Q1 2015 Credit Agricole SAEarnings Call - Final

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Presentation

OPERATOR: Good day and welcome to the Credit Agricole first-quarter 2015 results conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Mr. Bernard Delpit, CFO. Please go ahead, sir.

BERNARD DELPIT, GROUP CFO, CREDIT AGRICOLE SA: Thank you. Good morning and welcome to Credit Agricole Q1 results conference. There are three things that I would like to point out before walking you through the slides.

First, as for all banks, comparison between Q1 2015 and 2014, with medium-term quarterly run rate target, has been made rather complex by the first-time implementation of IFRIC 21 and Single Resolution Fund. For clarification, those impacts have been allocated to relevant business lines and taken fully cash.

Discounting the effect of IFRIC 21 and Single Resolution Fund or deseasonalized, if you prefer, this would be a record quarter in spite of the rate environment being more challenging than expected. Q1 is in line with our target in terms of attributable profit. Returns on tangible reaches 10.6%, up from 10.4% end of 2014, and that includes Single Resolution Fund. This also makes the reading of our CET1 ratio slightly more tricky as it takes into account the convergence of those seasonal items as well as a strong euro/dollar impact on RWAs.

However, this should be looked at alongside a 23 bp organic improvement coming from retained earnings, an increase of the revenue of RWA ratio, from 5.5% last quarter to 5.6% this quarter, an improvement of 20 bps of the leverage ratio and a 50% payout assumption.

Second, Q1 confirms the advantage of a balanced business model. Retail represents 40% of operational business profit, savings management and financing activities 30% each.

French retail is in line with guidance of a steady improvement towards stability versus 2014, excluding housing saving plans provision.

Regional banks revenues are up, excluding those provisions, or stable if excluding also seasonal revenues from insurance.

LCL revenues are down due to the absence of portfolio gains and the negative impact of regulated rate on net interest margin. A move from the French treasury on those rates could restore a more positive trend over time.

Asset-gathering operations achieved an outstanding performance in terms of assets-under-management growth. Market conditions of course helped. But I would like also to underline the active management to maintain margins in this challenging environment for yield.

Margins altogether, for those four businesses, are stable at 30 bps.

Financing activities have improved again. Euro/dollar evolution was a clear booster. And the performance of our fixed income platform is furthermore very good and it does not change the risk profile of CACIB when looking at its value at risk.

My last comment is on asset quality. The bedrock of Credit Agricole strength remained solid in terms of risk, with stable impaired loan ratios and loss loan provision of 20 bps for regional banks and LCL, and a decrease of 10% in the cost of risk of French consumer finance operations. We are also seeing some improvement in Italy, where the consolidated cost of risk of Agos and Cariparma is down 25% against 2014, which was an AQR year.

That being said, let's move on to the presentation. I will start with slide 4, a reminder of Q1's results. For the Group, EUR1.2b net profit. And for Credit Agricole SA, CASA, EUR784m profit, up 2.6%. Just for clarification, under the 2014 format, Credit Agricole SA net income Group share would be EUR1.1b and Credit Agricole Group, including the regional banks at 100%, would be EUR1.6b.

The four messages are the following. Strong activity across all business lines, translating in revenues increase 7.5%. Expenses under control, with an underlying trend up 1.2%, which is excellent in the context of revenues increase. Cost of risk continuing to fall, down 19% year on year in Q1. And strength of financial position confirmed.

On page 5, I will take two or three figures just to comment. You can see the positive jaws on gross operating income for business lines up 15.6% (sic - see slide 5 "15.5%"). The equity-accounted entities, EUR476m, is improving. The breakdown is EUR363m for the regional banks, EUR62m for Banque Saudi Fransi, and EUR43m for the car financing joint ventures.

The corporate tax, EUR288m, is high. It's 39% apparent tax rate due to the non-deductibility of Single Resolution Fund and systemic tax. Without those, it would be stable at 29%.

Last, net income Group share, EUR784m. It's up almost 28% for the business line.

On page 6, some illustrations of the good business momentum. I will just take four indicators. Outstanding loans to corporate clients and small businesses for regional banks up 2.5%. Consumer finance production up almost 10%. Amundi net inflows up EUR24b. Capital market and investment banking up 30%. And structured finance revenues up 11%.

On page 7 is an explanation of the cost trend. Costs in Q1 have been impacted by new regulations, including the Single Resolution Fund, for EUR175m; new taxes for EUR26m; and, on the other hand, by the fall in the amount of the systemic tax for EUR33m. It has also experienced some economic effects, such as a currency impact for EUR49m, and the implementation of the transformation plan of LCL for EUR12m. So that leads to a trend of 1.2% up year on year in Q1.

And you also have a breakdown of the Resolution Fund on page 7. And that does not, of course, take into account regional banks contribution for EUR52m.

On page 8, some color for the cost of risk. It continues to fall. It's 14 bps down year on year for CASA, at 46 bps.

On page 9, the usual indications on our balance sheet structure. As I said, our CET1 ratio of course improved compared with March 2014 and slipped slightly 10 bps for the Group compared with end of last year, or 20 bps for CASA. I will explain it later on. But the main explanation comes from change, exchange rate and seasonal impact of IFRIC 21 and Resolution Fund. The total solvency ratio is now 18.7% for the Group and 19.7% for CASA. So that brings the TLAC estimated ratio up 19.1%, excluding eligible senior debt, and MREL at 7.7%, excluding also those debts.

The liquidity situation has again improved. We have now a surplus of long-term funding sources over stable assets of EUR104b. And that represents 10% of the cash balance sheet.

And the leverage ratio under the Delegated Act definition has improved again by 20 bps for the Group and for CASA. And for CASA it stands at 4.4%. You know that it includes the neutralization of intra-Group operations for 100 bps compared to the usual leverage definition, the initial one.

Now some more color on the business lines. For the regional banks, besides what I said for business momentum, I would like to underline that the loan-to-deposit ratio is stable at 115%. Revenues are down 2.2%. That's roughly EUR80m. But it does take into account EUR139m provision for housing savings scheme. That's up EUR154m compared with Q1 2014. That means that excluding those provisions, revenues are up. And these include a positive seasonal impact from the annual commission sharing adjustment with insurance companies.

Expenses are stable. Cost of risk is down. With the impaired loan coverage ratio at 2.6% and coverage still above 100%. Total contribution of the regional banks to CASA, EUR363m, up 1.7%.

For LCL, also good business momentum, with loan-to-deposit ratios stable at 110%. Revenues are down 3.6%. And that is explained by the lack of portfolio gains this quarter compared to some gains in first quarter 2014. The impact of regulated rates compared with market conditions is calculated at minus EUR40m for the spread on deposits.

Commissions and fees are up 4.2%. And we have no provisions for housing savings plan. Expenses are stable, even down. Cost of risk is down. The impaired loan ratio fell to 2.3% and the coverage ratio is now 72.4%. Total contribution of LCL in Q1 is EUR126m.

International retail banking in Italy, Cariparma, very good business growth in Q1, especially off-balance-sheet deposits up 16%, still strong loan-to-deposit ratio 89%. Revenues up 6.3% thanks to growth in commissions and fees, up 8.6%. Growth also in the net interest margin up 2.3%, with strong volume impact compared with Q1 2014. And positive spread improvement compared with fourth quarter 2014.

Expenses, excluding the Resolution Fund, are down 2.8%. Strong cost/income ratio, 55.4%. Cost of risk is now below the EUR100m threshold, at EUR99m. The impaired loan ratio at 13.3% and the coverage ratio at 44.6%. And the total contribution of Cariparma first quarter, EUR39m, very good in the Italian context.

Page 14, savings management and insurance. Very good performance in terms of AUM growth, EUR92.6b, out of which almost EUR60b coming from market and currency impact, EUR5b coming from the acquisition of Bawag by Amundi in Austria, and EUR27.5b from net inflows. Strong net inflows across the board, Amundi, life insurance, private banking and custody and funds under administration.

Total contribution of this segment to CASA profit, EUR402m, up 11%, or that would be 14% up excluding the contribution to the Resolution Fund. Just to mention here that private banking made a very good first quarter. Same thing for CACEIS, that could keep country -- profit stable even after the contribution to the Resolution Fund, thanks to an increase of almost 8% in revenues in Q1.

For Amundi, we are now at EUR950b of assets under management, not so far from the EUR1 trillion target in the medium term, with business growth across all customer segments, half in France, half out of France, and a revenue growth of 17.2%. Operating expenses are up, but cost/income ratio still very good, 53.9%. Amundi net income EUR125m this quarter. That makes EUR98m for Credit Agricole.

On insurance, strong improvement in premium income, EUR8.8b, up 6%. I would like to stress that unit-linked contracts accounted for 22% of inflows. We now manage more than 10m policy contracts for property and casualty. Revenues in insurance have improved by 5.3%. Operating expenses reflect investments in this branch. Net income Group share, EUR264m, up 5.7%.

Specialized financial services, growth in protection 10%, mainly in the banks of the Group and in the car finance partnership, because the consolidated loan book has shrunk by 5% due to the disposal of the Nordic activities of consumer finance last year and to the disposal of some portfolio loans.

Net income Group share EUR68m for this segment, up 11.5%. Revenues down for the very reason I explained, of decrease in consolidated loan book due to the disposal of some portfolio and Nordic subsidiaries.

Car finance partnerships contribution up 44.5%, in line with registration trends in Europe. Costs are down. Cost of risk is down 27%, not only in Agos, where the performance is great, but also in France. I would like to say here that Agos-Ducato net income has been EUR35m. That means EUR21m for Credit Agricole share.

Corporate and investment banking made a very strong quarter. Revenues up 23.9%, with capital markets and investment banking almost 30% up in Q1, strong from fixed income, in bond origination, rates, ForEx structured rates. For financing activities it is stable. Structured finance up 11% but commercial banking slightly below Q1 2014.

Net income Group share, very strong EUR320m net profit, including stability of cost, excluding the fund and at constant exchange rates. Cost of risk contained. Strong performance of Banque Saudi Fransi. And now a return on tangible equity almost up 11% and a cost/income ratio at 58%.

For the corporate center, an improvement of almost 10% of the negative revenues posted in the corporate center, with a decrease in the cost of capital and liquidity management that's almost 6.5%. Stability, of course, of the Switch cost at EUR186m.

Expenses are stable, excluding the contribution to the Resolution Fund and new taxes for a total of EUR72m. Equity affiliates, we have here some volatility resulting from Eurazeo results. And the net income posted in the corporate center, excluding spread and Single Resolution Fund, is negative at EUR441m, in line with the EUR1.5b negative initial guidance.

On page 21, some color for the regional banks. Just to mention that the total contribution of the regional banks to the Resolution Fund was EUR52m in Q1. And the total net income of the regional banks, EUR790m, down 5.2%.

Something interesting to look at on page 22, at the Group level, the income-before-tax increase is EUR160m and the corporate tax increase is EUR153m. That makes the marginal tax rate at 96%. It's entirely due to the non-deductibility of Resolution Fund and systemic tax.

Now let's have a look at solvency and liquidity on page 24. So for Credit Agricole SA, we have seen a 10 bp decrease in the CET1 ratio in spite of an increase in the capital of EUR1.3b in Q1 alone. That comes from a seasonal impact of IFRIC 21 implementation, including the contribution to the fund, so 8 bps negative. The unfavorable net currency impact was 16 bps.

For the sake of calculation, we have taken an assumption of 50% payout assumption and scrip dividend for the regional banks. This is only an assumption and you will have to ask my successor for more guidance for the rest of the year.

We have also a leverage ratio, as I said, that has taken in a positive direction in Q1. It's up 20 bps. This is due to the stability of total assets, EUR950b for CASA and EUR1,400b for Group Credit Agricole. And of course it takes into account issuance of hybrid debt that has not been taken into account for CET1 ratio. That explains the discrepancy between the leverage approach and CET1 approach.

It is a very similar story at Group level so I will not comment. I already said that for TLAC we are above 19% without eligible senior debt and 7.7% for the MREL, well on track to be at 8% at the end of this year.

In terms of liquidity, the surplus of stable resources represents now 10% of the finance or cash balance sheet.

On page 28, just to tell you that we have achieved 50% of our medium-term -- medium- and long-term market issuance program. And on top of that, very strong management of subordinated debt in Q1, with the issuance of an equivalent EUR4b of Tier 2 at CASA level and EUR1b at Credit Agricole Assurance level. And liquidity results now almost EUR250b.

So many thanks for listening. We will now take your questions. Please limit yourself to short questions and nice compliments. Thank you. I leave you the floor.

Questions and Answers

OPERATOR: (Operator Instructions). Lorraine Quoirez, HSBC.

LORRAINE QUOIREZ, ANALYST, HSBC: Hello. Good morning. So a few questions. First in French retail, we have net interest income at LCL which is down 8.4%. Could you maybe quantify the amounts of portfolio gains we had last year and maybe give us a little bit of color of what you expect for 2015?

Then at Cariparma, we have net interest income up 2.3% and loans up just 0.5%. So I just would like to understand better what do you mean by positive volume effect?

And also looking at the cost of risk, we are below the EUR100m quarterly run rate this quarter. Should we expect further improvement progressively over the year?

And finally, my last question is on insurance. How can you grow the share of unit-linked in your inflows? I've seen a recent survey that showed that French households remain risk-averse despite the low interest environment. So I was just wondering how you can improve the profitability of the new business. Thank you.

BERNARD DELPIT: Well, four questions, that's a lot, Lorraine. I will try to do my best. For LCL, net interest margin is down 8.4% because it does take into account portfolio gains. Last year I think it was in the region of EUR20m and it was zero this quarter. That explains why.

For Cariparma, net interest margin is up 2.3%. It's larger than the outstanding growth because it takes into account volumes of loans to our other Italian subsidiaries.

For the guidance on the cost of risk of Cariparma, we are just EUR1b below the EUR100m-per-quarter guidance. So I won't review and update the guidance. It remains at the same level as the one I gave at the beginning of the year. That means EUR400m for 2015.

And now for insurance, well, we just give the proof that what you read is wrong. We have some appetite of French customers for those kind of products, because I think that they understand that now, when it comes to bonds, it's also something maybe risky in terms of yield for the customers. So we have a very strong increase in UL-linked investments. It's 22% on inflows, almost 20% on inventories. So it is going in the right direction.

LORRAINE QUOIREZ: Thank you.

BERNARD DELPIT: Thank you, Lorraine.

OPERATOR: Jean-Francois Neuez, Goldman Sachs.

JEAN-FRANCOIS NEUEZ, ANALYST, GOLDMAN SACHS: Hi. Good morning. The first question I would like to ask is on the Livret A rate. What's your -- is there a high -- the formula should be 0.25%, if I'm not mistaken. What do you think is the probability that this changes going forward knowing that it hasn't when it should have already in the past? Because obviously you're the largest player in retail France so I just thought that you might have a good opinion.

And my second question is so you obviously -- on your way out as a CFO, and congrats on a job well done under -- in particular on the restructuring of the risk profile of the Group in a short period of time. My question is what will you tell your successor to watch? What do you think is, now that you've finished this assignment, what do you think is the biggest area of vulnerability that is still left with the Group and that you would like your successor to take care of from here?

BERNARD DELPIT: Thank you, Jean-Francois. Two difficult questions. First one, I wouldn't make any bet on Livret A, because of course we have elections in December, regional elections, local elections. This could be difficult. But when I read Christian Noyer's, Governor of Banque de France, last report, I think we are all now trying to move in the same direction. The gouverneur of the Banque de France has clearly said that the level of regulated rate is some kind of burden for everybody, for us as banks and for monetary policy also.

So I think that besides difficult consideration, there is a kind of consensus that this gap between regulated rates in France, the only place where we have this kind of thing, and market conditions is something that has to be taken as one of a structural reform to be undertaken in France. But I have absolutely no idea of the probability of such a move in August, which is the next step in terms of decisions.

Regarding my successor, I will of course give absolutely no advice. Everything has to be looked at every time. It's now the job of the CFO. You have always to be careful with everything. I think that most of what had to be, I would say, cleaned has been done in the last four years. Of course, the rate environment has to be carefully looked at in conjunction with what I said on regulated rates. And that's it.

And of course, the big question is still regulation, because when I hear what I hear on what could be the ultimate game -- endgame for TLAC, for example, I still don't see where our regulators want to have the return on banks to be and what kind of investors they think could invest in banks in such an environment. But in terms of risk, I think that we have done what we had to do in the last years. And that's more on the ROC side that my successor, Jerome, will have to work.

JEAN-FRANCOIS NEUEZ: Any worries on risk-weight inflation like we've seen at -- or was implied by Deutsche last week?

BERNARD DELPIT: That was my point on regulation. When rules always change, it's difficult to play.

JEAN-FRANCOIS NEUEZ: Excellent. Congrats again. Thank you.

BERNARD DELPIT: Thanks. Bye.

OPERATOR: Nick Davey, UBS.

NICK DAVEY, ANALYST, UBS: Yes. Good morning, everyone. Two questions, please, from my side. The first on CIB. You've commented it was a strong quarter. If I look at divisional returns, it seems like the CIB is making about 11% return on allocated capital, maybe about 10% if we allocate capital out at a 10% core Tier 1. So I just wanted to get more thoughts really on the profitability of the CIB. You mentioned in the release and in your introductory comments about risk of assets going up in the business. And obviously the dollar has played a part in that, but it feels also like there's been an increase in the market risk limits as well. So I just wanted to get a sense with the business still probably doing below-cost-of-capital returns, what's driving the increase in capital consumed in the business? Is this really the direction that management feel comfortable with?

Second question, please, just back to LCL. I think the cost/income running at around 70% if we exclude the contribution to the Single Resolution Fund. The target, if I remember well from last year, was below 64% by 2016. And obviously you've mentioned a few of the levers that might change, the Livret A rates, for example. But I guess my question is, given this gap between where cost efficiency is running and where you aim for it to get to, when will we hear more about the businesses which are, let's say, underperforming versus targets? Is this a case that perhaps some businesses outperform some underperformer and we don't get any updates? Or is there any potential to hear more this year about redoubling assets in the business lines which are struggling to reach their targets? Thank you.

BERNARD DELPIT: Thank you, Nick. On CIB, the normalized return is now 10.7%. Of course, it takes into account the contribution of Banque Saudi Fransi. That helps in terms of returns. But I wouldn't really care about the increase in RWAs since, as I said, the revenues of our RWA ratio has increased in Q1 compared with last year. So all the RWAs that we have put on the table have been efficiently used to make new revenues.

On the other hand, the value at risk has not really changed. Even if it has a little bit increased, it's capped at EUR10m for Q1. And that is massively small compared to our peers. So I think that we have the good balance between revenues and RWAs. By the way, we have the cost, if I may say so, of the currency impact that has boosted revenues, but we have it in the RWAs. So as our return on tangible is calculated on a normative approach, that means with the RWAs, it takes into account the currency impact.

What could I say more? I think we have -- we're very happy with commercial successes of CACIB and especially the fixed income platform. That did very well, with CACIB being in the top of a league table in terms of Eurobond origination rates, doing well in ForEx to doing well in structured rates too. So that's -- the effort that has been made by CACIB are now paying and it's very good news for CACIB. It has been in the restructuring for quite a long period now.

And all the efforts, all the investments are paying back and that's very good news. Even, as I said in my introduction, financing, including consumer finance and CIB, represents 30% of the profits of the business line. So in today's context, in today's interest rate context, having a simple and derisked CIB is, I think, some kind of good asset for Credit Agricole.

Regarding LCL, you mentioned, and you're right, a high cost/income ratio at LCL level, a bit below 70%, I believe. The target of 64% was calculated without the Resolution Fund contribution. And I remind you that, in fact, 2016 was not the horizon to look at in terms of restructuration of LCL. 2018 is really what you have to look at because the transformation plan that was decided with the medium-term plan will end in 2018. And there we plan to be still above 60%, but between 61% and 62%.

Of course, new trends in terms of rates are not helping. But I think that the management of LCL is fully dedicated to restructuring the bank. And taking into consideration the natural attrition of staff in the coming years, it's really now that it has to be implemented. And I think that's currently what they are doing. So I think you will see good news for LCL in terms of cost.

By the way, excluding those investments and the resolution, costs are down again in Q1 this year. So it continues to be restructured. And I've nothing else to add to that, Nick. Is that good for you?

NICK DAVEY: Very clear. If I could ask just a very quick follow-up on the CIB. I note well all of your points about revenues for risk-weighted assets. I have in my memory a EUR110b of risk-weighted asset target for the CIB. Am I interpreting you right that for as long as there's revenue opportunity you're now willing to pull away from that number or are you still trying to each EUR110b of risk-weighted assets in the CIB? Thank you.

BERNARD DELPIT: Well, EUR110b is our target. That was calculated under last year euro/dollar exchange rate. So you might have some volatility due to the exchange rate volatility itself. But we remain dedicated to the total RWAs for CASA, I would say, that we gave last year during our Investor Day.

NICK DAVEY: Very clear. Thank you.

BERNARD DELPIT: Thank you, Nick.

OPERATOR: Omar Fall, Jefferies.

OMAR FALL, ANALYST, JEFFERIES: Hi there. Firstly on -- two questions on savings management first. On insurance, last year you were building solvency ratios. We couldn't see the strong volume growth flowing through the P&L. Can you update us on whether that's definitely finished now, that process, and then maybe up date us on the net profit target for this year for insurance compared to the EUR1b target you gave us last year?

Secondly, I think you had an 80% annualized net inflow rate at Amundi, which is very high. It's been pretty high for a couple of quarters now. How sustainable do you think that is, please?

And then finally, just going back to the RWA point, I seem to have in mind from your medium-term plan, as you just mentioned, an implicit guidance of, I think, EUR315b. Now I know there's FX and who knows what happens with organic growth and regulation. But can we have a sense of whether there are any areas of low-hanging fruit, where, if need be, you could cut RWAs? Thank you. And good luck with the next part of your career as well.

BERNARD DELPIT: Thanks, Omar. On insurance, I'm not sure that I clearly get your question. Was it about the premium numbers?

OMAR FALL: Yes.

BERNARD DELPIT: Well, as we clearly, I think, show in slide 16, we have a 6% increase in premium income under the French GAAP for insurance. Right? I think that is very good. I think it's what you are going to see in the next quarter too. Nothing really to add on that.

We are also taking into consideration the very strong business momentum on other businesses than just life insurance. You can see that on death and disability, heath and creditor, it's up 5%. Property and casualty up 4%. So it continues to move in the right direction.

What else? I don't know. By the way -- yes, Omar?

OMAR FALL: Yes. Sorry. It was more in the context of last year you were -- you had a policy of strengthening the reserves. So I just wondered if that process was finished now or if there's more to come.

BERNARD DELPIT: Yes. We have continued to strengthen our reserves. By the end of Q1, what we call the [PPE], which is a provision inside the policyholder segment, it's EUR3.8b. So we have -- which has massively strengthened our reserves into the life insurance portfolio. Yes, we have.

Regarding the ultimate -- well, the guidance in terms of revenue for insurance. Yes, we think we will be above the usual EUR1b guidance this year. Yes.

In terms of inflows for Amundi, is it sustainable or not? Frankly, I wouldn't try to bet on that because it's difficult and market conditions are so important that it's, again, it's difficult. But when I see that half of the inflows are disconnected from the French situation and half of that on long-term investments, I think that we could be quite confident that it will continue, maybe not at that pace because, of course, EUR24b is a record quarter in terms of inflows. But keeping in strong without major change in today's context is definitely what we could hope for the next quarters.

In terms of RWAs, it's difficult for me to give you more color than what I said last year. We have a total target in terms of RWAs. I think you rightly said that it's in the region of EUR320b or EUR315b, something like that, for CASA, and EUR550b for the Group. And we want to be very flexible on that. That means that we will allocate RWAs depending on the revenues of our RWAs in the different businesses.

If we can have a good return from a certain segment, we will try to allocate more RWAs on this segment, but keeping in mind that definitely we won't try to increase RWAs more than what we can afford in terms of CET1 ratio. And of course, the difficult part is to try to cope with the regulatory inflation. That's why I think we will be on the cautious side before allocating too much RWAs to the businesses before having clear views on what the regulation will be on that side.

OMAR FALL: Thank you very much.

BERNARD DELPIT: Thank you, Omar.

OPERATOR: Jon Peace, Nomura.

JON PEACE, ANALYST, NOMURA: Yes. Thank you. Morning, Bernard. A nice quarter to finish with. The first question is just on French retail. You described last quarter an inflection point for the business. Do you still see that as you look out for this year? And in particular, do you have in mind a number for the overall revenue growth you might achieve?

And then secondly, and I suspect I know the answer, but do you have any new comments on possible Group reorganization between the Group and Credit Agricole SA?

BERNARD DELPIT: Thank you, Jon. On French retail I would like to reiterate here the guidance of stabilizing revenues compared with 2014 at the end of 2015. I think that's more or less already the case for the regional banks. Of course, you have some positive seasonal revenues coming, as I said, from the commission sharing between the regional banks and CASA's insurance companies. So that was positive. But when I compare revenues excluding those and excluding the provisions for PEL, we are more or less stable. On the same basis, it was down in Q4 2014. So we have this kind of stabilization going forward that we plan to have.

For LCL, I think it will take more time. There is a question of regulated rates, which is key for LCL, for all French banks, by the way. But as we are a big player, this will have major impact for us and the question of gains in the asset liability management. But I think that even if it will not happen in Q2 for LCL, I still consider that it's feasible in Q3 or Q4, stabilization versus 2014.

Now for the Group reorganization, maybe answering also to Jean-Francois's last question, that is something for my successor, so nothing new to add here.

JON PEACE: Great. Thank you and good luck.

BERNARD DELPIT: Thank you, John.

OPERATOR: Geoff Dawes, Societe Generale.

GEOFF DAWES, ANALYST, SOCIETE GENERALE: Yes. Hi. Good morning. Thank you very much for taking the time. Geoff Dawes here from SocGen. Two quick questions, first of all on the retail side and second of all on the insurance side. On the retail side, can you just run through quickly product pricing and margins now we've got the TLTRO function in as well for the different lending products that you offer through the regional banks?

And second of all, on the life insurance side, can you just give us an idea of front book profitability? You've obviously had very good flows into life and asset management and so on. Are they holding up at the 25% to 30% ROE that you target longer term for those divisions? Those are the two questions. Thank you.

BERNARD DELPIT: Hi, Geoff. I couldn't really understand all the last question. For the first one, in fact, I will not give a detailed answer, just the broad picture. We have improved margins on the asset side for both regional banks and LCL, for new loans. It has been an improvement at least for two or three quarters now. Not due to TLTRO but due to an improvement. Again, I would like to say that low interest rate does not mean low margins. So we have this positive impact for the new loans.

In terms of deposits and margins on deposits, it's quite the contrary. But due to regulated rates because Livret A is driving rate for all our deposits, even if we have positive news coming from the mix between sight deposits and time deposits. And as you can see in our figures, we have less time deposits and more -- and that's quite substantial more -- sight deposits.

So it's been improving but we still have those negative pressures coming from the regulated rates. That's all I would say in terms of general -- total picture on our margins.

GEOFF DAWES: Right.

BERNARD DELPIT: Could you please just repeat your question of -- on insurance? It had to do with the return target of 25%, is that it?

GEOFF DAWES: Yes, maybe if I just make it a bit simpler. Across savings management, are the new inflows -- so the new products that are being written -- consistent with those 25%, 30% ROEs that you're targeting medium term? Or to put it another way, what is the ROE of new business that you're writing in insurance and asset management?

BERNARD DELPIT: Right, let's put it like that. Of course the yield for the investment that we make today is below the one that we have in the [back book] and that one that we managed, let's say, one year ago. But I would like to stress again on the fact that when you take everything into account, insurance, Amundi, private banking, altogether the ratio of the revenues -- or net income, sorry, net income of AUM is stable around 30 basis points.

That means that we have been able, even if -- in this very challenging yield environment, to manage the situation, coping of course in terms of costs, because we have a strong cost management, you know that, in Amundi and the insurance as well. Even if we -- we know that it's going to be, again, challenging in the next quarters in terms of yields. But for the time being, keeping the margins at the same level, again, altogether is quite a performance.

Now forward looking, that will be updated. I don't know when. But for the moment there is no reason why I should change the guidance in terms of returns on these [savings] management segments.

GEOFF DAWES: That's perfect, that's very clear. And all the best from here as well, thank you very much.

BERNARD DELPIT: Thank you, Geoff.

OPERATOR: Max Le Gouvello, Credit Suisse.

MAX LE GOUVELLO, ANALYST, CREDIT SUISSE: Yes, good morning. I would have two questions. The first one is, can you give us more color in terms of performance between the professional and the corporate because apparently there was quite a different dynamic between the two?

And reiterate the question of Geoff, can you be a bit more precise between the margin between the front and the back book, please? Especially on mortgages. Thank you.

BERNARD DELPIT: That's a difficult one for me, Max, for your last questions.

MAX LE GOUVELLO: Sorry about that.

BERNARD DELPIT: Frankly, I cannot now give you any more details on the breakdown between margins for pro and margins for SMEs for the new production on both LCL and regional banks. So the IR team will have to come back to you if we can give you more details on that.

On the margin for -- now it's not on savings management, right? It's still on retail in the question?

MAX LE GOUVELLO: No, no, it's -- the first question was clearly between the -- you said on one of your slides that enterprise volumes in terms of loan volumes are up by 3.4%. And then after that when we look to the slide in the caisses regionals when it's aggregated between enterprise and professional, it's only up by 2.5%. So that means clearly that the debt --

BERNARD DELPIT: Oh yes, that was -- yes, that was a question of volumes.

MAX LE GOUVELLO: Yes.

BERNARD DELPIT: Okay, for pro I think it was down and for SME it was up. That's why (multiple speakers) discrepancy.

MAX LE GOUVELLO: And on the SMEs, can you give us a little bit more visibility on which sectors are performing well?

BERNARD DELPIT: In terms of volumes outstanding --

MAX LE GOUVELLO: Yes.

BERNARD DELPIT: -- production I think SMEs is doing well. SMEs is doing well for the regional banks. I couldn't say the same for LCL. In fact, the new production is not at the level of loans maturing. So we have some kind of decrease in LCL outstanding for SMEs. But for regional banks it's clearly up.

MAX LE GOUVELLO: Okay, perfect. Many thanks and all the best for your coming challenges.

BERNARD DELPIT: Thank you, Maxence.

OPERATOR: Guillaume Tiberghien, Exane BNP Paribas.

GUILLAUME TIBERGHIEN, ANALYST, EXANE BNP PARIBAS: Yes, hi. I've got three small questions. The first one relates to the corporate center revenues where you've seen a very welcome fall in the funding costs. Can you tell us whether that's sustainable or whether it is due to a certain level of one-offs?

The second one relates to capital build up. If I exclude AFS, IFRIC 21, US dollar impact, there has been no capital build up. In fact minus 3 bps including some scrip. So ex-scrip it's about minus 10 bps. So I was wondering when you think you can achieve a decent capital build up on an organic basis without any of the noise that we've seen this quarter.

And the final one relates to market risk RWA. I know they are very small, but in percentage terms they're up I think 20% quarter on quarter. On VaR that's up from a low level, 10%. So I was wondering whether we should expect a little bit more RWA inflation on the market risk side before any regulatory changes. Thank you.

BERNARD DELPIT: All right. For the corporate center cost, I think --

GUILLAUME TIBERGHIEN: Sorry, sorry, not cost. The funding cost.

BERNARD DELPIT: Funding cost, yes. We have slightly changed the allocation between the different lines just to translate this decrease in the rate environment. So we are close to 4% and that's -- I think that's sustainable. There is no one-offs explaining that.

Of course, if you exclude everything, there is nothing to say on capital build up. What can I say? I still stick to my guidance of an improvement in the region of 50 bps in 2015. Of course, it will depend a lot on exchange rate. And we have seen a lot of one-offs in the first quarter. But I think that -- I don't like the word decent about capital build up, but I think we have done quite a decent job for the last couple of quarters to increase our capital structure. So again, I would like here to reiterate that we think -- we firmly think that capital will increase in 2015. Of course it will depend on the exchange rate.

I remind you that -- yes, the exchange rate, the euro-dollar exchange rate has dramatically changed in Q1, especially in the end of March. If you just look at now, the situation will be different too. So there is kind of volatility. But I consider that we have 23 bps organic improvement, excluding AFS. So it's -- it is very decent and in line with the guidance.

Now regarding market risk, there is of course the exchange rate impact too in this segment because I do not see any specific explanation for an increase in the RWAs. And as I mentioned, the proportion of our RWAs allocated to market risk is very small compared to our peers. So nothing specific to mention here.

By the way, on -- I think I can give you a breakdown of the RWA inflation on market risk. It's EUR2.3b improvement for CACIB. So that's the vast majority of our market risk. So EUR2.3b up, EUR0.5b value at risk, limited impact as I said. EUR0.8b for the stressed value at risk and EUR1b for other reasons. So limited impact.

GUILLAUME TIBERGHIEN: Okay, thank you very much. And I hope your new group will be as complex as the previous one.

BERNARD DELPIT: I don't know if I hope the same thing. Thank you, Guillaume.

OPERATOR: Pierre Chedeville, CM-CIC.

PIERRE CHEDEVILLE, ANALYST, CM-CIC: Hi, good morning. A few questions left actually. Just a few questions. Regarding ROTE, maybe I missed it in the presentation but I didn't see the amount of (inaudible) the number of ROTE.

You also mentioned somewhere that you have changed your allocation regarding capital, debt, etc. between corporate center and the business line. Can you just give us the main lines of the new philosophy of this allocation?

A follow-up question regarding insurance. Because actually if I'll -- generally when you have a good financial market, the net banking income is better than the revenues from an accounting point of view. And here it's the contrary. The net banking income is lower than the revenues in insurance. You gave us a first explanation, maybe which is due to the increase of technical provisions. But in my view it does not -- can you give us a little bit more color regarding financial results in insurance because there is a kind of contradiction for me here?

And my last question regards Bank Saudi Fransi. We don't know very well this bank, can we -- can you tell us quickly what are the main success from a commercial point of view of this bank during this quarter? Thank you very much.

BERNARD DELPIT: Thank you, Pierre. Now as you rightly said, we have not written return on tangible in Q1. Because it's always difficult because you have to take assumptions in terms of average equity and so on and so forth. Sso yes, it's not in the presentation. But I would like to say again that it has really improved. It's 10.6%

including the Resolution fund. And excluding the Resolution Fund by the way, that would be 11.2%, which is a very strong return on tangible.

In terms of allocation of capital, I think you missed it or I was maybe not as clear as needed. I just said that we changed the allocation of cost inside the corporate center to reflect exactly the decrease in the cost of funding. That's why you've seen a 6% -- a 19% decrease in the total cost allocated to funding, equity management and to subordinated debt. That's what we did.

But of course, we could give you the comparison between the former presentation or former allocation and the new one. But there is no change or -- and by the way, I'm not -- I don't [change philosophy] in banking so we have not changed really the way we manage our different businesses in terms of capital allocation.

Regarding insurance, I'm not so sure I can explain and you are the expert in terms of insurance accounting. The only thing I could say is that of course in the improvement of -- and I think that's your question -- in the French GAAP accounting, 6% up is different from the NBI of insurance up 5.3%. But when you only take into account savings and retirements and that's what has to be taken into account when it comes to NBI for the P&L of insurance consolidated in CASA, I think it's very consistent.

So we'll have to come back to you to see exactly what you mean but I do not see a major discrepancy here. And I would like to say again here that in Q1, we have massively reinforced our reserves for the policy holders. That now amounts to EUR3.8b, maybe it has to do with that (multiple speakers).

PIERRE CHEDEVILLE: Yes, maybe.

BERNARD DELPIT: Yes. And for BSF, frankly not much to say. And as for the rest, I will leave it to my successor.

PIERRE CHEDEVILLE: Okay, thank you. And as we say in French, "bon vent pour vos nouvelles fonctions."

BERNARD DELPIT: Merci, Pierre.

OPERATOR: Delphine Lee, JPMorgan.

DELPHINE LEE, ANALYST, JPMORGAN: Yes, morning. Just two questions on my side. First of all, if we can come back on AFS unrealized gains. Would you mind just giving us the number for -- you've seen -- we've seen the Q1 progression but I think your number is in 80, 90 basis points now, if you account for what is included in Core Tier 1 equity. So if you could just give us that number, if you don't mind.

Secondly just on regulation in general, you mentioned that this is maybe an area where you have some concerns or there are still some uncertainties. You mentioned TLAC but from TLAC, it doesn't look like a big topic for the Group. Any other areas you would say are more concerning? Would that be mortgages, risk weights or capital floors or any other topic (inaudible) inflation that you want to highlight? Thank you.

BERNARD DELPIT: Thank you, Delphine. On AFS gains, just like to say that the total of AFS unrealized gains represents 130 bps in CASA CET1 ratio. It has increased in Q1, largely due to insurance, but less on the banking book side.

For regulation, as you said, TLAC is not really a concern. I was just saying that because there is a kind of rumor that [the endgame] could be more in the region of [23%], 24%, rather than at the minimum of 19.5%. That's why I said it always changes, it's difficult to manage a bank in such an environment. And as you said, Credit Agricole is very well in terms of TLAC compared with others.

And when I see some jurisdictions trying to change the subordination of the different debt, I was wondering what is the use of having a banking union if different jurisdictions can change it just like that? So that was my point.

I don't have -- really have a lot of concerns, or I would say precise concerns. But when people try to change RWA or risk weighting of different things such as corporate mortgages, due do the size of Credit Agricole, of course the impact could be challenging. But I have absolutely no ideas of how it could move.

By the way, my concern is on the interest rate in the banking book. Because I have read things that we could have some more fair value here and that would dramatically change the business model of French banks. You know that 85% of our home loans are granted with fixed rates, so if we have to manage the risk with this kind of fair-value approach every quarter, I think we will -- we would have to move towards more variable rates. And it is completely -- it will be completely new, not only for banks but for customers. And I don't think we are ready to cope with this kind of new thing.

So have no precise concerns for the RWA calculation. It's more on the interest rate in the banking book that we could have some challenging ahead.

DELPHINE LEE: Great, thank you very much and all the best as well for your new job, thanks.

BERNARD DELPIT: Thank you, Delphine.

OPERATOR: Alex Koagne, Natixis.

ALEX KOAGNE, ANALYST, NATIXIS: Hello, Bernard. Three questions from my side if I may. The first one is on the cost of risk in the consumer finance. I was just wondering whether there is room for more growth or we should start to see an increase going forward. I think that in your strategic plan you were expecting 250 bps cost of risk in 2016. So if you can just update on these figures.

The second point is on the TLTRO. Could you just give us the number you took -- the level of your take up in the March TLTRO? And how is your -- how do you consider the June one, giving the very good dynamic you have on your loan growth?

And could you just confirm that your fully-loaded leverage ratio is 3.8% at the end of this quarter? Thank you.

BERNARD DELPIT: Fully loaded leverage ratio I think was 8, I'm not so sure. It's -- yes, you rightly said it's phase-in leverage ratio at 4.4%. We will update you -- the IR team will come back to you to give the exact figures in terms of phase-in leverage, it's a phase-in 4.4%.

For TLTRO, we don't give figures. We have a strong business dynamic as you said. But when I look at the cost of funding besides LTRO and when I compare TLTRO with, for example, covered bonds it's almost the same cost. So the idea of rushing to TLTRO to get this new funding is not exactly what we want to do. We prefer to wait until it's completely necessary than taking it in ahead of the business dynamic and [later] get it in deposits, which could be costly.

So again, we have been to the TLTRO auction in last September, in last December. Since then, we have not massively increased our take up. And we are just looking at the cost of such funding compared with other costs of funding, to be sure it's wise to go to the next auction (multiple speakers).

For the consumer finance, I don't want to update my guidance or the medium term, I will keep it as it is. Just to say that now Agos is at EUR100m, I think it was EUR104m for the quarterly cost of risk of Agos, which is very, very good.

I stick also to the guidance of being between EUR400m and EUR450m for 2015, no real change. And for France, the improvements that were seen in Q1 will have to be confirmed in the next quarters but no specific guidance on that.

ALEX KOAGNE: Okay. Thank you very much and all the best for the -- for your next function.

BERNARD DELPIT: Thank you, Alex.

OPERATOR: Flora Benhakoun, Deutsche Bank.

FLORA BENHAKOUN, ANALYST, DEUTSCHE BANK: Yes, thank you, good morning. I've got three questions please. The first one is actually a follow up to an earlier question from Guillaume on the corporate center revenues which you show on the slide number 19. So I understand you mentioned that the decrease in -- or let's say the improvement in the cost allocated to funding equity management and to subordination are going to be sustainable. But my question is actually to really try and understand where this improvement has been coming from this quarter suddenly?

Second question is on the leverage ratio (multiple speakers) -- sorry?

BERNARD DELPIT: Flora, I will just -- may I just answer right now to this question? Because I don't want to forget. As I said, we have slightly changed the analytical allocation of cost to the different lines of our ALM. So the improvement just came from the fact that we now put in front of the funding of equity management and subordination the exact real cost and not a kind of normative cost. That's why it has decreased.

So compared to the 5% that we used, for example, in our medium-term plan, it's in the region of 4% now. That comes from that. And I think you can take those 4% for the remaining three quarters as being a running, I would say, rate for the corporate center cost for equity management and subordination.

FLORA BENHAKOUN: Okay, thank you.

BERNARD DELPIT: So (multiple speakers) I'm listening to analysts and investors, they want to understand what is in the corporate center. They didn't understand why the cost was fixed cost. That's why we have completely changed the way we want to show it. And it just translates -- it just shows that of course as we have an active management of this long-term debt, we benefit from lower cost and lower weight into [this context].

FLORA BENHAKOUN: Okay, thank you. The second question was on the leverage at CASA level.. You mentioned on the slide that you have this 100 basis points impact coming from non-weighting of your intra-Group operations. I was surprised to see that you said this is still subject to the ECB approval. So my question is really just whether there's any kind of risk that this doesn't get approved by the regulator? And whether you have a view on the timing for that decision?

And the last question is on the dividend. I think you said on this call that you're assuming in your calculation a 50% dividend payout and a scrip option taken by the regional bank. So just to be clear, should I understand that you're currently accruing your Core Tier 1 with a 50% payout and 50% scrip take up and therefore there will not be a catch up in Q4 like we had last year? Thank you.

BERNARD DELPIT: Right, on leverage the mention -- we mentioned that it depends on the competent authority to use the [delegated] act, because it's written like that in the CRR. Again, it's just, I would say, a legal precision. I'm -- I have no news -- no clues from the ECB if they are -- if they want to come back to the initial definition of leverage.

By the way I think they should not because again it has absolutely no business sense to do so. And if not, they will do -- as it has no risk in that intra-Group funding, the real meaning of leverage would be completely, I think, misleading for investors.

But to answer your question, Flora, we just made the precision that from a legal point of view, it has to be a decision from the ECB. But we don't know exactly the procedure to get the approval. That's the real situation. That's just a precision but it has not changed fundamentally compared with at last quarter.

On dividend, so we have taken an assumption but I would like to say here that it's not either a guidance or a commitment. It's not a guidance on my side because I'm leaving, it's not a commitment of the regional banks because the regional banks have commitments for 2013 and 2014. But they will have to take a new decision for 2015.

So the assumptions here is a 50% payout ratio and the assumption here is that the regional banks will take -- scrip that dividend. Not 50% but fully scrip. Again this is something that will have to be guided by the new management.

FLORA BENHAKOUN: Okay, thank you. And so should I understand that if it happens that the regional banks do not take the scrip then your Core Tier 1 ratio would decrease versus the reported one?

BERNARD DELPIT: Well, of course, yes. You will have this kind of update when the decision is taken. But I don't know when the decision is taken.

So yes, it -- so maybe to be more precise, the kind of catch up that you saw in Q4 last year won't happen at the same level this year. Because you're right, last year everything was aligned in Q4 and that will be not the case because every quarter we try to have the right position in terms of payout and scrip -- scrip versus cash.

FLORA BENHAKOUN: Okay, understood, thank you. And from my end as well, all the best for the rest of your career.

BERNARD DELPIT: Thank you, Flora.

OPERATOR: Kinner Lakhani, Citi.

KINNER LAKHANI, ANALYST, CITIGROUP: Morning, yes, I just had a couple of quick follow ups. Firstly, I just wanted to see where you felt or how you've felt on the IFRS 9 impairment rules. The moving from incurred to the

12-month expected losses. At this kind of early stage, I'm sure you've done your analysis, but how do you feel about that in terms of its impact on regulatory capital?

And then just coming back to the capital markets operations where obviously we've had very strong revenue and you -- you obviously mention QE as one of the drivers. Do you see QE as a one-off driver that supported Q1? Or do you think that QE continues to support while it's ongoing? Thank you.

BERNARD DELPIT: Hi, Kinner. I absolutely have no views to share here on IFRS 9. By the way, it's something in -- for 2018. So even if, of course, as everybody we have started to work on that, I couldn't share anything with you today.

On the capital market operations, QE is a booster. Absolutely no idea of how it's going to evolve in the next quarters. So it's also difficult for me to elaborate on that.

KINNER LAKHANI: Sure, thank you. Thanks again.

BERNARD DELPIT: Thank you. Now we are going to take the last question.

OPERATOR: Bruce Hamilton, Morgan Stanley.

BRUCE HAMILTON, ANALYST, MORGAN STANLEY: Hi, morning Bernard. Just a quick question to clarify on the Core Tier 1 build. When you talk about the roughly 50 basis points build, should we assume then that you're saying in effect a little bit more than 10 basis points per quarter as we look forward from here? Or are you saying that you'll try and manage -- you'll try and manage the RWAs or there'll be a catch up given the extra costs incurred in Q1 so that we get that back by the year end? So i.e. are we getting back close to 11% by year end, is that how you're looking to manage the business? Or is that way too precise?

And then linked to that, just on the guidance on RWA, I think I'm right in -- it sounds like your guidance is, the Group target for 2016 doesn't change other than FX maybe has a bit of an inflation impact. But you may allocate differently by division depending on the opportunity set? Have I heard that correct or is there at a Group level a risk that you could increase the RWA intensity a little bit?

BERNARD DELPIT: Could you please repeat just your last question because I didn't get it right?

BRUCE HAMILTON: Yes, sorry. So the last question was on RWAs, it sounded as though you're sticking with your 2016 target for the Group, although you're caveating that FX could have some impact that -- increase or decrease but that within the divisions, you may allocate slightly differently according to the opportunity set. I just wanted to check that that was right, or are you saying that actually you might just slightly increase the RWAs in any case because you see opportunities across the Group.

BERNARD DELPIT: No, you have it right. We have a 2016 target, that was calculated and there are certain assumption of the euro-dollar exchange rate. We could update the 2016 target according to the -- today's exchange rate. But we don't do it because for the moment we are still under the guidance so there is no need to do it. That's the first answer.

And the second one is that we will be opportunistic in terms of RWA allocation, depending on the performance of revenues of RWAs of different businesses. So the allocation that we showed in the medium-term plan is subject to update if we think that there are opportunities we should grab here and there compared to the performance of RWAs in other segments.

So I don't know if I'm clear but (multiple speakers) target in terms of euros was set under certain exchange rate assumptions and of course it changes. But I don't want to give a new target with today's exchange rate because it wouldn't have any sense. And second, we are pragmatic. If we see that some businesses are doing very well in terms of RWA efficiency then we will try to favor them.

Now in terms of CT1, your question was far more complex --

BRUCE HAMILTON: Sorry. Let me -- okay, let me try and simplify. So you talked -- you mentioned a 50-basis-point number of capital build, other things equal. I just wanted to understand whether we should think a little over 10 basis points of increment per quarter for this year or that you would try and make -- catch up for the miss in Q1?

BERNARD DELPIT: No, neither the first hypothesis, neither the second. I just say that when I make the capital planning for the rest of the year, I think an improvement of 50 basis points is what we see at the end of the year assuming that the exchange rate will remain the same one as today. If it changes, if the rate environment changes and has impact on AFS gains then this 50 basis points guidance could be updated.

So there is no catch up in my mind, I just wanted to share with you that we see some improvement ahead if conditions continue like that. And this is very consistent with the idea that as we have some organic improvement coming from (inaudible) it would go on like that, even if we had some RWA inflation at the same time.

So don't believe I have some plans to cut RWAs here and there just to get to the 10.5%. I think the 50 basis points is only consistent with our guidance in terms of revenues and income.

BRUCE HAMILTON: Understood. Thank you very much and all the best for the future.

BERNARD DELPIT: Thank you, Geoff. I think that was our last -- the last question. So before letting you go I would just like to say that it's been a pleasure working with you all and getting to know you. And I wanted to thank you for your support and encouragement over those last few years which have been, to say the least, interesting. Hopefully our paths will cross again. Bye bye, thank you.

OPERATOR: Thank you, that will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

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