section that follows).

As with market risks, each Crédit Agricole Assurances entity has a policy on controlling credit or counterparty risks tailored to its own portfolio profile, covering both overall risk to the fixed income portfolio and individual risks.

Accordingly, counterparty risk is contained in the first instance by aggregate limits based on issuer credit ratings (Solvency 2 rating corresponding to the second best of the three S&P, Moody's and Fitch ratings) defining allocation by rating levels.

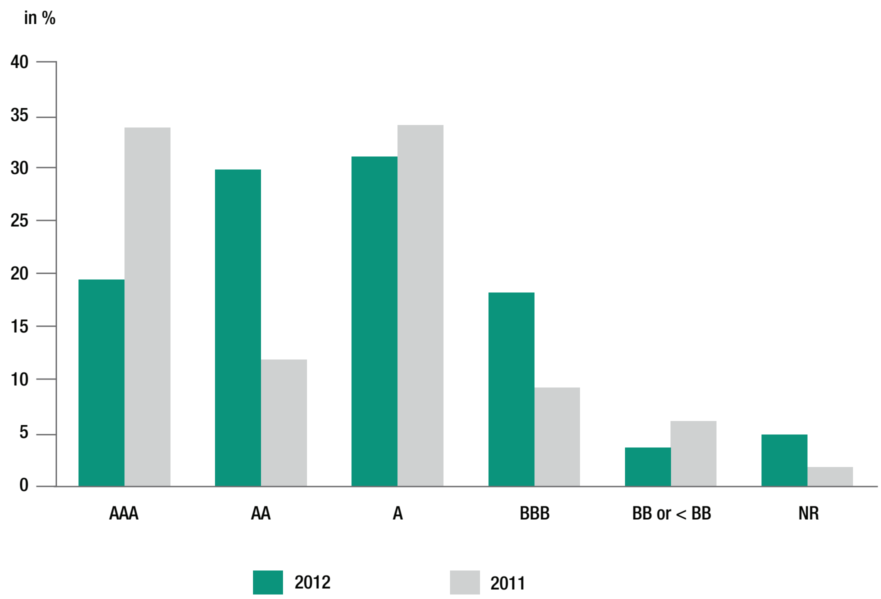
Crédit Agricole Assurances's rules do not allow direct holdings of securities rated lower than BBB, save in the exceptional case of a downgrade that occurred after the acquisition, and provided the repayment capacity of the issuer involved remains intact. Indirect investments *via* a specialist fund in high-yield securities, when permitted by investment rules, is subject to strict weighting constraints.

At 31 December 2012, non-investment grade bonds held either directly or indirectly, made up 3% of Crédit Agricole Assurances's total portfolio, compared with 6% at end-2011.

In addition, this year some subsidiaries began to extend their bond investments to issuers not rated by at least one of the rating agencies (local authorities and mid-caps) but with an internal Crédit Agricole S.A. investment grade rating as a minimum requirement. These investments, which were minor in 2012 (€2.7 billion) are managed using specific risk policies.

In addition to the concentration ratios imposed by local regulations, entities have also defined risk limits for each name, calibrated against the portfolio's exposures in line with its credit quality.

The bond portfolio (excluding unit-linked policies) by credit rating breaks down as follows:




Additional diversification rules may be imposed (on sectors, bank deposits, etc.).

In 2012, just as in 2011, exposure to Eurozone sovereign debt was brought down with major disposals on weakened sovereigns cutting exposures by half. Greek government debt holdings were put up for exchange on 12 March 2012, resulting in an additional loss for Crédit Agricole Assurances, given the disparity between the value of the new securities received (Greek and EFSF) and the valuation carried out at the end of 2011. The new Greek securities obtained under the exchange were, however, fully paid up such that by the end of 2012, Crédit Agricole Assurances no longer had any exposure to Greece. A highly selective approach, and even abstention, was also applied when granting corporate or financial credits in these countries.

The residual exposure to the sovereign debt of weakened euro zone countries is set out in Note 6.8 to the consolidated financial statements.

## IV. Technical risks

Underwriting risk takes different forms depending on the nature of the insurance, life or non-life.

Risks related to reinsurance are treated separately in the section below.

### 1. Technical risks from personal insurance

In the life business, underwriting risk results from the pricing of risks associated with the length of a human life and the hazards of life at the time the policy is written. It can also arise from mortality shocks (such as a pandemic).

The main businesses concerned are savings and death and disability insurance and creditor insurance as regards the death benefit feature of the policies.

Underwriting risk arises from the assumptions underlying the pricing of the benefits and the financial options that the policyholder can exercise.

These mainly consist of:

- four elementary biometric risks:
  - mortality risk (benefit paid in the event of death),
  - longevity risk (benefit paid in the event of survival, as on a life annuity or whole life policy, etc.),
  - morbidity risk (benefit paid in the event of disability and need for long-term care),
  - disability risk (benefit paid in the event of inability to work);
- a behavioural risk is a risk of early redemption (or prorogation, arbitration, termination, etc.) of insurance policies compared with the expected level;
- a risk that loading charges will be insufficient to cover operating expenses and commission paid to distributors.

Underwriting risk is measured on the basis of observed gaps in these factors between the pricing elements used when the policy was written and the actual annual results on the policy portfolio:

- for the biometric risks, statistical tables are established either from national or international statistics or from insurance portfolio statistics (experience tables);
- for redemption risk, probability criteria are constructed on the basis of observation on the portfolio (for structural redemptions) and primarily on "expert opinion" (for cyclical redemptions not amenable to statistical observation);
- for loading risk, the relevant gap is the difference between expenses actually charged and expenses borne by the insurer.

To limit behavioural risk, the policy compensation strategy, which is partly discretionary, takes into account market conditions on a forward-looking basis. The participation payout strategy relies on tests of sensitivity to market conditions or loss experience. Regularly conducted stress tests are used to evaluate different remuneration rate policies over the course of the next five years based on analyses of the impacts on earnings, reserves and solvency.

Similarly, modelling of policyholder behaviour and ex post analysis of their actual behaviour are used to adjust the duration of assets to the duration of liabilities at regular intervals, so as to limit the risk of an unexpected deviation in redemptions.

Given the weight and the general physiognomy of the portfolios (mass risk, average capital), only catastrophe risk is liable to have any real impact on results in individual or group death and disability insurance. The French life insurance subsidiary's portfolio benefits from BCAC cover (*Bureau Commun des Assurances Collectives*), both on Group death benefits (insured loans) and individual death and disability benefits (open group), as well as, in part, supplementary cover of disability risk.

As regards unit-linked contracts, variations in the value of the underlying assets are borne by the policyholders, provided there is no floor guarantee benefit payable under the policy. In the event that the insured dies, this guarantee entitles the beneficiaries to receive at least the amount invested by the insured, regardless of the value of the unit-linked account at the date of death. The insurer is thus exposed to a composite risk determined by (i) the probability of death of the insured and (ii) the financial risk on the value of the unit-linked account. A technical provision is recognised for the floor guarantee. It is measured using an economic model incorporating the two components.

The performance of unit-linked funds is monitored on a regular basis, *via* comparison with the competition for funds available on the open market, and in terms of how to apply formula-based funds.

As regards reinsurance, Crédit Agricole S.A. entities in the savings and death and disability business in France and internationally make little use of reinsurance. As it is:

- the bulk of their business is in individual savings products;
- the death and disability risk policies that they distribute are made up of a very large number of small risks, with the exception of the long-term care policies;
- strong financials and prudent management enable them to exceed the minimum required solvency ratio by a comfortable margin.

## 2. Technical risks from property & casualty and creditor insurance

This mainly concerns the property & casualty business and non-life benefits included in creditor insurance policies.

The main risks from property & casualty and creditor insurance are as follows:

- poor selection of risks and under-priced premiums;
- claims management;
- concentration and catastrophe risks.

The technical risk is managed by means of five policies:

- underwriting policy, which is specific to each market or type of policy and which sets the rules that partners must apply in distributing policies;
- pricing policy, which is governed by the entity's development strategy, and for which pricing rules and procedures are formalised as part of the strategy;
- commercial policy, which is part of the Risk Strategy for managing the entity's financial equilibrium and long-term solvency;
- partner compensation policy, which is governed by management agreements;

- claims management policy, which depends on manuals of procedures and controls to be applied by those in charge of managing claims;
- reinsurance policy.

The technical result on non-life business is measured mainly using the claims ratio, which is the ratio of claims paid to premiums earned on the business.

Claims ratios are calculated every month by product line. They are analysed by actuaries in terms of their variation from one quarter to the next and their closeness to the initial targets. They are presented to the relevant Management Committees.

Tracking claims ratios serves to identify products that are structurally unprofitable and therefore require solutions to improve underwriting results (new rate schedule, redefinition of the target customer or the underwriting rules, restriction of policy benefits, etc.), and to identify where efforts must be made on pricing, for example, when a product's sales volume is not satisfactory.

Monitoring of underwriting risk is supplemented by the analysis of portfolios from the standpoint of production over time (policyholder profile, etc.), breakdown of claims (frequency, average cost, etc.) and the evolution in claims by year of occurrence.

Concentration risk in non-life insurance relates to a concentration of risks resulting in an aggregation of liabilities arising from a single claim.

Two types of concentration risks should be distinguished:

- underwriting concentration risk in which policies are written by one or more Group entities on the same risk;
- claim concentration risks, where policies are written by one or more Group entities on risks that are different, but liable to be triggered by a single covered event or the same primary cause.

This type of risk is hedged, first, by a policy of diversifying the risks written in a single region and, second, by reinsurance to limit the financial impact of major events (storms, natural disasters, civil liability claims, serial risks, unemployment, etc.). The reinsurance policy thus seeks to achieve a high level of protection against systemic and/or exceptional events, thereby reducing the volatility of net income and protecting capital (through a general hedge of retentions and any overruns in individual reinsurance agreements covering each type of risk).

## 3. Reinsurance risk

Reinsurance risks are of three types:

- inappropriate reinsurance (insufficient cover or, on the other hand, payment of too high a premium which erodes technical margins and competitiveness);
- risk of a reinsurer defaulting and not being able to pay all their share of the claims;
- no or virtually no reinsurance on a given activity or guarantee given.

Risk containment measures have been implemented along four lines:

- monitoring the adequacy of reinsurance cover relative to the commitments to insureds;
- monitoring the reinsurers' credit rating;
- monitoring the dispersion of risk across reinsurers;
- monitoring results on each reinsurance agreement.

Reinsurance policy seeks to optimise protection through a good "cover/price" ratio.

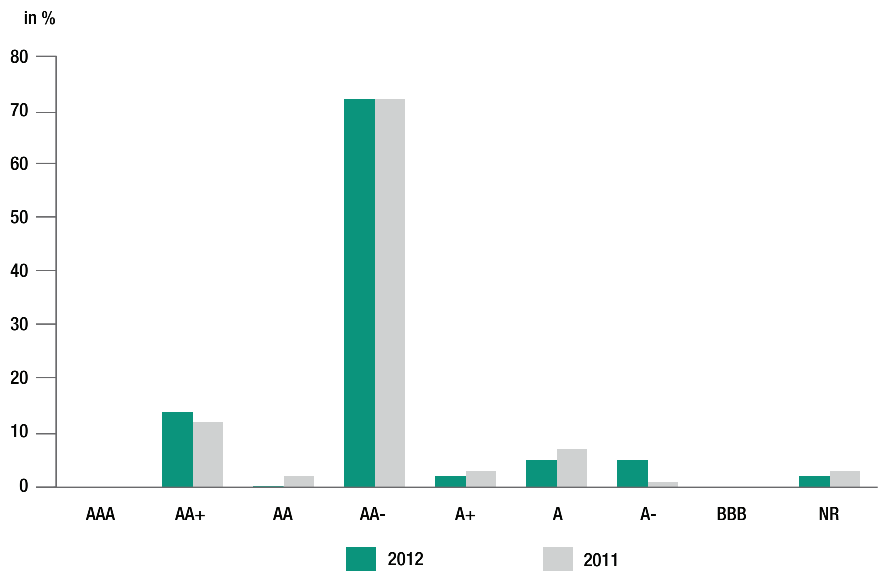
The terms and conditions of reinsurance (premium rates, nature of cover, types of limits, etc.) are for the most part reset annually when reinsurance agreements are renewed.

The reinsurance plan is reviewed annually by the Board of Directors at subsidiary level.

Since the entity will be left to pick up the liabilities of any reinsurer who defaults, financial robustness is a prime criterion in selecting reinsurers. Similarly, limits on the share of risks taken on by each reinsurer both globally and under each agreement, where possible, tends to reduce the impact of a default.

Net outstandings ceded to reinsurers (ceded reserves and current accounts with reinsurers net of cash deposits received) totalled €0.4 billion at 31 December 2012, unchanged on end-2011.

Their breakdown by rating is as follows:




## V. Operational risk and non-compliance risk

Operational risk is the risk of loss resulting from shortcomings or failure in internal procedures, human error, information systems or external events. It includes legal risk but not strategic or reputational risk.

Non-compliance risk refers to a potential lack of adherence to rules governing financial and banking activities. These rules may be laws, regulations, professional or ethical standards, instructions, professional codes of conduct, or efforts to combat money-laundering, corruption or the financing of terrorism.

Crédit Agricole Assurances entities apply Crédit Agricole S.A. Group directives on operational and compliance risk management.

The operational risk management system is thus comprised of the following components:

- identification of the associated operational risks and processes, including a qualitative and quantitative assessment (cost) of each known or potential risk event. This mapping is updated annually by the entities that have already completed the roll-out;
- the inventorying of losses arising from the realisation of an operational risk and early-warning system to report significant incidents. The roll-out of this collection process is not yet complete across all entities.

The Risk Management and Permanent Controls function and, more specifically, the Operational Risks manager, under the responsibility of the RCPR (Risk Management and Permanent Controls officer), coordinate this system in liaison with operational managers and track progress on identified action plans in order to mitigate the impact of exceptional risks and the frequency of recurring risks. They may employ the Crédit Agricole S.A. tools designed for operational risk management.

Summaries of the results of this system are presented to Management at the internal control or Risk Management and Permanent Controls committee.

Non-compliance risks are an integral part of operational risk mapping within entities. Within each entity the Compliance Officer is responsible for the dedicated monitoring system, which ensures that these risks are controlled and that their impact in terms of financial losses, or legal, administrative or disciplinary sanctions, is minimised. The common objective is to preserve the Group's reputation. In this respect, the new business and new products committee (NAP) present in all entities is tasked with approving all new businesses and products.

Monitoring of operational risk and non-compliance risk is based on the rules established for Crédit Agricole S.A. Group and presents no characteristic specific to the insurance business (see following section on operational risks).

## VI. Legal risks

Insofar as Crédit Agricole Assurances is aware, there are no administrative, court or arbitration proceedings that could have or have had, within the previous 12 months, a substantial effect on the financial position or profitability of the Company and/or Group.

# OPERATIONAL RISKS

Operational risk is the risk of loss resulting from shortcomings or failure in internal procedures, human error, information systems or external events. It includes legal risk but not strategic or reputational risk.

## I. Objectives and policy

The operational risk system, adjusted to each Group entity, comprises the following components common to the entire Group:

- **governance of the Operational Risk Management function**: supervision of the system by Executive Management (*via* the Operational Risk Committee or the operational risk unit of the Group Risk Management Committee and the Internal Control Committee), oversight and co-ordination of the system by Risk Management and Permanent Control officers (Crédit Agricole S.A. and entities), entities' responsibilities in controlling their risks through the network of Operational Risk Managers;
- **identification and qualitative assessment of risks** through risk mapping, and the use of indicators to monitor the most sensitive processes;
- **collection of operational loss data and an early-warning system** to report significant incidents, which are consolidated in a database used to measure and monitor the cost of risk;
- **annual calculation** (except for significant events: major loss, change in organisation, etc.) and allocation of regulatory capital for operational risks at both consolidated and entity levels;
- periodic production of an **operational risk scorecard** at entity level, plus a Group summary.

## II. Risk management: organisation and supervision system

The organisation of operational risk management forms part of the overall Risk Management and Permanent Controls Group function: Operational risk officers, most of whom now cover permanent risk monitoring, report to the heads of Risk Management and Permanent Controls in the various entities.

Crédit Agricole S.A. Group uses an operational risk scorecard covering its major business lines. This scorecard shows the main sources of risk affecting the business lines, along with exposure profiles differentiated by subsidiary and business line: recurring risk, mainly arising from external fraud involving payment instruments in retail banking or stock market errors in Asset management, and Investor Services, higher risk in Corporate and investment Banking (legal risks and capital markets) and Factoring (external fraud).

The change in operational risk also reflects the effect of action plans designed to reduce the impact of exceptional risks (*i.e.* by strengthening information systems and controls) when encountering high unit losses, as well as to reduce the frequency of recurring risks (electronic banking fraud and heightened monitoring of external fraud in the consumer finance businesses).

Initiatives taken to counter internal fraud in 2007, particularly for capital markets activities and in Crédit Agricole CIB, have been extended through implementation of a system to bring the risk thereof under further control. Measures include reviewing authorisation procedures, strengthening early-warning systems and creating an anti-fraud unit in the Compliance function. Following the publication in 2011 of the recommendations of the Committee of European Banking Supervisors, CEBS, on the management of operational risks in capital market activities, an action plan was drawn up to cover the Group. There are regular presentations on action plan progress. In 2012, this initiative was extended to the Regional Banks.

With respect to the **identification and qualitative assessment of risks** component, as every year, the risk mapping campaign was held. The results of these risk mapping efforts will be analysed by each entity in the course of the first quarter and will be presented to the operational Risk Management Committee.

To improve operational risk tools even further and promote overall consistency in the Risk Management and Permanent Controls function, the operational risk computer system now supplies information on a quarterly basis to the Group's accounting consolidation tool, "Arpège". The Corep OR reports are now validated by the entities. In response to the regulatory changes arising from CRD 4 (changes to COREP), a dedicated IT project was undertaken in 2012.

The RCP platform, which now contains the three essential elements of the existing tools (collection of loss data, risk mapping and permanent controls), makes it possible to share the same framework and thus confirm the choices of methodology in the link between risk mapping and risk management (permanent controls, action plans, etc.).

Lastly, concerning the **calculation and allocation of regulatory capital** component, the application chain was secured and automated in 2011. The upgrade plan for the operational risk computer system continued in 2012, with a new version of the capital calculation engine, offering improved digital performance, and the automation of the back-testing system.

A biannual committee for back-testing the Advanced Measurement Approach (AMA) model is in place and analyses the model's sensitivity to changes in the risk profile of the entities. Every year, this committee identifies areas where improvements are possible, and draws up corresponding action plans.

## III. Methodology

The main entities of Crédit Agricole Group use the Advanced Measurement Approach: Crédit Agricole CIB, Amundi Group, LCL, Crédit Agricole Consumer Finance, Agos and all Regional Banks. The use of the AMA for these entities has been validated by the French Prudential Supervisory Authority (ACP) in 2007 and reconfirmed (following the change in legal status) for Amundi, Crédit Agricole Consumer Finance and Agos in 2010. This scope accounts for 72% of total capital requirements for operational risk.

In 2012, work was undertaken to integrate Cariparma and FriulAdria into AMA, accompanied by a commission from the Italian regulator.

For the entities that use the standardised approach (TSA), the regulatory weighting coefficients used in calculating the capital requirement are those recommended by the Basel Committee (percentage of revenues according on business line).

### AMA regulatory capital requirements calculation

The AMA method for calculating capital requirements for operational risk has the following objectives:

- increase control over the cost of operational risk, and prevent exceptional risks across the Group's various entities;
- determine the level of capital needed for the measured risks, which may be lower than that calculated using the standardised approach;
- promote improvements in permanent controls through the monitoring of action plans.

The systems implemented within the Group aim for compliance with all qualitative criteria (making risk measurement an integral part of day-to-day management, independence of the Risk function, periodic disclosure of operational risk exposures etc.) and Basel 2 quantitative criteria (99.9% confidence interval over a one-year period; incorporation of internal data, external data and analyses of scenarios and factors reflecting the operating environment; incorporation of risk factors that influence the statistical distribution, etc.).

The AMA model for calculating capital requirements is based on an actuarial model called the "**Loss Distribution Approach**" which is unique to the Group. The largest entities handle their own capital allocation based on centrally defined principles.

Internal factors (change in the entity's risk profile) are considered according to:

- organisational changes within the entity;
- changes in risk mapping;
- an analysis of the history of internal losses and the quality of the risk management system, in particular *via* the Permanent Controls function.

Concerning external factors, strategic monitoring of incidents observed in the other institutions is conducted through the analysis of the ORX consortium database, which catalogues losses at approximately 50 banks throughout the world including Crédit Agricole S.A. Depending on the results of this analysis, the stress tests developed in the various Group entities are reviewed. In order to enhance this system, a second external database will be integrated.

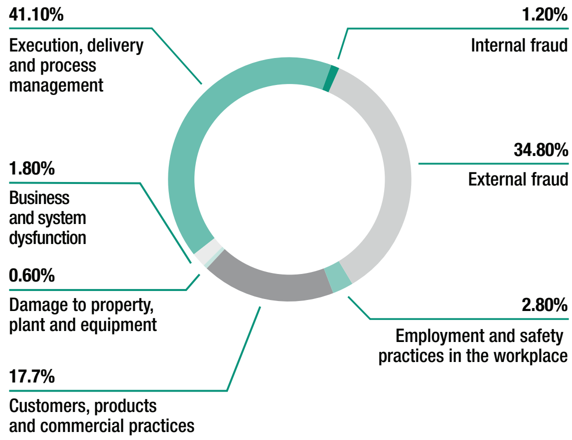
The model was designed and developed according to the following principles:

- it must form an integral part of the risk policy;
- it must be pragmatic, *i.e.* the methodology must be applicable to real operating conditions;
- it must have educational value, in order to be endorsed by senior management and business lines;
- it must be robust, *i.e.* it must be able to provide estimates that are realistic and stable from one year to the next.

All the Operational Risks methodology was presented to the Standards and Methodology Committee in December 2011 and was audited by the French Prudential Supervisory Authority (ACP) in 2012 which evaluated progress made by the Group and areas for improvement).

## IV. Exposure

**BREAKDOWN (BY VALUE) OF OPERATIONAL LOSSES BY BASEL RISK CATEGORY (2010-2012)**




Generally, the exposure profile in terms of operational risks reflects the principal activities at Crédit Agricole S.A. Group:

- still-overwhelming exposure to the Execution risk category, due to processing errors inherent in all activities;
- still significant exposure to external fraud, notably in connection with credit boundary operational risk which reflects the importance of the retail banking activity in particular in consumer finance;
- finally, exposure to legal risks (commercial disputes), which remains unchanged.

## V. Insurance and coverage of operational risks

Crédit Agricole S.A. Group has obtained insurance coverage for its operational risks to protect its assets and profits. For high-intensity risks, Crédit Agricole S.A. has taken out Group policies from major insurance companies. These policies harmonise the transfer of personal and property risks and to set up specific professional civil liability and fraud insurance programmes for each business line. Furthermore, business-line subsidiaries are responsible for managing lower intensity risks themselves.

In France, insurance of operating assets (property and IT equipment) includes third-party liability coverage for buildings with the highest exposure to this risk. This insurance is supplemented by special coverage for civil operating liability.

Insurance policies for operating loss, fraud and securities risks, Group professional civil liability, and civil liability for Executive Officers were renewed in 2012.

Basel 2 eligible policies contribute to reducing the amount of capital that must be held against operational risks (within the 20% authorised limit).

High-frequency and low-intensity risks on certain programmes that cannot be insured on satisfactory financial terms are retained in the form of deductibles or are pooled within Crédit Agricole S.A. Group ultimately through its captive reinsurance subsidiary (Crédit Agricole Réassurance CARE), and represent around 6% of all Group insurance programmes.

# ▶ LEGAL RISKS

The main legal and tax proceedings outstanding at Crédit Agricole S.A. and its fully consolidated subsidiaries are described in the 2011 management report. The cases presented below are those that have evolved since 15 March 2012, the date on which registration document no. D. 12-0160 was filed with the AMF.

Any legal risks outstanding at 31 December 2012 that could have a negative impact on the Group's net assets have been covered by adequate provisions, which correspond to Executive Management's estimations, based on the information available to it.

To date, to the best of Crédit Agricole S.A.'s knowledge, there is no other governmental, judiciary or arbitration proceeding (or any proceeding known by the Company, in abeyance or that threatens it) that could have or has had, in the previous 12 months, any substantial effect on the financial situation or the profitability of the Company and/or the Group.

## Litigation and exceptional events

### IFI Dapta Mallinjoud Group

The *Commissaire à l'exécution du plan* (insolvency professional) acting for the companies of the IFI Dapta Mallinjoud group initiated joint proceedings against CDR and Crédit Lyonnais on 30 May 2005 before the Commercial Court of Thiers. The suit alleges that CDR and Crédit Lyonnais committed violations in arranging and financing the IFI group's acquisition of the Pinault Group's furniture business (ex-CIA). The Riom Court of Appeal, in its order dated 12 July 2006, referred the matter to the Paris Commercial Court.

In its ruling of 24 September 2007, the Paris Commercial Court:

- ordered CDR to pay €2.9 million for unjustified interest charges;
- ordered Crédit Lyonnais to pay €5 million for improper financial support;
- ordered Crédit Lyonnais and CDR to pay €50,000 under Article 700 of the French Code of Civil Procedure.

The Court did not make the judgement immediately enforceable.

The *Commissaire à l'exécution du plan* appealed against this decision and the Paris Court of Appeal issued an order on 10 December 2010, in the terms of which it:

- rejects the request for overall indemnification for the alleged damage to the 13 companies of the Group;
- asks the *Commissaire à l'exécution du plan* to indicate, company by company, the amount of the alleged damage; and
- orders an in-depth expert appraisal of the financial situation of each of the companies in the Group at the time of the events.

The expert report was submitted in September 2012. The Appeal Court hearings should take place in mid-June 2013.

## Strauss/Wolf/Faudem

US citizens and members of their families who were victims of terrorist attacks attributed to Hamas and committed in Israel between 2001 and 2004 have brought proceedings against National Westminster Bank and Crédit Lyonnais before a New York court.

They claim that these banks gave support to terrorists to the extent they each kept an account opened (in 1990 in the case of Crédit Lyonnais) by a charity providing aid to Palestinians. The plaintiffs allege that the accounts were used to transfer funds to Palestinian entities accused of financing Hamas. The plaintiffs, who have not put a figure on the damages they have suffered, are claiming compensation for “injury, anguish and emotional pain”.

As the matter and the proceedings currently stand, Crédit Lyonnais argues that the plaintiffs have not provided proof that the charity was actually linked to terrorists, nor that Crédit Lyonnais was aware that its client could have been involved (if it were to be proven) in financing terrorism. The plaintiffs will have to provide such proof in order to win the case.

LCL vigorously denies the plaintiffs’ allegations.

The discovery phase is now complete and the Court reached the conclusion that the examination of the plaintiffs’ demands should continue at jury-based trail. LCL expects this suit will take place during 2013.

## CIE case (Cheque Image Exchange)

In March 2008, LCL and Crédit Agricole S.A. and ten other banks were served notice of grievances on behalf of the *Conseil de la concurrence i.e.* the Competition Council (now the *Autorité de la concurrence*).

They are accused of colluding to implement and apply interchange fees for cashing cheques, since the passage of the Cheque Image Exchange system, *i.e.* between 2002 and 2007. In the opinion of the *Autorité de la concurrence*, these fees constitute anti-competitive price agreements in the meaning of Articles 81 §1 of the treaty establishing the European Community and Article L. 420-1 of the French Commercial Code, and allegedly caused damage to the economy.

In their defence, the banks categorically refuted the anti-competitiveness of the fees and contested the legality of the proceedings.

In a decision published on 20 September 2010, the *Autorité de la concurrence* stated that the Cheque Image Exchange fee (CEIC) was anti-competitive by its very aim and that it artificially increased the costs borne by remitting banks, which resulted in an unfavourable impact on the prices of banking services. Concerning one of the fees for related services, the fee for cancellation of wrongly cleared transactions (AOCT), the *Autorité de la Concurrence* called on the banks to revise their amount within six months of the notification of the decision.

The accused banks were sanctioned for an overall amount of €384.92 million.

LCL and Crédit Agricole were respectively sentenced to pay €20.7 million and €82.1 million for the CEIC and €0.2 million and €0.8 million for the AOCT.

All of the banks appealed the decision to the Paris Court of Appeal. By a decree of 23 February 2012, the Court overruled the decision, stating that the *Autorité de la concurrence* had not proven the existence of competition restrictions establishing the agreement as having an anti-competitive purpose.

The French Competition Authority filed an appeal with the Supreme Court on 23 March 2012. The French Supreme Court has not yet handed down its decision.

## New York Attorney General (NYAG)

As the New York Attorney General did not follow-up on the subpoena he addressed to the subsidiary of Crédit Agricole Corporate and Investment Bank (“Crédit Agricole CIB”) in New York in May 2010, which demanded information regarding Crédit Agricole CIB’s relations with the rating agencies, it was decided that this demand for information, duly satisfied at the time, would no longer be mentioned in the annual report.

## Office of Foreign Assets Control (OFAC)

United States laws and regulations require adherence to economic sanctions put in place by the Office of Foreign Assets Control (OFAC) on certain foreign countries, individuals and entities. The office of the District Attorney of New York County and other American governmental authorities would like to know how certain financial institutions made payments denominated in US dollars involving countries, individuals or entities that had been sanctioned.

Crédit Agricole S.A. and Crédit Agricole CIB are currently conducting an internal review of payments denominated in US dollars involving countries, individuals or entities that could have been subject to such sanctions and are cooperating with the American authorities as part of such requests.

It is currently not possible to know the outcome of these internal reviews and requests, nor the date when they will be concluded.

## Crédit Agricole CIB sued by Intesa Sanpaolo

On 9 April 2012, Intesa Sanpaolo S.p.A (“Intesa”) sued Crédit Agricole CIB, Crédit Agricole Securities (USA), a number of Magnetar Group companies and The Putnam Advisory Company LLC in the Federal Court of New York regarding a CDO structured by Crédit Agricole CIB, called Pyxis ABS CDO 2006-1.

Intesa, which had agreed a Credit Default Swap for a notional amount of US$180 million with Crédit Agricole CIB on the super senior tranche of the CDO, argues that it has suffered damage because of structuring of the CDO and is seeking US$180 million in compensation, plus interest on this sum as well as compensatory and punitive damages, repayment of fees, these sums not yet having been calculated.

## Euribor/Libor

Crédit Agricole S.A. and its subsidiary Crédit Agricole CIB, in their capacity as contributors to a number of interbank rates, have received requests for information from a number of authorities as part of investigations into i) the calculation of the Libor (London Interbank Offered Rates) rate in a number of currencies, the Euribor (Euro Interbank Offered Rate) rate and certain other market indices, and ii) transactions connected with these rates and indices. These requests cover a number of periods running from 2005 to the present date.

As part of its cooperation with these authorities, Crédit Agricole S.A. and its subsidiary Crédit Agricole CIB, carried out investigations in order to gather the information requested by these various authorities. This work will continue in 2013. It is not possible to predict the outcome of said work, nor the date at which it will end.

## Bell Group

The liquidators of Bell Group companies that owed money to a consortium of some twenty banks (the Banks) including Crédit Agricole S.A., LCL and CACIB, brought proceedings in 1995 in order to challenge payments made to the Banks out of the proceeds of the sale of Bell Group assets given as collateral to said Banks.

In a decision handed down on 17 August 2012, the Court of Appeal of the Supreme Court of Western Australia ordered the Banks to pay the liquidators of said Bell Group companies a sum estimated, in October 2012, for all Banks at circa AUS$2.6 billion (circa €2.1 billion). This sum is still not final.

The Banks lodged an appeal against the decision of 17 August 2012 with the High Court of Australia. A ruling on the admissibility of this appeal should be handed down in March or April 2013.

The proportion relating to the various Crédit Agricole Group entities (Crédit Agricole S.A., LCL and CACIB) is around ten percent of the total sum covered by the judgement.

## Binding agreements

Crédit Agricole S.A. does not depend on any industrial, commercial or financial patent, license or contract.

# ▶ NON-COMPLIANCE RISKS

Non-compliance risk refers to a potential lack of adherence to rules governing financial and banking activities. These rules may be laws, regulations, professional or ethical standards, instructions, professional codes of conduct, or efforts to combat money-laundering, corruption or the financing of terrorism.

A dedicated monitoring system ensures that these risks are controlled and that their impact in terms of financial losses, or legal, administrative or disciplinary sanctions, is minimised. The common objective is to preserve the Group's reputation.

The organisation and main actions relating to compliance are detailed in the key economic performance indicators section of the part of the registration document dealing with employee, social and environmental information related to Crédit Agricole S.A. Group.

The prevention, monitoring and control of compliance and reputational risks are detailed in the report of the Chairman of the Board of Directors to the General Meeting of Shareholders on the preparation and organisation of the Board's work and on the internal control procedures implemented within the Company, as required by the French Financial Security Act of 1 August 2003.

# Basel 2 Pillar 3 disclosures

The decree of 20 February 2007 transposing Basel 2 regulations into French law requires relevant financial institutions (mainly credit institutions and investment firms) to disclose quantitative and qualitative information on their risk management activities. Crédit Agricole S.A. Group's risk management system and exposure levels are presented in this section and in the section entitled "Risk Factors". Crédit Agricole S.A. Group has chosen to disclose its Pillar 3 information in a separate section from its Risk Factors. This section provides information on capital requirements, constituents of capital and exposures to credit risk, market risk and operational risk.

Crédit Agricole Corporate and Investment Bank also discloses detailed information on Pillar 3 requirements on a sub-consolidated basis in its Registration document.

## REGULATORY BACKGROUND

### I. Scope of application of the capital requirements for the purposes of regulatory supervision

Credit institutions and investment firms are subject to solvency and large exposure ratios on an individual and, where applicable, sub-consolidated basis, although they may have an exemption under the provisions of Article 4 of Regulation no. 2000-03 of 6 September 2000, amended on 29 October 2009.

The French Prudential Supervisory Authority (*Autorité de Contrôle Prudentiel* – ACP) has agreed that some of Crédit Agricole Group's subsidiaries may benefit from exemption on an individual or, where applicable, sub-consolidated basis.

As such, Crédit Agricole S.A. has been exempted by the French Prudential Supervisory Authority on an individual basis, in accordance with the provisions of Article 4.2 of the aforesaid Regulation 2000-03.

### II. Reform of regulatory ratios

The decree of 20 February 2007, amended on 23 November 2011, transposing the European Capital Requirements Directive (CRD 3) into French law, sets out the "capital requirements applicable to credit institutions and investment firms". In accordance with these provisions, Crédit Agricole S.A. Group has incorporated the impacts of the implementation of this directive into the management of its capital and its risks.

The French Prudential Supervisory Authority ensures that the capital of credit institutions and investment companies is at least equal to 80% of the amount calculated using the Basel 1 ratio.

The solvency ratio, calculated in accordance with the European Capital Requirements Directive, is based on the assessment of weighted assets of credit risk, of market risk and of operational risk. The resulting capital requirements for each type of risk are set out below in the section entitled "Capital requirements by type of risk".

In accordance with the decree of 20 February 2007, exposure to credit risk is measured using two methods:

- the standardised approach, which is based on external credit ratings and fixed weightings for each Basel exposure class;
- the Internal Ratings Based approach (IRB), which is based on the bank's own internal rating system.

  There are two subsets of the IRB approach:

  - the "Foundation Internal Ratings-Based" approach, under which institutions may use exclusively their own default probability estimates,
  - the "Advanced Internal Ratings-Based" approach, under which institutions use all their internal estimates of the risk components: probability of default, loss given default, exposure given at default, maturity.

Since late 2007, the French Prudential Supervisory Authority has authorised Crédit Agricole S.A. Group to use its internal rating systems to calculate regulatory capital requirements for credit risk on Retail and Corporate exposures throughout almost all of its consolidation scope.

In the Pillar 3 tables, LCL's portfolios have been included in the IRB scope, even where ratings have been obtained using Group's ratings methodology. The reason for this presentation choice is to provide precise information on the risk structure of LCL's portfolios. It should be noted, however, that these portfolios are risk weighted using the standardised method. An adjustment is then made to risk weighted assets to incorporate the difference between the two approaches and this adjustment is reported under the Pillar 3 standardised heading.

In addition, the French Prudential Supervisory Authority has since 1 January 2008 authorised Crédit Agricole S.A.'s main entities to use the Advanced Measurement Approach (AMA) to calculate their capital requirements for operational risk. The Group's other entities use the standardised approach, in accordance with regulations.

The main Group entities or portfolios still using the standardised method for measuring credit and/or operational risk at 31 December 2012 were as follows:

- the Cariparma Group and all other entities of the International retail banking division;
- CA Leasing & Factoring;
- some portfolios and foreign subsidiaries of Crédit Agricole Consumer Finance;
- the real estate professionals portfolio;
- the corporate portfolio on the LCL scope.

Pursuant to the Group's commitment to phase in the advanced method, agreed with the French Prudential Supervisory Authority in May 2007 (rollout plan), work on the main entities or portfolios under the standardised method continues. An update of the rollout plan is sent annually to the French Prudential Supervisory Authority.

The use of internal models for calculating solvency ratios has strengthened Crédit Agricole S.A. Group's risk management. In particular, the development of "internal rating" methods has led to the systematic collection of reliable data in respect of historical default and loss for the majority of Group entities. The collection of historical data of this nature makes it possible to quantify credit risk by giving each rating an average probability of default (PD) and, for "advanced internal rating" approaches, the loss given default (LGD).

In addition, the parameters of the "internal rating" models are used in the definition, implementation and monitoring of entities' risk and credit policies. On the scope of large customers, the Group's unique rating system (identical methods and tools, shared data), in place for many years, has contributed to strengthening and standardising the use of ratings and the associated risk parameters within the entities. The uniqueness of ratings in the Large customers' scope thereby provides a shared framework on which to base standards and procedures, management tools, provisioning and risk-hedging policies, as well as alerts and close monitoring procedures. Due to their role in the monitoring and managing of risk within the various entities, ratings are subject to quality controls and regular monitoring at all stages of the rating process.

Internal models for measuring risks accordingly promote the development of sound risk-management practices among Group entities and improve the efficiency of the process of capital allocation by allowing a more accurate measurement of its consumption by business line and by entity.

## RISK MANAGEMENT

The policies and procedures for managing each category of risk are described under "Risk factors".

## REGULATORY RATIOS

### I. Regulatory scope

**Difference between the accounting and regulatory scopes of consolidation:**

Insurance companies consolidated in the financial statements are not included in the regulatory scopes of consolidation. These insurance companies do not present a lack of capital.

Information on these entities and their consolidation method for accounting purposes is provided in Note 12 to the consolidated financial statements, "Scope of consolidation at 31 December 2012".

## II. Regulatory ratios at 31 December 2012

The table below shows the European CRD solvency ratio and details Crédit Agricole S.A. Group's weighted risks and the regulatory capital requirements calculated in accordance with the applicable regulations.

The total solvency ratio is calculated as the ratio between total regulatory capital and the sum of:

- credit risk weighted assets;
- regulatory capital requirements for market and operational risks multiplied by 12.5.

| *(in billions of euros)* | 31/12/2012 | 31/12/2011 |
|---|---|---|
| **TIER 1 CAPITAL (A)** | **36.3** | **40.4** |
| Equity capital and reserves Group share | 38.6 | 43.2 |
| Tier 1 capital as agreed by the French Prudential Supervisory Authority (ACP) | 1.0 | 1.0 |
| Minority interests excluding hybrid instruments | 3.3 | 3.5 |
| Hybrid instruments included in Tier 1 capital as agreed by the French Prudential Supervisory Authority (ACP) | 9.3 | 11.8 |
| Deduction from Tier 1 capital including intangible assets | (15.9) | (19.1) |
| **TIER 2 CAPITAL (B)** | **20.3** | **21.9** |
| **TIER 3 CAPITAL** | **0.0** | **0.0** |
| **DEDUCTIONS FROM TIER 1 AND 2 CAPITAL** | **(4.8)** | **(6.3)** |
| Deductions from Tier 1 capital (C) | (2.1) | (3.1) |
| Deductions from Tier 2 capital (D) | (2.7) | (3.2) |
| *including stakes in credit and banking institutions amounting to more than 10% of their capital or which provide significant influence over these institutions (at 100%)* | *(3.6)* | *(3.7)* |
| *including securitisation exposures weighted at 1,250%* | *(0.7)* | *(2.0)* |
| *including, for institutions using IRB approaches, the negative difference between the sum of value adjustments and collective impairment losses on the relevant exposures and the expected losses* | *(0.1)* | *(0.1)* |
| **DEDUCTIONS OF INSURANCE COMPANIES' EQUITY** | **(13.2)** | **(11.3)** |
| **TOTAL NET AVAILABLE CAPITAL** | **38.6** | **44.8** |
| *Tier 1* (A – C) | 34.2 | 37.4 |
| *Tier 2* (B – D) | 17.6 | 18.7 |
| *Tier 3* | 0.0 | 0.0 |
| **TOTAL RISK WEIGHTED ASSETS** | **293.1** | **333.7** |
| Credit risk | 257.1 | 277.8 |
| Market risk | 13.1 | 32.8 |
| Operational risk | 22.9 | 23.1 |
| **TIER 1 SOLVENCY RATIO** | **11.7%** | **11.2%** |
| **TOTAL SOLVENCY RATIO** | **13.2%** | **13.4%** |

At 31 December 2012, Crédit Agricole S.A. Group's total CRD solvency ratio was 13.2%, including a Basel 2 Tier 1 ratio of 11.7%, compared with ratios of 13.4% and 11.2% respectively at 31 December 2011.

Changes in the various components of this ratio are analysed below:

- net available capital totalled €38.6 billion at 31 December 2012, down €6.2 billion compared with 31 December 2011:
  - Tier 1 capital amounted to €34.2 billion at 31 December 2012, a decline of €3.2 billion compared with end-2011,
  - equity capital and reserves Group share decreased by a total of €4.6 billion, with major impacts being the regulatory result for an amount of -€6.1 billion and unrealised gains and losses for an amount of +€1.6 billion.

    Income was affected by negative exceptional items relating to the refocus of the Group's activities, the main items being the impact of the sale of Emporiki, for an amount of €3.7 billion (impact taken into account as per IFRS 5 on Non-current assets held for sale and discontinued operations) and impairment provisions for €3.5 billion. These provisions were offset from a regulatory standpoint at the goodwill level for an amount of €3.4 billion,
  - hybrid instruments included in Tier 1 capital as agreed by the French Banking Commission decreased by €2.5 billion. The year was marked by the redemption of subordinated notes totalling €1.7 billion, in addition to the exercise of the call option on the issue of LCL preferred shares for an amount of €750 million,
  - deductions from Tier 1 and Tier 2 capital in respect of equity-investments edged down very slightly. Deductions in respect of securitisation exposures decreased by €1.3 billion, due mainly to the sale of Crédit Agricole CIB securitised lines as part of the adjustment plan, through the disposal of non-strategic assets,
  - Tier 1 capital has since 31 March 2008 included a shareholders' advance made available to Crédit Agricole S.A. by the Regional Banks. It has amounted to €1.0 billion since 31 December 2011, when part of it was repaid with the implementation of the "Switch" transaction, which reduced the regulatory requirements on Crédit Agricole S.A. in respect of the 25% minority interest held in the capital of the Regional Banks,
  - Tier 2 capital net of deductions declined by €1.1 billion to €17.6 billion. The Group bought back perpetual subordinated notes for an amount of €0.4 billion in the first half. It also carried out buybacks and exercised a call option on redeemable subordinated notes in the amount of €0.7 billion in the fourth quarter,
  - Tier 3 capital was reduced to zero at 31 December 2012, following the repayment of the debt on 31 March 2010,
  - Crédit Agricole S.A. Group deducts the capital of insurance companies from the total capital. The deduction amounted to €13.2 billion, an increase of €1.9 billion. In December, the capital structure of insurance companies, between capital and Tier 2 funding, was optimised. It resulted in a reduction of Tier 1 capital for an amount of €1.7 billion, fully offset by issues of hybrid capital in the form of subordinated notes underwritten by Credit Agricole S.A.;
- Basel 2 risk weighted assets totalled €293.1 billion at 31 December 2012, down 12.2% compared with the end-2011 level of €333.7 billion:
  - credit risk, which totalled €257.1 billion at 31 December 2012, declined by €20.7 billion over the period, due mainly to the continuation of the adjustment plan in the Corporate and investment banking and Specialised financial services divisions,
  - market risk, which totalled €13.1 billion at 31 December 2012, recorded a sharp decline of €19.7 billion in 2012, attributable mainly to the transfer of market risk of correlation portfolio,
  - operational risk edged down slightly to €22.9 billion.

  Moreover, the risk weighted assets related to investments in the Regional Banks' CCAs/CCIs increased by €2.2 billion over the period.

The table below shows change in Crédit Agricole S.A.'s risk weighted assets in 2012:

| | Amount *(in billions of euros)* |
|---|---|
| **Risk weighted assets at 31 December 2011** | **333.7** |
| Foreign exchange effect (USD) | (0.9) |
| Updating of models and methodological developments | 6.3 |
| Organic change[(1)] | (46.0) |
| **Risk weighted assets at 31 December 2012[(2)]** | **293.1** |

*(1) Change in exposures and credit migration.*

*(2) o/w Emporiki Bank: €15.5 billion.*

# CAPITAL, CAPITAL REQUIREMENTS AND CAPITAL ADEQUACY

## I. Composition of capital

Regulatory capital is calculated in accordance with Regulation no. 90–02 of 23 February 1990, amended by the decree of 23 November 2011, published by the *Comité de la réglementation bancaire et financière* related to capital. It is divided into three categories: Tier 1, or core capital, Tier 2 capital and Tier 3 capital, from which various types of deductions are made.

Categories of capital are broken on the basis of the following criteria: decreasing degree of robustness and stability, duration, degree of subordination.

### 1. Tier 1 capital or core capital

This includes:

#### A. PERMANENT EQUITY (CAPITAL, RESERVES, MINORITY INTERESTS) AFTER DEDUCTIONS

- issued capital;
- reserves, including revaluation adjustments and other comprehensive income;

  Unrealised gains or losses on available-for-sale financial assets are recognised for accounting purposes in other comprehensive income and are restated as follows:

  - for equity instruments, net unrealised gains are deducted from Tier 1 capital on a currency-by-currency basis, net of the amount of tax already deducted for accounting purposes. 45% of the gains before tax are then added back to Tier 2 capital on a currency-by-currency basis. Net unrealised losses are not restated,
  - other comprehensive income from cash flow hedges are neutralised,
  - other comprehensive income from other financial instruments, including debt instruments or loans and receivables are also neutralised,
  - impairment losses on available-for-sale assets recognised through profit or loss are not restated;
- share and merger premiums;
- retained earnings;
- net earnings for the current financial year, *i.e.* net income Group share, less a provision for estimated dividends (unless a dividend payment is not planned);
- funds deemed by the French Prudential Supervisory Authority (ACP) to fulfil the conditions for inclusion in Tier 1 capital, and which are not hybrid instruments such as those referred to below. As at 31 December 2012, Crédit Agricole S.A. had a €1 billion shareholders' advance from the Regional Banks that was classified in this category and partially redeemed;
- the share of minority interests in stakes held by Crédit Agricole S.A. as well as the T3CJ (see Note 6.11 to the consolidated financial statements) which have received approval from the ACP not to be included in the category of hybrid instruments below;
- the following items are deducted:
  - treasury shares held, valued at their net carrying amount,
  - intangible assets including start-up costs and goodwill.

#### B. HYBRID INSTRUMENTS (INCLUDING PREFERRED SHARES)

These include non-innovative capital instruments and innovative capital instruments, the latter with a strong repayment incentive notably *via* a step-up mechanism. Hybrid instruments consist of the deeply subordinated notes issued under the terms of Article L. 228-97 of the French Commercial Code, as amended by the French Financial Security Act of 1 August 2003, and preferred securities issued under UK and US laws, which come from the consolidation of ad hoc vehicles for the indirect issue of hybrid instruments.

Note 6.19 to the consolidated financial statements "Equity" presents, in particular, the capital composition and details of the preferred shares.

Hybrid instruments are subject to certain limits relative to Tier 1 capital (before the deductions set out in item 3 below):

- "innovative" hybrid instruments, as defined above, are limited to 15% of Tier 1 capital subject to prior approval from the SGACP providing that they meet the criteria for eligibility as Tier 1 capital;
- total hybrid instruments – both innovative and non-innovative – may not exceed 35% of Tier 1 capital;
- hybrid instruments (including the aforementioned preferred shares), and the aforementioned minority interests, taken collectively, may not exceed 50% of Tier 1 capital.

### Deeply subordinated notes

Details of the deeply subordinated notes at 31 December 2012 were as follows:

| Issuer | Date of issue | Amount on issue *(in millions)* | Currency | Call dates | Compensation | Innovative (I) Non-innovative (NI) | Regulatory amounts at 31/12/2012 *(in millions of euros)*[1] |
|---|---|---|---|---|---|---|---|
| Crédit Agricole S.A. | February 2005 | 600 | EUR | February 2015 then annually | 6% then starting 04/02/2006, 10y CMS +0.025%, cap at 7.75% | NI | 371 |
| Crédit Agricole S.A. | November 2005 | 600 | EUR | November 2015 then quarterly | 4.13% then starting 09/11/2015, E3M +1.65% | I | 329 |
| Crédit Agricole S.A. | February 2006 | 500 | GBP | February 2016 then quarterly | 5.136% then starting 24/02/2016, Libor3M GBP +1.575% | I | 243 |
| Crédit Agricole S.A. | August 2006 | 400 | CAD | August 2016 then quarterly | 5.5% then starting 11/08/2016, CDOR 3M Cad +1.75% | I | 45 |
| Crédit Agricole S.A. | October 2007 | 500 | USD | October 2012 then semi-annually | 7.375% | NI | 379 |
| Crédit Agricole S.A. | December 2007 | 250 | NZD | December 2017 then quarterly | 10.035%, then starting 19/12/2012, 5.04%, then starting 19/12/2017, NZD 3M +1.90% | NI | 155 |
| Crédit Agricole S.A. | December 2007 | 650 | EUR | December 2012 then quarterly | 7.625% then starting 27/12/2012, E3M +3.10% | NI | 650 |
| Crédit Agricole S.A. | May 2007 | 1,500 | USD | May 2017 then every 10 years | 6.637% then starting 31/05/2017, Libor 3M USD +1.2325% | NI | 673 |
| Crédit Agricole S.A. | January 2008 | 400 | GBP | January 2020 then quarterly | 7.589% then starting 30/01/2020, Libor 3M GBP +3.55% | I | 210 |
| Crédit Agricole S.A. | March 2008 | 850 | EUR | March 2018 then quarterly | 8.2% then starting 31/03/2018, E3M +4.80% | I | 849 |
| Crédit Agricole S.A. | September 2008 | 500 | EUR | September 2018 then quarterly | 10.653% then starting 30/09/2018, E3M +6.80% | I | 499 |
| Crédit Agricole S.A. | June 2009 | 1,350 | USD | December 2014 then semi-annually | 9.75% | NI | 1,020 |
| Crédit Agricole S.A. | October 2009 | 1,000 | USD | October 2019 then quarterly | 8.375% then starting 13/10/2019, Libor 3M USD +6.982% | I | 754 |
| Crédit Agricole S.A. | October 2009 | 550 | EUR | October 2019 then quarterly | 7.875% then starting 26/10/2019, E3M +6.424% | I | 547 |
| Crédit Agricole S.A. | October 2009 | 300 | GBP | October 2019 then quarterly | 8.125% then starting 26/10/2019, Libor 3M GBP +6.146% | I | 355 |
| CACEIS | November 2007 | 40 | EUR | November 2017 then quarterly | 6.315% then starting 28/11/2017, E3M +2.80% | I | 40 |
| Newedge | December 2008 | 103 | USD | December 2013 then quarterly | 8.60% then starting 23/12/2013, Libor 3M +6.5% | NI | 78 |
| Cariparma | June 2011 | 30 | EUR | June 2016 then quarterly | E3M +7.29% | NI | 29 |
| **TOTAL** | | | | | | | **7,226** |

(1) *Amounts used for the Corep declaration.*

## 2. Tier 2 capital or supplementary capital

This includes in particular:

- funds from subordinated debt instruments that meet the conditions set out in Article 4c of Regulation 90-02 on capital (perpetual subordinated notes);
- funds from subordinated debt instruments that meet the conditions set out in Article 4d of Regulation 90-02 on capital (redeemable subordinated notes);
- 45% of net unrealised gains on equity instruments transferred on a currency by currency basis before tax into Tier 2 capital;
- the positive difference between the sum of value adjustments and collective impairment related to these exposures and expected losses calculated using the internal ratings-based approach, capped at 0.6% of the risk weighted exposure.

### Perpetual subordinated notes

Details of the perpetual subordinated notes as at 31 December 2012 were as follows:

| Issuer | Date of issue | Amount on issue *(in millions)* | Currency | Call dates | Compensation | Regulatory amounts at 31/12/2012 *(in millions of euros)*(1) |
|---|---|---|---|---|---|---|
| Crédit Agricole S.A. | June 2003 | 1,050 | GBP | June 2018 then every 5 years | 5% then starting 20/06/2018, 5Y UKT +0.97% +1% | 187 |
| Crédit Agricole S.A. | December 2001 | 937 | EUR | December 2011 then quarterly | 5.641% then starting 20/12/2011, E3M +0.75% | 937 |
| Crédit Agricole S.A. | March 2003 | 636 | EUR | March 2015 then every 12 years | 5.2% then starting 07/03/2015, 12-year govt. lending rate +1.50% (revised every 12 years) | 583 |
| Crédit Agricole S.A. | June 2003 | 497 | EUR | July 2016 then every 13 years | 4.7% then starting 03/07/2016 until 03/07/2029, 13-year govt. lending rate +1% then starting 03/07/2029, 13-year govt. lending rate +1.25% (revised every 13 years) | 447 |
| Crédit Agricole S.A. | December 2003 | 505 | EUR | December 2015 then every 12 years | 5% then starting 24/12/2015, 12-year govt. lending rate +0.75% (revised every 12 years) | 422 |
| Crédit Agricole S.A. | June 2006 | 500 | EUR | June 2011 then quarterly | 4.61% then starting 30/06/2011 until 30/06/2016, E3M +1.29%, then starting 30/06/2016, E3M +2.04% | 500 |
| LCL | November 1985 | 229 | EUR | - | Average of average monthly rates of return for payment of govt.-guaranteed and similar loans (INSEE(2) publication) -0.15% | 115 |
| LCL | January 1987 | 229 | EUR | January 1994 then annually | Average of average monthly rates of return for payment of govt.-guaranteed and similar loans (INSEE(2) publication) -0.30% | 97 |
| **TOTAL** | | | | | | **3,288** |

*(1) Amounts used for the Corep declaration.*

*(2) INSEE: National Institute for Statistics and Economic Studies.*

In addition, subordinated debts at 31 December 2012 also include (see Note 6.11 to the consolidated financial statements “Debt securities in issue and subordinated debt”):

- mutual security deposits;
- participating securities and loans;
- redeemable subordinated notes (TSR).

## 3. Deductions from capital

Deductions are described in Articles 6.6 bis and 6 *quater* of Regulation 90-02 on share capital. They include equity interests representing more than 10% of the equity capital of a credit institution or investment firm, as well as subordinated debt holdings and any other equity-based instruments. 50% of the amounts concerned is deducted from Tier 1 capital and 50% from Tier 2 capital.

Since 31 December 2010, the equity-accounted interests held by Crédit Agricole S.A. in the capital of the Regional Banks are no longer included in deductions under the terms of Article 67 of the “New methods of calculating solvency ratios”, which, since 2011, has stipulated that Article 6 III of Regulation No. 90-02 applies to intra-group investments by cooperative and mutual banks held in the form of cooperative investment certificates (CCI) and cooperative associate certificates (CCA). Consequently, Crédit Agricole S.A. no longer deducts 50% of the amount of its interests in the Regional Banks and their financial subsidiaries from Tier 1 capital and 50% from Tier 2 capital, but adds them to the total risk weighted assets after applying weightings.

At the end of 2011, Crédit Agricole S.A. set up the “Switch” operation, reducing the regulatory requirements on Crédit Agricole S.A. for the 25% minority interests held in the Regional Banks.

In return, Crédit Agricole S.A. repaid 74.5% of the shareholder advance agreed by the Regional Banks and 74.5% of the hybrid capital securities “T3CJ”, *i.e.* a total of €4.2 billion.

In accordance with Article 6 bis of the aforementioned Regulation 90-02, the deductions include securitisation exposures weighted at 1,250% held by institutions subject to that Regulation when these exposures are not included in the calculation of risk weighted exposure amounts.

Finally, these deductions also include the deduction for expected losses on the share portfolio, and, where relevant, the negative difference for institutions using internal ratings-based approaches between the collective impairments and the expected losses.

Tier 1 consists of Tier 1 capital after the relevant deductions. Symmetrically, Tier 2 consists of supplementary capital after the related relevant deductions.

On the other hand, as authorised by the aforementioned Article 6 (except for transactions completed after 31 December 2006), Crédit Agricole S.A.'s interests in insurance companies and its holdings of their subordinated debt and other equity items are deducted from total capital. In exchange, Crédit Agricole S.A. is subject to an additional capital requirement based on the appendix to Regulation 2000-03, which describes the supervision of financial conglomerates.

## 4. Tier 3 capital

This includes subordinated debt with an initial term equal to or more than two years, within the regulatory limits imposed. The Group no longer holds any Tier 3 capital.

## 5. Reconciliation of accounting and regulatory capital

| | 31/12/2012 | |
|---|---|---|
| *(in millions of euros)* | Detail | Total |
| **EQUITY, GROUP SHARE (CARRYING AMOUNT)** | | **39,727** |
| **Minority and assimilated interests:** | | |
| Minority interests (carrying amount) | 5,505 | |
| less preferred shares reclassified as "other components of Tier 1 capital" | (2,104) | |
| **Regulatory adjustments to Tier 1 capital:** | | |
| Other equity instruments(1) | 1,428 | |
| Goodwill and intangible assets | (15,874) | |
| Unrealised gains/losses on cash flow hedge | (507) | |
| Unrealised gains/losses on available-for-sale financial assets | (550) | |
| Expected losses (50% of the total on Tier 1) | (26) | |
| Deduction of securitisation exposures (50% of the total on Tier 1) | (357) | |
| Deductions in respect of investments in credit or financial institutions | (1,788) | |
| Other regulatory adjustments | (596) | |
| **Other components of Tier 1 capital:** | | |
| Hybrid equity instruments | 7,225 | |
| Preferred shares | 2,104 | |
| **Total Tier 1 capital** | | **34,187** |
| **Tier 2 funds:** | | |
| Items, securities and borrowings complying with Articles 4b and 4c (perpetual) of Regulation 90-02 | 3,565 | |
| Securities and borrowings complying with Article 4d (fixed term) of Regulation 90-02 | 16,330 | |
| **Regulatory adjustments to Tier 2 capital:** | | |
| Regulatory adjustments to other equity instruments(2) | 297 | |
| Surplus of collective impairment expense in relation to expected losses | 112 | |
| Deduction of securitisation exposures (50% of the total on Tier 2) | (357) | |
| Expected losses (50% of the total on Tier 2) | (26) | |
| Deductions in respect of investments in credit or financial institutions | (2,344) | |
| **Total Tier 2 capital** | | **17,577** |
| **Investments in insurance companies** | | **(13,176)** |
| **TOTAL COMPREHENSIVE CAPITAL** | | **38,588** |

*(1) These items comprise the SAS Rue La Boétie shareholders' advance to Crédit Agricole S.A. in the amount of €958 million and T3CJ super-subordinated loan notes in the amount of €470 million.*

*(2) Regulatory adjustment to Upper Tier 2 capital of 45% of unrealised gains on available-for-sale equity securities.*

## II. Capital requirements by type of risk

The capital requirements set out below by risk type, by approach and by exposure class (for credit risk) correspond to 8% of the risk weighted exposures set out in the table of prudential ratios, which represents the regulatory minimum. Weighted exposures are calculated by applying a weighting ratio to each exposure at risk.

The capital requirements for credit risk, market risk and operational risk were €23.5 billion at 31 December 2012, down 12.0% on December 2011.

### 1. Capital requirement for credit risk in the Standardised approach

*(The definition of the exposure classes is given in the section entitled "Exposure to credit and counterparty risk")*

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| *(in billions of euros)* | Risk weighted assets | Capital requirements | Risk weighted assets | Capital requirements |
| Central governments and central banks | 2.4 | 0.2 | 2.0 | 0.2 |
| Institutions | 10.7 | 0.9 | 10.1 | 0.8 |
| Corporates | 62.4 | 5.0 | 67.7 | 5.5 |
| Retail customers | 36.6 | 2.9 | 40.5 | 3.2 |
| Equities | 2.2 | 0.2 | 2.2 | 0.2 |
| Securitisation | 0.2 | 0.0 | 0.2 | 0.0 |
| Other non-credit obligation assets | 14.2 | 1.1 | 16.8 | 1.3 |
| **TOTAL CAPITAL REQUIREMENTS FOR STANDARDISED CREDIT RISK APPROACH** | **128.7** | **10.3** | **139.5** | **11.2** |

The capital requirement for credit risk in the standardised approach was down compared with 2011, due chiefly to a decline in outstanding loans. It was €10.3 billion, representing 44% of the total capital requirement at 31 December 2012.

Unchanged compared with the prior year, the Corporate and Retail loan books accounted for the majority (more than 75%) of the total capital requirement under the standard approach and are concentrated mainly in the entities that are part of the sequential transition project to the IRB approach and are to be processed using the IRB method according to the Group's rollout schedule.

## 2. Capital requirement for credit risk under the internal ratings-based (IRB) approach

*(The definition of the exposure classes is given in the section entitled "Exposure to credit and counterparty risk").*

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| *(in billions of euros)* | Risk weighted assets | Capital requirements | Risk weighted assets | Capital requirements |
| Central governments and central banks | 2.0 | 0.2 | 1.4 | 0.1 |
| Institutions | 10.5 | 0.8 | 11.5 | 0.9 |
| Corporates | 71.5 | 5.7 | 79.2 | 6.3 |
| Retail customers | 26.9 | 2.2 | 26.1 | 2.1 |
| *Small and medium businesses* | *5.0* | *0.4* | *4.7* | *0.4* |
| *Revolving credit* | *3.1* | *0.2* | *3.5* | *0.3* |
| *Home loans* | *5.7* | *0.5* | *6.1* | *0.5* |
| *Other retail* | *13.1* | *1.1* | *11.8* | *0.9* |
| Equities | 10.5 | 0.8 | 11.9 | 1.0 |
| • Simple risk-weighting approach | 10.5 | 0.8 | 11.9 | 1.0 |
| *Private equity exposures in sufficiently diversified portfolios (190% weighting)* | *1.9* | *0.2* | *2.3* | *0.2* |
| *Listed equity exposures (290% weighting)* | *3.4* | *0.3* | *5.7* | *0.5* |
| *Other equity exposures (370% weighting)* | *5.2* | *0.3* | *3.9* | *0.3* |
| • Internal models method | - | - | - | - |
| Securitisation | 7.0 | 0.6 | 8.2 | 0.7 |
| Other non-credit obligation assets | - | - | - | - |
| **TOTAL CAPITAL REQUIREMENTS FOR INTERNAL RATINGS-BASED CREDIT RISK APPROACH** | **128.4** | **10.3** | **138.3** | **11.1** |

The capital requirement for credit risk under the internal ratings-based approach was €10.3 billion, representing 44% of total capital requirements at 31 December 2012. It was down compared with the prior year (-7.2%), due primarily to the reduction in Corporate exposures which, as in 2011, represented more than 55% of the total.

The capital requirements for Retail customers stem mainly from LCL and from the Consumer finance subsidiaries such as Crédit Agricole Consumer Finance.

### 3. Capital requirements for market risk

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| *(in billions of euros)* | Risk weighted assets | Capital requirements | Risk weighted assets | Capital requirements |
| **Market risk under standardised approach** | **3.3** | **0.3** | **7.1** | **0.6** |
| *Interest rate risk* | *1.6* | *0.2* | *5.3* | *0.5* |
| *Equity position risk* | *0.1* | *0.0* | *0.1* | *0.0* |
| *Foreign exchange risk* | *1.5* | *0.1* | *1.6* | *0.1* |
| *Commodities risk* | *0.1* | *0.0* | *0.1* | *0.0* |
| **Market risk under internal models approach** | **9.8** | **0.8** | **25.7** | **2.0** |
| *of which additional capital requirements arising from exceeding the large exposures limits* | | | | |
| **TOTAL CAPITAL REQUIREMENTS FOR MARKET RISK** | **13.1** | **1.1** | **32.8** | **2.6** |

The capital requirement for market risk amounted to €1.1 billion, representing 4.7% of total capital requirements at 31 December 2012 (compared with nearly 10% at 31 December 2011).

The sharp decline in 2012 was attributable to the disposal of the market risks relating to the Crédit Agricole CIB correlation book.

#### Capital requirement for payment and settlement risk

This requirement was not material: it amounted to €4.8 million for the Group as a whole at 31 December 2012, compared with €0.3 million at 31 December 2011.

### 4. Capital requirements for operational risk

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| *(in billions of euros)* | Risk weighted assets | Capital requirements | Risk weighted assets | Capital requirements |
| Operational risk under the standardised approach | 8.5 | 0.7 | 9.3 | 0.7 |
| Operational risk under the advanced measurement approach | 14.4 | 1.1 | 13.8 | 1.1 |
| **TOTAL CAPITAL REQUIREMENTS FOR OPERATIONAL RISK** | **22.9** | **1.8** | **23.1** | **1.8** |

The capital requirement for operational risk amounted to €1.8 billion, (down 1.1% compared with 2011), representing 7.7% of the Group's total capital requirements at 31 December 2012.

The calculation under the advanced measurement approach accounted for 61% of total capital requirements for operational risk.

The main contributing entities are: Crédit Agricole CIB, LCL and Amundi under the advanced approach and Cariparma and Crédit Agricole Consumer Finance under the standardised approach.

## III. Assessment of internal capital adequacy

The Group has implemented an internal capital adequacy assessment system covering Crédit Agricole Group, Crédit Agricole S.A. Group and the Group's main French and foreign entities. This approach is designed to meet the requirements of Pillar 2 of the Basel agreement, and more particularly the Internal Capital Adequacy Assessment Process (ICAAP), implemented under the responsibility of institutions.

Its main purpose is to ensure that the Group's capital, calculated at the level of the financial conglomerate, and that of its main entities, is adequate for the risks incurred, while ensuring the quality of risk controls and checks.

The risks quantified for the purposes of internal capital are:

- risks covered by Pillar 1 (credit and counterparty risk, market risk and operational risk);
- risks covered by Pillar 2 (interest rate risk in the banking portfolio and credit concentration risk);
- Insurance risks.

Liquidity risk is not included in the assessment as the Group takes a qualitative approach to liquidity risk through its management and supervision systems, as well as to its liquidity continuity plan.

In addition to these risks, the internal capital approach requires banks to ensure that their capital requirements calculated under Pillar 1 adequately cover all residual risk related to risk mitigation techniques and securitisation transactions. Failing that, for internal capital purposes, a risk adjustment to Pillar 1 requirements must be made by any entities exposed to these risks.

The quantitative approach used to calculate internal capital is incremental compared with Pillar 1 requirements. Measures implemented refer to the target rating of the Group. This approach consists in:

- adjusting capital requirements calculated under Pillar 1 so that internal capital adequately reflects, from an economic standpoint, all the material risks in each business activity;
- supplementing Pillar 1 requirements to take Pillar 2 risks into account;
- taking into account, on a prudent basis, the impacts of diversification resulting from the broad spread of business activities within the same group, including between banking and insurance.

Internal capital for credit risk exposures excluding retail banking is based on an internal economic capital model, enabling in particular a better comprehension of concentrations in credit portfolios.

For market risk, which is monitored through VaR, internal capital fully integrates regulatory developments under Pillar 1 (stressed VaR, IRC). The horizon of capital measurement is made consistent with that used for other risks.

For interest rate risk in the banking portfolio, Crédit Agricole S.A. Group applies the interest rate shocks set out in Pillar 2 of the Basel 2 reform to calculate its internal capital, *i.e.* an immediate 200-basis-point parallel shift in the yield curve. Internal capital includes the offsetting impact of the interest margin on customer deposits.

Insurance risks are taken into account in the Group's internal capital based on the measures taken under the current and future regimes applicable to insurance companies (Solvency 1, Solvency 2).

Diversification between risks is measured by an internal model to quantify the correlations between the different classes of risk.

A prospective approach is implemented to measure internal capital requirements, so as to integrate the anticipated effects of the Basel III reform, both for the calculation of available capital and for measuring capital requirements.

Crédit Agricole S.A. Group entities subject to the requirement to measure internal capital within their scope are responsible for doing so in accordance with standards and methodologies defined by the Group. More specifically, they must ensure that their ICAAP is appropriately organised and managed. Internal capital determined by the entities is reported in detail to the central body.

In addition to the quantitative aspect, the Group's approach relies on a qualitative component supplementing the calculation of internal capital with indicators of the business lines' exposure to risk and their permanent controls. The qualitative part of the ICAAP has three objectives:

- regularly assess the appropriateness of the risk management and control mechanisms of the Group's most significant entities;
- continuously improve the system of risk management and permanent control in the business lines;
- complete the analyses in the quantitative section of the ICAAP.

# CREDIT RISK

## I. Exposure to credit risk

Definitions:

- **probability of default (PD):** the probability that a counterparty will default within a period of one year;
- **exposure at default (EAD):** exposure amount in the event of default. The concept of exposure encompasses balance sheet assets plus a proportion of off-balance sheet commitments;
- **loss given default (LGD):** ratio between the loss incurred upon counterparty default and the amount of the exposure at the time of default;
- **gross exposure:** amount of the exposure (balance sheet + off-balance sheet), after the impacts of netting and before the application of any credit risk mitigation techniques (guarantees and collateral) and the credit conversion factor (CCF);
- **credit conversion factor (CCF):** ratio between the unused portion of a commitment that will be drawn and at risk at the time of default and the unused portion of the commitment calculated on the basis of the authorised limit or, where applicable, the unauthorised limit if higher;
- **expected losses (EL):** the amount of the average loss the bank expects to have to recognise in its loan portfolio within one year;

- **risk weighted assets (RWA):** weighted exposures are calculated by applying a weighting ratio to each exposure. The ratio is a function of the characteristics of the exposure and the calculation method used (IRB or standardised);
- **value adjustments:** impairment losses on a specific asset due to credit risk, recognised either through a partial write-down or a deduction from the carrying amount of the asset;
- **external credit ratings:** credit ratings provided by an external credit rating agency recognised by the French Prudential Supervisory Authority (ACP).

Credit exposures are classified by counterparty type and financial product type, based on the seven exposure classes shown in the table below and set out in Article 40-1 of the decree of 20 February 2007 on capital requirements applicable to credit institutions and investment firms:

- in addition to exposures to central governments or central banks, the Central government or central banks class includes exposures to certain regional and local authorities and public sector agencies that are treated as central government agencies, as well as multilateral development banks and international organisations;
- the Institutions class comprises exposure to credit institutions and investment firms, including those recognised in other countries. It also includes some exposures to regional and local authorities, public sector agencies and multilateral development banks that are not classified under central governments;
- the Corporates class is divided into large corporates and small and medium-sized businesses, which are subject to different regulatory treatments;
- the Retail customer class is broken down into home loans, revolving credits, other retail loans and small businesses loans;
- the Equity class comprises exposures that convey a residual, subordinated claim on the assets or income of the issuer or have a similar economic substance;
- the Securitisation class includes exposures to securitisation operations or structures, including those resulting from interest rate or exchange rate derivatives, independently of the institution's role (whether it is the originator, sponsor or investor);
- the Other non-credit obligation assets class mainly includes fixed assets and accruals, prepayments and sundry assets.

In accordance with Basel II, risk weighted assets in the Central governments and central banks, Institutions, Corporate and Retail customers classes are calculated by applying a prescribed formula, the main parameters of which are the EAD, PD, LGD and the maturity associated with each exposure:

- for exposures to large customers (Central governments and central banks, Institutions and Corporates), the formula is given in Article 47 of the Order dated 20 February 2007;
- for exposures to Retail customers, the formula is given in Article 54-1 of the Order dated 20 February 2007.

Risk weighted assets in the Equities category are calculated by applying standardised weightings to the carrying amount of the exposures. These weightings, prescribed in Article 58-1 of the Order dated 20 February 2007, are a function of the nature of the relevant equities: 190% for capital investment exposures in the case of a diversified portfolio, 290% for exposures to listed equities and 370% for all other "Equities".

The calculation of risk weighted assets in respect of Securitisation exposures is set out in item III below.

Weighted assets relating to exposures in respect of "Other assets not corresponding to a credit obligation" are calculated by applying a standardised weighted of 100% to the carrying amount of the exposures in question.

Parameters that fall into the formulas cited above are estimated using historical default and loss data collected internally by Crédit Agricole S.A. The definition of default used for the calculation of these parameters has a significant influence on the value thereof.

For large customers, default is defined on a customer-by-customer basis. It accordingly factors in the principle of contagion: an exposure to a defaulting customer causes the classification under default of all of the said customer's assets within the entity responsible for the uniformity of the rating ("RUN") as well as all of its outstanding debts to Crédit Agricole Group.

For Retail customers, the default can be recorded at the level of the transaction. When applied to the debtor, it factors in the principle of contagion. Contagion rules are defined and precisely documented by the entity (joint account, outstandings of individual, professionals, notion of risk group, etc.).

Moreover, the historical default and loss data are themselves highly dependent on the characteristics of the products marketed and the markets in which the Group's various subsidiaries operate. As such, it may be difficult or misleading to compare these parameters between each other or to compare weighted assets calculated using these parameters for a given class of exposure.

Differences in market characteristics may be of various kinds:

- maturity of the market: risk parameters in respect of large customers vary significantly depending on whether the customer or its shareholder is located in a developed or an emerging country; in the former, the rating of the counterparty will depend solely on the specific characteristics of the customer or its reference shareholder; in the latter, the rating of the country will be an important factor in the rating (the rating of a counterparty may only be greater than that of the country in which it is based in very specific cases, the ratings of companies located in emerging markets are generally capped by the rating of the country in question);

- structure of the market: risk parameters vary depending on the type of products marketed, the risk weighted assets calculated on certain products (e.g. home loans) are structurally lower than those calculated on other products (e.g. consumer loans) for the same rating class; consequently, in some countries where home loans account for a very significant part of outstandings, the risk weighted assets of subsidiaries located in these countries tend to be below the Group average;
- position in the cycle: as GDP growth cycles are not synchronous in all countries in which the Group operates, the PD and LGD parameters do not necessarily follow the same trend for all subsidiaries; for instance, PD and LGD estimates on home loans will tend to increase for subsidiaries operating in markets experiencing or having experienced a real estate crisis, while remaining stable elsewhere;
- demographic and cultural differences: the place of private property in the culture of a country, the level of *per capita* income and demographic characteristics are other factors influencing risk parameters; accordingly, for instance, subsidiaries operating in countries in which the population is better off tend to have lower risk weighted assets than elsewhere, due to the fact that debt-to-income ratios will tend to be lower.

Products marketed may also vary from one subsidiary to another or from one country to another, potentially resulting in divergent risk parameters and risk weighted assets for the same type of customer. The type of products marketed can influence risk parameters in various ways:

- nature of products: products marketed may be very different in nature; as such, home loans may vary from one country to another as a function of their average maturity or the average ratio between the amount of the loan and the value of the financed property (loan-to-value ratio, LTV); the longer the maturity or the higher the LTV, the higher the risk parameters and risk weighted assets;
- business model: Crédit Agricole S.A.'s business model consists in holding loans granted to customers to maturity, whereas other banking models consist in selling large portions of their outstanding loans to securitisation vehicles; Crédit Agricole S.A. consequently keeps all home loans on its balance sheet, where they are generally blended with the lower risk parameters and risk weighted assets of other asset classes, resulting in a structurally lower level of average weighted assets than for banks that sell this type of loan;
- collateral: loans granted can be secured by collateral or personal guarantees, the value and quality of which will be reflected in lower risk parameters than those of unsecured loans;

In addition, the type of customers may also vary significantly depending on the distribution channel: in the case of revolving credit, for instance, the customer (and the associated risk parameters) will differ depending on whether the products are marketed by Crédit Agricole Group Regional Banks to their customers or through subsidiaries specialising in consumer credit.

The pertinence and reliability of the rating data used are guaranteed by a process consisting in the initial validation and subsequent maintenance of internal models based on a structured and documented organisation implemented throughout the Group and involving entities, the Risk Management and Permanent Controls department and the Audit function.

The set of internal models used in Crédit Agricole Group was presented for approval to the Standards and Methodology Committee before internal validation by the Group Control function. The internal validation is deemed to be a pre-validation, as it pre-dates the application for formal approval to the French Prudential Supervisory Authority. The process of constructing and validating an internal rating model requires work over a period generally spanning three to five years, involving several on-site pre-validation and validation assignments.

After validation, systems governing internal ratings and the calculation of risk parameters are subject to permanent and periodic control within each Group entity.

With regard to permanent control, a back-testing committee has been established within each entity. This committee (which may, for some entities, be a specific agenda item for the Risk Committee) is chaired by the Risk Management department of the relevant entity and includes a representative from the Group Risk Management and Permanent Controls department. It meets at least twice a year and is the subject of reports to the Chief Executive Officer and the head of the entity's Risk Management department, as well as the Group Risk Management and Permanent Controls department.

Periodic inspection is conducted annually by the internal audit function or any third party specifically authorised by it. The audit plan covers:

- systems for calculating ratings and estimating risk parameters, as well as compliance with minimum requirements;
- systems functioning (correct implementation).

The corresponding reports are sent to the person responsible for monitoring the relevant entity within the Group Risk Management and Permanent Controls department.

The entity performs internal controls (permanent and periodic) bear on:

- the quality of input and output data within the system;
- the conceptual and technical quality of systems for calculating ratings and estimating risk parameters;
- the completeness of data used for the calculation of weighted assets.

Back-testing is critical in maintaining the pertinence and performance of rating models. A first phase of analysis is based chiefly on the quantitative analysis of the predictive model as a whole and its main explanatory variables.

This exercise can also detect significant change in the structure and behaviour of portfolios and customers. Back-testing then results in decisions to adjust or recast models in order to factor in the new structural elements. This allows changes in non-cyclical behaviour or change in the franchise to be identified, revealing the impact of commercial or risk strategies implemented by the Bank.

Across the Group as a whole, each rating method is back-tested at least once annually by the unit responsible for the method (Risk Management and Permanent Controls department or its delegate). This formalises the procedures and operating methods adopted in a precise manner. Back-testing work can be performed in accordance with differing periodicities, depths and times, each with different objectives.

- Quarterly back-testing: this type of back-testing, systematically performed on the large customer scope, has two objectives: the first is to ensure as far upstream as possible the absence of drift in the application of methodologies; the second is to maintain the business of user entities thanks to these results;
- Annual back-testing: the analysis conducted in accordance with the requirements of Article 145 *et seq*. of the Order of 20 February 2007 aims to ensure that the models used on scopes either authorised or in the process of authorisation yield the anticipated results.

These *ex-post* controls are performed through-the-cycle on historical data covering as long a period as possible. The results of back-testing are ultimately expressed in a summary document containing critical analysis of the discriminating properties of the rating method and estimated default rates associated with each rating calculated by the model.

This critical analysis of the pertinence of the method and its implementation is performed in reference to the actual scope of application of the methodology in Crédit Agricole Group. It must analyse in sufficient depth to detect and describe any possible dysfunctions.

Three types of analysis are carried out systematically:

- control of the stability of the population;
- monitoring of the performance of the rating system: analysis of the discriminating character of the rating grid, for example through the ROC curve, the Gini index and/or the Kolmogorov-Smirnov curve and index;
- monitoring of deviations in respect of default rates: in particular, the review of default rates among Retail customers by batch and by generation of production is a key factor in assessing the quality of the rating system. The gaps between estimated default rates are recognised and assessed by batch on the basis of a confidence interval.

The unit responsible for the method submits annually to the Group, *via* the Standards and Methodologies Committee, the result of back-testing after review by an ad hoc committee aimed at confirming the correct application of the statistical methods selected and the validity of the results. The summary document recommends, if necessary, appropriate corrective measures (revision of methodology, recalibration, training effort, control recommendations, etc.).

## 1. Breakdown of exposures

### 1.1 EXPOSURES BY TYPE OF RISK

The table below shows Crédit Agricole S.A. Group's exposure to credit and counterparty risk by exposure class for the standardised and internal ratings based approaches. This exposure is the amount of gross exposure after the impact of netting and before the application of any credit risk mitigation techniques (guarantees and collateral).

**EXPOSURE TO CREDIT RISK BY APPROACH AND CLASS OF EXPOSURE: GROSS EXPOSURE**

| | 31/12/2012 | | | | | | | 31/12/2011 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Standardised | | IRB | | Total | | | Total | | |
| *(in billions of euros)* | Credit risk | o/w counterparty risk | Credit risk | o/w counterparty risk | Credit risk | o/w counterparty risk | Average exposure | Credit risk | o/w counterparty risk | Average exposure |
| Central governments and central banks | 43.0 | 11.8 | 148.2 | 3.2 | 191.2 | 15.0 | 173.9 | 156.5 | 12.0 | 160.1 |
| Institutions | 344.2 | 24.0 | 124.1 | 41.0 | 468.3 | 65.0 | 467.6 | 466.8 | 54.0 | 466.1 |
| Corporates | 97.3 | 10.3 | 237.4 | 25.1 | 334.7 | 35.4 | 347.7 | 360.7 | 42.8 | 360.7 |
| Retail customers | 72.8 | | 118.0 | | 190.8 | | 195.1 | 199.4 | | 199.3 |
| Equities | 3.4 | | 18.9 | | 22.3 | | 22.3 | 22.2 | | 22.6 |
| Securitisations (securitisation position) | 0.5 | | 56.3 | | 56.8 | | 62.0 | 67.3 | | 67.2 |
| Other non-credit obligation assets | 45.1 | | | | 45.1 | | 35.0 | 24.9 | | 31.7 |
| **TOTAL** | **606.3** | **46.1** | **702.9** | **69.3** | **1,309.2** | **115.4** | **1,303.6** | **1,297.8** | **108.8** | **1,307.6** |

### EXPOSURES AT DEFAULT BY APPROACH AND EXPOSURE CLASS: EAD

| | 31/12/2012 | | | | | | | 31/12/2011 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Standardised | | IRB | | Total | | | Total | | |
| *(in billions of euros)* | Credit risk | o/w counterparty risk | Credit risk | o/w counterparty risk | Credit risk | o/w counterparty risk | Average exposure | Credit risk | o/w counterparty risk | Average exposure |
| Central governments and central banks | 40.1 | 11.8 | 147.8 | 3.2 | 187.9 | 15.0 | 170.0 | 152.1 | 12.0 | 155.6 |
| Institutions | 287.8 | 24.0 | 112.6 | 33.1 | 400.4 | 57.1 | 403.9 | 407.4 | 54.1 | 406.0 |
| Corporates | 81.7 | 10.3 | 199.9 | 24.3 | 281.6 | 34.6 | 292.4 | 303.1 | 40.4 | 302.6 |
| Retail customers | 55.9 | | 113.7 | | 169.6 | | 172.0 | 174.4 | | 172.9 |
| Equities | 1.7 | | 3.6 | | 5.3 | | 5.6 | 5.9 | | 13.3 |
| Securitisation | 0.5 | | 55.6 | | 56.1 | | 61.3 | 66.5 | | 63.2 |
| Other non-credit obligation assets | 44.2 | | | | 44.2 | | 34.0 | 23.9 | | 30.6 |
| **TOTAL** | **511.9** | **46.1** | **633.2** | **60.6** | **1,145.1** | **106.7** | **1,139.2** | **1,133.3** | **106.6** | **1,144.0** |

### EXPOSURE TO CREDIT RISK BY APPROACH AND CLASS EXPOSURE: RWA

| | 31/12/2012 | | | | | | | 31/12/2011 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Standardised | | IRB | | Total | | | Total | | |
| *(in billions of euros)* | Credit risk | o/w counterparty risk | Credit risk | o/w counterparty risk | Credit risk | o/w counterparty risk | Average exposure | Credit risk | o/w counterparty risk | Average exposure |
| Central governments and central banks | 2.4 | 0.2 | 2.0 | 0.2 | 4.4 | 0.4 | 3.9 | 3.4 | 0.1 | 3.7 |
| Institutions | 10.7 | 2.4 | 10.5 | 4.2 | 21.2 | 6.6 | 21.4 | 21.6 | 6.4 | 22.5 |
| Corporates | 62.4 | 2.5 | 71.5 | 9.3 | 133.9 | 11.8 | 140.5 | 146.8 | 15.5 | 150.2 |
| Retail customers | 36.6 | | 26.9 | | 63.5 | | 65.0 | 66.5 | | 66.8 |
| Equities | 2.2 | | 10.5 | | 12.7 | | 13.4 | 14.1 | | 40.3 |
| Securitisation | 0.2 | | 7.0 | | 7.2 | | 7.8 | 8.4 | | 8.8 |
| Other non-credit obligation assets | 14.2 | | | | 14.2 | | 12.3 | 10.5 | | 9.4 |
| **TOTAL** | **128.7** | **5.1** | **128.4** | **13.7** | **257.1** | **18.8** | **264.3** | **271.3** | **22.0** | **301.5** |

The average amount by exposure class at 31 December 2012 is the arithmetic average between exposures at 31 December 2012 and exposures at 31 December 2011.

With no notable changes from previous years, the loan book is characterised by the structural weight of Institutions which includes €300.4 billion of exposures related to Crédit Agricole Group internal transactions at 31 December 2012 (€306.3 billion at 31 December 2011). Excluding these internal operations, gross exposure for the loan book totalled €1,009 billion at end-December 2012, a 1.7% increase year-on-year.

In terms of gross exposure, as in 2011, the 2012 financial year saw near-stagnation of total deposits, with contrasting changes in different portfolios. In line with the overall deterioration of the economic environment in Europe, outstandings on Retail and Corporates dropped sharply (by -7.2% and -4.3% respectively). The Securitisation portfolio fell even more steeply (-15.6%) due to the sale of Crédit Agricole CIB's correlation book. In contrast, the change in exposures observed on the Central governments and central banks portfolio was caused by an increase in liquid assets in the form of central bank deposits.

The loan book's EAD rose by 1.05% over the year.

Counterparty risk exposure also recorded an increase of 6.1% over the year to €115.5 billion of gross exposure compared with €109 billion at end-2011.

### Counterparty risk on market transactions

Crédit Agricole S.A. and its subsidiaries calculate counterparty risk for all their exposures, whether in the banking book or the trading book. For items in the trading book, counterparty risk is calculated in accordance with the provisions relating to the regulatory supervision of market risk.

The regulatory treatment of counterparty risk on future derivative financial instruments in the banking portfolio is defined in the French transposition (decree of 20 February 2007) of the European directive. Crédit Agricole S.A. Group uses the market price method to measure its exposure to counterparty risk on future derivative financial instruments in the banking portfolio.

The exposure at default on counterparty risk amounted to €106.8 billion at 31 December 2012 (€59.7 billion in the form of derivative instruments and €47.1 billion in the form of security financing operations).

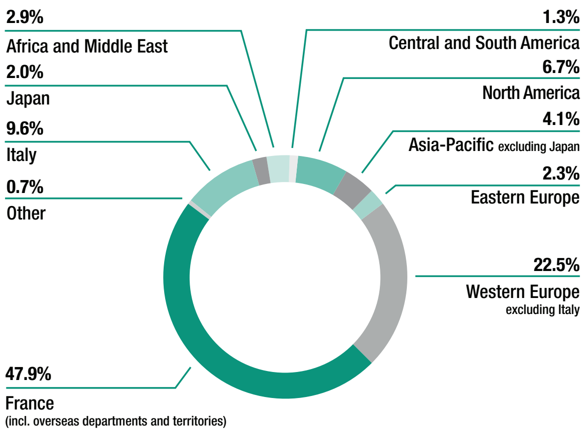
Information on exposure to forwards/futures is also provided in Note 3.1 “Credit risk” to the consolidated financial statements.

## 1.2 EXPOSURE BY GEOGRAPHIC AREA

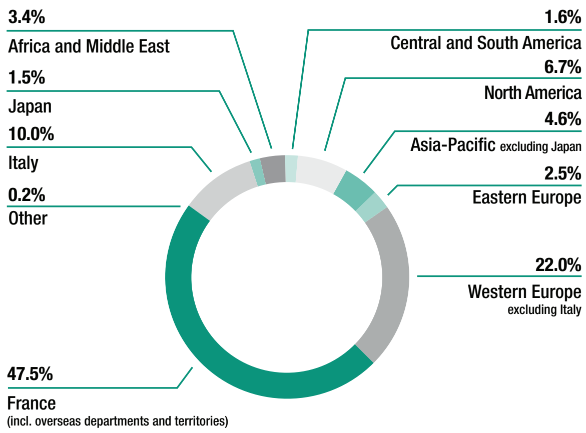
The breakdown by geographical area includes all Crédit Agricole S.A. Group’s exposures except for securitisations assets and other non-credit obligation assets.

At 31 December 2012, total exposure for the scope defined above was €906.9 billion (excluding Crédit Agricole Group internal transactions), compared with €896.1 billion at 31 December 2011. The amount allocated by geographical area was €880.9 billion, compared with €884.4 billion at 31 December 2011.

**BREAKDOWN OF CRÉDIT AGRICOLE S.A. GROUP SCOPE AT 31/12/2012**




**BREAKDOWN OF CRÉDIT AGRICOLE S.A. GROUP SCOPE AT 31/12/2011**



| *(in %)* Geographic area of exposure | Central governments and central banks | | Institutions | | Corporates | | Retail customers | | Equities | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 | 31/12/2012 | 31/12/2011 |
| France (incl. Overseas departments and territories) | 58.0 | 64.7 | 48.7 | 46.4 | 36.0 | 35.3 | 57.2 | 56.7 | 79.9 | 81.9 |
| Western Europe excluding Italy | 14.3 | 11.1 | 32.9 | 33.0 | 27.6 | 26.4 | 13.0 | 14.0 | 8.0 | 6.2 |
| North America | 11.5 | 11.3 | 5.5 | 5.6 | 8.5 | 8.8 | 0.0 | 0.0 | 2.0 | 2.4 |
| Italy | 4.2 | 4.9 | 1.7 | 2.2 | 8.2 | 7.8 | 24.6 | 24.5 | 4.1 | 4.0 |
| Japan | 4.1 | 2.0 | 2.7 | 2.8 | 1.5 | 1.6 | 0.0 | 0.0 | 0.5 | 0.4 |
| Other | 3.3 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Asia-Pacific excluding Japan | 1.7 | 1.7 | 4.7 | 5.5 | 7.2 | 7.6 | 0.5 | 0.5 | 5.1 | 4.9 |
| Africa and Middle East | 1.3 | 1.4 | 2.5 | 2.9 | 4.9 | 5.6 | 1.4 | 1.4 | 0.2 | 0.2 |
| Central and South America | 1.0 | 1.1 | 0.4 | 0.5 | 2.6 | 3.1 | 0.3 | 0.2 | 0.0 | 0.0 |
| Eastern Europe | 0.6 | 0.8 | 0.9 | 1.1 | 3.5 | 3.8 | 3.0 | 2.7 | 0.2 | 0.0 |
| | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

With no major changes compared to 2011, the loan book is still mainly concentrated in France (47.9%) and Western Europe in general (80.0%), a direct consequence of the predominance of European operations in Crédit Agricole S.A.'s activities. Distribution in Europe remained stable overall, though Italy saw its share of the total portfolio fall from 10.0% to 9.6% at 31 December 2012.

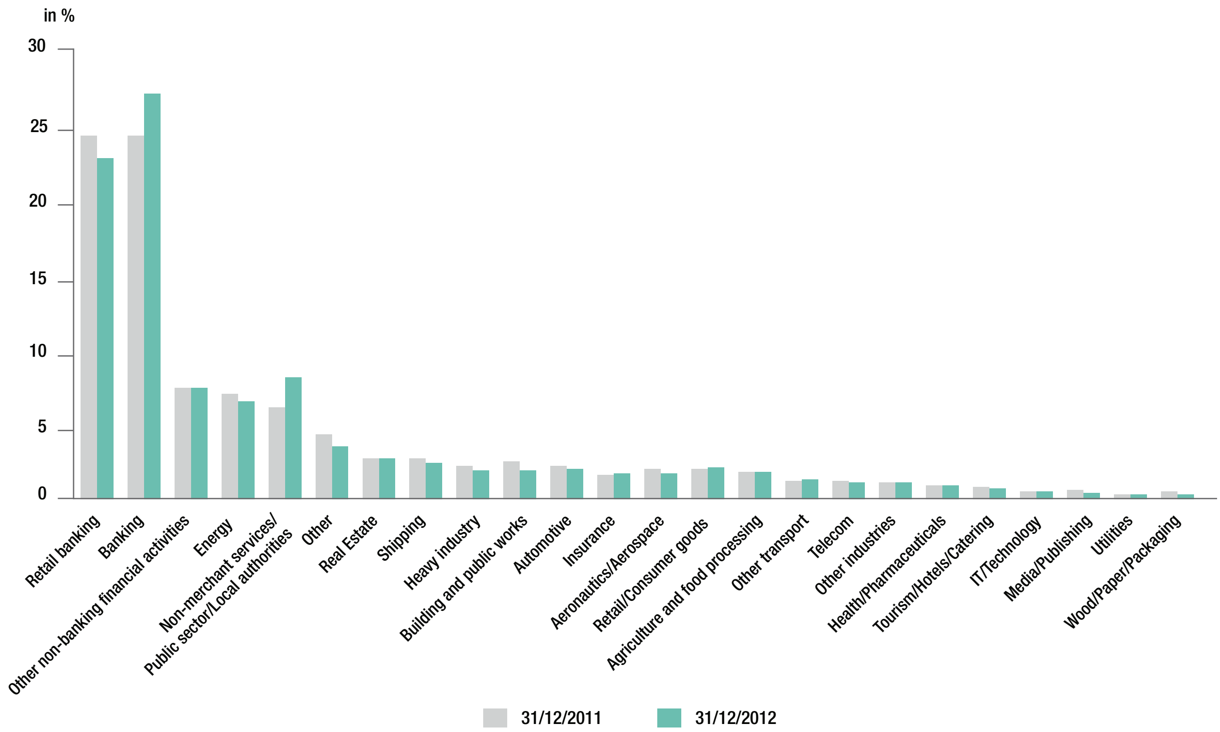
Total exposure to France includes 25.7% exposure to Retail outstandings (-1.0% year-on-year) and 28.7% exposure to Corporates (-1.8% year-on-year). In Italy – Crédit Agricole Group's second largest market – the Retail customer loan book accounted for 54.8% of total exposure (54.9% at end-December 2011). By comparison, Western Europe excluding France and Italy remained mainly exposed to Corporates (46.8% at 31 December 2012, compared to 49.1% at 31 December 2011).

### 1.3 EXPOSURES BY BUSINESS SECTOR

The breakdown by business sector covers Crédit Agricole S.A. Group's exposures to Central governments and central banks, Institutions, Corporates and Retail customers. The Retail customer portfolio is also broken down by Basel sub-portfolio (home loans, revolving credit, other small business loans, farmers and other retail).

At 31 December 2012, total exposure for the scope defined above was €884.7 billion (excluding Crédit Agricole Group internal transactions), compared with €877.0 billion at 31 December 2011. The amount allocated by business sector was €836.3 billion at 31 December 2012, compared with €812.2 billion at 31 December 2011.

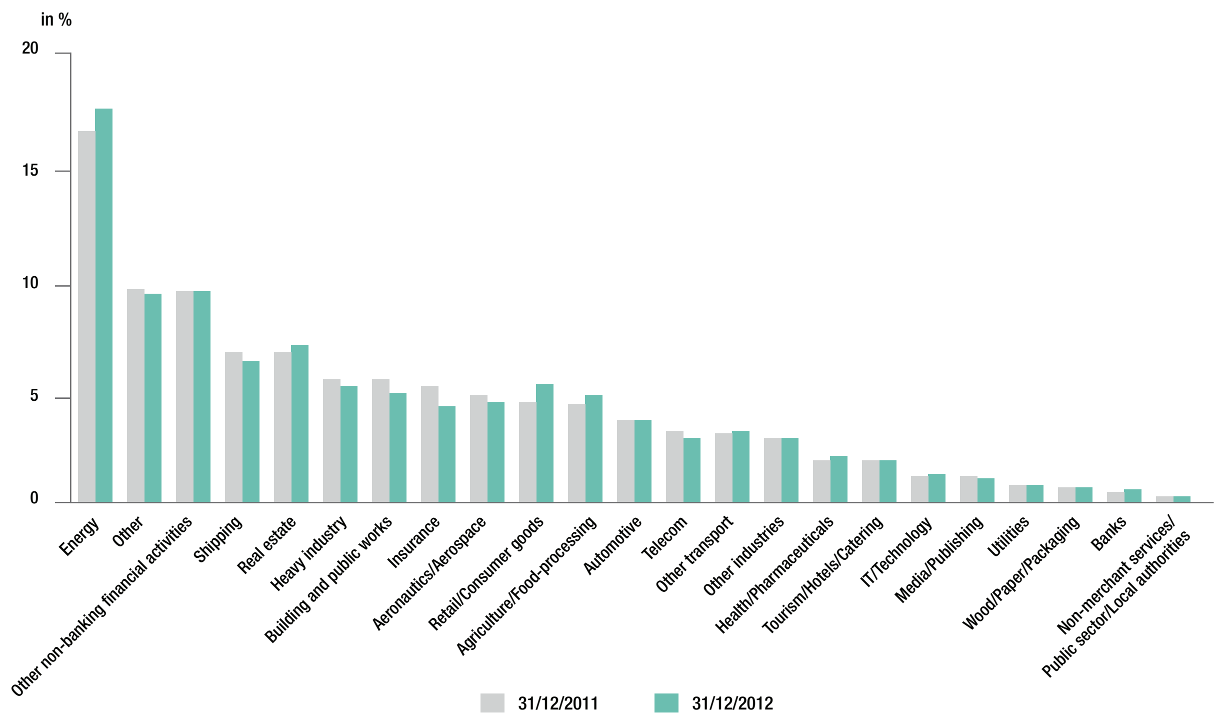
**BREAKDOWN OF CRÉDIT AGRICOLE S.A. GROUP PORTFOLIO**




*Prudential scope defined above, including central governments and central banks, institutions, corporates and retail customers.*

The breakdown of the loan book by business sector changed little in 2012 and shows a good level of risk diversification. Excluding Retail customers and the financial and public sectors, the Corporate loan book shows a satisfactory level of risk diversification.

**BREAKDOWN OF CORPORATE PORTFOLIO**

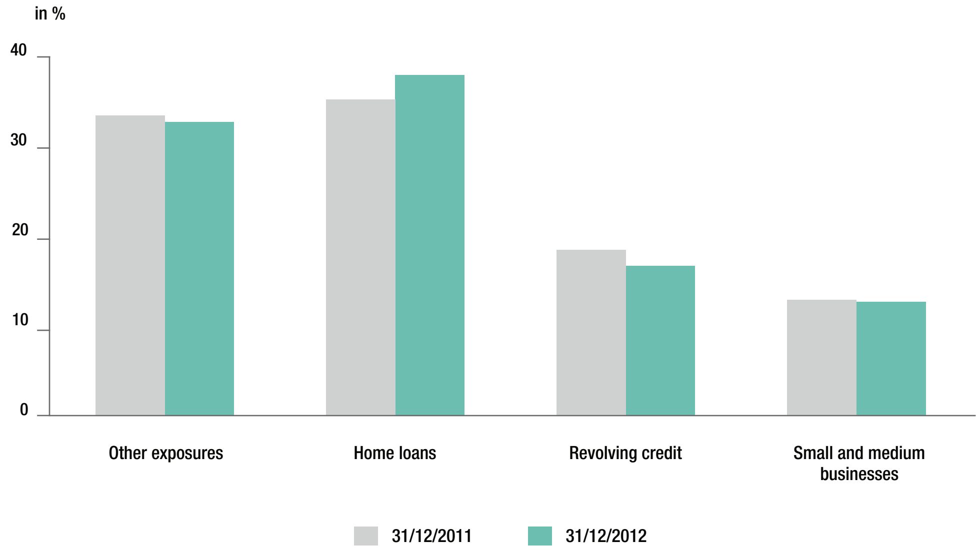



Within the Corporate portfolio, which has shown an overall decrease, the sectors whose relative proportion fell most sharply in 2012 were heavy industry, shipping and building and public works, together with the insurance sector where the increase in 2011 arose from exceptional transactions.

### Breakdown of exposures – Retail customer portfolio

The chart below shows a breakdown of Crédit Agricole S.A.'s retail customer portfolio exposures by Basel sub-portfolio (outstandings of €190.8 billion at 31 December 2012 compared with €199.4 billion at 31 December 2011).

**BREAKDOWN OF RETAIL CUSTOMERS PORTFOLIO**




As in 2011, the breakdown of the Retail customer portfolio by Basel sub-portfolio was marked by an increase in the share of home loans to the detriment of consumer loans ("other exposures" class) and revolving credit, which saw a sizeable fall in outstandings in 2012 (-13.9%).

### 1.4 EXPOSURES BY RESIDUAL MATURITY

The breakdown of exposures by residual maturity and by financial instrument is disclosed on an accounting basis in Note 3.3 to the consolidated financial statements on "Liquidity and financing risk".

## 2. Quality of exposures

### 2.1 QUALITY OF EXPOSURES IN STANDARDISED APPROACH

#### Credit risk exposure in standardised approach

For Central governments and central banks and Institutions in the standardised approach, Crédit Agricole S.A. Group has chosen to use Moody's ratings for the sovereign risk and the correspondence grid with the French Prudential Supervisory Authority's (ACP) credit quality assessment scale.

The Group does not use external credit rating agencies for Corporate exposures. Consequently, in accordance with the applicable regulation, Corporate exposures are assigned a 100% weighting or a 150% weighting when exposure to the country in which the company is based has a 150% weighting, with the exception of the LCL scope, for which calculation of additional capital requirements under the standardised approach factors in the ratings provided by the Bank of France.

### Breakdown of exposures and exposures at default by credit quality level

#### CENTRAL GOVERNMENTS AND CENTRAL BANKS

| Credit quality level *(in billions of euros)* | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| | Exposure amount | Exposure at risk | Exposure amount | Exposure at risk |
| 1 | 32.7 | 30.0 | 46.7 | 43.6 |
| 2 | 0.4 | 0.4 | 6.8 | 6.8 |
| 3 | 7.2 | 7.2 | 0.4 | 0.4 |
| 4 | 0.6 | 0.6 | 0.4 | 0.4 |
| 5 | 1.5 | 1.5 | 1.3 | 1.3 |
| 6 | 0.6 | 0.5 | 0.8 | 0.5 |
| **TOTAL** | **43.0** | **40.2** | **56.4** | **53.0** |

Pursuing the trend observed in 2011, exposure to Central governments and central banks under the standardised approach recorded a significant drop in 2012 (-23.8%). The top credit quality level continued to account for the vast majority of the portfolio (76.1%), but the deterioration in sovereign ratings in 2012 led to a significant shift of outstandings to levels 3 and 4. The proportion of ratings 5 and 6, however, remained very low, accounting for less than 5% of all exposures.

#### INSTITUTIONS

| Credit quality level *(in billions of euros)* | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| | Exposure amount | Exposure at risk | Exposure amount | Exposure at risk |
| 1 | 340.8 | 284.7 | 336.2 | 279.7 |
| 2 | - | - | 2.2 | 2.2 |
| 3 | 1.7 | 1.7 | - | - |
| 4 | 0.3 | 0.3 | 0.4 | 0.4 |
| 5 | 0.9 | 0.8 | 0.9 | 0.8 |
| 6 | 0.5 | 0.3 | 0.7 | 0.5 |
| **TOTAL** | **344.2** | **287.8** | **340.4** | **283.6** |

Exposure to Institutions under the standardised approach remained, as in previous years, almost entirely concentrated on the top credit quality level, reflecting the extent of business with very high quality institutions: the percentage of institutions ranked level 2 and above was less than 1%.

## 2.2 QUALITY OF EXPOSURES UNDER THE INTERNAL RATINGS-BASED APPROACH (IRB)

### Presentation of the internal ratings system and procedure

The internal ratings systems and procedures are described in the section entitled “Risk Factors – Credit Risk – Risk Measurement methods and systems”.

### EXPOSURE TO CREDIT RISK BY CLASS OF EXPOSURE AND BY INTERNAL RATING AT 31 DECEMBER 2012

| *(in millions of euros)* | Internal rating of counterparty | Probability of default *(in %)* | Gross exposure | EAD | EAD Balance sheet | EAD Off-balance sheet | RWA | Average LGD *(in %)* | Average RW *(in %)* | Expected Losses (EL) |
|---|---|---|---|---|---|---|---|---|---|---|
| Central governments and central banks | A+ to B+ | 0.0% | 139,433.9 | 140,554.2 | 137,408.4 | 3,145.8 | 50.6 | 20.2% | 0.0% | - |
| | B | 0.06% | 4,375.7 | 4,536.6 | 4,383.0 | 153.6 | 492.1 | 21.2% | 10.8% | 0.6 |
| | C+ | 0.16% | 1,187.5 | 1,113.7 | 703.6 | 410.1 | 269.6 | 32.3% | 24.2% | 0.6 |
| | C | 0.30% | 1,627.9 | 516.4 | 203.9 | 312.5 | 132.9 | 23.9% | 25.7% | 0.4 |
| | C- | 0.60% | 475.8 | 407.1 | 375.3 | 31.8 | 123.0 | 20.8% | 30.2% | 0.5 |
| | D+ | 0.75% | 500.8 | 387.9 | 338.9 | 49.0 | 322.5 | 42.8% | 83.2% | 1.2 |
| | D | 1.25% | 60.3 | 18.6 | 2.0 | 16.6 | 20.2 | 45.0% | 108.6% | 0.1 |
| | D- | 1.90% | 211.1 | 151.3 | 48.1 | 103.2 | 197.2 | 45.0% | 130.4% | 1.3 |
| | E+ | 5.00% | 187.5 | 29.5 | 19.7 | 9.8 | 69.8 | 59.2% | 236.5% | 0.9 |
| | E | 12.00% | 17.6 | 0.5 | 0.5 | - | 1.5 | 60.0% | 309.5% | - |
| | E- | 20.00% | 127.1 | 65.7 | 42.3 | 23.4 | 316.4 | 77.6% | 481.7% | 10.2 |
| **Subtotal** | | **0.02%** | **148,205.2** | **147,781.5** | **143,525.7** | **4,255.8** | **1,995.8** | **20.5%** | **1.4%** | **15.8** |
| Institutions | A+ to B+ | 0.0% | 84,066.6 | 76,332.6 | 58,718.5 | 17,614.1 | 1,792.5 | 35.5% | 2.3% | 1.2 |
| | B | 0.06% | 20,296.0 | 19,611.2 | 8,939.3 | 10,671.9 | 2,153.1 | 25.8% | 11.0% | 2.7 |
| | C+ | 0.16% | 7,806.2 | 6,793.2 | 2,822.4 | 3,970.8 | 1,597.7 | 30.6% | 23.5% | 3.3 |
| | C | 0.30% | 5,195.1 | 4,682.0 | 2,611.2 | 2,070.8 | 1,695.0 | 33.8% | 36.2% | 9.3 |
| | C- | 0.60% | 2,831.2 | 2,294.7 | 1,039.0 | 1,255.7 | 960.7 | 26.2% | 41.9% | 3.8 |
| | D+ | 0.75% | 1,135.3 | 717.9 | 240.6 | 477.3 | 444.9 | 36.9% | 62.0% | 1.9 |
| | D | 1.25% | 834.3 | 700.0 | 241.6 | 458.4 | 462.7 | 28.6% | 66.1% | 2.5 |
| | D- | 1.90% | 691.1 | 538.0 | 165.0 | 373.0 | 235.2 | 17.0% | 43.7% | 1.7 |
| | E+ | 5.00% | 122.7 | 43.4 | 0.8 | 42.6 | 54.1 | 40.8% | 124.7% | 0.9 |
| | E | 12.00% | 2.2 | 7.8 | 6.8 | 1.0 | 2.3 | 82.8% | 29.0% | 1.1 |
| | E- | 20.00% | 579.9 | 369.0 | 89.0 | 280.0 | 1,074.2 | 49.6% | 291.1% | 36.6 |
| **Subtotal** | | **0.16%** | **123,560.6** | **112,089.8** | **74,874.2** | **37,215.6** | **10,472.4** | **33.2%** | **9.3%** | **65.0** |
| Corporates | A+ to B+ | 0.0% | 40,384.5 | 46,816.6 | 21,790.6 | 25,026.0 | 2,667.1 | 26.8% | 5.7% | 2.9 |
| | B | 0.06% | 48,227.4 | 38,098.9 | 12,943.1 | 25,155.8 | 6,343.5 | 37.9% | 16.7% | 7.0 |
| | C+ | 0.16% | 38,755.1 | 31,422.6 | 17,697.4 | 13,725.2 | 9,675.5 | 35.0% | 30.8% | 16.8 |
| | C | 0.30% | 39,100.7 | 29,371.6 | 18,321.4 | 11,050.2 | 12,018.5 | 34.3% | 40.9% | 27.6 |
| | C- | 0.60% | 26,737.9 | 19,827.0 | 12,354.2 | 7,472.8 | 11,874.1 | 32.0% | 59.9% | 37.5 |
| | D+ | 0.75% | 12,860.6 | 9,954.5 | 6,518.0 | 3,436.5 | 6,962.9 | 36.6% | 69.9% | 26.2 |
| | D | 1.25% | 11,973.4 | 9,116.5 | 6,187.7 | 2,928.8 | 7,416.2 | 34.5% | 81.3% | 38.3 |
| | D- | 1.90% | 7,897.0 | 5,987.7 | 4,261.1 | 1,726.6 | 5,734.8 | 35.6% | 95.8% | 39.9 |
| | E+ | 5.00% | 3,739.2 | 2,582.1 | 2,158.4 | 423.7 | 2,822.6 | 31.3% | 109.3% | 39.9 |
| | E | 12.00% | 1,251.1 | 1,141.1 | 973.7 | 167.4 | 1,344.6 | 26.7% | 117.8% | 36.9 |
| | E- | 20.00% | 2,641.6 | 2,263.0 | 1,208.9 | 1,054.1 | 4,409.3 | 34.4% | 194.8% | 154.2 |
| **Subtotal** | | **0.67%** | **233,568.5** | **196,581.6** | **104,414.5** | **92,167.1** | **71,269.1** | **33.2%** | **36.3%** | **427.2** |
| **TOTAL** | | **0.33%** | **505,334.3** | **456,452.9** | **322,814.4** | **133,638.5** | **83,737.3** | **29.2%** | **18.3%** | **508.0** |

**EXPOSURE TO CREDIT RISK BY CLASS OF EXPOSURE AND BY INTERNAL RATING AT 31 DECEMBER 2011**

| *(in millions of euros)* | Internal rating of counterparty | Probability of default *(in %)* | Gross exposure | EAD | EAD Balance sheet | EAD Off-balance sheet | RWA | Average LGD *(in %)* | Average RW *(in %)* | Expected Losses (EL) |
|---|---|---|---|---|---|---|---|---|---|---|
| Central governments and central banks | A+ to B+ | 0.0% | 95,294.4 | 96,070.4 | 91,321.5 | 4,748.8 | 183.2 | 24.1% | 0.2% | 0.1 |
| | B | 0.06% | 366.1 | 382.0 | 339.9 | 42.1 | 9.1 | 6.3% | 2.4% | - |
| | C+ | 0.16% | 911.3 | 900.1 | 688.2 | 211.9 | 155.3 | 20.8% | 17.3% | 0.3 |
| | C | 0.30% | 2,180.9 | 1,011.3 | 741.2 | 270.1 | 442.2 | 36.9% | 43.8% | 1.1 |
| | C- | 0.60% | 489.6 | 419.0 | 266.5 | 152.5 | 81.2 | 11.5% | 19.4% | 0.3 |
| | D+ | 0.75% | 157.0 | 82.4 | 33.5 | 48.9 | 77.8 | 45.0% | 94.4% | 0.3 |
| | D | 1.25% | 320.6 | 112.6 | 106.7 | 5.9 | 109.8 | 38.6% | 97.5% | 0.5 |
| | D- | 1.90% | 180.7 | 95.9 | 92.1 | 3.8 | 95.9 | 43.1% | 99.9% | 0.8 |
| | E+ | 5.00% | 72.6 | 12.0 | 2.4 | 9.6 | 30.8 | 62.4% | 257.4% | 0.4 |
| | E | 12.00% | 26.2 | 0.5 | 0.5 | - | 1.7 | 60.0% | 316.6% | - |
| | E- | 20.00% | 107.9 | 36.7 | 17.6 | 19.1 | 215.7 | 94.7% | 587.5% | 7.0 |
| **Subtotal** | | **0.02%** | **100,107.3** | **99,122.9** | **93,610.1** | **5,512.7** | **1,402.7** | **24.2%** | **1.4%** | **10.8** |
| Institutions | A+ to B+ | 0.0% | 85,944.6 | 87,549.0 | 67,187.1 | 20,361.9 | 2,362.1 | 10.2% | 2.7% | 1.7 |
| | B | 0.06% | 18,192.9 | 17,356.0 | 7,354.8 | 10,001.2 | 1,778.2 | 25.0% | 10.2% | 2.2 |
| | C+ | 0.16% | 9,793.7 | 8,519.3 | 3,076.8 | 5,442.5 | 2,249.4 | 32.3% | 26.4% | 4.3 |
| | C | 0.30% | 5,859.7 | 5,163.6 | 3,113.5 | 2,050.0 | 1,733.7 | 32.8% | 33.6% | 4.8 |
| | C- | 0.60% | 3,357.1 | 2,770.8 | 1,675.9 | 1,094.9 | 1,657.4 | 28.6% | 59.8% | 5.3 |
| | D+ | 0.75% | 1,266.5 | 1,126.5 | 448.8 | 677.7 | 591.5 | 31.5% | 52.5% | 2.6 |
| | D | 1.25% | 491.2 | 334.5 | 108.8 | 225.7 | 279.3 | 36.5% | 83.5% | 1.5 |
| | D- | 1.90% | 239.5 | 160.8 | 86.1 | 74.7 | 157.0 | 41.4% | 97.6% | 1.3 |
| | E+ | 5.00% | 107.3 | 46.0 | 7.3 | 38.7 | 78.8 | 49.9% | 171.5% | 1.1 |
| | E | 12.00% | 41.9 | 37.4 | 2.5 | 34.9 | 155.7 | 79.5% | 416.7% | 3.4 |
| | E- | 20.00% | 463.9 | 111.3 | 30.6 | 80.7 | 476.5 | 73.0% | 428.1% | 16.3 |
| **Subtotal** | | **0.10%** | **125,758.3** | **123,175.2** | **83,092.2** | **40,082.9** | **11,519.6** | **15.6%** | **9.4%** | **44.5** |
| Corporates | A+ to B+ | 0.0% | 45,721.7 | 55,235.4 | 26,925.8 | 28,309.6 | 3,043.8 | 27.7% | 5.5% | 1.8 |
| | B | 0.06% | 52,330.2 | 40,310.4 | 13,464.1 | 26,846.3 | 7,676.4 | 39.7% | 19.0% | 7.6 |
| | C+ | 0.16% | 39,388.2 | 32,770.8 | 19,274.8 | 13,496.0 | 10,133.9 | 34.2% | 30.9% | 17.1 |
| | C | 0.30% | 42,795.1 | 31,291.5 | 18,040.3 | 13,251.2 | 14,123.6 | 36.3% | 45.1% | 32.0 |
| | C- | 0.60% | 33,941.9 | 24,832.3 | 16,462.4 | 8,369.9 | 14,744.8 | 34.3% | 59.4% | 48.6 |
| | D+ | 0.75% | 16,541.1 | 11,177.2 | 7,007.8 | 4,169.4 | 7,510.7 | 36.4% | 67.2% | 28.6 |
| | D | 1.25% | 11,621.2 | 9,066.3 | 6,175.7 | 2,890.6 | 7,833.1 | 36.2% | 86.4% | 40.6 |
| | D- | 1.90% | 8,546.2 | 6,111.9 | 4,159.5 | 1,952.4 | 6,283.8 | 37.6% | 102.8% | 42.3 |
| | E+ | 5.00% | 3,159.7 | 2,397.0 | 1,576.7 | 820.3 | 2,886.5 | 34.0% | 120.4% | 40.4 |
| | E | 12.00% | 1,578.5 | 1,247.2 | 1,130.7 | 116.5 | 1,448.7 | 24.0% | 116.2% | 35.5 |
| | E- | 20.00% | 2,354.2 | 1,852.6 | 1,237.6 | 615.0 | 3,388.2 | 41.8% | 182.9% | 118.7 |
| **Subtotal** | | **0.59%** | **257,978.0** | **216,292.6** | **115,455.4** | **100,837.2** | **79,073.5** | **34.2%** | **36.6%** | **413.2** |
| **TOTAL** | | **0.33%** | **483,843.6** | **438,590.7** | **292,157.7** | **146,432.8** | **91,995.8** | **29.2%** | **21.0%** | **468.5** |

As exposure to retail credit risk categories do not use the same internal ratings as the other categories, they are presented separately.

The breakdown of the large corporates portfolios (exposure class: Central governments and central banks, Institutions and Corporates) by internal rating still shows good overall quality: over 90% of exposures rank Investment grade (internal rating of A+ to C-).

**EXPOSURE TO RETAIL CUSTOMER CREDIT RISK BY EXPOSURE CLASS AND BY INTERNAL RATING AT 31 DECEMBER 2012**

| *(in millions of euros)* | Interval of probability of default | Average PD *(in %)* | Gross exposure | EAD | EAD Balance sheet | EAD Off-balance sheet | RWA | Average LGD *(in %)* | Average RW *(in %)* | Expected Losses (EL) |
|---|---|---|---|---|---|---|---|---|---|---|
| Home loans | 0.08%<PD<0.17% | 0.11% | 22,230.7 | 22,230.7 | 21,267.0 | 963.7 | 608.0 | 10.1% | 2.7% | 2.5 |
| | 0.17%<PD<0.32% | 0.25% | 180.4 | 180.4 | 174.8 | 5.6 | 12.4 | 13.8% | 6.9% | 0.1 |
| | 0.32%<PD<0.64% | 0.39% | 8,612.1 | 8,612.1 | 8,269.4 | 342.7 | 618.9 | 10.3% | 7.2% | 3.5 |
| | 0.64%<PD<0.96% | 0.64% | 4,759.7 | 4,759.7 | 4,581.6 | 178.1 | 472.1 | 10.1% | 9.9% | 3.1 |
| | 0.96%<PD<1.28% | 1.10% | 5,023.5 | 5,023.5 | 4,749.3 | 274.2 | 716.8 | 10.1% | 14.3% | 5.6 |
| | 1.28%<PD<2.56% | 2.09% | 6,301.2 | 6,301.2 | 6,033.1 | 268.1 | 1,360.7 | 10.3% | 21.6% | 13.4 |
| | 2.56%<PD<5.12% | 4.70% | 3,503.7 | 3,503.7 | 3,159.7 | 344.0 | 1,197.8 | 10.1% | 34.2% | 16.7 |
| | 5.12%<PD<15% | 9.77% | 1,022.7 | 1,022.7 | 993.4 | 29.3 | 501.5 | 10.3% | 49.0% | 10.3 |
| | 15%<PD<22% | 16.46% | 3.9 | 3.9 | 3.8 | 0.1 | 4.3 | 19.3% | 110.3% | 0.1 |
| | 22%<PD<34% | 23.47% | 197.1 | 197.1 | 194.2 | 2.9 | 123.3 | 10.2% | 62.5% | 4.7 |
| | 34%<PD<65% | 52.48% | 136.9 | 136.9 | 135.8 | 1.1 | 72.6 | 10.3% | 53.0% | 7.4 |
| | 65%<PD<99% | 65.51% | 0.5 | 0.5 | 0.5 | - | 0.4 | 21.0% | 84.6% | 0.1 |
| **Subtotal** | | **1.27%** | **51,972.4** | **51,972.4** | **49,562.6** | **2,409.8** | **5,688.8** | **10.2%** | **10.9%** | **67.5** |
| Revolving credit | 0.03%<PD<0.04% | 0.03% | 3.2 | 2.9 | 0.1 | 2.8 | - | 41.0% | 1.0% | - |
| | 0.04%<PD<0.08% | 0.07% | 1,505.4 | 504.5 | - | 504.5 | 13.6 | 54.5% | 2.7% | 0.2 |
| | 0.08%<PD<0.17% | 0.11% | 1,635.6 | 1,024.2 | 146.3 | 877.9 | 52.2 | 72.1% | 5.1% | 0.8 |
| | 0.17%<PD<0.32% | 0.22% | 1,286.4 | 341.5 | 48.4 | 293.1 | 21.3 | 52.1% | 6.2% | 0.4 |
| | 0.32%<PD<0.64% | 0.42% | 1,804.5 | 856.3 | 312.9 | 543.4 | 103.9 | 60.0% | 12.1% | 2.1 |
| | 0.64%<PD<0.96% | 0.70% | 790.5 | 481.0 | 215.7 | 265.3 | 88.0 | 60.0% | 18.3% | 2.0 |
| | 0.96%<PD<1.28% | 1.16% | 952.2 | 668.8 | 394.9 | 273.9 | 164.2 | 54.5% | 24.5% | 4.2 |
| | 1.28%<PD<2.56% | 1.94% | 1,135.8 | 994.7 | 529.9 | 464.8 | 376.5 | 56.7% | 37.9% | 11.1 |
| | 2.56%<PD<5.12% | 3.83% | 2,016.4 | 1,940.2 | 1,487.0 | 453.2 | 1,052.1 | 50.2% | 54.2% | 37.8 |
| | 5.12%<PD<15% | 8.94% | 798.1 | 797.6 | 684.1 | 113.5 | 734.0 | 50.1% | 92.0% | 35.9 |
| | 15%<PD<22% | 19.27% | 147.1 | 144.1 | 135.4 | 8.7 | 180.2 | 45.7% | 125.1% | 12.7 |
| | 22%<PD<34% | 25.21% | 34.4 | 36.1 | 27.2 | 8.9 | 62.7 | 58.1% | 173.6% | 5.2 |
| | 34%<PD<65% | 42.15% | 130.7 | 127.4 | 125.2 | 2.2 | 190.5 | 47.5% | 149.5% | 25.6 |
| | 65%<PD<99% | 77.08% | 39.4 | 39.2 | 39.1 | 0.1 | 35.7 | 48.2% | 91.0% | 14.6 |
| **Subtotal** | | **3.80%** | **12,279.7** | **7,958.5** | **4,146.2** | **3,812.3** | **3,074.9** | **56.1%** | **38.6%** | **152.6** |
| Other exposures | 0.03%<PD<0.04% | 0.03% | 425.7 | 425.7 | 425.5 | 0.2 | 1.5 | 3.8% | 0.3% | - |
| | 0.04%<PD<0.08% | 0.07% | 2,185.7 | 2,184.8 | 2,183.8 | 1.0 | 21.2 | 5.5% | 1.0% | 0.1 |
| | 0.08%<PD<0.17% | 0.11% | 5,565.8 | 5,563.8 | 5,328.2 | 235.6 | 187.4 | 12.1% | 3.4% | 0.7 |
| | 0.17%<PD<0.32% | 0.23% | 1,817.6 | 1,817.1 | 1,786.1 | 31.0 | 131.5 | 13.4% | 7.2% | 0.6 |
| | 0.32%<PD<0.64% | 0.50% | 3,640.4 | 3,640.9 | 3,568.5 | 72.4 | 858.0 | 30.9% | 23.6% | 5.7 |
| | 0.64%<PD<0.96% | 0.77% | 1,785.3 | 1,788.1 | 1,741.7 | 46.4 | 509.8 | 29.5% | 28.5% | 4.2 |
| | 0.96%<PD<1.28% | 1.11% | 2,846.3 | 2,851.8 | 2,791.0 | 60.8 | 1,136.1 | 35.4% | 39.8% | 11.2 |
| | 1.28%<PD<2.56% | 2.15% | 7,357.0 | 7,371.8 | 7,227.1 | 144.7 | 3,650.8 | 35.8% | 49.5% | 57.3 |
| | 2.56%<PD<5.12% | 4.41% | 5,822.0 | 5,835.8 | 5,730.0 | 105.8 | 3,311.8 | 36.8% | 56.8% | 94.3 |
| | 5.12%<PD<15% | 9.03% | 3,493.1 | 3,493.3 | 3,473.7 | 19.6 | 2,248.7 | 37.2% | 64.4% | 115.3 |
| | 15%<PD<22% | 18.48% | 259.9 | 259.9 | 255.9 | 4.0 | 132.3 | 22.2% | 50.9% | 10.8 |
| | 22%<PD<34% | 28.00% | 694.3 | 694.3 | 693.2 | 1.1 | 524.5 | 28.7% | 75.5% | 55.4 |
| | 34%<PD<65% | 45.26% | 387.8 | 387.8 | 387.1 | 0.7 | 331.8 | 31.2% | 85.6% | 54.8 |
| | 65%<PD<99% | 74.89% | 124.5 | 124.5 | 124.5 | - | 90.7 | 40.2% | 72.9% | 37.5 |
| **Subtotal** | | **3.62%** | **36,405.4** | **36,439.6** | **35,716.3** | **723.3** | **13,136.1** | **28.1%** | **36.0%** | **447.9** |

| *(in millions of euros)* | Interval of probability of default | Average PD *(in %)* | Gross exposure | EAD | EAD Balance sheet | EAD Off-balance sheet | RWA | Average LGD *(in %)* | Average RW *(in %)* | Expected Losses (EL) |
|---|---|---|---|---|---|---|---|---|---|---|
| Small and medium businesses | 0.03%<PD<0.04% | 0.03% | 0.4 | 0.4 | - | 0.4 | - | 88.4% | 9.3% | - |
| | 0.08%<PD<0.17% | 0.14% | 16.0 | 15.6 | 14.6 | 1.0 | 2.9 | 30.9% | 18.8% | - |
| | 0.17%<PD<0.32% | 0.25% | 1,729.8 | 1,728.0 | 1,634.0 | 94.0 | 390.1 | 29.2% | 22.6% | 1.3 |
| | 0.32%<PD<0.64% | 0.63% | 2,618.9 | 2,616.5 | 2,537.0 | 79.5 | 870.4 | 27.1% | 33.3% | 4.5 |
| | 0.64%<PD<0.96% | 0.65% | 59.0 | 57.7 | 51.0 | 6.7 | 13.3 | 22.3% | 23.1% | 0.1 |
| | 0.96%<PD<1.28% | 1.00% | 1,075.4 | 1,073.7 | 1,049.6 | 24.1 | 327.4 | 22.3% | 30.5% | 2.4 |
| | 1.28%<PD<2.56% | 1.75% | 1,928.4 | 1,926.7 | 1,859.8 | 66.9 | 744.0 | 23.8% | 38.6% | 8.1 |
| | 2.56%<PD<5.12% | 3.71% | 2,308.5 | 2,306.8 | 2,177.1 | 129.7 | 1,048.6 | 24.4% | 45.5% | 20.7 |
| | 5.12%<PD<15% | 7.96% | 1,733.6 | 1,730.9 | 1,669.5 | 61.4 | 1,036.9 | 27.8% | 59.9% | 37.2 |
| | 15%<PD<22% | 19.48% | 602.8 | 602.8 | 574.9 | 27.9 | 500.5 | 29.2% | 83.0% | 34.2 |
| | 22%<PD<34% | 27.45% | 9.3 | 9.4 | 5.3 | 4.1 | 10.5 | 41.9% | 111.6% | 1.1 |
| | 34%<PD<65% | 46.93% | 63.3 | 63.3 | 59.2 | 4.1 | 56.3 | 31.7% | 89.0% | 9.4 |
| | 65%<PD<99% | 76.34% | 1.9 | 1.9 | 1.9 | - | 1.9 | 57.7% | 99.7% | 0.8 |
| **Subtotal** | | **3.63%** | **12,147.3** | **12,133.7** | **11,633.9** | **499.8** | **5,002.8** | **26.1%** | **41.2%** | **119.8** |
| **TOTAL** | | **2.51%** | **112,804.8** | **108,504.2** | **101,059.0** | **7,445.2** | **26,902.6** | **21.3%** | **24.8%** | **787.8** |

**EXPOSURE TO RETAIL CUSTOMER CREDIT RISK BY EXPOSURE CLASS AND BY INTERNAL RATING AT 31 DECEMBER 2011**

| *(in millions of euros)* | Interval of probability of default | Average PD *(in %)* | Gross exposure | EAD | EAD Balance sheet | EAD Off-balance sheet | RWA | Average LGD *(in %)* | Average RW *(in %)* | Expected Losses (EL) |
|---|---|---|---|---|---|---|---|---|---|---|
| Home loans | 0.08%<PD<0.17% | 0.12% | 20,540.5 | 20,540.5 | 19,477.6 | 1,062.9 | 601.7 | 10.1% | 2.9% | 2.5 |
| | 0.17%<PD<0.32% | 0.26% | 145.9 | 145.9 | 141.9 | 4.0 | 10.0 | 13.1% | 6.8% | - |
| | 0.32%<PD<0.64% | 0.41% | 7,838.3 | 7,838.3 | 7,503.2 | 335.1 | 583.3 | 10.3% | 7.4% | 3.3 |
| | 0.64%<PD<0.96% | 0.66% | 4,586.0 | 4,586.0 | 4,375.2 | 210.8 | 466.1 | 10.1% | 10.2% | 3.1 |
| | 0.96%<PD<1.28% | 1.14% | 4,982.2 | 4,982.2 | 4,688.2 | 294.0 | 730.2 | 10.1% | 14.7% | 5.7 |
| | 1.28%<PD<2.56% | 1.69% | 3,208.0 | 3,208.0 | 3,037.8 | 170.2 | 623.1 | 10.4% | 19.4% | 5.6 |
| | 2.56%<PD<5.12% | 2.84% | 4,542.2 | 4,542.2 | 4,114.6 | 427.6 | 1,173.0 | 10.2% | 25.8% | 13.1 |
| | 5.12%<PD<15% | 6.46% | 4,280.4 | 4,280.4 | 4,075.1 | 205.3 | 1,695.4 | 10.2% | 39.6% | 28.2 |
| | 15%<PD<22% | 17.16% | 4.8 | 4.8 | 4.8 | - | 5.2 | 18.8% | 108.7% | 0.2 |
| | 22%<PD<34% | 24.19% | 200.4 | 200.4 | 195.2 | 5.2 | 127.6 | 10.4% | 63.7% | 5.0 |
| | 34%<PD<65% | 53.76% | 126.1 | 126.1 | 124.8 | 1.3 | 66.0 | 10.3% | 52.4% | 7.0 |
| | 65%<PD<99% | 69.67% | 0.4 | 0.4 | 0.4 | - | 0.3 | 21.3% | 76.3% | 0.1 |
| **Subtotal** | | **1.43%** | **50,455.2** | **50,455.2** | **47,738.8** | **2,716.4** | **6,081.9** | **10.2%** | **12.1%** | **73.8** |
| Revolving credit | 0.03%<PD<0.04% | - | - | - | - | - | - | - | 0.0% | - |
| | 0.04%<PD<0.08% | 0.07% | 1,949.3 | 749.8 | 0.1 | 749.7 | 20.5 | 54.9% | 2.7% | 0.3 |
| | 0.08%<PD<0.17% | 0.12% | 2,092.8 | 1,007.4 | 116.3 | 891.1 | 51.5 | 66.7% | 5.1% | 0.8 |
| | 0.17%<PD<0.32% | 0.27% | 1,903.4 | 531.0 | 184.8 | 346.2 | 41.8 | 54.8% | 7.9% | 0.8 |
| | 0.32%<PD<0.64% | 0.45% | 1,100.6 | 665.2 | 169.2 | 496.0 | 83.4 | 57.5% | 12.5% | 1.7 |
| | 0.64%<PD<0.96% | 0.71% | 809.3 | 467.0 | 223.2 | 243.8 | 82.6 | 57.1% | 17.7% | 1.9 |
| | 0.96%<PD<1.28% | 1.11% | 1,018.5 | 700.4 | 397.1 | 303.3 | 161.9 | 52.7% | 23.1% | 4.1 |
| | 1.28%<PD<2.56% | 1.62% | 867.7 | 666.2 | 394.8 | 271.4 | 210.1 | 54.0% | 31.5% | 5.8 |
| | 2.56%<PD<5.12% | 3.32% | 2,113.3 | 2,026.8 | 1,469.8 | 557.0 | 1,020.9 | 52.0% | 50.4% | 34.8 |
| | 5.12%<PD<15% | 7.87% | 1,394.9 | 1,428.6 | 1,050.1 | 378.5 | 1,265.2 | 52.7% | 88.6% | 59.2 |
| | 15%<PD<22% | 18.88% | 171.4 | 163.7 | 156.4 | 7.3 | 220.6 | 49.6% | 134.7% | 15.3 |
| | 22%<PD<34% | 25.71% | 41.9 | 44.5 | 32.3 | 12.2 | 74.5 | 55.5% | 167.2% | 6.3 |
| | 34%<PD<65% | 42.47% | 144.4 | 139.7 | 136.3 | 3.4 | 218.2 | 49.7% | 156.2% | 29.5 |
| | 65%<PD<99% | 77.94% | 35.0 | 34.7 | 34.6 | 0.1 | 33.0 | 52.0% | 95.2% | 14.0 |
| **Subtotal** | | **3.90%** | **13,642.5** | **8,625.0** | **4,365.0** | **4,260.0** | **3,484.2** | **55.1%** | **40.4%** | **174.5** |
| Other exposures | 0.03%<PD<0.04% | 0.03% | 521.6 | 521.4 | 521.0 | 0.4 | 7.6 | 13.1% | 1.5% | - |
| | 0.04%<PD<0.08% | 0.07% | 2,566.0 | 2,554.1 | 2,518.4 | 35.7 | 37.8 | 8.4% | 1.5% | 0.1 |
| | 0.08%<PD<0.17% | 0.12% | 6,144.0 | 6,133.0 | 5,849.1 | 283.8 | 230.2 | 13.0% | 3.8% | 1.0 |
| | 0.17%<PD<0.32% | 0.23% | 1,432.5 | 1,430.4 | 1,397.4 | 33.0 | 98.4 | 14.5% | 6.9% | 0.5 |
| | 0.32%<PD<0.64% | 0.47% | 3,505.0 | 3,504.8 | 3,437.4 | 67.4 | 762.3 | 29.1% | 21.7% | 5.0 |
| | 0.64%<PD<0.96% | 0.79% | 2,528.2 | 2,530.0 | 2,468.1 | 61.9 | 726.0 | 29.3% | 28.7% | 6.0 |
| | 0.96%<PD<1.28% | 1.12% | 2,368.5 | 2,373.3 | 2,279.7 | 93.6 | 784.1 | 29.2% | 33.0% | 7.8 |
| | 1.28%<PD<2.56% | 2.10% | 6,570.9 | 6,576.7 | 6,479.1 | 97.6 | 2,709.2 | 30.1% | 41.2% | 41.2 |
| | 2.56%<PD<5.12% | 2.60% | 6,064.2 | 6,120.2 | 5,923.3 | 196.9 | 2,842.9 | 30.5% | 46.5% | 75.3 |
| | 5.12%<PD<15% | 8.40% | 4,903.5 | 4,910.3 | 4,834.3 | 76.0 | 2,556.2 | 30.3% | 52.1% | 126.7 |
| | 15%<PD<22% | 18.70% | 227.3 | 226.8 | 221.7 | 5.1 | 120.9 | 23.1% | 53.3% | 9.9 |
| | 22%<PD<34% | 25.63% | 503.8 | 504.0 | 501.9 | 2.1 | 363.5 | 27.9% | 72.1% | 36.5 |
| | 34%<PD<65% | 44.20% | 641.0 | 641.0 | 640.1 | 0.9 | 405.7 | 23.1% | 63.3% | 66.5 |
| | 65%<PD<99% | 75.46% | 128.3 | 128.3 | 128.3 | - | 74.9 | 33.0% | 58.4% | 32.0 |
| **Subtotal** | | **3.50%** | **38,104.8** | **38,154.3** | **37,199.8** | **954.4** | **11,719.7** | **24.8%** | **30.7%** | **408.5** |

| *(in millions of euros)* | Interval of probability of default | Average PD *(in %)* | Gross exposure | EAD | EAD Balance sheet | EAD Off-balance sheet | RWA | Average LGD *(in %)* | Average RW *(in %)* | Expected Losses (EL) |
|---|---|---|---|---|---|---|---|---|---|---|
| Small and medium businesses | 0.03%<PD<0.04% | 0.03% | 0.7 | 0.7 | 0.1 | 0.6 | 0.1 | 88.6% | 9.3% | - |
| | 0.08%<PD<0.17% | 0.12% | 9.4 | 9.2 | 8.7 | 0.5 | 2.5 | 38.3% | 26.9% | - |
| | 0.17%<PD<0.32% | 0.25% | 1,586.7 | 1,585.5 | 1,525.3 | 60.2 | 356.5 | 28.0% | 22.5% | 1.1 |
| | 0.32%<PD<0.64% | 0.36% | 74.1 | 73.8 | 30.3 | 43.5 | 29.2 | 61.2% | 39.5% | 0.2 |
| | 0.64%<PD<0.96% | 0.65% | 2,491.0 | 2,486.7 | 2,408.4 | 78.3 | 831.3 | 26.7% | 33.4% | 4.3 |
| | 0.96%<PD<1.28% | 1.03% | 1,111.5 | 1,110.9 | 1,085.6 | 25.3 | 375.5 | 24.0% | 33.8% | 2.8 |
| | 1.28%<PD<2.56% | 1.75% | 1,690.7 | 1,689.1 | 1,602.9 | 86.2 | 602.1 | 22.3% | 35.6% | 6.5 |
| | 2.56%<PD<5.12% | 3.75% | 2,381.1 | 2,376.6 | 2,235.9 | 140.7 | 1,075.0 | 24.6% | 45.2% | 21.7 |
| | 5.12%<PD<15% | 8.33% | 1,587.8 | 1,587.0 | 1,525.9 | 61.1 | 895.1 | 25.4% | 56.4% | 33.0 |
| | 15%<PD<22% | 19.59% | 631.1 | 630.7 | 599.0 | 31.7 | 456.9 | 26.0% | 72.4% | 32.1 |
| | 22%<PD<34% | 28.36% | 8.0 | 8.0 | 6.0 | 2.0 | 8.7 | 40.5% | 109.0% | 0.9 |
| | 34%<PD<65% | 47.12% | 77.6 | 77.6 | 74.1 | 3.5 | 64.5 | 28.3% | 83.2% | 10.3 |
| | 65%<PD<99% | 76.35% | 1.5 | 1.5 | 1.5 | - | 1.5 | 59.4% | 100.1% | 0.7 |
| **Subtotal** | | **3.83%** | **11,651.2** | **11,637.3** | **11,103.7** | **533.6** | **4,698.9** | **25.6%** | **40.4%** | **113.6** |
| **TOTAL** | | **2.61%** | **113,853.7** | **108,871.8** | **100,407.3** | **8,464.4** | **25,984.7** | **20.5%** | **23.9%** | **770.4** |

The breakdown of the Retail customer portfolio exposures by credit quality level confirmed its stability in 2012, showing the same disparities between the Retail customer categories already observed in previous years: 59% of the gross exposures for “home loans” are in internal ratings 1 to 5 (PD of less than 0.64%), whilst this figure is 34% for small and medium businesses in the Group’s IRB – retail portfolio.

As in previous years, there were significant disparities in the Retail customer portfolio processed using the IRB method in terms of contribution to total expected losses; this was due in particular to significant adjustments in the LGD level by portfolio: exposures to home loans accounted for more than 44% of total Retail customer exposure but less than 9% of expected losses (EL).

## 3. Impaired exposures and value adjustments

### IMPAIRED EXPOSURES AND VALUE ADJUSTMENTS AT 31 DECEMBER 2012

| | 31/12/2012 | | | | | |
|---|---|---|---|---|---|---|
| | | Impaired exposures | | | | |
| *(in billions of euros)* | Gross exposure | Standardised approach[1] | IRB approach | Total | Individual value adjustments | Collective value adjustments |
| Central governments and central banks | 191.3 | 0.1 | 0.0 | 0.1 | 0.0 | |
| Institutions | 468.3 | 0.1 | 0.6 | 0.7 | 0.7 | |
| Corporates | 334.7 | 5.8 | 3.8 | 9.6 | 4.9 | |
| Retail customers | 190.8 | 10.5 | 5.2 | 15.7 | 9.3 | |
| *Small and medium businesses* | *24.2* | *2.1* | *0.6* | *2.7* | *1.5* | |
| *Revolving credit* | *31.8* | *2.0* | *0.6* | *2.6* | *1.9* | |
| *Home loans* | *72.4* | *2.9* | *0.6* | *3.5* | *1.0* | |
| *Other exposures* | *62.4* | *3.5* | *3.4* | *6.9* | *4.9* | |
| **TOTAL** | **1185.1** | **16.5** | **9.6** | **26.1** | **14.9** | **1.9** |

(1) More than 90 days past due.

### IMPAIRED EXPOSURES AND VALUE ADJUSTMENTS AT 31 DECEMBER 2011

| | 31/12/2011 | | | | | |
|---|---|---|---|---|---|---|
| | | Impaired exposures | | | | |
| *(in billions of euros)* | Gross exposure | Standardised approach[1] | IRB approach | Total | Individual value adjustments | Collective value adjustments |
| Central governments and central banks | 156.6 | 0.1 | 0.0 | 0.1 | 0.0 | |
| Institutions | 466.8 | 0.0 | 0.6 | 0.6 | 0.6 | |
| Corporates | 360.6 | 4.9 | 3.2 | 8.1 | 4.2 | |
| Retail customers | 199.4 | 10.7 | 5.2 | 15.9 | 9.2 | |
| *Small and medium businesses* | *25.8* | *1.9* | *0.7* | *2.5* | *1.5* | |
| *Revolving credit* | *36.9* | *2.3* | *0.6* | *3.0* | *2.0* | |
| *Home loans* | *70.2* | *2.5* | *0.5* | *3.0* | *0.8* | |
| *Other exposures* | *66.5* | *4.0* | *3.4* | *7.4* | *4.9* | |
| **TOTAL** | **1183.4** | **15.7** | **9.0** | **24.7** | **14.0** | **2.0** |

(1) More than 90 days past due.

Impaired exposure amounted to €26.1 billion at 31 December 2012, a rise of 5.8% compared to December 2011 and significantly higher than the change in gross exposure, which remained more or less stable over the period (+0.14%). The upward trend observed in 2011 on the Corporates portfolio accelerated (+19%), whilst impaired exposure on Retail showed a slight drop overall (-1.7%). Although the amounts were still relatively insignificant, 2012 also saw a sharp increase in impaired exposure on the Central governments and central banks and Institutions portfolios (+54.0% and +22.1% respectively).

In parallel, individual value adjustments rose 6.9%, in contrast with collective value adjustments, which fell by 3.6% over the period.

**IMPAIRED EXPOSURES AND VALUE ADJUSTMENTS BY GEOGRAPHIC AREA**

| 31/12/2012 *(in billions of euros)* | Standardised approach | Internal ratings approach |
|---|---|---|
| | Past due [1] | Exposure at default |
| Africa and Middle East | 0.3 | 0.8 |
| Central and South America | 0.0 | 0.3 |
| North America | 0.0 | 0.5 |
| Asia-Pacific excluding Japan | 0.0 | 0.2 |
| Eastern Europe | 0.7 | 0.3 |
| Western Europe excluding Italy | 9.4 | 1.0 |
| France (incl. Overseas departments and territories) | 1.8 | 3.8 |
| Italy | 4.3 | 2.5 |
| Japan | 0.0 | 0.1 |
| **TOTAL AMOUNT** | **16.5** | **9.5** |

| 31/12/2011 *(in billions of euros)* | Standardised approach | Internal ratings approach |
|---|---|---|
| | Past due [1] | Exposure at default |
| Africa and Middle East | 0.3 | 0.7 |
| Central and South America | 0.0 | 0.3 |
| North America | 0.0 | 0.4 |
| Asia-Pacific excluding Japan | 0.0 | 0.1 |
| Eastern Europe | 0.8 | 0.2 |
| Western Europe excluding Italy | 8.5 | 0.9 |
| France (incl. Overseas departments and territories) | 2.0 | 4.1 |
| Italy | 4.1 | 2.1 |
| Japan | 0.0 | 0.0 |
| **TOTAL AMOUNT** | **15.7** | **8.8** |

*(1) More than 90 days past due.*

Total exposure in default (using the standardised and IRB approaches) is mainly concentrated in Western Europe excluding Italy and France. These regions account for 40%, 26% and 22% respectively of the total amount of this type of exposure. The overall increase compared with end-2011 is 6%, with a more significant rise in the Western Europe excluding Italy (+11%) and Italy (+9%) zones, reflecting the economic deterioration in these two areas in 2012.

### 4. Comparison between estimated and actual losses:

The ratio of Expected Losses (EL) to Exposure at Default (EAD) was 1.58% at 31 December 2012, a slight fall on the 1.60% ratio registered at 31 December 2011. This ratio is calculated for the Central government and central banks, Institutions, Corporates, Retail customer and Equity portfolios.

The Pillar 3 working group of the European Banking Federation (EBF) suggests comparing the EL/EAD ratio with the amount of provisions as a percentage of gross exposure (see “Final Version of the EBF Paper on Alignment of Pillar 3 Disclosures”). The latter ratio was 1.67% at 31 December 2012, compared to 1.62% in 2011.

## II. Credit risk mitigation techniques

Definitions:

- **collateral:** a security interest giving the bank the right to liquidate, keep or obtain title to certain amounts or assets in the event of default or other specific credit events affecting the counterparty, thereby reducing the credit risk on an exposure;
- **personal guarantee:** undertaking by a third party to pay the sum due in the event of the counterparty’s default or other specific credit events, therefore reducing the credit risks on an exposure.

### 1. Collateral management system

The main categories of collateral taken by the bank are described in the section entitled “Risk Factors – Credit Risk – Collateral and guarantees received”.

When a credit is granted, collateral is analysed to assess the value of the asset, its volatility and the correlation between the value of the collateral and the quality of the counterparty financed. Regardless of collateral quality, the first criterion in the lending decision is always the borrower’s ability to repay sums due from cash flow generated by its operating activities, except for specific trade finance transactions.

For financial collateral, a minimum exposure coverage ratio is usually included in loan contracts, with readjustment clauses. Financial collateral is revalued according to the frequency of margin calls and the variability of the underlying value of financial assets transferred as collateral or quarterly, as a minimum.

The minimum coverage ratio (or the haircut applied to the value of the collateral under Basel 2) is determined by measuring the pseudo-maximum deviation of the value of the securities on the revaluation date. This measurement is calculated with a 99% confidence interval over a time horizon covering the period between each revaluation, the period between the default date and the date on which asset liquidation starts, and the duration of the liquidation period. This haircut also applies for currency mismatch risk when the securities and the collateralised exposure are denominated in different currencies. Additional haircuts are applied when the size of the stocks position implies a block sale or when the borrower and the issuer of the collateral securities belong to the same risk group.

The initial value of real estate assets granted as collateral is based on acquisition or construction cost. It may subsequently be revalued using a statistical approach based on market indices, or on the basis of an expert appraisal performed at least annually.

For retail banking (LCL, Cariparma), revaluation is automatic based on changes in the property market indices. Conversely, for project-type property financing, assets are mainly revalued on the basis of an expert appraisal combining various approaches (asset value, rental value, etc.) and including external benchmarks.

For minimum coverage ratios (or the haircut applied to the collateral value under Basel 2), Crédit Agricole CIB projects the value of the real estate asset between the revaluation date and the date on which the collateral is realised by modelling the asset value, and includes the repossession costs over that period. Assumptions regarding liquidation periods depend on the type of financing (project, property investment companies, property developers, etc.).

Other types of asset may also be pledged as non recourse financial assets. This is notably the case for certain activities such as aircraft, shipping or commodities financing. These businesses are conducted by middle offices, which have specific expertise in valuing the assets financed.

### 2. Protection providers

Two major types of guarantee are used (other than intra-Group guarantees): export credit insurance taken out by the Bank and unconditional payment guarantees.

The main guarantee providers (excluding credit derivatives – see section below) are export credit agencies, most of which enjoy a good quality sovereign rating. The three major ones are Coface (France), Sace S.p.A. (Italy), Euler Hermes (Germany) and Korea Export Insur (Korea).

Guarantees are also received from mutual guarantee companies such as Credit Logement or Interfimo, which cover low value loans but overall represent a significant amount of risk transference.

### 3. Use of credit derivatives for hedging purposes

The use of credit derivatives for hedging purposes is described in the section entitled “Risk Factors – Credit Risk – Credit Risk Mitigation Mechanisms – Use of Credit Derivatives”.

## III. Securitisation transactions

Crédit Agricole Group carries out securitisation transactions as an originator, arranger and investor according to the Basel 2.5 criteria.

The securitisation transactions listed below are transactions as defined in the decree of 20 February 2007, transposing the European Capital Requirements Directive (CRD) into French law. They cover operations or structures under which the credit risk associated with an exposure or pool of exposures is sub-divided into tranches with the following features:

- payments depend on collected cash flows realised from the underlying exposure or pool of exposures ;
- subordination of the tranches determines how losses are allocated during the period of the operation or structure.

Securitisation transactions include:

- traditional securitisations: imply the economic transfer of the securitised exposures to a special purpose vehicle that issues notes. The operation or structure implies the transfer of ownership in the securitised exposures by the originating bank or *via* a sub-participation. The notes issued do not represent payment obligations for the originating bank;
- synthetic securitisations: the credit risk is transferred through the use of credit derivatives or guarantees and the pool of exposures is kept on the balance sheet of the originating bank.

## 1. Purpose and strategy

### 1.1 SECURITISATION TRANSACTIONS ON OWN ACCOUNT

The Group implements two types of strategies:

- the first consists of using securitisations as part of collateralised refinancing transactions. These transactions may be fully or partially placed with investors, sold under repurchase agreements or kept on the issuer's balance sheet to form reserves of liquid securities that may be used as part of refinancing management. This activity concerns several of the Group's entities, mainly CACF; its impact on the consolidated financial statements is detailed in Note 2.3 to the financial statements, "Securitisation transactions".
- the second strategy consists of using securitisation in combination with other instruments, mainly credit derivatives, to actively manage Crédit Agricole CIB's corporate financing portfolio.

This activity entails purchasing credit derivatives on single exposures (see chapter on "Risk Management" – Risk factors and Pillar 3 – Credit risks section – Use of credit derivatives) and first-loss protections on asset portfolios to reduce the risk. It also entails selling credit derivatives and purchasing senior tranches of exposures to diversify risks.

Such credit risk management is aimed at reducing the concentration of outstanding loans to companies, freeing up resources to favour origination and cutting loss levels. This business is managed by the Credit Portfolio Management (CPM) team. The Supervisory Formula Approach is used to calculate the risk weighted exposures on proprietary securitisation positions. In this business, the Bank does not systematically purchase protection on all tranches, as the management goal is to cover certain of the more risk-exposed financing portfolio tranches whilst keeping part of the overall risk.

### 1.2 SECURITISATION TRANSACTIONS AS AN INVESTOR

This business consists mainly of investments at Crédit Agricole CIB that are either discontinuing operations or exposures for which the risk is considered to be low and that Crédit Agricole CIB is willing to carry for the long term. These were segregated into a dedicated regulatory banking book in 2009. These activities generate no market risk.

### 1.3 SECURITISATION TRANSACTIONS CARRIED OUT ON BEHALF OF CUSTOMERS AS ARRANGER/ SPONSOR, INTERMEDIARY OR ORIGINATOR

Within the Crédit Agricole Group, only Crédit Agricole CIB carries out securitisation transactions on behalf of customers.

The securitisation transactions carried out on behalf of customers by Crédit Agricole CIB through its Fixed Income Markets activities result in the issue of liquidity facilities and, where necessary, guarantees to specific entities ("ABCP conduits"). These specific entities are bankruptcy-remote and are not consolidated by the Group with respect to the SIC12 criteria of standard IAS 27, applicable as at 31 December 2012.

It should be noted that most securitisation transactions on behalf of European customers involve Ester Finance Titrisation, a fully-owned banking subsidiary of Crédit Agricole CIB, which finances the purchase of receivables.

#### Activities carried out as arranger/sponsor

*1. Short-term refinanced transactions*

This short-term activity constitutes economic working capital requirement (WCR) financing solutions provided by Crédit Agricole CIB to its main customers. The underlying assets are mainly commercial or financial loans.

At 31 December 2012, two non-consolidated multi-seller ABCP conduits (LMA and Atlantic) were sponsored by Crédit Agricole CIB and dedicated to transactions on behalf of customers. These entities obtain financing on the local market by issuing commercial and other short-term paper.

The sponsoring business is limited to transactions not involving Ester Finance Titrisation.

The amount committed to liquidity facilities granted to LMA and Atlantic amounted to €9.9 billion (€3.4 billion for LMA and €6.5 billion for Atlantic) at 31 December 2012.

The Securitisation business has never sponsored any SIVs (Structured Investment Vehicles).

*2. Medium and long-term refinanced transactions*

In Europe and the US, Crédit Agricole CIB's structuring platform remained active and continued to offer financing solutions to customers, using products adapted to current constraints in terms of risk and liquidity.

These solutions may include the implementation of liquidity facilities granted to non-consolidated funds (Special Purpose Vehicles and/ or conduits) receiving customers' securitised assets. All of these facilities, along with a few retained residual positions, amounted to €1.9 billion euros at 31 December 2012.

#### Intermediary activities

Crédit Agricole CIB participates in pre-securitisation financing, in structuring and in the placement of securities backed by client asset pools and to be placed with investors.

In this business, the Bank retains a relatively low risk *via* the possible contribution of back-up lines to securitisation vehicles or *via* a share of the notes issued.

#### Activities carried out as originator

They follow the same economic logic as sponsoring activities, but with the following specificities:

- they apply only to structured transactions in Europe;

- the assets are bought by Ester Finance Titrisation before being refinanced *via* the LMA or Atlantic conduits.

The amount committed to liquidity facilities granted to LMA in this role stood at €6.3 billion at 31 December 2012.

#### 1.4 SUMMARY OF ACTIVITY ON BEHALF OF CUSTOMERS IN 2012

Crédit Agricole CIB's Securitisation activity in 2012 was characterised by:

- support of the development of the public ABS market in the United States and its reopening in Europe. Crédit Agricole CIB structured and organised the placement (arranger and bookrunner) of a significant number of primary ABS issues on behalf of its major "Financial institutions" customers, in particular in the car industry and consumer financing;
- its ranking being maintained as one of the leaders in the ABCP conduits market, both in Europe and in the American market. This was achieved *via* the renewal and implementation of new securitisation operations for commercial or financial loans on behalf of its mainly Corporate customers, while ensuring that the profile of risks borne by the Bank remained good. The strategy of Crédit Agricole CIB, focused on the financing of its customers, is well perceived by investors and resulted in financing conditions that remained competitive.

## 2. Risk monitoring and recognition

#### 2.1 RISK MONITORING

Securitisation exposures (recorded on or off-balance sheet) generate Risk Weighted Assets (RWA) and capital requirements with respect to Crédit Agricole S.A. Group's regulatory portfolio, according to the following typologies:

- synthetic securitisations for own account, deemed efficient under Basel 2.5 insofar as there is a significant transfer of risks;
- programmes in which the Group holds investment positions:
  - either having been the original arranger and/or sponsor,
  - or having invested in programmes issued by third parties;

Most of Crédit Agricole Group's securitisation exposures are measured using the IRB-securitisation approach, *i.e.*;

- Ratings-Based Approach (RBA) for exposures with a public external rating (directly or inferred) from agencies approved by the Committee of European Banking Supervisors (CEBS). The external agencies used are Standard & Poor's, Moody's, Fitch Ratings and Dominion Bond Rating Services (DBRS);
- Internal Assessment Approach (IAA): the Bank's internal rating methodology approved by Crédit Agricole S.A.'s Standards and Methodology Committee for the main asset classes (particularly commercial loans) as there are no agency ratings for the exposure under consideration;
- Supervisory Formula Approach (SFA): in residual cases where there are neither public external ratings nor any possibility of applying the IAA method for exposures with no public external rating.

These ratings cover all types of risk generated by these securitisation transactions: intrinsic risks on receivables (debtor insolvency, payment delays, dilution, offsetting of receivables) or risks on the structuring of transactions (legal risks, risks relating to the receivables collection circuit, risks relating to the quality of information supplied periodically by managers of transferred receivables, etc.)

These critically examined ratings are merely an aid for making decisions pertaining to these transactions; such decisions are taken by credit committees at various levels.

Credit decisions relate to transactions, that are reviewed at least once a year by the same committees. Committee decisions incorporate varying limits according to the evolution of the acquired portfolio (arrears rate, loss rate, rate of sector-based or geographical concentration, rate of dilution of receivables or periodic valuation of assets by independent experts, etc.); non-compliance with these limits may cause the structure to become stricter or place the transaction in early amortisation.

Credit decisions also include, in liaison with the Bank's other credit committees, an assessment focusing on the risk generated by the transferee of the receivables and the possibility of substituing the manager by a new one in the event of a failure in the management of those receivables.

Moreover, some securitisation transactions, held by various Group entities for relatively small amounts, are handled using the standard method.

#### 2.2 ACCOUNTING METHODS

Under securitisation transactions, a derecognition test is carried out with respect to IAS 39 (the criteria of this test are set out in Note 1.3 to the consolidated financial statements, on accounting principles and methods). The impact of securitisation transactions on own account in the consolidated financial statements is set out in Note 2, "Significant information for the financial year", in the Notes to the financial statements.

In the case of synthetic securitisations, the assets are not derecognised in that they remain under the control of the institution. The assets are still recognised according to their classification and original valuation method (see Note 1.3 to the consolidated financial statements, on accounting principles and methods, for the classification and valuation methods of financial assets). A received guarantee is recorded off-balance sheet on the covered portion.

## 3. Exposure

### 3.1 INTERNAL RATINGS-BASED APPROACH

#### EXPOSURE AT DEFAULT TO SECURITISATION OPERATION RISKS BY ROLE

| Underlyings *(in millions of euros)* | Securitised EAD at 31/12/2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Traditional | | | Synthetic | | | |
| | Investor | Originator | Sponsor | Investor | Originator | Sponsor | TOTAL |
| Residential real estate loans | 402 | - | 270 | 192 | - | - | 864 |
| Commercial real estate loans | 68 | 61 | 264 | 56 | - | - | 449 |
| Credit card loans | 1 | - | - | - | - | - | 1 |
| Leasing | - | - | 1,456 | - | - | - | 1,456 |
| Loans to corporates and SMEs | 516 | 1,726 | - | 26,078 | 2,346 | - | 30,665 |
| Personal loans | 16 | 11 | 2,338 | - | - | - | 2,365 |
| Trade receivables | - | 7,321 | 3,751 | - | - | - | 11,072 |
| Secondary securitisation | 318 | 221 | 39 | 128 | 5 | - | 711 |
| Other assets | 380 | 349 | 3,864 | 1,018 | - | - | 5,611 |
| **TOTAL** | **1,701** | **9,689** | **11,982** | **27,472** | **2,351** | **-** | **53,195** |

#### EXPOSURE AT DEFAULT TO SECURITISATION OPERATION RISKS BY RISK WEIGHTING APPROACH

| Underlyings *(in millions of euros)* | Securitised EAD at 31/12/2012 | | | |
|---|---|---|---|---|
| | SFA | IAA | RBA | TOTAL |
| Residential real estate loans | - | - | 864 | 864 |
| Commercial real estate loans | - | - | 449 | 449 |
| Credit card loans | - | - | 1 | 1 |
| Leasing | - | 1,393 | 64 | 1,456 |
| Loans to corporates and SMEs | 27,851 | - | 2,815 | 30,665 |
| Personal loans | - | 1,778 | 587 | 2,365 |
| Trade receivables | 101 | 10,971 | - | 11,073 |
| Secondary securitisation | - | - | 711 | 711 |
| Other assets | 2,180 | 1,765 | 1,665 | 5,611 |
| **TOTAL** | **30,132** | **15,907** | **7,156** | **53,195** |

**EXPOSURE AT DEFAULT TO SECURITISATION OPERATION RISKS BY WEIGHTING**

| *(in millions of euros)* | 31/12/2012 | 31/12/2011 |
|---|---|---|
| **EXPOSURE AT DEFAULT** | **53,195** | **57,953** |
| **External ratings based approach** | **7,156** | **9,358** |
| Weighting 6-10% | 4,123 | 6,393 |
| Weighting 12-35% | 1,984 | 1,163 |
| Weighting 40-75% | 384 | 547 |
| Weighting 100-650% | 580 | 1,183 |
| Weighting 1,250% | 85 | 73 |
| **Internal Assessment Approach** | **15,907** | **14,418** |
| Average weighting (%) | 9.99 | 11.03 |
| **Supervisory Formula Approach** | **30,132** | **34,177** |
| Average weighting (%) | 7.67 | 8.85 |
| **Risk weighted exposure** | **6,994** | **8,207** |
| **Capital requirements** | **559** | **657** |

### Exposure deductible from capital

At 31 December 2012, the total exposure held deductible from Basel 2.5 capital amounted to €714 million.

## 3.2 SECURITISATION OPERATIONS UNDER THE STANDARDISED APPROACH

| *(in millions of euros)* | 31/12/2012 | 31/12/2011 |
|---|---|---|
| **TOTAL SECURITISATION EXPOSURES** | **528.5** | **764.3** |
| Traditional securitisations | 528.5 | 764.3 |
| Synthetic securitisations | - | - |

The gross amount of securitisation exposures under the standardised method is marginal compared with exposures in the internal ratings based approach (see section on “Internal Ratings Based Approach”).

**AGGREGATE SECURITISATION EXPOSURES HELD OR ACQUIRED (EXPOSURES AT RISK)**

| *(in millions of euros)* | 31/12/2012 | 31/12/2011 |
|---|---|---|
| **AGGREGATE OF SECURITISATION EXPOSURES HELD OR ACQUIRED** | **499.4** | **763.7** |
| **With external credit rating** | **493.6** | **761.8** |
| Weighting 20% | 381.8 | 728.6 |
| Weighting 40% | - | - |
| Weighting 50% | 105.4 | 21.6 |
| Weighting 100% | 4.3 | 5.0 |
| Weighting 225% | - | - |
| Weighting 350% | 2.1 | 6.6 |
| Weighting 650% | 0.0 | - |
| **Weighting 1,250%** | **5.8** | **2.0** |
| **Transparency approach** | **-** | **-** |

Most of these exposures correspond to the securitisation portion of mutual funds held in the banking portfolio and treated by transparency.

## IV. Equity exposures in the banking portfolio

Crédit Agricole S.A. Group's equity exposures, excluding the trading book, consist of securities "that convey a residual, subordinated claim on the assets or income of the issuer or have a similar economic substance". These mainly include:

- listed and non-listed equities and shares in investment funds;
- options implicit in convertible, redeemable or exchangeable bonds;
- stock options;
- deeply subordinated notes.

Non-consolidated equity interests are acquired for management purposes (financial assets at fair value through profit or loss or designated as at fair value through profit or loss or held for trading, available-for-sale financial assets, held-to-maturity investments, loans and receivables) as described in Note 1.3 to the financial statements entitled "Accounting policies and principles – Financial Instruments".

The accounting policies and valuation methods used are described in Note 1.3 to the financial statements "Accounting policies and principles".

**GROSS EXPOSURE AND EXPOSURE AT DEFAULT BY EXPOSURE CLASS**

| | 31/12/2012 | | 31/12/2011 | |
|---|---|---|---|---|
| *(in billions of euros)* | Gross exposure | Exposure at default | Gross exposure | Exposure at default |
| **Equity exposures under the internal ratings-based approach** | **18.9** | **3.6** | **19.0** | **4.3** |
| Private equity exposures in sufficiently diversified portfolios | 1.0 | 1.0 | 1.2 | 1.2 |
| Listed equity exposures | 2.5 | 1.2 | 3.2 | 2.0 |
| Other equity exposures | 15.4 | 1.4 | 14.6 | 1.1 |
| **Equity exposures under the standardised approach** | **3.4** | **1.7** | **3.3** | **1.7** |
| **TOTAL EQUITY EXPOSURE** | **22.3** | **5.3** | **22.3** | **6.0** |

Equity exposures under the standardised approach mainly include guarantees granted by Ségespar Finance, a subsidiary of Amundi, on behalf of certain mutual funds managed by Amundi. Given the regulatory credit conversion factor (CCF) for this exposure, the total exposure at default is much lower than the gross exposure.

Equity exposures under the internal ratings based approach mainly comprise the portfolios of Crédit Agricole S.A., Crédit Agricole CIB and Crédit Agricole Investissement et Finance.

The carrying amount of equity exposures under the internal rating approach was €18.9 billion at 31 December 2012, compared with €19 billion at 31 December 2011.

The cumulative amount of gains or losses on disposals and liquidations in the period under review is disclosed in Note 4 to the financial statements, "Notes to the income statement".

# MARKET RISK

## I. Internal model market risk measurement and management methodology

Market risk measurement and management internal methods are described in the section entitled "Risk Factors – Market Risk – Market Risk Measurement and Management Methodology".

## II. Rules and procedures for valuing the trading book

The rules for valuing the various items in the trading book are described in Note 1.3 to the financial statements, "Accounting policies and principles".

Measurement models are reviewed periodically as described in the section entitled "Risk Factors – Market Risk – Market Risk Measurement and Management Methodology".

## III. Interest rate risk from transactions other than those included in the trading book – Global interest rate risk

The nature of interest rate risk, the main underlying assumptions retained and the frequency of interest rate risk measurements are described in the section entitled "Risk Factors – Asset/Liability Management – Global interest rate risk".

# OPERATIONAL RISK

## I. Advanced measurement approach

The scope of application of the advanced measurement and standardised approaches and a description of the Advanced Measurement Approach methodology are provided in the section entitled "Risk Factors – Operational Risk – Methodology".

## II. Insurance techniques for reducing operational risk

The insurance techniques used to reduce operational risk are described in the section entitled "Risk Factors – Insurance and coverage of operational risks".