

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

Crédit Agricole S.A. Bond 2005 (17/unb.)

Crédit Agricole S.A., domiciled in Paris, is the listed central institute of the French Crédit Agricole Group. It traces its roots back to the 19th century, when it secured the financing for the local economy and its farmers. Similar to the German Volksbanks and Raiffeisenbanks, the finance group is also organised along cooperative lines. Fifty-seven percent of shares are held by 39 regional banks. With total assets of EUR 1,770 billion, 52 million customers and 140,000 employees in 52 countries, the bank is one of the largest international full service banks. With a market share of more than 30% of all French households, it is the bank with the highest presence in France and the number one in Europe with regard to income generated from the branch business. In 2015, the company generated a profit of EUR 6 billion. On the basis of its business model, which is firmly anchored in French society, its ownership structure and good capital resources, Crédit Agricole is considered among the most solid financial institutions in Europe. This is reflected in a longterm rating (A) from Standard & Poor's, as well as competitive refinancing costs. Additional capital instruments can be issued with coupons that are low by industry standards. The bank, which is classified as systemrelevant by the Financial Stability Board, passed the most recent ECB stress test without difficulty. The tier 1 capital ratio

(CET1) is 14.2%, while the total equity ratio (TCR) is 18.9%.

We purchased a T1 bond (BB+) that was issued in 2005 at a volume of EUR 600 million, and that is now defined as additional tier capital (AT1). The bond does not have a final due date. Coupon payments are made voluntarily, are not cumulative, but are obligatory in the case of a dividend distribution. The coupon corresponds to the 10 year swap rate plus 2.5 basis points, maximum 7.75%. The bond is listed considerably below its nominal value due to the historically low interest rates (the coupon is 0.68% at present). Our purchase price, which corresponds to the current exchange price, is 56%. The bond does not meet the criteria according to Basel III in two ways. It has been losing 10% of its eligibility for tier 1 capital every year since 1 January 2012. And it cannot be applied as tier 2 capital (T2) after the year 2021. The closer we get to 31 December 2021, the likelihood increases that Crédit Agricole will purchase the bond with a profit (buyback) or terminate it at a nominal value of 100% (termination). A first repurchase offer was already submitted in the year 2012. It has reduced the outstanding volume to EUR 371 million. In addition, it is also possible that upcoming inflation expectations and a renewed rise in swap and coupon rates will create additional price potential. At present, the yield until the possible termination date at the end of 2021 is around 12% p.a.

Sincerely yours



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