Crédit Agricole - Q3 Results 2019

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Operational Overview
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Introduction
Good afternoon to every one of you. I am happy to present the results of our third quarter today. Let me start with the slides. And if we start with page 4, just for the main messages of this quarter.

*Strong increase in underlying results*
We are posting a net profit, which is significantly increasing Q3-on-Q3, and thus the profitability in the first nine months of the year is at a high level with a return on tangible equity at CASA, which is above 11%. I remind you that 11% was our target for the medium-term plan.

Second element, we have a strong improvement in the cost income ratio, again, both on the quarter and on the first nine months of the year. I will go back to this question a little bit later on.

Third point, we still have a low cost of risk even though we have a certain degree of normalisation of the cost of risk at CACIB overall and across the board the cost of risk remains at a low level.

And then the last point is that both at Group level and at CASA level, the solvency is again strengthened this quarter with a CET1 ratio improved by 10 bps at both levels.

*Key figures*
If I go now to page 6. You have the different level of profit for the Group and for CASA, for the quarter and for the first nine months of the year and in stated numbers and in underlying figures. But there is not much difference between the stated and the underlying performance of this quarter because the specific elements that we restate are only linked to the traditional, I would say, accounting volatility plus another increase in the home purchase savings plan provision, both at Group and at CASA levels.

And what you can see is that in terms of evolution, the net profit is up 4.5% for the quarter at Group level for the stated figure and 6% for the underlying figure at €1,924 million. And at CASA both figures are at €1.2 billion plus 8.9% for the stated net income Group share and €1,226 million, plus 8.2% for the underlying profit.

*Commercial activity strong in the business lines in Q3-19 and 9M-19*
If I go now to page 7, what you will see is that actually these good financial performances were reached, thanks to a very dynamic and sound commercial activity.

It is the case for the Retail Banking activities, where we have seen a dynamic growth both in inflows of customer deposit and in credit. It is also the case with the equipment rate that we have with the additional products and services, plus also a very significant improvement in the number of customers with a net increase of more than 200,000 net customers across our retail network in France and Italy.
It is the case for the Asset Gathering activities, where we had, over the first nine months of the year, net new inflows above €40 billion of assets under management and also another significant increase in the number of P&C insurance policies.

I also want to mention the fact that in the life insurance activities, the breakdown between euro product and unit-linked product improved quite significantly in the third quarter as compared to the second quarter of this year.

In the Specialised Financial Services division, also a high level production of new loans both in consumer finance, factoring and leasing activities, plus also within the car financing JVs, which are, as you know, equity accounted.

And lastly, in the Large Customers division, a very good level of activity across the board with, again, a good positioning of CACIB towards its customers.

**Rolling-out the Customer Project**

On page 8, we wanted to spend a few minutes on the improvements that we continue to have in the rolling out of the customer project, which is one of the three pillars of our MTP, alongside with the societal project and human project.

As far as the customer project is concerned, what we have seen this year is, again, a further improvement of the digitalisation of our customer relation, which is triggering a further improvement in the customer satisfaction, which is a very important indicator, a net promoter score, which is now positive for individual customers within the regional banks in 2019 and which is significantly increasing across the board both for the regional banks and for LCL since last year.

And as a consequence of this improved customer satisfaction, as I mentioned earlier, we have a net acquisition of 210,000 individual customers in France and Italy since the end of 2018. So in the first nine months of this year, which is made of 156,000 for the Regional Banks of Crédit Agricole, around 40,000 for LCL, and 16,000 for Crédit Agricole Italia.

**Crédit Agricole S.A.**

**Net Income**

If we go now page 10, what we will see is that this good level of profit in the third quarter of this year is the result of a good performance of all business lines. As you may see on the quarter, all business lines posted an improvement of their net profit.

And in the first nine months of the year, only the Large Customers division is still a little bit lagging behind the performance of last year. But obviously you have in mind the fact that last year was a year of significant loan loss provision reversal when this year we have now a more normal level of cost of risk at CACIB.

**Revenues**

Page 11, the evolution of the revenues is also very well balanced between different business lines. First, the global level of revenues is increasing quite significantly, plus 4.9% in the quarter and plus 1.8% on the first nine months of the year.

And in addition to that, you see that all business lines again post an improvement of their top line with the slight exception of the Specialised Financial Services division, where as I already mentioned, a significant part and growing part of the business is made within the equity
accounted entities, so it doesn’t translate into an improvement of the net banking income. But nevertheless, it is a solid growth of the top line across the board.

And you will see that on page 12, this goes alongside with a very good monitoring of the cost base, so this is leading to a positive jaws effect both on the quarter and on the first nine months of the year with costs up 1.5% on the quarter and 1.2% on the first nine months of the year. The breakdown of this evolution is quite differentiated across the business lines because as you know we are allocating some investment capacities to the business lines that have the capacity to develop additional products, additional services or to develop new partnerships, which is obviously the case within the asset gathering division of the insurance activities and within the Large Customers division of the custody activities.

So this explains why in those two divisions we have an evolution of the cost base, which is a little bit higher than for the other two business divisions.

**Cost of Credit Risk**

*Normalisation of the cost of risk in CIB*

When it comes now to the cost of risk on page 13, I already mentioned the fact that at CACIB there is a normalisation in the cost of risk at a level which is still very low. This is exactly what explains the evolution of the global cost of risk both at CASA and at Group level. And if I take the example of CASA, at €335 million this quarter, the cost of risk is up €117 million, out of which €100 million is simply the consequence of the situation of CACIB, which was having reversal of around 50 million in Q3 ‘18 and which is having this quarter a net provision of around 50 million again.

*Cost of risk down for CACF and CA Italia, normalisation in CIB*

And this is what you may see on page 14 with some details on the evolution of the cost of risk in the main business lines. At CACF in the consumer credit business, you see a very steady level, around 120 bps, which is significantly below the assumption that we made for the present medium-term plan of 160 bps.

At CA Italia, the decrease continues. We are now at 59 bps and we target to be somewhere in the course of this medium-term plan around 50 bps. At LCL, the level is almost unchanged at 17 bps compared to 16 last quarter and 17 during the first quarter of 2019, when again the assumption for the medium-term plan was that the cost of risk could be between 20 and 25 bps.

And lastly, for the financing activities of CACIB, as I mentioned, we are progressively going through more normal situation. The cost of risk on the last four quarters is at 5 bps. The assumption of the medium-term plan was like for LCL, a level that could be between 20 and 25 bps. In all cases what you can see is that actually we still have some reversals in bucket one and bucket two categories of loans and the cost of risk is actually linked to specific and individual provisions in bucket three. So the positive evolution of bucket one and bucket two illustrates the fact that going forward, the overall quality of our loan portfolio continues to be very well oriented.
Activity and Results

Asset Gathering and Insurance

If I go now to page 15 in order to present some details, some additional details on each business line. Starting with the Asset Gathering and Insurance division, I think that the main message on page 15 is the fact that we have had indeed a very dynamic evolution of the business in the quarter with assets under management significantly up both coming from a very dynamic level of customer inflows, plus a very important market and forex effect.

So this is leading to record levels of assets under management for all the businesses within this division, and the contribution of this division to the net profit of Crédit Agricole S.A. continues to improve this quarter a little bit above €500 million, plus 2.5%.

Insurance

If we drill down a little bit more on the insurance activities, the level of activity is, as I said, very, very well oriented. This is the case for the savings and retirement activities over the life insurance business, where as I said the proportion of unit-linked inflows is picking up in the third quarter as compared to the second quarter. And we expect this movement to continue because we’ve taken a certain number of measures in order to continue this evolution. Those measures took place beginning of October.

In the P&C and protection businesses, again, the level of premium income continues to be significantly up, around 8% to 9%, which is far above the market performance, especially in France. So this illustrates, again, the fact that we are continuously gaining market shares in those businesses.

As a consequence of that, the net income Group share of the insurance activities continue to increase. It comes in at 340 million for the quarter, up 3.1% and up 2.8% for the first nine months of the year.

Asset Management - Amundi

At Amundi, you perfectly know the results of Amundi that were published last week. I think that what is noticeable is that Amundi recorded an every time high level of inflows this quarter, above €42 billion of net inflows this quarter driven by medium to long-term assets, €25 billion. The revenues were significantly up this quarter at plus 5.8%, thanks to a good level of management fees, plus a good level in performance fees and the cost continued to be kept under control.

And the contribution to the net profit of the Group increases slightly on the quarter but more significantly on the first nine months of the year.

French retail banking – LCL

Going now to the retail banking activities and starting in France with LCL. We have, as I said, a very good level of activity both from a customer savings viewpoint and from a loan production viewpoint. The momentum is also very positive for the sale of additional services and products and for the equipment of our customers.

And as a last point, the customer base continued to increase, which is going to trigger further improvement in the sales going forward. In terms of revenues, we continue to have this positive jaw between the evolution of the top line, which is up 4.7% this quarter as compared
to the third quarter of 2018, and the cost line, which is a little bit down, minus 0.2%. So the cost to income ratio at LCL continues to improve.

On the first nine months of the year, the contribution is up 6.5%. On the single third quarter it is a little bit down, mainly because of the evolution of the cost of risk, which is, as I said, low but a little bit higher than one year ago and the cost of the corporate tax, which is higher also this quarter.

**International retail banking – Italy**

In Italy, we have a very positive situation with a good level of activity. Customer assets are up, loans outstanding are up and the loan production is much more dynamic than globally on the Italian market. And what we see when we look a little bit more closely on this commercial performance is that actually the branches coming from the banks that we integrated last year are progressively reaching the standards of the historical Cariparma branches, which is proving the efficiency of our integration model.

In terms of P&L, revenues are up more than 2% this quarter when the cost base is stable. The cost of risk continues to decrease. And so the net income Group share at €60 million for the quarter is up 24% and at €162 million it is up 13% for the first nine months of the year.

In addition to that, I mentioned that globally in Italy, the net income made by the Group continues to increase quite significantly. In the first nine months of the year, we made €490 million of net profit in Italy, which is up 16% as compared to the first nine months of 2018.

**International retail banking – excl. Italy**

For the rest of the international banking activities abroad, excluding Italy, again good level of activity in all the four countries with customer assets significantly up and also a good development of the production of new loans. Revenues are up close to 10%. The cost of risk continues to decline. And so the net income Group share is up 15% on the quarter and also on the first nine months of the year, reaching €112 million so it is now, a significant contribution to our P&L.

**Specialised Financial Services**

In the Specialized Financial Services division, starting with CACF, as I said, globally the gross managed loan book continues to increase. It is up 5.4%. It has been globally dynamic in certain areas like Italy at Agos and also the car financing business. It is a little bit less dynamic in France for the direct lending activities.

For CAL&F, it is globally a good quarter with a good development of the leasing activities and also I would say a concretisation of the significant commercial effort that we have made in the first half of the year for the factoring activities. So these results as far as the P&L is concerned with, I would say, a contrasted situation between CACF, where the top line is decreasing a little bit, because for the consolidated loan book, we continue to have a swing effect between the amortising loans and the proportion of which continued to increase in the loan book and a decline in the proportion of revolving loans. So this explains the pressure on the net interest margin. But the contribution of the equity accounted entities continues to be very dynamic up 17%.

And for the leasing and factoring activity, the top line is significantly up, plus 4%. All-in-all for this division, as the cost of risk continues to decline, the net income Group share for the
contribution to the profit of the Group is up 5.6% for the quarter and up 3% for the first nine months of the year.

Large Customers

Going now to the Large Customers division. It has clearly been a good quarter for CACIB in terms of revenue with especially a very high level of revenues within the capital markets and investment banking activities, plus 21.6%. For the financing activities, it was slightly down minus 3%, which is actually the combination of a good performance for the structured finance activities and a less dynamic level of activity for the commercial banking businesses alongside with the market within a sluggish market and CACIB kept its market share and its positioning.

In the asset servicing, also a good level of activity with revenues up 3.2%. So in this context where the revenues are significantly up globally 6.3% for the division, the costs are kept under control and despite, I would say, the normalisation in the cost of risk, which reverted from a reversal of €50 million last year to a net provision of €45 million this quarter, the net income Group share for the Large Customers division at €478 million is up close to 13% and is now more or less stable as compared to last year for the first nine months of the year.

Corporate Centre

The Corporate Centre, nothing much to say. The, I would say, structural component of the Corporate Centre is very stable as compared to last year same quarter and also as compared to the second quarter of 2019, and the more volatile element accounts for profit of €30 million, which is perfectly in line with the type of level that we can see in the last quarters. So nothing much to say.

Crédit Agricole Group

Regional Banks

Going now to the Regional Banks of Crédit Agricole, you will see the same characteristics as the one we have seen at LCL with a good level of activity both from a customer deposit viewpoint and from a loan book development viewpoint. A good also level of customer equipment, which continues to increase quite significantly. And as I already mentioned, a significant increase in the customer base with close to 160,000 new customers for the first nine months of the year.

Revenues are more or less stable on the quarter and up close to 2% in the first nine months of the year, and the contribution of the regional banks to the P&L of the Group is up 2.7% both on the quarter and on the first nine months of the year.

Financial Solidity

Financial Strength

If I go now to the solvency, as I said, the CET1 ratios both for the Group and for CASA increased by 10 bps this quarter. Starting with CASA, the RWA apparently increased by €7 billion. But actually if you dig a little bit more precisely into these figures, what you will see is that the organic growth of the RWAs of the business lines is only up €800 million. The biggest part of the increase is coming from the equity accounted value of the insurance business both because of the accrued results of the quarter and of the unrealised capital gains on the asset book of Crédit Agricole Assurances.
The forex effect increased the overall level of RWAs by €1.8 billion. And lastly, the integration of Kas Bank, which is the acquisition made by CACEIS at the end of September increased the level of RWA by, again, €800 million. So the biggest part of this increase, the €3.4 billion of the insurance activities, plus the €1.8 billion of the forex effect are actually compensated or more than compensated by the evolution of the solvency itself, because as you know, the equity accounted value of the insurance is generating additional solvency and we have also a management of our solvency ratio, which is congruent in terms of currency between the RWAs and the capital.

So this is why actually the evolution of the ratio is positive this quarter from 11.6% to 11.7%, so still significantly above the target of the medium-term plan.

If we go now to the solvency of the Group, you will see that the CET1 ratio increased again by 10 bps between 15.4% through 15.5%, thanks to the retained earnings, the recent evolution of the OCI reserves and despite the business lines’ growth, which is significantly higher at Group level because the RWA consumption at the level of the Regional Banks was quite dynamic this quarter alongside with the development of the business.

Nevertheless, the solvency continues to improve, 15.5%. The TLAC ratio stands at 22.2% and the MREL ratio is at 32% including the eligible senior preferred debt and 22.2% excluding this element.

Last point on the funding of the Group. The market funding programme of CASA is completed by close to 90% at the end of October and it is also 80% for the Group globally at the end of September. In addition to that, I can mention that, again, we benefited from the market conditions, which were positive, plus also obviously since the beginning of September from the improvement of our ratings with Moody’s.

In terms of liquidity and refinancing, nothing more to say on page 30. I think we can continue to flip the pages.

**Conclusion**

*Continued implementation of the 2022 medium-term plan*

And ending with the last page on page 32. I think that in terms of conclusion I just want to again insist on the high-level of the profitability this quarter, the good quality of this profitability in terms of P&L evolution with a significant jaws effect and the very well balanced level of profitability alongside all business lines.

Thank you very much. And I think that I can now take your questions.

**Q&A**

*Jacques-Henri Gaulard (Kepler Cheuvreux):* Two questions from me. First, I was wondering if there was any follow up from the problems that was faced by Wirecard with regard to your agreements in payment? And whether depending on what the audit will say, there might be some changes in the dynamics there? That is the first question. The second question, in your press release you sum up all your different partnerships, your outside partnerships outside the Group with Kas Bank, with Santander, which is very helpful. And I was wondering from the CFO viewpoint, how you consider this in terms of ROI? How much
ROI they need to turn up? Is it the same as your traditional acquisitions? And how long do you expect them to be profitable? That is it.

Jérôme Grivet: Wirecard, as you know, is simply, I would say, a provider. It is more or less like a consultant so for the time being, we do not see any negative consequence coming from the difficulties that obviously if I read correctly in the press they are encountering. The only issue for us is that they remain able to provide the services that we have decided to source with them. That is the only issue. And so going forward, as of now, I would say, nothing has changed. They continue to develop services that we intend to sell ourselves to our customers.

Second point, the partnership that we are launching in a significant number of countries and in a significant number of business divisions, it is clearly a way for us to develop beyond only our mere retail banking footprint, and this is a good way for us to develop our activity in countries where for some historical reasons or for some other reasons, we do not have a retail bank or we have a retail bank, which is of a small size.

Of course, as the CFO, I intend to monitor the investments that we made for these partnerships in order to generate a profitability, which is coherent with the type of profitability that we are targeting business line by business line. And clearly the idea is that the return on the investment must be at or above 10% at least three years after the beginning of the partnership and the first investment.

So we are going to monitor the evolution of those partnerships in order to check that those criteria are met. But as you have seen, most of those partnerships were announced and launched in the last 12 or even 18 months. So it means that for the time being they cost a little bit. In most cases, we are talking about millions of euros and not much more than that, but we are monitoring the fact that progressively those investments generate the type of return that we expect.

Jon Peace (Credit Suisse): So my first question, please, is on your capital targets. Do you feel any need at all to change your 11% target given the outlook for the economy in Basel IV, etc? And second question is, as we look at the outlook for LCL for next year, do you have any sort of guidance you can give us around revenue growth and whether you could continue the positive momentum?

Jérôme Grivet: Capital target, we see absolutely no reason why we should modify the 11% target. It is a stable target, which is perfectly adapted to the specific situation of CASA. As you know, CASA is part of a bigger and stronger group, which is Crédit Agricole Group.

We have set an ambitious target of solvency for Crédit Agricole Group at 16%. We are on the way to reach this target and most probably before 2022, I would say. So this is providing additional, I would say, robustness to CASA in itself. So for CASA, we have absolutely no need to rise the target.

For LCL, and more generally, I would say for the Retail Banking activities in France, it is difficult as of now and considering all the uncertainties that we are facing to be very, I would say, precise on the evolution we expect for the coming year. I think a key element is going to be, the evolution as you know, of course, the evolution on the French market, not only at LCL but on the French market of the level of customer rate that we are going to be able to apply to the new loans that we grant on the market.
Of course, in the summer, we have seen a significant decrease in market rates. But if I assess the situation for the last few weeks actually, most of the decrease of the summer has been retraced. And actually in terms of levels, I’m talking about market rates, we are now more or less at the level where we were somewhere in June. So what effect will it have on globally the level of customer rate that we are going to be able to apply for the new loans that we are going to grant in the coming weeks and months, this remains to be seen, and for the time being I am not able to give precise guidance on this.

But what I’m sure of is that we will continue to monitor LCL activities in order to continue to improve its profitability to continue to head towards the cost to income ratio target that we have set and in order to take advantage and to benefit from the increase in the customer base that we have been progressively building.

**Lorraine Quoirez (UBS):** Few questions from me. The first one is on Poland. Would you consider going inorganically and could you give us a little bit of an update on the local operations there? Previously you were disappointed by the performance, but in the slide it looks like things are getting better. So if you could give a little bit of colour on the trends there and their returns? Second question will be on LCL. I understand it is difficult to say what the revenue is going to look like, but perhaps do you have a view on what sort of loan growth we should expect for LCL next year, given it has been pretty strong in 2019? And then my last question would be on the dividend. You have a dividend per share floor of €0.60. I was wondering whether you are ready to move to €0.69 floor or if we should still think about the progressive dividend policy?

**Jérôme Grivet:** Let me start with your last question. We have a dividend policy. This policy is to pay in cash a dividend corresponding to 50% of our attributable earnings. So as of end of Q3, we have a dividend provision of €0.47 a share. This is not the result of any kind of decision from the governance of the Group. It simply is the application, the implementation of our policy.

Of course, at the end of the year, the situation is a little bit different because then the Board has to take a view and to propose to the General Assembly Meeting a level of dividend. So definitely the Board will consider the official policy that we have and all other relevant elements to make its proposal to the governance and to the General Assembly Meeting. But as of today, I don’t see why we should change our policy. We are only at an intermediate quarter, I would say.

LCL and loan growth, for us the idea is not to set in advance a loan growth that we target for our Retail Banking activities, but clearly the idea is much more to be here in order to provide to our customers the loan that they need as long, of course, as those loans meet our credit criteria.

And so we do not know exactly as of now because of the many uncertainties I was referring to earlier. I do not know exactly what the credit demand will be for retail customers in France next year. But what I am sure of is that we will be here and we will be ready to grant to our customers all the loans that they need, again, as long as the credit criteria that we have and that were not deteriorated in the last period of time whatsoever as long as those credit criteria are met.
Poland, of course, we read the newspapers as you did. And we have seen that there may be some moves in Poland going forward. We are a small player but an active player on the Polish market. For the time being what we have said in terms of plan for Poland is to develop our activities and to continue to transform our activities towards a completely integrated universal bank model. This is what we are working on. But definitely as we are on the Polish market as a universal bank, we are going to permanently assess what is taking place on this market.

Jean-Pierre Lambert (KBW): A few questions on my side. The first one is on consumer finance because on slide 21 you indicate that there is a competitive pressure but at the same time you mentioned the different developments, different dynamics between amortising loans and revolving loans. So I was wondering what’s the dominant factor? And why is there such a competitive pressure in France, if I understand well? Second question is the tax rate for financing is fairly low, 7.9. What was the factor? And is there a similar factor going forward? Then if you could clarify the cost of AT-1 going forward as well, given the movement this quarter? And finally, just a general question. The debate on the slowdown and of the economy if you see any developments on that front?

Jérôme Grivet: Okay. Consumer finance, what we say is that first we have different activities. And to put it in a nutshell, we have France, where we have direct lending activities from CACF under the brand name of Sofinco. We have also the consumer creditbusiness that is sitting on the balance sheet of our retail banks and that is serviced by CACF. Then we have Italy with the partnership with Banco BPM at Agos. And then we have, across Europe, the car financing business, plus some other developments like in Germany and tomorrow in Spain. So different conditions on the different markets.

What we see is that in France the market is very competitive and at the same time in France again and it still is the consequence the law that was passed five, six or seven years ago, which was strengthening the conditions to be able to grant a revolving loan and so it was, in fact, promoting the amortising loan. So in France, there is a significant competitive pressure, which is shrinking a little bit the level of margin that we have on our direct lending activities in France. That is the main point.

And as far as the car financing business is concerned, as I said, it is developing well. It is developing very well, but it is not consolidated in our P&L so we do not see the translation of this good development in the top line. So this is why actually we see this decrease in the top line at CACF when we see significant increase in the equity accounted entity.

But clearly, the main area in which we have a competitive pressure plus this effect of rollover, or a swing between amortising and revolving, it is mainly in France for the direct lending activities. The tax rate within the CIB, it is mainly linked, you know that the tax rate on a single quarter is very difficult to precisely assess. But this quarter, in addition to a certain volatility that we regularly have on a quarterly basis, so before the year end, we have had a positive issue to a tax litigation in France, which was regarding this division, which was regarding CACIB and this will present, I think, €30 million or €40 million of tax profit.

AT-1, this was indeed a complicated year from an AT-1 viewpoint because as you may remember we had issued a new AT-1 in Q1. I think it was in the middle of February. And of course, we could not say so at that time, but it was with the idea of possibly calling another AT-1 where we had a call window in September and actually this is what we did.
So actually between February and September, we had an outstanding of AT-1 which was €1 billion above the “normal” level. And in addition to that we have had also a forex effect for the call of our AT-1 in September. But all-in-all, now that we are back to the normal level of around €5 billion of AT-1, with a cost, which is not significantly different in terms of level of coupon with the one we had before, so the global guidance for the cost of the AT-1 remains at around €450 plus million a year. And with possibly some changes that I will have to check on the quarterly repartition of this global cost, because as we have issued a new AT-1 and repaid an old one, this may have changed a little bit the breakdown of the AT-1 coupons across the different quarters of the year.

Slowdown of the economy, I was mentioning uncertainties. I think this is exactly what we are facing now. So for the time being, the French economy seems to be quite resilient actually. The unemployment rate continues to decrease. The investment rate within the corporate continues to improve. The purchasing power of household continues to improve.

Probably one of the important moving pieces that we will have to check in the coming weeks and months will be the consuming behaviour of the household, because it is clear that if the consumption of the household continues to be good and even increases a little bit, this will support the overall growth. But clearly, we are in a period where the uncertainties are quite significant.

Maybe one last point on this issue. I think that part of these uncertainties is linked to the fact that the household are now a little bit puzzled by the rate situation. They are borrowers but they are generally much more savers than borrowers, and so they fear a little bit what is going to happen with their savings in this low rate environment. So I think that this is also an element of uncertainty for the coming quarters.

But nevertheless, as far as the French economy is concerned, it seems to be a little bit more resilient than some neighbour European countries.

**Flora Benhakoun (Deutsche Bank):** I have two questions please. The first is that I wanted to understand why the RWAs have actually decreased in Q3 versus Q2 in French retail and in Italian retail while you had some loan growth? And the second question is around the insurance business. I would like to better understand the impact that lower rates could have on the business in terms of the earnings, so typically the revenue stream. But also the PPE provisioning, you know how you feel with the current level. Is there risk given the rate move that you need to further provision? And also regarding the impact on the solvency ratio, please?

**Jérôme Grivet:** Okay. RWAs on retail, we are permanently trying to, I would say, optimise the calculation of the level of our RWAs and it happens that both in Italy and in France we managed to lock this quarter some improvements in our different RWA calculation. I think it is not completely useful to go in too many details, but simply in France this was linked to a modification of perimeter of certain assets that were recognised as leverage finance before and which are recognised now as simply as corporate loan. And this is improving the level of RWA, the RWA density. And actually we were a little bit too conservative before.
And in Italy, it is the fact that progressively all the assets coming from the three Fellini banks are now applying the internal model of Cariparma. So this helped us, I would say, control the evolution of the RWAs at LCL and at CA Italia this quarter.

As far as the insurance business is concerned, well, clearly the insurance business is in a situation where it has liabilities and assets. In terms of assets, it is difficult to have an influence of the yield of the assets that are managed by the life insurance business because most of the asset is made of bonds and when you have cash that you need to invest, you buy the bonds at the yield, which is available on the market. So the key element is the capacity that you have to reduce the cost of your liabilities. And actually this was the case last year and it continues to be the case this year. We still have significant flexibility in order to adjust the cost of our liabilities through the evolution of the yield of our assets.

And so this is why, for the time being, we have the capacity of withstanding this rate situation. Again, I want to insist on the fact that you certainly have in mind, which is that the evolution of rates on the market was a sharp decrease between the end of June and the beginning of September. But since now six months, there has been a significant pickup and actually now we are more or less in the situation where we were at beginning of June, so nothing very, very different.

Then, of course, we have the capacity and this is what we are trying to do too better, I would say, integrate in the pricing of the euro-denominated products, the reality of the market conditions. And so I was mentioning measures that we have been taking a few weeks ago in order to adapt to this environment.

What we are doing is simply to send clearer signals to the customers, to the policyholders in order to make them feel much more clearly what is the “real” price of accessing to a euro-denominated product. So the real price is that the yield is going to be lower, the real price is that there is an entry fee, which may be significant for high inflows in order to access to the euro-denominated product.

But clearly, we have the capacity to adapt to this rate situation and we did it again in the last quarter.

**Flora Benhakoun:** That is very clear. If I can just follow-up on the RWA question. Should we expect therefore that this kind of evolution can continue? So should we have in mind that the RWAs are going to grow at a slower pace than the loan book in retail?

**Jérôme Grivet:** Well, we are trying to do so, but actually we are also depending on the rules that apply to us. And so every time we have the capacity to improve one of our model, every time we have the capacity to assess a different weighting to a category of loan, we will do that, but this is not a continuous phenomenon. So I think this is not something that we can repeat steadily quarter-after-quarter.

**Guillaume Tiberghien (Exane):** So I just had a small question on consolidation. You talked about mBank in Poland. I was wondering whether if in France there was a small network for sale LCL could consider looking at it or the sum of the Regional Banks plus LCL is too big and therefore adding two market shares would not make sense?
Jérôme Grivet: Well, as far as the situation you are referring to is confirmed, I think that there is nothing but rumours and uncertainty on this situation. So this is not something we have looked at.

Guillaume Tiberghien: It is just hypothetical?

Jérôme Grivet: No. But the question you are raising is quite precise actually. Would we have a competition issue in this case? I think that the answer is not clear cut and we have not looked at this possible competition issue in the situation you are referring to.

Stefan Stalmann (Autonomous): I have two questions please. One regarding your litigation case in Germany at CACEIS regarding the CumEx situation. If I understand correctly, you have now actually paid the principal claim to the tax authorities. Why has this payment not triggered some, let us say, P&L relevant expense, either tax expense or reserves? And the second question I wanted to ask is going back to the insurance side. Would you also consider actually lowering the prices of unit-linked in order to motivate customers to make a move from euro contracts away to unit-linked? And if you were to lower the price of unit-linked contracts, how should we think about the distribution of that price cut among the businesses or the divisions within CASA?

Jérôme Grivet: Thank you. As far as your first question is concerned, I think that from a legal viewpoint, i.e. from the solidity of our case, nothing has changed since the beginning. When we disclosed the existence of this case, I think, it was in February, we said that we were very confident that we have a good case. And actually nothing, nothing, since then in the evolution of our discussions with the tax authorities in Bavaria has triggered any modification in this appreciation.

So we continue to think that, on the heart of the matter, we have a very solid and very good case and we have much more chances because from an accounting viewpoint, there is a regulation that says that the provision must be triggered when you think you have a higher probability of losing than winning. And we think that we have a much higher probability of winning than losing.

So actually the simple fact that we had to deposit the principal amount that was asked by the tax authorities does not change anything on the robustness of our case from the legal viewpoint. And this is not a specific situation actually. We had, in the past, some similar cases, in which, and I have a case in mind in France, a tax authority claims from us a certain amount. At a certain point of the process we have to pay for it, but we do not translate this payment into the P&L because we have a solid ground to put a claim on this payment that we have made, which is offsetting any consequence in the P&L. We are exactly in this situation as far as CACEIS Germany is concerned.

In the insurance activities, I do not know exactly what would mean lowering the price of unit-linked products. But what I know is that we are permanently trying to improve the product offer in unit-linked products in order to be able to propose to each and every customer a unit-linked product that is adapted to his or her own situation. Because generally speaking, when people think of a unit-linked product as compared to a euro product, people think as a stock market-based UL product.
But actually, we have also real estate UL product. We may have UL product with certain types of guarantee, possibly 90% or 80% of the capital being guaranteed. We have so, many, many forms of UL. And the idea is actually, and Crédit Agricole and Amundi are working together on that, we are trying to have a range of unit-linked products as diversified as possible in order to fit any customer's need. This is much more in this direction that we will have the capacity to create an incentive towards the customer rather than playing on the price, which is not a very clear signal when it comes to UL products.

Kiri Vijayarajah (HSBC): First question on the RWAs, but this time more on the large corporate financing side and really the decline in the quarter. So I think on the retail side, you sort of alluded to sort of model changes going on there. But I wonder if you could give us a feel how much is ratings migration model changes? And actually what is sort of offloading of exposures in the market that has gone on in the quarter and what is your plans going into year-end there? And then secondly on the insurance result, another strong result. And I wonder if you could kind of tell us maybe in PBT terms, how much of the insurance profits now come from Italy? I know France still dominates the insurance business, but sort of give us a feel for how important Italy is now? And for the next couple of quarters, is there kind of a ramp up as some of those other partnerships come on stream and so the contribution from Italy insurance could continue to rise from here?

Jérôme Grivet: Two good questions. Within the CIB, I do not have any precise answer to give you as far as rating migrations and elements like that may have played in the evolution of RWAs. But what I can say is that we continue to have a very steady primary distribution policy when we generate new assets through the financing activities at the CIB. And this quarter the primary syndication of distribution rate was of 42%, which means that 42% of the assets generated by the financing activities of CACIB were distributed just after the origination to third-party investors. This is up 4 percentage points over Q3 2018. So this is obviously a very good level and our intention is to continue to go this way. As far as the insurance activities are concerned, I do not have in mind the precise breakdown of the profitability coming from Italy or more globally from abroad as compared to what comes from France.

But what I can say is that our Italian activities are very profitable actually and the equipment rate of Crédit Agricole Italia’s customers in insurance policies is rapidly growing. It is exactly like within LCL and the Regional Banks. It is improving by more than one percentage point per year regularly. So, of course, as the start was much later in Italy than was the case in France, there is a difference in absolute levels, but roughly what you may have in mind is that for P&C insurance products, a Regional Bank’s customers have an equipment rate, which is around 35%. It is around 25% for LCL customers and around 15% for Cariparma's customers. So it means that there is no glass ceiling for the equipment rate at Cariparma at CA Italia.

Actually what we do is that we say to CA Italia that they should target LCL and we say to LCL that they should target the regional banks. And so this is making significant incentives to continue to boost the development.

Geoff Dawes (Société Générale): A couple of questions from myself. First, thanks a lot for going through the RWA evolution in French retail and Italian retail. My question actually relates to the markets and asset gathering divisions, where you saw really kind of big leap up
in RWAs in those smaller divisions for the quarter. Can you just give us a little bit of colour whether that is transitory or whether that is something that is going to stick around for a few quarters to come, or if it is just trading conditions as I said? So that is the first question. Second question, you talked a lot about the competition levels in the French markets and you have talked a lot about the number of new customers you have also added in the French market. So can you just give us a little idea of the profitability of those new customers that you are bringing onboard, and particularly you are having to offer quite substantial incentives on the pricing or otherwise to get them to come? That will be it.

Jérôme Grivet: It is true that the RWAs within the market activities increased a little bit and indeed quite significantly this quarter. I think it is around €3 billion of additional RWAs. This is where you have the biggest part of the forex effect and this is also due to the decrease in interest rates, which is triggering an increase in, what we call, credit risk exposure linked to capital market activities. So obviously, as we are selling hedged products to corporate customers, i.e. without any collateral being posted, when rate decrease as generally corporates then to try to protect themselves against a rate hike, the exposure that we have on them increases leading to this increase in RWAs.

So it is the volatility that we have to withstand. And clearly as rates increase quite significantly since the beginning of the fourth quarter of this year and if the situation remains where it is now, I expect this to unwind partially in the course of the fourth quarter.

New customers in the retail networks, it is clear that a certain part of these new customers are being attracted with a home loan and with a home loan at a customer rate, which is not very high. But first, not all customers are coming to us through a home loan. So we are attracting new customers not only with the home loan bit also much more generally and this is why I was mentioning this as a key feature of our medium-term plan through our global customer-friendly approach and by our improved attractivity, which we are assessing through the net promoter score.

And so this is an important feature. And the second point is that the equipment of those new customers is progressive. So clearly if you want to assess the profitability of those new customers six months after the onboarding, it is not going to be massive. But as time passes by, we are going to progressively develop and increase the number of products and services that we sell to them and this is going to boost going forward, especially the fees and commissions line that we have within our retail bank plus also, of course, to boost the development of the activity of our product factories, i.e. the insurance companies, the asset management company and so on and so forth.

Gregoire de Salins (Morgan Stanley): Just one question on my side, precisely on the mortgage CPI product, where you have a decent market share in France. So the regulatory environment has changed several times for this product in order to introduce more competition and facilitate renegotiation. However, we have never seen any real acceleration in the renegotiation process probably because this process is very complex and burdensome. Do you think that the recent initiatives, which are currently debated at the French parliament, could trigger renegotiation wave or an acceleration in renegotiation growth?

Jérôme Grivet: Well, the different laws that, which are intending to, I would say, disturb a little bit the market of the CPI, date back in 2015 or 2016. So it is now a few years that the
market is under the regime of these new laws. Actually what it has triggered is not a massive transfer from the bank insurance companies to third-party insurers, but it has triggered indeed a decrease in the pricing of new CPI insurance policies.

So progressively, clearly this business is a little bit priced at tighter levels. But definitely when it comes to our situation, what we have seen is rather an improvement in our market share on our own customers than a decrease in our market shares. And actually if I take the simple example of the third quarter of 2019, I think the premium income for those CPI products for Crédit Agricole Assurances was up 12% on three months and up 11% on nine months this year.

So it clearly means that, of course, with the pricing, which is somehow tighter, but we continue to have very significant volumes of new policies in these products.

Gregoire de Salins: On the back book, because here you are referring more on the new floor.

Jérôme Grivet: On the front book, yes, it is a front book clearly.

Gregoire de Salins: And do you see any risk on the back book itself?

Jérôme Grivet: No. Going forward, we have not seen any significant risk and it is clear that if we see a customer ready to take his CPI insurance policy with a third-party, we have the capacity to revise the pricing.

Matthew Clark (Mediobanca): So two questions. Firstly, on the euro amount of the AT-1 cost this quarter. I am just looking at that, €242 million. Could you give us the split of that between what is the normal interest cost in there or what is the interest cost component? And then what is the mark-to-market component that you mentioned? It would be helpful just to know that split as a first question. And then the second question is on the loan growth in the French retail division, where you mentioned earlier that really the level there is determined by the level of customer demand as long as asset quality is met. I am just surprised that it can be that high from servicing your existing customers. I kind of assumed that above-market growth was coming because you were attracting new customers. But is it right, therefore, if this is all about existing customer demand that you are seeing your customers grow faster than the market or take on credit faster than the market? And if so, are you happy with that situation? So maybe just, I guess, a split of that you know 10-percent-ish French retail loan growth between new customer business and existing customer business?

Jérôme Grivet: Well, I do not have this breakdown. What I am saying is that as we are gaining a significant number of new customers, it is certain that we are gaining market share on the home loan market, that is for sure. Part being made with the existing customers and of course, it is by far the biggest part. And then part being made with new customers that we attract with a home loan.

Do we think this pace is sustainable? Probably not. And it is true that it is been very fast and rapid in the last two or three years. But again, what I really want to insist on is the fact that if we assess the main credit criteria that we have in mind when we grant a loan, there is no deterioration of this credit criteria going forward. The main criterias, as you know, is what we call the effort rate, which is the proportion of the income of the borrower that is dedicated to the repayment of the loan, the duration of the loan, the part of the income in euro that
remains available for the day-to-day living of the customer. All these elements are key elements of our credit policy and are key elements of the credit granting policy that we have.

And they do not deteriorate as of now as compared to what was the case two or three years ago. So clearly the credit demand is high. It is high with our customers and it is high in the market and we are here available to lend to them. And possibly, but I do not have precise indications on that, but possibly, I can imagine that if we are gaining market share, it may be the case that some competitors do not want to fully accompany their own customers, that is possible.

But what I am saying is that considering our strategy within Crédit Agricole, we consider it is absolutely key to be here for our retail customers for their financing needs.

For the AT-1, I think that, as I said, this year was a little bit messy from an AT-1 point of view because of this issuance beginning of the year-end call in end of September. So during Q2 and Q3 and a part of Q1 also we had an excess of AT-1 coupons to pay, which was fully accepted because of going forward the necessity of renewing the maturing AT-1.

And in addition to that, as I said, we have had a forex effect at the time of the call. So globally I think that this year we are going to have a global cost of AT-1 coupons, which is going to be at the end of the year around €570 million or €580 million as compared to a normal year that would be closer to €450 million. So this is more or less, and I do not have the precise figures in mind, the situation.

Matthew Clark: Okay. But the FX effect was triggered by the call. Is that the right way to understand it or not?

Jérôme Grivet: Yes, exactly.

Jean-François Neuez (Goldman Sachs): I wanted to ask just two quick things. One with regards to the switch in regards to all of the capital, which is currently forming at the Caisse Regionales’ level, which look they are on track to meet the Group, which look like they are to meet their own capital target much, much faster than what was initially anticipated. Just wanted to understand whether actually with all this capital undeployed, almost like the caisse regionale wanted you to pay back that switch? And what else that they could do that they are currently doing with their capital that might also divert their attention from wanting to grow in their day-to-day business and potentially who knows when they put pressure on pricing even further? And the second question I wanted to ask is with regards to the financing business within large, corporates, etc. In general the French banks have an evolution of their revenues, which tend to be maybe a bit more correlated. This quarter was less the case. And for once, it has been slightly weaker at, say, CACIB than it has been say at BNP, for example. And I just wanted to know whether there was anything special or any colour that you might add here to comment on the trend piece?

Jérôme Grivet: Well, starting with your last question which is easy to answer. What we said and what we have seen on the market is that the syndicated loan market was weaker this quarter. In this market, we continue to remain number one for the Euro and Middle East area. So clearly we did not lose ground. But the market was weaker, and this fully explains actually what we have seen in terms of revenues on the financing activities of the CIB. But globally, the structured finance activities were good and the capital markets activities were very good.
I think that this is triggering an interesting issue. We have a customer approach. We have customers which are corporate. They have financing needs. And we have the capacity to answer their needs either by a syndicated loan or by a structured loan or by a securitisation or by a bond. And so in a single quarter because the customer appetite may switch from a syndicated loan to bonds, we may have a more active level of business on DCM and less active level of business on commercial banking.

But globally what is important for us is, again, exactly like in retail, to be here for the financing needs of our customers and not to be only targeting a single market, a single of those financing markets.

When it comes to the switch, maybe two points. First, within the medium-term plan, we have taken a commitment. So this is a commitment, I would say, towards globally the markets and towards globally all of our shareholders. So the idea from CASA’s viewpoint is clearly to improve our earnings capacity by using part of the excess capital that we have, linked to the fact that we continue to be able to operate at 11% within CASA.

Then when it comes to the Regional Banks, I think that you must not misinterpret the appetite of the Regional Banks for having a very robust and solid balance sheet also at their level.

And finally to put it in a nutshell, you have seen that we have a 22% TLAC ratio at Group level. More or less, if CASA contributes to this TLAC ratio with 11% CET1 and 11% of globally different categories of TLAC eligible debt, as far as the Regional Banks are concerned, their intention is more or less to be able, at the end of the day, to contribute to this TLAC ratio with somehow 22% of CET1.

So the fact that they have already a high level of CET1 is not an obstacle for them to fully accept the idea that we can progressively unwind the switch mechanism.

Okay. This was, I think, the last question. But maybe before ending this call I just want to draw your attention on a press release that we have issued a few minutes ago because we have had, during the course of this call, an important information I wanted to share with you, which is that the Conseil d’Etat, which is the highest level of jurisdiction in France regarding tax issues has just issued its final decision on the litigation case that we had with the French state on the Emporiki case. And this decision is giving us full satisfaction to our request. So it means that this decision will have on our P&L of the fourth quarter a positive impact of around €1,038 million if I have the precise figure in mind. So this is, of course, an important information. Actually, we had received this cash a few quarters ago when the appeal court had already given us satisfaction back in 2018, but at that time, waiting for the final decision of the Conseil d’Etat. We had booked a provision of the exact amount that was put in cash with us.

So what we are going to do next quarter is that we are going to take back this provision. This will clearly improve our P&L and improve our solvency roughly by 32 basis points at the level of Crédit Agricole S.A. and 19 points at the level of Crédit Agricole Group.

And so our intention which was shared with the Board when we analysed the accounts at the third quarter is as soon as possible, i.e. beginning of 2020 to use this amount for unwinding a
first layer of the switch mechanism corresponding exactly to this level of 30 bps of solvency at CASA.

So I just wanted to draw your attention to this press release that we published during the course of this call. I do not know if you have additional questions on that. Okay. So thank you very much. And have a good weekend. Bye-bye.

[END OF TRANSCRIPT]