Crédit Agricole SA 2022 Second Quarter and First Half Results

Thursday, 4th August 2022

H1 2022 Overview

Jérôme Grivet

CFO, Crédit Agricole

Welcome

Thank you. Good afternoon, everyone. Happy to present those results for the second quarter and the first half of 2022, which are indeed very good results. So I will try to speed in the presentation itself and to leave time for your questions afterwards.

CASA key figures

Let me start on page four with the results of CASA. What you can see for CASA is that the top line is very dynamic, +6.2% this quarter and close to 7% up for the first half of the year. There is a positive jaws effect. The cost of risk is down this quarter, -20%. And all in all, this is leading to a net profit underlying of €1.9 billion, up 18% as compared to 2021. And the solvency is up by 30 bps at 11.3%.

Crédit Agricole Group key figures

If I go now on page five for the figures for the Group globally, what we can see is that also we have a very high level of profits, close to €2.5 billion of net profit for the quarter underlying and close to €2.8 billion stated. And for the first half, around €4 billion of net profit both stated and underlying.

What you may note this quarter is that the cost of risk at Group level is up quite significantly, actually, +38%. We will see that more in detail when we will look at the P&L of the regional banks, but it is clear that the regional banks have taken advantage this quarter of the booking of a very important dividend coming from CASA's results last year to further increase quite significantly their bucket 1 and bucket 2 provision. It is a figure of around €300 million, so it represents around half, the €615 million of cost of risk this quarter. The solvency at Group level is now 17.5%, so it is up 50 bps for the quarter.

Dynamic activity, solid capital position

Let me go now on page seven, where you can see that actually this very good level of result is indeed triggered by a very dynamic activity, both commercially in terms of new customers captured and also in terms of the development of the different businesses.

Activity

> *Strong commercial activity in all business lines, driven by the natural amplification of our model*

More details on page 8, where you can see that indeed, this quarter we have managed to capture close to 0.5 million of new customers in France, Italy and Poland, and one million customers for the first half of the year. It represents an increase of the overall level of customers, net figure of around 240,000 for the semester, which is perfectly and even more than perfectly on track with the target of attracting net one million new customers up to 2025.

Production of new loans is significantly up. You have several examples here. For the regional banks and LCL, it is up 8.5%. Maybe interestingly, we can note that the production of new loan is differentiated whether you consider home loans, consumer credit loans or corporate loans. And indeed, in France, it is up 2% for home loans, 9% for consumer credit loans and 20% for businesses and corporate loans.

In addition to that, we can see that we continued to gain market share in P&C activities, and the consumer credit and leasing business is also rebounding sharply.

Revenues

Sharp increase in revenues thanks to dynamic activity in all business lines

On page 9, some elements on the evolution of the top line. We have a very strong increase in the revenues in Q2, as compared both to Q2 2021 and even more Q2 2020. And it is also the case for the semester. This significant increase is driven both by organic growth and also by the effects of the acquisition of Creval middle of last year, and Lyxor end of last year that are now included in our perimeter.

So the total increase in revenues is more or less two-third driven by organic growth and one-third by the effect of these acquisitions.

And last point maybe on this page, on the semester, all business lines have posted an increase in the level of their revenues.

Expenses

Positive jaws Q1/Q2

Going now on page 10 for the analysis of the cost basis. The cost base is up 5.2% this quarter. So there is a positive jaws effect between the 6.2% increase for the revenues and 5.2% for the cost base. What is interesting to note is that outside the Creval and Lyxor scope effect, the increase in costs is reduced down to 2.7%, and restated also from the ForEx effect.

You know that CACIB and Indosuez Wealth Management have a significant part of their costs that is denominated in dollar or other currencies that appreciated against euro this quarter. So restated from this Forex effect, the overall increase in the cost base is only 1.8% on the quarter, so it is only €58 million. So the jaws is positive whether you consider the figures on a gross basis or outside the scope effect or outside the scope and the Forex effect.

Last point we point here, the fact that we have accepted to hike the salaries in France beginning this quarter, the third quarter, so it means that we will have a further slight but further increase in the cost base in Q3 and Q4 this year ahead of the normal schedule, which is an increase in salaries beginning of the year.

Gross operating income

Sharp increase in gross operating income Q2/Q2 and H1/H1, improvement in cost/income ratio

Let me now look at the gross operating income on page 11. You can see that this quarter, all in all, the net profit increased by €300 million. It is triggered by an increase in the gross operating income of close to €200 million and a cost/income ratio for the first half of the year stands now at 56.8%. So it is a further decrease as compared to the figure we have posted for the full year 2021.

Risks

Decrease in cost of risk

On page 12, some elements on the cost of risk. So as I said, on the perimeter of CASA, you can see that the cost of risk is indeed declining by around 20%. So it is a decrease by €50 million on the quarter. And on the perimeter of the Group globally, there is an increase, a quite significant +38%, but it is, of course, triggered by this very strong and prudential effort of the regional banks, as I already explained.

If you just look at the level of the Stage 3 provisioning, we have a level that is normalised both at Group and CASA level normalised at rather low levels. And overall, the cost of risk stands at 17 bps for CASA and 23 bps for the Group, which is definitely significantly below the assumptions that we have made for the medium term plan.

Maybe a last point on this page. You remember that we have disclosed and given details on our exposure on Russian counterparts, which were declining since the beginning of the war up to the end of the first quarter. So the reduction has continued in the second quarter by around €400 million, so between end of March and end of June.

Asset quality

On page 13, some elements on the quality of the loan book. You can see that the level of non-performing loans continues to be very, very low and more or less stable around the very low levels that we have already reached since several quarters to 2.5% on the perimeter of CASA, 1.6% at the level of the regional banks, and in average, 2% for the Group.

The coverage ratio continues to be very high, and the level of the overall loan loss reserves is high. But what is interesting to note, and it is illustrated on the left-hand side chart of this page, is that the breakdown of these loan loss reserves has significantly shifted since 2019. The proportion of Bucket 1 and Bucket 2 provision has very significantly increased as compared to the decrease of the Stage 3 provisioning linked, of course, to the better quality of the loan book.

Net income

Strong increase in net income driven by increase in gross operating income and improvement in the cost of risk

On page 14, just simply the analysis of which were the drivers of the improvement of the net profit. The net profit improved by around €300 million in the quarter, +18% as I already said. This is triggered by the improvement of the gross operating income by around €200 million. The cost of risk decline accounts for another €50 million.

And then the last elements taxes, equity accounted entity and other specific items, account for the last €50 million.

What is interesting also to note is that on the first half of the year, we managed to post an increase also in the net profitability. So it means that overall the effect of the specific provisions that we had to book in the first quarter regarding the Russian exposure is now completely absorbed in terms of profitability.

Profitability

On page 15, the traditional view of the return on tangible equity at CASA as compared to the sample of the more or less ten European peers for which we have the information. We continue to be significantly above the average of this sample, 13.9% return on tangible equity for CASA and 10.3% return on tangible equity for the sample. So it is really part of our DNA to be able to post a very high level of profitability.

Publication of "2025 Ambitions" MTP on 22 June 2022

And then on page 16, just as a reminder in the middle of the page, the figures for the first half of 2022 that compares to the target that we had initially set for 2022 globally in the previous medium term plan and to the targets that we have reset for 2025 in the new medium term plan published a few weeks ago. All in all, what we can say is that we are on track.

And just also last point to mention, we have already accrued €0.38 per share of dividend end of June.

Asset Gathering and Insurance

Steady activity for the business line, stable H1/H1 net income

Let me go now to page 18, and we will start to look a little bit more in detail on the performances and the activity of the different business lines and business divisions.

Starting with the Asset Gathering and Insurance division, let me just, on this page, a few messages. The first message is, of course, that the market effect has been significantly negative this quarter. But nevertheless, and this is important from a commercial dynamic point of view, all the three components of this business divisions managed to post positive net inflows.

It is the case for Amundi, for the life insurance activities and also for the wealth management activities. And all in all, the net profit of the division for the first half of the year is more or less stable to what it was last year, which is a very good performance considering the markets in which we have been navigating since the beginning of the year.

Insurance

Dynamic property and casualty and personal protection, high solvency

If we zoom now a little bit on the insurance activities on page 19. What we can say commercially is that in life insurance activities, the gross inflows were slightly down as compared to Q2 2021. But nevertheless, we have had, as I say, positive net inflows of a respectable amount of €1.3 billion, which were more than completely explained by unit-linked net inflows.

In P&C and Protection businesses, the premium income continues to be very rapidly progressing, +10% for P&C and close to +8% for Protection businesses. And then the net profit of the quarter, which appears to be slightly down, -3%, apparently would have been indeed a positive +3.4% if we restate the figure from a specific tax component that is linked to the fact that Crédit Agricole Assurances has upstreamed €2 billion of extra dividend to CASA during the quarter.

Asset Management

Resilient Q2 in difficult market conditions

On page 20, some figures regarding Amundi. You know perfectly the performances of Amundi that published its results end of last week. As I said, net inflows have been slightly positive this quarter, thanks to the good performances that we have had in the joint ventures in India and China. Of course, the market effect is negative.

There has been a slight increase in the level of management fees, but of course in these market circumstances, performance fees were significantly down. Actually, it is a division by six between the €150 million posted in Q2 2021 and the more or less €25 million that we had had in Q2 2022.

But despite this very sharp decrease in the level of performance fees, which is a normalisation, completely understandable and predictable, we have managed to continue to monitor the cost/income ratio at a very decent level, 58.7% for the quarter and 55.4% for the first half of the year. And the overall performance of the business has been indeed very resilient.

Large Customers

Record activity, both in financing and in capital markets, and strong income hike

Taking a look at the Large Customers division and starting with CIB, of course, it has been a very good quarter for CACIB in Q2 2022 with a performance that was positive across the board. It has been the case for the financing activities as well as for the capital market activities. And the total revenues is up 22% on the quarter.

There is a slight increase in the cost base, but much more moderate. And the cost/income ratio for the quarter and for the first half of the year is now below 50%, which is far better than the target that we have for CACIB.

Last point for CACIB, this quarter, there is a reversal of loan loss reserves by around €75 million. It is due to the fact that the loan book continues to behave very positively. And all in all, the very good performance of the second quarter is leading to an overall performance for the first half, which is now close to what we had in H1 2021, despite the fact that all in all there is a much higher cost of risk due to the €300 million of Russian provisions that we had booked in the first quarter. So it is a very good performance.

CACEIS, it is also a very good quarter. A sharp increase in the level of revenues, which is obviously helped by the better yield of the excess of liquidity generated by the business. The cost base is very stable. And the net profit at CACEIS is up 50% this quarter.

Specialised Financial Services

Strong commercial production momentum, in particular internationally

Specialised Financial Services division starting with CACF. At CACF, there is a very strong commercial dynamic across the board, both in France and internationally, both for the traditional consumer loan business and also for the car financing business, despite all the difficulties in the car market in Europe. So there has been a record production of new loans in June and for the whole quarter all in all. And the outstandings are up.

There is, in France, a certain pressure on the margin, especially due to the usurary rates that applies in France to all these consumer loans. But all in all, the performance at CACF is good. The cost of risk is slightly declining and the cost base is restated from the CACF Netherland and also the inclusion of the Spanish activities middle of last year. The cost base will have been more or less stable as compared to Q2 2021.

For the leasing and factoring activity, a good commercial activity in factoring, but it will be more subdued in leasing. But all in all, revenues are sharply up. The cost of risk is down. And so the profitability is strongly up for CALF.

French Retail Banking – LCL

Strong business momentum, strong increase in net income

Going now to the retail banking activities and starting with LCL. It has been a very good quarter across the board for LCL with good customer captures, strong loan production, a good level of customer savings inflows, good increase in the equipments of our customers with different insurance products. And all in all, a good level of revenues, close to a 6% increase in the top line, which is split very evenly between fees and commissions on the one hand, and net interest income on the other hand. The cost of risk is more or less stable.

And so this is leading, of course, to a sharp increase in the net profit, both for the quarter and the first half.

International Retail Banking – Italy

Resilient activity and strong rise in net income thanks to decrease in cost of risk

In Italy, the market is a little bit less dynamic. And some of the activities of Crédit Agricole Italia were a little bit impacted, as is the case for all Italian banks. It is the case for savings collection and also for the development of the home loan business. But nevertheless, consumer credit and corporate credit, corporate loans are well oriented.

And of course, this quarter we fully benefit from the complete inclusion of Creval within the scope of Crédit Agricole Italia. The legal merger is completed. The migration of the IT platform on house is completed and the cost of risk of the quarter is down. Thanks to all the efforts of improvement of the credit quality that we did last year. So all in all, this is leading to a sharp increase in the level of the net profit at Crédit Agricole Italia.

Crédit Agricole Group in Italy

Rolling-out the universal customer-focused banking model

On the following page, page 25, you have some additional information of the global scope of our activities in Italy. What we can see is that the net profits we generated in the first half of the year in Italy is close to €450 million. It is up 15% as compared to H1 2021. And it represents a little more than 15 actually 16% of our net profit. And of course, the quality of the assets that we have there continues to improve regularly.

International Retail Banking – Excl. Italy

Buoyant commercial activity in Poland and Egypt

International retail banking activities, excluding Italy, it is a little bit complicated to synthesise. I would say that in Poland and Egypt, everything went well in the quarter and the first half. The dynamic of the development of the business are good. The yield curve is positive for us, and so the net profit is increasing and the cost of risk is declining.

In Ukraine, what we did, we had a good level of gross operating income. But to remain prudent regarding Ukraine, we have booked provisions corresponding exactly to the level of gross operating income generated by the current activity. And I remind you that we continue to have, at the level of CASA, a provision that is covering all the value of the equity that we have invested in Ukraine. So the economic risk that we have there continues to be nil.

And then, Morocco is now accounted for under IFRS 5. So it means that it is the element that you have on the line for net income from discontinued or held to sell operations. And the Serbian activity has been indeed sold definitely on 1st April.

Corporate Centre

Underlying net income stable Q2/Q2

Corporate Centre, nothing much to say. The volatility is very low and the level of total impact has continued to reduce quite significantly, so nothing much to say.

Regional Banks

Strong customer acquisition, increase in loans outstanding and customer assets

We will go now to the regional banks on page 29, where you can see more or less the same trends as the one I have mentioned regarding LCL with maybe an evolution of the production of new home loans, which is a little bit less buoyant at LCL. But it is mainly due to the fact that in Q2 2021 we have had a very strong base effect. So all in all, the production of new loans continues to be well oriented at the level of the regional banks.

The top line apparently is down -1.5%, but actually it is completely explained by the fact that their portfolio revenues are negative this quarter. The revenues linked strictly the banking activity is up 3.5%. I already talked about this strong effort in additional provisioning, Bucket 1 and Bucket 2 provisioning, in connection with the fact that the regional banks have booked €1.3 billion of dividend coming from CASA in Q2.

And so this is leading, of course, to this decline in the contribution of the regional banks to the net profit of the Group globally. But it is only accounting-wise economically they have had a very good quarter all in all.

Financial strength

Solid capital position

Going now to page 31, where we have the figures related to the solvency. You can see that both for the Group and for CASA, the solvency ratio, CET1 ratio is up, 50 bps for the Group, 30 bps for CASA.

The explanation is clearly linked to three main elements. First element, good level of results and good level of retention of the results. Second element, a very moderate RWA consumption by the different business lines. Third element, which apparently is different from the Group and for CASA. It is the effect of the insurance activities. Actually, if we split these insurance activities component between two parts, you will rapidly understand the explanation.

The first part is that we have upstreamed a dividend that is simply reducing the overall RWA consumption linked to the insurance activities, and that is having the same effect both on the Group and on CASA. But at the same time, we have had a further and quite significant decrease in the unrealised capital gains on the asset portfolio of the insurance activities. And this is more than offsetting the benefits of the capital dividend upstream for CASA when for the Group, the effect is much smaller. And so this leaves a net positive.

And then we have different bits and pieces that are this quarter positive. You have different elements in this bits and pieces category. You have the disposal of Crédit Agricole Serbia. You have the fact that after the merger of Creval within Crédit Agricole Italia, we have no longer to deduct the deferred tax assets of Creval from the solvency. We have also the fact that the increase in interest rates is reducing the provision for the post-employment commitments, retirement commitments and so on and so forth.

Financial Strength

Comfortable level of liquidity reserves and indicators

In terms of liquidity, nothing much to say. End of June, the situation is very, very comfortable. Of course, we continue to prepare to a situation where liquidity is going to get tougher, because of the normalisation of monetary policies in all geographies. And we are preparing all the levers that will make it possible for us to continue to post these very good levels of liquidity ratios and excess of stable resources as compared to our stable assets.

Financial Strength

€12.2bn in MLT market funding issued by Crédit Agricole S.A. at end-June 2022

And as an example of that, you can see on page 33 that we have completed our market funding plan by 93% end of Q2. So we have been very aggressive, which has had two benefits for us. We have been able to take advantage of market windows, where the spreads were not so wide as they are now. And secondly, of course, this is fuelling our overall liquidity.

I think I am done with the presentation now and we can start with the questions.

Q&A

Jacques-Henri Gaulard (Kepler Cheuvreux): Two quick questions. The first one would be, have you communicated on the impact potentially of the moratoria on mortgages in Poland? Just to have an idea of how much that would cost in Q3. And you mentioned also the hike in salaries, just to have maybe an idea about what it would represent for the rest of the year and to which extent that derail the 2025 plan. I am sure it does not, but just to have the confirmation. And congratulations from your appointment yesterday.

Jérôme Grivet: Thank you, Jacques-Henri. Let me start with the second question. The hike in salaries that we have decided, it applies only on French staff, first point. Second point, there is a cap at which this hike no longer applies. So it applies only for the lowest paid employees of the Group. So all in all, the impact is going to be moderate for CASA. It is going to represent probably around €15 million for the third quarter and maybe an additional €5 million. So all in all, €20 million for the fourth quarter.

So it is significant, but it remains moderate all in all. And it is normally only ahead of what we would have done at beginning of 2023. So it is very moderate.

Second point, the impact on the moratoria in Poland. Of course, it is going to depend on the behaviour of our customers. But we have, as you know, a very small market share in home loans in Poland. It is less than 1% of the market. So generally, we would complain for having such a small market share, but actually it is rather an advantage. And so the impact, if any, and if significant, could be completely absorbed by the running profitability that we generate normally. And if needed, we will be able to book a provision in Q3 and get rid of the issue definitely.

Delphine Lee (JP Morgan): So two questions on my end. If I could start with capital, could you just still confirm that TRIM, the impact of it was something like 20 basis points is still to come in Q3? And also in terms of IFRS 17 impact, would it be fair to assume that it is going to be less or around 28 basis points benefit that you had this quarter from the insurance dividend upstream or how should we think about IFRS 17 impact? Should be just neutral or is it going to be different?

My second question then is on cost. Just wondering, because this quarter you seem to have like a big FX impact. Is your commitment to positive jaws in your plan of 0.5%, is that including the FX impact as well? So does the Group intend to offset that FX impact or just trying to understand that it is under the cost trends and cost management?

Jérôme Grivet: Let me start with the capital, Delphine. On TRIM, what we have said is that we still have ahead of us between €5 billion and €6 billion of additional RWA to book regarding TRIM. The moment where we have to book is still not really certain, but my best assessment as of today would be that we would book the biggest half of it as soon as Q3 this year, so probably around €3 billion, and maybe an additional €2 billion to €3 billion beginning of 2023. So that would be seen from now, my best guess.

Second point regarding IFRS 17. What we have said is that we are committed to cancel the capital effect, the solvency effect of TRIM by upstreaming dividends from Crédit Agricole Assurances. So we have upstreamed €2 billion in the second quarter and we will fine tune the level of dividend upstream depending on the latest figures we will have on the solvency impact of IFRS 17, which is not completely fine-tuned yet.

So for the time being, what you can assume is that if the capital impact of IFRS 17 would exceed the benefits that we have taken from the €2 billion dividend upstream, then we will upstream an additional amount of dividend coming from the insurance activities, which by the way continue to have a very high level of solvency. It is in the region of 225% or 230%.

On cost what we say is that the commitment on costs is to remain below 60%. The second point we have said is that what we foresee is to be able to post a positive jaws effect year-after-year because what we foresee as of now is the capacity of growing the top line more rapidly than the cost line.

Of course, there is not a perfect coherence between the proportion of our revenues that are generated in dollar and the proportion of our costs that are generated in dollar, but if a certain discrepancy were to happen between these two proportion, then of course we would try to remediate to it and to either relocate activities in order to modify the proportion of costs denominated in dollars or try to hedge better the revenues coming from dollar.

So, yes, what we foresee is an improvement, the positive jaws effect both in Euro, and so both with and without the ForEx effect.

Giulia Aurora Miotto (Morgan Stanley): My first question is on French Retail, which was quite strong in the quarter, but I see a number of headwinds coming in the second half, in particular on the Livret A. So I just wanted perhaps your comments or if you can quantify what you see coming in this division for the second half of the year? That is my first question. And maybe any comment on how you see loan growth as well there?

And then provisions. Cost of risk remains benign, which is a trend in the sector, I would say. But have you run any scenario in terms of Russian gas cut off and how much could that add to your cost of risk. Some banks are quantifying it. I do not know if you have any numbers to give us?

Jérôme Grivet: Okay. Let me start with French Retail. Of course we have headwinds ahead of us and has indeed started because the second hike in the level of the rate of the Livret A and other related savings account has started to bite beginning of August. So it is now biting. And what we can quantify with a certain level of certainty is that in the second half of the year, we will have an additional cost as compared to the first half of the year related to Livret A, which is around €50 million.

So all in all, everything being equal, the simple effect of Livret A in the second half of 2022 is going to be more expensive by around €50 million as compared to what it was in the first half of 2022.

Then we have several other pieces that are going to move. There is an important piece which is moving and we do not know exactly in which direction all in all, which is the TLTRO effect. Because normally TLTRO premium has stopped end of June this year, but since there has been a hike in deposit facility rates from the ECB, there is, for the time being a positive effect from the remaining TLTRO drawing, because the price is impacted by only one third of the increase in the deposit facility rate when the capacity of deposit that we have is fully impacted by the increase in this rate in the deposit facility.

So it can be positive, but you have seen, as we have seen, that the ECB is a little bit puzzled by this situation where they say that banks are going to have some windfall profits. And they are thinking of ways to alleviate or to reduce these windfall profits. So for the time being if nothing changes, this will be a positive effect for the Group globally and for LCL specifically. But we do not know exactly if it is going to come to an end and to which extent and when.

Third point, which is more moving in the right direction, it is the repricing of the home loans. Just as an information, for the approval that we have rented to our customers in June and July, - of course, these loans are not already in the systems, they have not started to operate yet, but we have granted approvals recently-, the average rate is now 1.70%. So it is far better and it shows an improvement in the pricing of new home loans, which is going to progressively improve, of course, the yield of the loan book.

But what we do not know is the volumes that will apply to that, because, of course, we know that as rates are going to increase for new home loans, this is going to put some pressure on the borrowers. And this is progressively going to exclude some potential borrowers from the capacity of indeed borrowing.

So all in all, many moving pieces. My best guess seen from today would be that in H2 revenues at LCL globally could be quite close to what they were in H1 all in all, taking also into consideration the fact that, of course, net interest margin represents only around half of the revenues at LCL. So we still have a good dynamic on the fees and commission part.

So this would be my best guess for the rest of 2022. It is not as of today a forecast, a commitment or whatever. It is really a best guess.

And then if I go to your question regarding provisions, we can simply go back to the slide where we presented the cost of risk and then the quality of the loan book, because what is interesting to really keep in mind is the fact that since end of 2019, the proportion of Bucket 1 and Bucket 2 provision inside the total loan loss reserves that we have, both at Group and at CASA level, has sharply increased. It was in the region of 25% back end of 2019. It is now close to 40%.

So it means that we have the capacity to reallocate some of these Bucket 1 and Bucket 2 provisions from one issue to another one. Of course, initially these were related to COVID impacted sectors like, for example, entertainment, tourism, hospitality and so on and so forth. We see in France, now this summer, a very sharp increase in tourism coming both from France and from abroad. And clearly, these hospitality, tourism and entertainment sector is performing much better than what we feared a few years ago. And, of course, this Bucket 1 and Bucket 2 provisions allocated to this sector can be perfectly reallocated to other sectors that could be impacted by some difficulties triggered by, for example, a gas shortage this winter.

You know that in France, we depend much less than in Germany, for example, on Russian gas supply. So it means that, of course, it would have an impact, but not maybe such a big impact as for German banks, let us say. So It is very difficult to modelise a scenario of a gas shortage coming from Russia. But what we see is that in certain sectors of activity, especially those that consume a lot of energy, we could have some difficulties and we are starting to accommodate that and to book additional provisions regarding those sectors.

Stefan Stalmann (Autonomous Research): I wanted to ask two questions, please. The first, going back to French NII. You mentioned at the Capital Markets Day that you saw an extension of the effective duration of home loans and that could produce rising hedging costs in your treasury. Has there actually been a noticeable factor in the second quarter and do you expect it to be a more visible factor going forward?

And the second question relates to your assets under management in insurance. The way that you report them, they have hardly changed year-to-date. I think they are down by basically 1%, but your insurance investments are down a lot more. So I am wondering how you actually conceptually report these insurance assets under management and whether there is some tilt that applies to those as opposed to what you show in your accounts?

Jérôme Grivet: Okay. Starting with your first question, I do not really remember having specifically stated the fact that there has been an increase in the duration of home loans, because actually there is a cap that is imposed since now two years by the *Haut Conseil de stabilité financière* in France, cap at 25 years for home loans. And what we see is that since now many years in order to increase as much as possible their purchasing capacity, the household traditionally tend to go close to this ceiling of 25 years.

So the average, I would say, contractual duration of the home loans is between 20 years and 25 years. And especially when rates were low, it was not significantly more expensive to borrow for 25 years than to borrow for 20 years. So definitely the duration is very long since now many, many years. And it is not going to be shortened by early repayment, because of course, when rates increase, the inducement to early repay is going to significantly reduce.

So all in all, we have not had, up to now, significant additional hedging costs for the loan books that we have, and we do not foresee some increase in the hedging costs going forward in the coming quarters.

Regarding then your second question, to put it bluntly, on the unrealised capital losses that we may see on our asset books in the insurance activities. It is clear that we are now in the situation where the unrealised capital gains that we have traditionally had and which reached very significant levels historically are now transformed into unrealised capital losses. And indeed in the solvency of CASA and even in the solvency of the Group, it now represents a negative component.

It is about 30 bps for CASA and 10 bps for the Group roughly. And so it means that as those assets are going to mature, these unrealised capital losses are going to pull to par and are going to generate improvements of the solvency of the Group and of CASA. Of course, what is important from an accounting viewpoint and you can be sure that our auditors check that very carefully, is that we have the capacity to prove that these unrealised capital losses, which, to a certain extent, represent a credit that we have on our policyholders. We must be sure that we will have the capacity to recoup this credit on our policyholders, because to a certain extent, it is now a liability that our policyholders have towards us.

And the pull to par I was mentioning is clearly conditioned by the fact that our policyholders stay here and stay with us, at least until these assets have pulled to par.

What is very important to demonstrate that the policies are strictly enough is the fact that we have around €13 billion of participation reserve that belongs to the policyholders that has not been distributed yet. And, of course, the financial interest of policyholders is to stay up to the moment where we have used this reserve, which is not going to be the case in the coming months.

We may start to use it partially, but it is here to last for several years. So definitely it is a situation that is unusual. It is a situation that we have known in the past. It has been the case, for example, in 2008, if I remember correctly. And it is a situation that is perfectly, I would say, a digestible. Of course, it deserves a very specific attention which we have.

Stefan Stalmann: May I just have a follow-up, Jérôme.

Jérôme Grivet: Yeah, sure.

Stefan Stalmann: I was more wondering about why the assets under management that you report in the insurance business are hardly moving. Are you not showing assets under management on a mark-to-market basis? But are you basically allowing for these pull to par effects? Or is there another explanation why the assets under management perspective is so different from the accounting perspective?

Jérôme Grivet: Yeah. We show the breakdown of the assets under management on a historical cost basis. And of course, I would say, outside this presentation, there is also the follow-up of the unrealised capital gains and losses that are split, of course, between fixed income assets and diversification assets because of course, they do not behave the same way. And contrary to the fixed income asset, for the equities, for example, and real estate, of course there is a mark-to-market that we have.

Guillaume Tiberghien (Exane BNP Paribas): I have a question on the IFRS 17 again. Your solvency is 224% at the end of Q2. Presumably if rates fall as they did in the last few weeks and maybe the solvency ratio would have gone down. And so what level would you accept to fall to fund the IFRS 17 level? And then maybe another question with regard to the fixed income business in CIB. You have been obviously quite strong this quarter like most of your peers. Where do you see the normalised level for fixed income?

Jérôme Grivet: We have a risk appetite framework for the solvency in the insurance activity that is validated by the governance and that is exchanged with the supervisor, the insurance supervisor arm, so the ACPR. And what I can tell you is that we have a significant room, not only between the 224% level that we have now and the 100% level, which is the minimum but also between the risk appetite framework that we have validated and that is approved by the supervisor and the present level. So it is very, very comfortable and we have room.

And indeed, I am not sure that if we had calculated a ratio with the rates which we see now, which are much lower than end of June, it would have reduced significantly as compared to the 224% because you have many, many different effects that play a role in the solvency calculation. It is a very complex calculation. And I am not sure that the present level would be reduced as compared to the 224%. But nevertheless I can tell you we have a significant room to accommodate IFRS 17, if needed.

When it comes to the level of revenues at CACIB, of course, we have had, in the first half of this year, a very high level of revenues. It is close to €3 billion of revenues for the first half when historically in average it has been lower than €2.5 billion. So I am not going to pretend that it is a new normal at this level. But what I can tell you is that, and it is not only since this quarter, but it is now since probably four, five, six years that we have been able to demonstrate to our customers that we were here with them, I would say, in any circumstances, whatever the market conditions, lending conditions, liquidity conditions and we have proved them, for example, that during the first month of the pandemic back in beginning 2020, where we have been able to not only accept that they drew on their liquidity lines, but also we have been able to grant new loans.

And this is leading to a situation where more and more, when they want to engage into hedging operations, when they want to engage into new market financing operations, they tend not necessarily to talk only to the big American bulge bracket, but also they tend to talk to us. And we have a growing capacity of being, I would say, relevant on these market operations.

So I really think that the new normal is probably not necessarily at €1.5 billion a quarter, but it is better than the €1.2 billion a quarter that we had before.

Guillaume Tiberghien: Can I ask a small follow-up on French Retail? When you say H2 should be roughly stable on H1, do you include some benefit like higher benefit from TLTRO compared with H1?

Jérôme Grivet: Yes. I include the fact that, to a certain extent, the present situation regarding the TLTRO, which is positive for us, is going maybe not necessarily to remain exactly as it is now, but it will not be completely dismantled by new decisions from the ECB. Of course, if the decision from the ECB is stating that, for example, we are no longer able to use the deposit facility for any amount coming from the TLTRO, it could change the game.

But I do not see exactly how they could do such a thing without jeopardising the transmission of the monetary policy to the economy. So it is, of course, again, a very weird situation. But I take into account the fact that we should continue to benefit slightly in H2 2022 and possibly then in 2023 up to the final maturity of the TLTRO drawings from the capacity of putting back the money at the ECB at a better rate than the rate at which we have borrowed the money.

Mate Nemes (UBS): I have two questions, please. The first one is still on capital. I was just wondering if you could provide an idea to us about the several moving parts in the second half of this year on the CET1 ratio? I think you mentioned TRIM that this could be €5 billion, €6 billion, of which around €3 billion could come. Is there any other regulatory headwinds that we should be aware of?

And secondly, on the organic side. RWA growth was quite muted on an underlying basis as well for the Group. And I noticed that especially in the CIB, RWAs were stable despite quite strong revenues. Is this a sustainable situation, or in the second half of the year we should expect more meaningful RWA growth?

And the second question is on global banking or the financing business as well as the corporate bank. I am just wondering what outlook and expectation do you have going into the second half? Obviously, the financing volumes were strong and you have not seen much weakness in that area. Is this something that could continue longer in your view? Or we could see some fading in the second half? And also, maybe if you could comment perhaps on the transaction banking seeing any benefit from the rate environments going into the second half?

Jérôme Grivet: Okay. Many important points that you are raising. First, let me start with the moving pieces in capital. The point that we have identified up to now, TRIM, as you have said, it is between €5 and €6 billion but it is going to be split between probably a €3 billion net in Q3 this year and then the rest probably more in 2023. So it means that up to the end of this year, TRIM should represent all in all only "€3 billion", which is going after many, many TRIM impacts up to now. So it is a lot, all in all.

Second moving piece, which is going to be beneficial for us is the disposal of Credit du Maroc. You know that we have signed the sale of Credit du Maroc earlier this year and we expect the closing to take place before year end. And this would represent a little bit more than probably 10 bps of CET 1 ratio that would be freed by this operation.

Maybe two other points. We have the intention, but it is not a commitment. And so this is why it is not deducted yet from our solvency. But we have the intention to propose to the General Assembly meeting taking place next year to round up the normal dividend payment by additional €0.20 in order to fully repay the 2019 dividend. So this would represent between 15 bps and 20 bps of impact that would be taken in Q4 if we deem reasonable to do so. So again, it is not yet deducted. It is an intention to do so and it is not a commitment.

Last point, it is negligible, but it is a moving piece that is going to play a role. I told you that we had signed and we have now concluded and closed the sale of La Médicale De France. This is going to generate a capital gain that will be booked in the third quarter of €100 million. So it is a result that is going to generate additional capital. Negligible, but nevertheless, it is €100 million of net income.

Then when it comes to the management of the RWAs at CACIB, you remember that the increase was quite sharp in the first quarter of the year, and I told you that CACIB had taken advantage during this first quarter of very strong credit demand from the market in order to try to satisfy its customers. And I was expecting CACIB to monitor the rest of the year starting in the second quarter.

They have different tools in order to monitor the level of their RWAs. They can buy CDS. They can organise securitisation. They can increase the proportion of the asset that they sell down. So they have many, many tools. And indeed, they have used part of these tools in the second quarter, which comes at a cost, of course. But it is useful for us to really monitor the evolution of the RWA.

Then coming to the prospects of the transaction banking and commercial banking, if I remember correctly, your question. Well, it is difficult to say exactly how it is going to evolve, because we are in a very volatile situation. Every day or so, there is a new geopolitical event that is either creating anxiety or creating relief in the environment. So this can modify strongly the prospects and the evolution of the activity. Up to now again, there is still a strong appetite of our customers to engage into different activities, into borrowing, into hedging, and so up to now the activity continues to be well oriented.

Matthew Clark (Mediobanca): So more questions on French Retail revenues and capital. So I just wanted to understand, on the TRIM impact. You guided six weeks ago, at the Investor Day, for a 30 basis point impact still to come, which would imply something some way higher than the €5 billion to €6 billion you have talked about today. So I am just wondering how to bridge that that gap. Is there stuff to come after 2023 that was included in that 30 basis points guidance or has something changed? And maybe if you could elaborate, which portfolios make up that remaining TRIM impacts because most competitors seem to impact TRIMs already given all digested. So just to help understand that. It would be helpful.

And then second question, just coming back to this, I guess, guidance of flat second half versus first half LCL revenues. I mean as I understand it the first half benefited from an unquantifiable private equity gain in the first quarter in NII. We have had quite a big home savings loan hedge gain in the second quarter. I suspect that there might be a Crédit Logement dividend in there as well, if you could confirm that.

But it seems like there are a lot of benefits already in the first half, a fair number of headwinds coming in the second half. And the only incremental positive is that the TLTRO drop-off might not be as severe as expected. So I am just wondering if I am missing something and why the outlook is so positive also compared to the tone of your previous commentary, which was towards the fact you are not going to be a big rate rise beneficiary.

Jérôme Grivet: Let me start with TRIM. TRIM is RWA impact. So then when we translate it into bps of solvency impact, of course, it depends on the assumptions that we make on the level of RWA overall and on the level of the solvency overall. So really the starting point is an impact in terms of RWA. And then of course, in order to help a little bit the calculations, we try to convert that RWA level into bps impact.

But clearly the first impact is in RWAs. And of course what we try to do as much as possible once we have the requests from the ECB in terms of modification of our models, we try to optimise as much as possible the impact either by fine-tuning a little bit better the model or possibly in terms of rearranging the different activities to reduce the basis to which the impact applies.

So we stick to this level of around €5 billion to €6 billion of RWA impact remaining for TRIM. €6 billion was probably the conservative level. €5 billion may be the optimised level if we manage to fine-tune things exactly like we wish. But this is the starting point.

Then the conversion of these €5 billion to €6 billion in terms of bps may vary over time. So I stick to the €5 billion to €6 billion and I stick to the idea that the €3 billion would be the impact in Q3 this year.

Let me continue with the French Retail. What I have said is that revenues at LCL in the second half should be close to what they were in the first half. And I am not sure that there were so many positive one-offs or tailwinds in, or I would say one-off tailwinds in the first half. There were some rate tailwinds, but for example, if I take Crédit Logement dividend every quarter, either we accrue the value of the stake that we have in Crédit Logement or we have the dividend. And when Crédit Logement is paying its dividend, then it reduces the value of the stake because of course, it goes into both directions.

And if I study precisely exactly the impact of Crédit Logement in Q2 2022 as compared to Q2 2021, the difference of overall revenues linked to Crédit Logement between Q2 2021 and Q2 2022 is €3 million in the net interest income line at LCL. So it is absolutely a minor. Of course, it is an improvement.

Matthew Clark: What is split out versus the first quarter please? So 2Q 2022 versus 1Q 2022?

Jérôme Grivet: I do not have the figure in mind in 1Q 2022, but again, it should have been quite negligible because at the end of the day, it behaves like exactly like we account for around 15%. It is the proportion of the capital of Crédit Logement that we have, of

15% of their own income quarter after quarter. So it goes either through the way of a dividend and then it reduces the carrying value that we have for the stake or it goes directly as an improvement of the carrying value that we account for.

And so, of course, as Crédit Logement is growing normally year-on-year we have an improvement, but it is not a massive one and it is not specific in H1 2022, neither in Q2, nor, if I remember correctly, in Q1. So nothing really significant.

You were mentioning another tailwind in H1 that I do not remember. Which one were you referring to?

Matthew Clark: I think you said there was a private equity gain in the last quarter. Is that right?

Jérôme Grivet: Yes. We have regularly because LCL has a small private equity portfolio, so indeed there can be ups and downs in the private equity portfolio. I do not remember the level we have mentioned in Q1, but there was nothing significant in Q2, that is for sure. So it depends. It can be positive or negative, but it is not a one way and it is not even less a one-off that would have taken place only in H1 2022, and that is going to never repeat in the future.

Pierre Chédeville (CIC): A follow-up question regarding your last customer activity. I was quite surprised by your comment on M&A, because you seem to be one of the sole bank in Europe to have good performances in M&A, and I was wondering why and is it an exceptional mandate maybe? Or do you have a good pipeline even for H2 in this activity?

And my second question relates to the insurance business. I heard discussing with AXA that there are ongoing discussions with insurers regarding measures that would be taken for customers in order to fight against inflation. And I was wondering if you had this type of concession and what could be the impact for you?

And the last question is, could you give me because I think I missed it, but generally you give it, it seems to me. What is your combined ratio this quarter?

Jérôme Grivet: Okay. So Large customer M&A is not a very important business for CACIB to be frank. We mentioned it because it applies on a small basis of revenues because when we talk about capital market and investment banking as one of the two big parts of CACIB, and then when we split these big part of CACIB between the two main business divisions, there is a massive difference between the size of FICC on the one hand and investment banking and equity activities on the other hand, because that there is probably a ratio of 1 to 6 or 1 to 7 between those two activities.

So the smallest one, the equity and investment business division posts a sharp increase in revenues plus 12.8%. We just wanted to mention that it was driven by some M&A mandates much more than from derivative equity activities. But it is not anything significant at the level of CACIB globally.

Going to the insurance activities. We know that the insurance sectors and the insurers are under a certain pressure from the government, as banks are, by the way, and as oil companies are and as everyone is, in order to try to post or to show gestures towards their customers in order to help the government continuing to avoid this extra corporate tax level that they do not want to apply, but for which they have a certain pressure.

So we do not have specific elements in mind regarding the insurance activities. Just keep in mind that during the COVID, we have provided a significant effort in the direction of our customers with this gesture that led to an indemnification of our clients' extra contractual indemnification. I think the amount was close to €200 million. So it is more than €200 million, actually. So it is very important.

And I think that we are probably better off towards the government than some traditional insurer. I do not want to mention any name. So clearly there are some discussions. We do not see anything material coming now.

Combined ratio stands at 98.7% end of June. It is clearly down or I should say up as compared to the previous period because of these weather events that took place at the end of Q2 and that significantly impacted all insurers in France, Pacifica, like its competitors.

Pierre Chédeville: Repeat the number.

Jérôme Grivet: 98.7%. It is on slide nineteen.

Pierre Chédeville: 98?

Jérôme Grivet: Yes. But it remains significantly below 100%.

Tarik El Mejjad (Bank of America): Just one question for me in terms of Banco BPM insurance. Yesterday, the management said that they would actually restrict the negotiations or the bids on the non-life business. So I want to understand, is that something attractive to you? Were you ambitioning bigger scope than that in your bid? Is that something that still interests you then? And I want to understand your 9% stake in the bank. What advantage it give you in this instance, for example, just to understand your power there on negotiation?

Jérôme Grivet: Well, we never comment discussions that are ongoing. So there are discussions ongoing with BPM. It is notorious, I would say. It is in the newspapers regularly and we will not comment these discussions. We are interested in any kind of insurance cooperation that we can have with Banco BPM, and we will see at the end of the day what is the outcome.

We have seen that BPM has stated that they wanted to retain 100% of the life insurance business, so be it. That is not an issue for us. We continue to think that navigating a significant life insurance book in the present market circumstances is not going to be an easy travel. So we know exactly how to do that. We will see if at a certain point in time BPM thinks it's useful for them to benefit from the advice of big life insurance player that has not had a strategy to exist on life insurance business contrary to some of our competitors.

But nevertheless, we have perfectly understood and that is fine with us that they want to work mainly and to focus now on non-life activities. It is perfectly okay for us and we would be very happy to help them develop their business in this area. You may have seen that in France, we have managed to continue this year to grow the net premium income in P&C activities by 10% again this semester.

And as far as the stake is concerned, we have said several times that it was in appreciation of the good strategy and the good implementation of the strategy of BPM and in appreciation of the good partnership that we have already with them. And there is nothing more to say regarding at this stage.

Tarik El Mejjad: No. That is clear. And in terms of the time frame, I mean, it looks like it will make their mind at the end of the year. I mean, that is earlier had in Q3. so if you can share where do you see potential deal?

Jérôme Grivet: No more comment.

Flora Bocahut (Jefferies): The first question I wanted to ask you is regarding the loan growth. I mean, as you described at the beginning of this presentation, the loan activity remains very strong across the businesses. Just wanted to ask you if we should expect maybe a slowdown in H2? Is it something that you foresee, and that therefore we should expect? And specifically on the corporate side, where the loan growth has been very strong. Just wanted to have your view, whether it is driven more by working capital needs rather than CapEx and whether we should be, to some extent, a bit worried by the quality of the corporate loan growth or not at all.

And the second question is regarding the capital situation. If I make the calculation based on everything you just disclosed on this call, a TRIM, Crédit du Maroc sale, La Médicale, IFRS 17, the dividend catch up. I think I get to Core Tier 1 ratio that would land probably around 10.7% fully loaded. Obviously, this is prior to organic capital generation that you will have. But the question is, if your solvency ratio is below 11% at the end of this year, is there a risk that you would reconsider the dividend catch-up that you plan to do the €0.20 on full year 2019?

Jérôme Grivet: Many good questions again. In terms of loan growth prospects, it is very difficult to tell. For home loans, it is pretty certain that the loan growth is going to slow down. The loan demand is going to slow down in the coming months simply mechanically because of the increase in rates and because of the correct implementation by banks in France of the instruction given by the *Haut Conseil de la sécurité financière*. It is mechanically excluding some potential borrowers from the capacity to borrow, especially in the present situation where we have not seen any decrease in real estate prices.

So it means that with the same prices for real estate with salaries that have not significantly increased in France up to now, and I think it is a good news that the employers try to be as moderate as possible in granting salary increases in order not to trigger a loop between salaries and prices, in order to really make sure that this peak in inflation does not last too long.

It is clear that mechanically some households are not going to be able to borrow in the coming quarters. That is probably a little bit of shame for them, but it is going definitely to slow down the loan demand for home loans.

In terms of consumer loans, I think that there is going to be a good level of consumer demand as long at least as unemployment does not increase. And you may have seen that recently it has continued to decrease in France. So this is the main driver for the borrowing behaviour for consumer loans is the capacity to repay by having a salary.

And then for businesses, I do not have the precise breakdown of the credit demand between working capital and investment, but it is not massively treasury needs because the treasury of the corporate and businesses in France continue to be quite ample. The state-guaranteed loans have not been fully repaid by far at the level of Crédit Agricole Group. It is less than one-third of the state-guaranteed loans that we have granted that have been repaid.

So it means that the treasury of the businesses continued to be sustained by these high amounts of state-guaranteed loans that were drawn during the pandemic. So for the time being, there is nothing really worrying regarding business loans. And I do not see a slowdown in the credit demand for the time being again.

When it comes to capital, of course, if you make the calculation without taking into account the possibility for us to generate some profits and some capital in the coming quarters, you will end up with a negative evolution of the solvency that is mechanical. So this is not our forecast. This is not our trajectory. We have a regular update of our internal capital trajectory.

And what we continue to see is a solvency that will be above 11% end of this year. And in this context, of course, we will be very happy to give, I would say, to materialise the intention of repaying the last €0.20.

Kiri Vijayarajah (HSBC): A couple of questions from my side. So firstly, turning to Ukraine. I see the deposit balances growing quite rapidly there. So presumably there is some flight to quality going on, on the deposit side. But my question is more what is the risk that you might need to inject more equity at some stage into that business? Because I guess there is political pressure to keep that business as a viable going concern in Ukraine?

And then second question, just turning to the Wealth Management division, a large division for you, but at the moment it seems to be driving bigger net inflows than either asset management or insurance. So just wonder what is driving that given generally tougher conditions in the second quarter. And actually not just the inflows, the revenues also pretty strong in Wealth Management. So how are you able to buck the industry trend? What is driving the inflows and strong revenues there, please?

Jérôme Grivet: Thank you, Kiri. Well, in Ukraine, of course, if at a certain point in time a capital injection would be needed from outside from Paris to Kiev, this would be, I would say, a truth moment, at which we should consider either to inject this additional amount of capital or just simply to walk away. Because we have organised everything to be able to cap our economic risks on Ukraine. This is why we have decided to book a provision in Q1 that is covering the total amount of capital that we have there.

If we increase the level of capital, then it changes the game. And of course, we would not do that unless we have some visibility on what is going to happen with this extra capital. Because what we do not want to do in this situation is to lose the good money after the bad to put it this way. So we think that we are not in this situation for the moment. And indeed, having booked an additional €30 million of loan loss provisions locally, we are continuing to, I would say, strengthen the balance sheet locally, but that is really the key.

Coming to the wealth management business, well several elements of answer. First, we are a very small player in this business. So when you are a small player, you have the capacity not to depend fully on the global trend of the business. Of course, when you are UBS or whatever, it is very difficult to post the performance that is significantly different from the overall growth of the market. When you are a niche player as we are, it is possible to maybe beat the market sometimes.

Second point, the last few years were complicated for our wealth management division because we have decided to significantly shrink the portfolio in order to avoid any reputational risk. And so we have voluntarily exited from several customer segments, which is always difficult, and it is now done since probably one or two, maybe one or one and a half year. And so we are now back in an offensive mode, and this is what we have been able to generate in terms of inflows this quarter, shows that we are back commercially in the business.

And then, of course, we continue to be able to rely on the rest of the Group, and for example, the regional banks of Crédit Agricole in order to generate new leads and to attract new customers for the Wealth Management division. So all in all, it is a good success of a transformation of the business model of the Wealth Management since five years probably.

Okay. Well, I think it was all questions you had today. So again, thank you for being with us so late in the summer. And I wish you a good vacation, if you take some. Personally, I will. Bye-bye.

[END OF TRANSCRIPT]