

CHAPTER 1

OUR VALUE
CREATION

Society is undergoing profound changes in all its dimensions: the political and social context, ecology, the regions and the financial environment, etc.; all of these changes challenge the trajectories of the banking industry and lead us to respond to new challenges.

ADAPTING
TO MAJOR
CHANGESADAPTING TO BIG CHANGES
ECONOMIC

A NEW WORLD ORDER

- Erosion of the dynamics of globalisation, economic fragmentation and geopolitical tensions
- Deterioration of multilateralism and challenging of institutions and international agreements
- Strengthening of regional growth hubs, with a shift towards Asia

Opportunities

- Positions that can be expanded in Asia

Risks

- Significant market volatility
- Increase in legal risks due to the growing number of regulations

OUR ACTIONS

- Launch in November 2019 of a **Panda bond issue**, denominated in Chinese yuan, to diversify our sources of financing and support the development of CACIB in China

AN UNCERTAIN FINANCIAL ENVIRONMENT

- Increased volatility of financial variables
- Context of lasting low interest rate environment
- Complex market valuation of new risk factors (geopolitical, health-related and non-financial)

Opportunities

- Development of credit solutions to support people launching new projects
- Recomposition of business models and differentiation of revenue sources

Risks

- Bank balance sheet exposure to the risk of a sharp increase in interest rates
- Decline in retail banking margins
- Reduced attractiveness of savings products and life insurance funds in euros

OUR ACTIONS

- Diversification of our services with the creation of non-banking offers
- Help to create a business with **Jesuisentrepreneur**, a complete platform created to inspire and support entrepreneurs
- Life insurance: broadening the range of offers in unit-linked contracts

MULTI-FACETED COMPETITION

- Presence of new players and diverse models (aggregators, *FinTech* companies, Google, Amazon, Facebook and Apple, etc.)
- Steady roll-out of new technologies that challenge the traditional banking model
- Growing number of participants in the value chain
- New fee models, such as *freemium* and *low-cost* offers, that increase pricing pressure

Opportunities

- Assertion of our position as a trusted third party
- Using new technologies and artificial intelligence to provide more personalised and effective support
- Development of commercial and distribution partnerships

Risks

- Eroding revenues and market share
- Disintermediation (customer relationship, payments, data, etc.)
- Decoupling of offerings and limited opportunities for cross-selling
- Difficult development in relation to *FinTech* companies

OUR ACTIONS

- Merger of **CACEIS** and **Santander**
- Strengthening consumer finance partnerships between **CACF** and **Banco BPM**
- Signature of an insurance partnership between **CAA** and **Abanca** in Spain

SUSTAINED REGULATORY REQUIREMENTS

- Stronger protection for customers and investors
- Fight against money laundering and financing of terrorism
- Multiple regulatory authorities and tighter prudential rules
- Transparency requirement
- Taking into account climate and ESG risks

Opportunities

- Confirmation of our role as provider of financing to the economy
- Continuous improvement in the Group's processes and ethical framework
- Continued management of new risks

Risks

- Higher capital requirements and stricter liquidity management
- Increase in compliance and operating costs (HR, IT, etc.)
- Distorted competition with new, less-regulated players

OUR ACTIONS

- €310.9bn assets under management using ESG criteria
- Signature of the **Principles for Responsible Banking**

ADAPTING TO BIG CHANGES

SOCIETAL

NEW CUSTOMER BEHAVIOURS AND NEW TECHNOLOGIES

- Search for immediacy, fluidity and ease
- Desire for personalisation, responsiveness and advice
- Security of personal data and cybersecurity
- Excellence of tools and services

> MAIN SDGS* CONCERNED



Opportunities

- Positioning as a truly multi-channel bank with a tightly woven regional presence
- Diverse range of expertise and services offered to customers
- Information systems performance that enhances cybersecurity and ensures customers' data is safe

Risks

- Decrease in branch traffic/profitability
- Failure to move swiftly in adapting internal processes, distribution and services

> OUR ACTIONS

- **Globe Trotter offer from Regional Banks for the 18-to-30 age group** offering a no-fee card abroad
- **Biometric card**, available in 2020 for contactless payments of over €30 thanks to its digital fingerprint
- **A strong new authentication service** for online payments by individual customers

GEOGRAPHIC DIVIDES AND A RISE IN SOCIAL TENSIONS

- Regional divides within countries creating inequality
- Jobs and growth concentrated in urban areas
- Loss of purchasing power of the middle class
- Instability of social cohesion

> MAIN SDGS* CONCERNED



Opportunities

- Broad regional coverage *through* the Group's different networks
- Development of banking, social and entrepreneurial accessibility

Risks

- Decline in banking margins in certain geographic areas

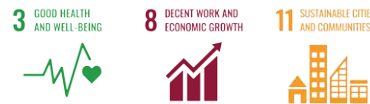
> OUR ACTIONS

- Access to essential services through a network of more than 8,400 Crédit Agricole and LCL branches in France, supplemented by 5,900 Relais CA in rural areas
- LCL, a partner in the **APELS program** to promote the integration through sport of young people with few qualifications
- Offers accessible to all with **EKO** and **LCL Essentiel**

LIFE'S UNCERTAINTIES

- In Western countries:
 - ageing populations
 - an increasing dependence
 - a diversification of family models and types of employment
- Unexpected events and more variable career and life paths

> MAIN SDGS* CONCERNED



Opportunities

- Highlighted positioning as a trusted third party that supports its customers locally, over the long term and at all of life's milestones: education, first job, marriage, business creation, retirement, etc.

Risks

- Perceived lack of support from the bank
- Higher credit/delinquency risk
- Incomplete risk assessment models

> OUR ACTIONS

- Inclusive finance set-ups: **Points Passerelle** to support customers in financial difficulty and prevent over-indebtedness at CACF and LCL
- **First Internship/first Job System:** contribution to the employment of young people by connecting them with the companies that are recruiting



In 2015, the United Nations Member States adopted the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs), which provide a blueprint for achieving a better and more sustainable future for all. The SDGs address major global challenges related to poverty, inequality, climate change, environmental deterioration, prosperity, peace and justice.

ADAPTING TO BIG CHANGES

ENVIRONMENTAL



AN ENVIRONMENTAL IMPERATIVE

- Global commitment to combat climate change and preserve biodiversity
- Growing number of regulatory and fiscal initiatives to reduce greenhouse gas emissions
- Urgent need to limit the scope of climate change and adapt behaviours and business models to the new situation, notably in high CO₂-emitting business sectors such as energy, transport, building and public works, and farming

> MAIN SDGS* CONCERNED



Opportunities

- Development of investment and financing solutions to support institutional customers, corporates, SMEs and small businesses in adopting a low-carbon trajectory
- Additional products and services to help consumers adapt their behaviors to an economy that consumes less energy, in line with the Paris Agreement. These include solutions for green mobility, energy efficiency upgrades and specific insurance
- Financial innovation to address the new business models

Risks

- Higher costs and economic losses due to the consequences of climate change, both directly, related to bank transactions, and indirectly, related to customers' activities
- Uncertainty over the nature and timetable of the unavoidable transition to a low-carbon economy
- Delays in the deployment of offers in relation to customer needs

> OUR ACTIONS

- Definition of our **climate strategy in 2019**
- **New offers of green mobility and housing loans** to finance low-polluting vehicles or work to achieve energy savings in one's housing
- Continued issuance of **Green bonds in 2019:**
 - > €1bn by Crédit Agricole S.A.
 - > €1,25bn by Crédit Agricole Home Loan SFH*

* Housing financing company (Société de financement de l'habitat) of Crédit Agricole Group.