FitchRatings

Banks
Universal Commercial Banks
France

Credit Agricole

Update

Key Rating Drivers

Strong Business and Financial Profile: Credit Agricole's (CA) ratings reflect a very diverse business model, leading franchises in multiple segments, low risk appetite, sound asset quality and profitability, strong capitalisation and funding compared with large French and European banks.

Cooperative Structure: Fitch Ratings rates CA as a cooperative banking group, bound by an effective mutual support mechanism. This legally established support mechanism encompasses the 39 regional banks (caisses regionales de Credit Agricole), Credit Agricole S.A. (CA S.A), the group's listed central body, and Credit Agricole Corporate and Investment Bank (CACIB). The group publishes consolidated accounts and the affiliated entities share a common strategy, brand and joint marketing activities. Risk management is also centralised.

CA S.A. is legally responsible for ensuring the affiliated entities meet liquidity and solvency requirements at all times. To this aim, the central body can access the financial resources of all the member banks that are part of this effective cross-support mechanism.

Leading Franchise in Multiple Segments: CA is France's largest bancassurance group and CA S.A. owns Amundi, the largest European asset manager by assets under management. Under its 2025 plan, CA aims to strengthen its market positions, mainly through organic growth and additional cross-selling between group entities. We expect the group to continue to selectively perform bolt-on acquisitions to reinforce its franchise in growing businesses. CA also aims to maintain its satisfactory cost-efficiency and one of the strongest capitalisations in Europe.

Low Risk Profile: CA's low risk appetite and prudent underwriting standards reflect its cooperative nature and support the group's sound asset quality. Low-risk home loans account for more than 45% its loan book and CA follows prudent origination in loans to SMEs and corporates. CA generally has a lower appetite than other French global systemically important banks (G-SIBs) for traded market risk, and this underpins our assessment in a positive manner.

Resilient Asset Quality: The adverse operating environment and exposure to some vulnerable sectors through CACIB led to an increase in the stock of impaired loans in 1H22. Despite this, CA's satisfactory impaired loans ratio (end-September 2022: 2%) was the lowest among French G-SIBs. We expect the impaired loans ratio to weaken but to remain below 2.5% by end-2023. CA's high impaired loans coverage relative to European peers supports our assessment.

Sound Profitability: CA's profitability is resilient and benefits from a diverse business model. CA's average pre-impairment profit of more than EUR12 billion a year over the past four years provides the group with a strong capacity to absorb large shocks. Despite a medium-term upside potential to CA's revenue from higher interest rates, we expect operating profit/risk-weighted assets (RWAs) to revert to levels slightly below 2% in 2022–2023. This is as we forecast a moderate deterioration in cost-efficiency and stable loan impairment charges (LICs) in 2023.

Solid Capitalisation: CA's capitalisation is strong (end-June 2022 fully loaded common equity Tier 1 (CET1) ratio: 17.2%) and underpins its ratings. The ratio already meets the group's 2025 target of at least 17%. We expect CA's CET1 ratio to be slightly above this level by end-2023 as the bank retains a large share of its profits as a cooperative group.

Strong Funding and Liquidity: The group benefits from the strong deposit franchise of its domestic retail and commercial operations. It has strong access to diversified wholesale funding sources. CA's liquidity is sound with high-quality liquid assets comprising about 18% of the balance sheet, excluding insurance assets, at end-June 2022. The stock of cash and high-quality liquid assets more than covers short- and long-term funding maturing within a year.

Ratings

Credit Agricole	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a+
Government Support Rating	ns
Sovereign Risk (France)	
Long-Term Foreign- and Local Currency IDRs	AA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Negative

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms Credit Agricole's Long-Term IDR at 'A+'; Stable Outlook (October 2022)
Western European Banks Outlook 2023 (December 2022)
Global Economic Outlook - December 2022
Large European Banks Quarterly Credit Tracker - December 2022
Banks' Rising Rates: Focus Shifting to Asset Quality from Revenue (September 2022)
Fitch Ratings 2022 Mid-Year Outlook: Global Banks (June 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

CA has considerable rating headroom at its current level, even if the economic and business prospects deteriorate further for French banks. We would likely downgrade the ratings of CA, CA S.A. and CACIB if CA's impaired loans ratio increases sustainably above 3% with lower levels of loan loss allowance coverage, the operating profit/RWAs falls durably below 1.5%, and the CET1 ratio decreases durably below 14%.

CA's ratings are also sensitive to material expansion into higher-risk businesses, especially in weaker operating environments, such as Italy, and emerging markets or in complex and more volatile capital-market activities.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of CA, CA S.A. and CACIB's ratings would require a material improvement in the group's operating profit/RWAs ratio to above 2.5%, and improved asset quality with an impaired loans/gross loans ratio close to 1% – 1.5%, while maintaining capitalisation metrics at least at current levels. While not impossible, this is highly unlikely as long as economic prospects in France and the eurozone remain weak.

Other Debt and Issuer Ratings

Rating level	Rating
Credit Agricole S.A.	
Deposits	AA-/F1+
Senior preferred debt	AA-/F1+
Senior non-preferred debt	A+
Subordinated Tier 2	A-
Legacy Tier 1 and additional Tier 1	BBB
CACIB	
Senior preferred debt	AA-/F1+

Source: Fitch Ratings

Short-Term IDR

CA's Short-Term IDR of 'F1' is the lower of two options mapping to a 'A+' Long-Term IDR due to Fitch's funding and liquidity assessment of 'a+' for the group.

Derivative Counterparty Rating, Deposits and Senior Debt

We rate the senior preferred debt one notch above CA's IDRs to reflect the protection that will accrue to senior preferred debt from more junior debt and equity resolution buffers. Fitch expects CA to continue complying with its total minimum requirement for own funds and eligible liabilities (MREL), without recourse to senior preferred debt. CA's MREL was about 26.7% at end-June 2022, when excluding senior preferred debt, compared with a total requirement of 24.6%. For the same reason, we rate CA S.A.'s senior non-preferred debt in line with CA S.A.'s Long-Term IDR.

The 'AA-'/'F1+' senior preferred debt ratings of CACIB are one notch above the issuer's IDRs. CACIB is part of CA's resolution scope. CA S.A. downstreams senior non-preferred debt to CACIB, which supports our view that the junior debt and equity buffers available at the regional banks and CA S.A. would also protect CACIB's senior preferred creditors in a resolution.

The Derivative Counterparty Ratings (DCRs) of CA S.A. and CACIB are at the same level as the entities' senior preferred debt ratings. Derivative counterparties in France have no preferential status over other senior preferred obligations in a resolution scenario.

Subordinated Debt and Junior Subordinated Debt

We rate CA S.A.'s subordinated Tier 2 debt two notches below CA's Viability Rating (VR) to reflect Fitch's baseline notching for loss severity for those instruments. Additional Tier 1 and deeply subordinated legacy hybrid Tier 1 securities are rated four notches below CA's VR, reflecting Fitch's baseline notching for loss severity and for non-performance. Our assessment is based on our expectation that the banking group will continue to operate with a CET1 ratio comfortably above coupon-omission thresholds and on the presence of substantial distributable reserves.

Significant Changes from Last Review

Resilient 2022 Performance, Amid Loan-Impairment Charge Normalisation

CA's revenue growth stalled in 3Q22, as Fitch had expected. This mainly results from pressure on French retail banking revenue from higher funding costs due to the repricing of regulated savings, whereas the regional banks' and LCL's loan books reprice slowly due to the large share of long-term fixed-rate housing loans and legal interest rate caps on the new production. Other businesses had a mixed performance in 3Q22. Amundi's revenue, similar to some other asset managers, suffered from market volatility, which reduced performance fees. Insurance revenue proved resilient. The CIB revenue grew by a healthy 5% yoy, driven by commercial banking and structured finance activities – which offset revenue weakness from capital markets and investment-banking activities.

CA's sound operating profit/RWAs ratio of 2% in 9M22 is higher than the four-year average (1.8%), despite costs growing in excess of revenue, due to perimeter effects, increased personal expenses and continued IT investments. CA's operating efficiency remains slightly better than at other French G-SIBs as the cost/income ratio reached about 64% in 9M22 (2021: 63%).

The impaired loans ratio remained stable at 2% at end-September 2022, due to strong loan growth, which masked the effects on the ratio of an increase of about EUR1.5 billion in the stock of impaired loans since end-March 2022. The increase contrasts with French peers, which had declining impaired loans. LICs remained contained at 23bp of gross loans in 9M22, of which a third were forward-looking provisions, mainly in the regional banks' loan books. We continue to view CA's asset quality as better than at other French GSIBs, especially in light of the high coverage by loan loss allowances (87%).

CA's CET1 ratio remains high (phased-in CET1 ratio: 17.2% at end-September 2022), although it decreased by 30bp because retained earnings were offset by negative other comprehensive income adjustments, and higher RWAs – half of this RWA increase being from market risks. The ratio is higher than most peers and already 20bp above CA's end-2025 target.

Continued Appetite for Bolt-On Acquisitions to Strengthen Core Franchises

CA has a strong execution capacity on its past acquisitions in securities services, and Fitch believes that it will be able to successfully complete the recently announced acquisition of Royal Bank of Canada's investor services business in Europe. This transaction should ultimately strengthen CACEIS Bank S.A.'s (CACEIS) position among European players, as it will become the leader in assets under administration (about EUR3.5 trillion) and strengthen its number two ranking in assets under custody (about EUR4.8 trillion). The transaction will also diversify CACEIS's customer mix and increase its penetration among UK and Luxembourg-domiciled clients.

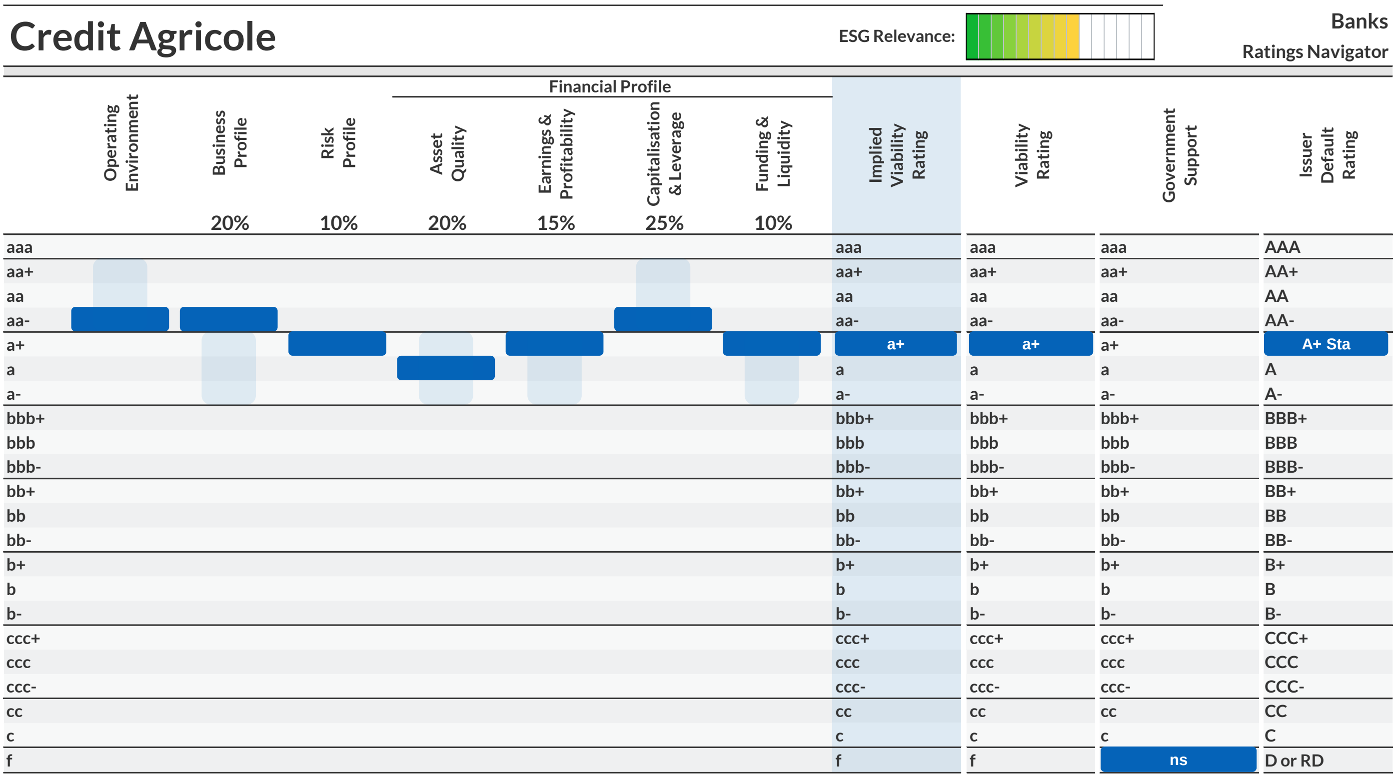
This acquisition follows CACEIS's steady development through organic and external growth in recent years. This business only contributed to about 3% of group revenue in 9M22 but we believe there is scope for it to reach 5% over the medium term. This would help further diversify CA's revenue by developing into a modestly profitable, yet stable, business segment. CA calculates that the transaction will have a small negative impact at closing – expected in 2H23 – of minus 10bp on its CET1 ratio.

Regional Banks Set to Increase Their Ownership in CA S.A.

Fitch views the regional banks' announced intention to increase their stake in the publicly listed central body of the group, CA S.A., in 1H23 as credit neutral. The regional banks collectively own 57% of CA S.A. and have announced they do not want to increase their participation to above 65% following the completion of the transaction.

This transaction will have no impact on the group's governance, or on CA S.A.'s dividend pay-out policy. It will, however, mechanically lead to the regional banks receiving a greater share of CA S.A.'s profits. We believe this is economically sound from a group structure perspective as CA S.A. hosts some key businesses for the group, which are sold in the regional banks' branch networks, including, for instance, insurance, consumer credit or leasing. The buy-out of part of CA S.A.'s non-controlling interests will have an impact of less than 20bp on CA's capital ratios.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The business profile score of 'aa-' has been assigned above the 'a' implied category score due to the following adjustment reasons: business model (positive) and market position (positive).

Financials

Financial Statements

	30 Sep 22		31 Dec 21	31 Dec 20	31 Dec 19
	9 months - 3rd quarter (USDm) Unaudited	9 months - 3rd quarter (EURm) Unaudited	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited – unqualified (emphasis of matter)
Summary income statement					
Net interest and dividend income	n.a.	n.a.	21,018.0	19,858.0	19,701.0
Net fees and commissions	n.a.	n.a.	10,750.0	9,443.0	9,559.0
Other operating income	28,319	29,051.0	5,446.0	4,713.0	4,393.0
Total operating income	28,319	29,051.0	37,214.0	34,014.0	33,653.0
Operating costs	17,827	18,288.0	23,081.0	21,827.0	21,812.0
Pre-impairment operating profit	10,492	10,763.0	14,133.0	12,187.0	11,841.0
Loan and other impairment charges	2,086	2,140.0	2,193.0	3,651.0	1,757.0
Operating profit	8,406	8,623.0	11,940.0	8,536.0	10,084.0
Other non-operating items (net)	180	185.0	476.0	-1,178.0	-644.0
Tax	2,109	2,164.0	2,463.0	2,165.0	1,736.0
Net income	6,477	6,644.0	9,953.0	5,193.0	7,704.0
Other comprehensive income	n.a.	n.a.	-254.0	-878.0	1,847.0
Fitch comprehensive income	6,477	6,644.0	9,699.0	4,315.0	9,551.0
Summary balance sheet					
Assets					
Gross loans	1,094,252	1,122,538.0	1,065,381.0	981,361.0	928,184.0
- Of which impaired	22,029	22,598.0	21,641.0	23,326.0	22,999.0
Loan loss allowances	19,143	19,638.0	18,947.0	19,584.0	18,991.0
Net loans	1,075,108	1,102,900.0	1,046,434.0	961,777.0	909,193.0
Interbank	111,517	114,400.0	90,824.0	82,300.0	95,410.0
Derivatives	35,093	36,000.0	111,566.0	149,377.0	130,552.0
Other securities and earning assets	824,584	845,900.0	750,866.0	742,547.0	700,548.0
Total earning assets	2,046,303	2,099,200.0	1,999,690.0	1,936,001.0	1,835,703.0
Cash and due from banks	257,055	263,700.0	241,191.0	197,792.0	97,135.0
Other assets	131,793	135,200.0	82,676.0	83,719.0	78,128.0
Total assets	2,435,151	2,498,100.0	2,323,557.0	2,217,512.0	2,010,966.0
Liabilities					
Customer deposits	1,049,666	1,076,800.0	1,040,793.0	959,152.0	851,312.0
Interbank and other short-term funding	226,739	232,600.0	380,300.0	349,266.0	284,393.0
Other long-term funding	546,669	560,800.0	155,746.0	154,710.0	153,562.0
Trading liabilities and derivatives	45,621	46,800.0	149,539.0	180,172.0	161,644.0
Total funding and derivatives	1,868,694	1,917,000.0	1,726,378.0	1,643,300.0	1,450,911.0
Other liabilities	435,931	447,200.0	463,124.0	447,265.0	437,814.0
Preference shares and hybrid capital	7,550	7,745.0	6,973.0	8,106.0	7,586.0
Total equity	122,976	126,155.0	127,082.0	118,841.0	114,655.0
Total liabilities and equity	2,435,151	2,498,100.0	2,323,557.0	2,217,512.0	2,010,966.0
Exchange rate		USD1 = EUR1.02585	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, CA

Key Ratios

	30 Sep 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.0	2.0	1.5	1.8
Net interest income/average earning assets	n.a.	1.1	1.0	1.1
Non-interest expense/gross revenue	63.8	62.7	65.0	65.5
Net income/average equity	6.9	7.9	4.4	7.0
Asset quality				
Impaired loans ratio	2.0	2.0	2.4	2.5
Growth in gross loans	5.4	8.6	5.7	6.6
Loan loss allowances/impaired loans	86.9	87.6	84.0	82.6
Loan impairment charges/average gross loans	0.3	0.2	0.4	0.2
Capitalisation				
Common equity Tier 1 ratio	17.2	17.5	17.2	15.9
Fully loaded common equity Tier 1 ratio	16.9	17.2	16.9	15.9
Tangible common equity/tangible assets	4.3	4.6	4.5	4.8
Basel leverage ratio	5.1	6.1	6.1	5.7
Net impaired loans/common equity Tier 1	2.9	2.6	3.9	4.5
Funding and liquidity				
Gross loans/customer deposits	104.3	102.4	102.3	109.0
Liquidity coverage ratio	167.7	183.0	178.5	n.a.
Customer deposits/total non-equity funding	57.3	64.0	63.6	64.0
Net stable funding ratio	n.a.	125.6	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, CA

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A or A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA/ Negative
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

No Reliance on Sovereign Support

CA's Government Support Rating of 'no support' (ns) reflect Fitch's view that, although possible, sovereign support cannot be relied on. Legislative, regulatory and policy initiatives, including the implementation of the EU's Bank Recovery and Resolution Directive, have substantially reduced the likelihood of sovereign support for EU commercial banks in general, in our view. This implies that senior creditors would probably be required to participate in losses, if necessary, instead of the bank receiving sovereign support, despite CA's systemic importance in France.

Subsidiaries and Affiliates

The Shareholder Support Ratings (SSRs) and the Long- and Short-Term IDRs of CA Consumer Finance (CACF) and Credit Agricole Leasing and Factoring (CAL&F), which are not covered by the group's mutual support mechanism, are based on shareholder support from CA S.A. and, ultimately, CA. Their IDRs are equalised with those of CA as we view them as key, growing and integral parts of the group as providers of consumer finance, and leasing and factoring solutions. They are also highly integrated within the group in terms of management, capital and liquidity.

Fitch does not assign a VR to CACF or to CAL&F as they do not have meaningful standalone franchises that could exist without the ownership of the parent due to high levels of financial and operational integration.

The 'AA-'/'F1+' senior preferred debt ratings of CACF, CAL&F, and its subsidiaries Auxifip, Finamur, Lixxbail and Unifergie, are one notch above their respective issuer or guarantor's IDRs. CACF and CAL&F are part of CA's resolution scope. CA S.A. downstreams senior non-preferred debt to CACF and CAL&F, which supports our view that junior debt and equity buffers available at the regional banks and CA S.A. would also protect these subsidiaries' senior preferred creditors in a resolution.

Environmental, Social and Governance Considerations

Overall ESG

5	
4	
3	■
2	■
1	■

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
Exposure to Environmental Impacts	2		Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2		Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile
Customer Welfare - Fair Messaging, Privacy & Data Security	3		Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
Exposure to Social Impacts	2		Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
Governance Structure	3		Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale: 5, 4, 3, 2, 1

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.