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+++ presentation

Jérôme Grivet: Good afternoon to every one of you. I imagine that this meeting is one of the very last meetings you will have before your vacation. I'll try to handle this meeting as swiftly and as efficiently as possible.

Let me start with Page 5 of our usual document, where you have the main figures regarding the net profit of the group and of Crédit Agricole S.A. both for the quarter and for the semester and both for the stated and for the underlying figures. What I can say briefly on this page is that all figures are significantly up as compared to the same period of last year. Maybe just one additional comment on this page, and I will go back to this information a little bit later on. You can see that solvency of the group significantly improved this quarter with a fully loaded CET1 ratio which stands at 15% for the group and at 12.4% for Crédit Agricole S.A.

If I go now to Page 6. The main information on this page is that these very good results that we presented on the previous page are reached with a very sound set of figures for the different elements of the profit and loss. We have a very dynamic top line in the underlying figures, especially for Crédit Agricole S.A. Our costs -- operating costs are kept strictly under control, which is leading to a very significant improvement of the cost/income ratio of Crédit Agricole S.A. in the quarter at 60%, 60.5% to be precise. We have a further decline of the cost of risk, a 21% decrease on the cost of credit risk for the S.A. It stands at now 35 bps on the outstandings; and then this information about the reinforcement of the capital ratio of the Group and of Crédit Agricole S.A.

If I go to the following page, you have the main specific items of the quarter. I'll just remind you that this quarter, we booked the effect of the sale of our stake in the capital of Eurazeo, which led both to a capital gain of a little bit above EUR 100 million. It's reported in the specific items. And it also led to a reduction in the RWA consumption by nearly EUR 2 billion. So all in all, this is leading to a positive impact of 13 bps under CET1 ratio of Crédit Agricole S.A. You have also the impact of the liability management operation that we undertook this quarter, EUR 26 million impact on the net income of Crédit Agricole S.A. and a running and positive impact on the coming years of EUR 10 million to EUR 15 million of NBI [Net Banking Income] before tax. We have also a significant change in the provision for home purchase savings plan. It has a positive impact on our net income group share of EUR 113 million for the S.A., and at the level of the group, you have an additional effect of EUR 82 million net income group share for the Regional Banks. And then you have the other traditional recurring specific items, which led to a negative impact on the net income group share of Crédit Agricole S.A. of EUR 69 million this quarter.

On the next page. I will, of course, not comment all those figures, but what you can see is that all our business line show significantly up figures for the different elements of their commercial activity and of their businesses, which is a very sound and, I would say, encouraging element. All our growth engine are working this quarter and it has led obviously, into the financial figures I will comment just later on.

If I go now to Page 9, what you can see is that all business lines are also developing and improving their different elements of digital transformation in order to provide better services to their customers. So again, I will not comment on all the elements on this page, but I think it's important to mention that in all our businesses, as we committed to in our medium-term plan, we significantly invest in order to adapt and adjust our product offer and service offer to our customer needs.

If I go now to Page 11, you see the breakdown of the increase of the net income group share. And what you can see is that both in the quarter and in the semester, all business lines contributed positively to the global increase of the net income group share. The net income group share -- underlying net income group share was up 43% in the quarter and 70% in the semester. And what you can see is that again, every business line, including, of course, the Corporate Centre, contributed positively to this improvement.

On Page 12, you see the same breakdown for the evolution of the net banking income. And what you can see is that the net banking income globally improved by 6.5% underlying in the quarter and by more than 10% in the semester. If we stick only to the improvement within the business lines, excluding the Corporate Centre, the improvement is plus 2% for the quarter and plus 6% for the semester. And you see that all business lines contributed positively to this improvement with an exception, and I will comment it a little bit later on, of the asset gathering division on the quarter.

If we go now to Page 13. You will see that at the same time, we continue to keep our cost basis under a strict control. And you can see that both in the quarter and in the semester, it was almost flat, a very small growth actually of around 1%. So this is leading to a significant improvement of the cost/income ratio. And you can see that in the quarter, the cost/income ratio globally of Crédit Agricole S.A. stood at 60.5%. It's an improvement of more than 3 percentage points. And in the semester, the improvement is even higher, 6 points of improvement for an average of 61.6%. In the quarter, the only business line in which we have had a rather significant increase of the cost basis is the asset gathering division. This is mainly in connection with the fact that Amundi has now started to book some integration costs in view of the integration of Pioneer.

On Page 14, you can see that the cost of credit risk continues to decline. It stands now at 35 bps on the perimeter of Crédit Agricole S.A., which is far below the MTP assumption, which was 50 bps. And on the perimeter of the Group globally, it stands now at 21 bps, again, far below the assumption of the MTP, which was precisely 35 bps. I mentioned that at the level of the Regional Banks in the second quarter of this year, we have a net reversal of credit risk provision for EUR 35 million. It's obviously in connection with the future transition to IFRS 9 by the beginning of next year.

If I go to Page 15, you will see that this good evolution of the cost of credit risk is spread over all business lines within the perimeter of Crédit Agricole S.A. We have a continuous decrease in the perimeter of the consumer credit activities. It's also declining year-on-year in the Italian retail banking activities. It's declining quite significantly in the quarter for the financing activities of CACIB, and it is stable at a still very low level for LCL, below 20 bps.

On Page 16, you can see that as we stated in the medium-term plan and it was also the case in the previous quarters, we still have a very diversified business model, both from a NBI and from a net profit viewpoint, very diversified business model but in which, obviously, we have a predominance of business lines related to retail customers and asset gathering activities. I will also want to mention that we have, for the first 6 months of the year, an underlying return on tangible equity, unrealized of course, which stands a little bit above 11% at 11.3%. And you have, on the right-hand side of this page, some additional information regarding the return on normalized equity for the different business lines, which are close or approaching to the level that we've set in the medium-term plan.

Now let's go a little bit more in-depth in the different business lines, and I start with the asset gathering division. Globally, for this division, we have a very significant increase in the amount of assets under management, plus 9.5% to reach EUR 1,551 billion of assets under management, and all business lines contributed to this increase. And I mentioned that it's before the integration of Pioneer, which is going to add a significant amount to these assets under management. Globally, the contribution of this business division is improving by 12% on the quarter and nearly 9% in the semester. And I mentioned the wealth management business in which the net profit was multiplied by 2 in the second quarter as compared to the second quarter of last year, thanks to a high level of activity, customer activity.

Let's go now on the insurance business. And I understand that your main questions on our results regard precisely the insurance business, which is, from my viewpoint, good news. It's good news because this activity is one of our best performing activities, and it's good news because I think that considering the fact I've been running this business for 5 years, I can quite easily give you some additional precision.

So let me start by this. I think insurance reporting format and bank reporting format are very different. And actually, they only converge at the bottom line of the P&L. So what I can say to start with is that the level of net income group share reported for our insurance business is obviously the same when you read it through an insurance reporting format and through a banking reporting format. In addition to that, I will mention that as Crédit Agricole Assurance is now a regular issuer of debt on the market, it publishes its financial statement and it's going to publish the first half of the year financial statements in the coming days. They will be available if you want to have more detail under the more traditional insurance reporting format. But without referring to these financial statements, let me give you some additional explanation on our performance in the first half and the second quarter of this year.

In the first half of this year and especially in the second quarter, we have had a very, very good level of financial revenues in connection with, obviously, our euro-denominated life insurance business. And as an indication of this good level of financial products, financial revenues, let me give you 2 additional precisions. What we call the average yield on our portfolio of assets, which was at 3% globally last year, stood on the basis of an annualized rate at 4% for the first half year -- for the first part of this year. So it's a significant improvement between the full year of 2016 and the first half of 2017. And considering, at the same time, the fact that the size of our portfolio of assets increased a little bit, we generated close to EUR 5 billion of financial revenues in the first half of this year as compared to around EUR 4.2 billion, I think, for the first half of last year. And a significant part of these revenues were made under the form of capital gains, which bear a low tax rate. And therefore, we could, at the same time, which is exactly the best of the possible situations, generate the level of net income group share that we targeted considering, globally, our activities and, at the same time, significantly strengthen our provisions, which are dedicated, which are attributed to the policyholders but which are not immediately distributed. You may remember that this famous provision, which is called the PPE, was a little bit above EUR 7 billion at the end of last year and we raised it up to close EUR 9 billion in the middle of this year. So obviously, this is a very prudent approach that we take in order to get ready for any type of further evolution in the future of the structure and the level of interest rate, and this is in the best interest of our policyholders.

So all in all, I think to comment this -- to achieve my comments on this business, this is why we could have, 1n the quarter and 1n the semester, a very good level of net income group share, which is up 16.5% in the second quarter compared to 2016 and up 9% in the first half of the year. And at the same time, we have had a low level of tax and a relatively low level of net banking income. But again, net banking income is not a very common, I would say, concept for insurance activities in the context of a very good level of activity. And I want to go back and to finish with this comment. In P&C insurance, again, we've significantly beaten the market with premium income increasing by 8%. And in savings and retirement, we have had a decline in net new inflows but a far better breakdown of our net new inflows with 90% of these net new inflows made of unit-linked products, which is a significant improvement as compared to last year. And all in all, we now have a breakdown of our life insurance contracts, which is a little bit more than 20% in unit-linked and a little bit less than 80% in euro-denominated contracts.

On the next page, you have some key elements about Amundi. I imagine that you have been watching Amundi's press -- or analyst conference by the end of last week, but just as a reminder, assets under management grew significantly year-on-year. And we have had some outflows in the second quarter, but they were only outflows in money market funds. And we continue to have strong inflows in medium- and long-term products, medium- and long-term assets. Globally, the contribution of Amundi to Crédit Agricole S.A. P&L decreased a little bit by 12% quarter-on-quarter, but this is simply due to 2 specific elements. The first one is that Amundi -- I repeat it --, have started as soon as the second quarter of this year to book some costs linked to the integration of Pioneer, EUR 26 million of cost to be precise in the second quarter. And the second element is that we have decreased our percentage of interest in the capital of Amundi between the second quarter of 2016 and the second quarter of 2017. This was, you may remember that, in the context of the capital increase of Amundi. If we correct the figures for Amundi for those 2 elements, we would see a net income increasing by 8% quarter -- second quarter on second quarter.

Last precision I want to mention. We haven't started yet to book any contribution from Pioneer, because the integration of Pioneer in our perimeter of consolidation is starting only in the beginning of the third quarter of this year. So we are going to start to book some contribution from Pioneer in the third quarter of this year only.

If I go now to LCL. The commercial activity is very sound with a strong development, again, in the loans outstanding, plus 10.7%, and also a significant increase in customer savings both on and off balance sheet. As far as the P&L is concerned, you can see that the net banking income is up a little bit, plus 1%. Costs are still very much kept under control with a further decline close to 5%. We have a cost of risk which is almost stable. And all in all, we have a net income group share at EUR 152 million, which is up 40% on the quarter. And at EUR 292 million, it's up 51% in the semester.
We mentioned also the fact that we are working presently on the sale of Banque Thémis, which is a small subsidiary of LCL, with which there are only very few synergies with the rest of the group. So it's, I would say, a noncore or nonstrategic asset which we are presently selling.

On the next page, you can see that we have had a further decline in the level of renegotiations and early repayment of home loans with, of course, a decrease in the contribution of the fees linked to these renegotiations and early repayments to the NBI of the quarter and, for the future, a lower pressure on the margin because obviously, the more renegotiations you have, the more pressure on the margin you have for the following quarters.

In Italy, things are also improving. This is on Page 22. You can see that the net banking income in Italy increased by 5.6% in the quarter and by more than 3% in the semester. In this context, you have a net income group share at EUR 50 million for the quarter. It's up 15%. And at EUR 90 million for the semester, it's up 11.5%. I want to specifically mention the strong improvement in the fee income -- commissionincome, plus 8% on the quarter. And I want also to mention the fact that even though the cost of risk appears a little bit up, plus 1.5% on the quarter, it is actually due to a perimeter effect. And if we correct the perimeter effect, we would have had a cost of credit risk which would be down nearly 3% quarter-on-quarter, second quarter on second quarter.
I finish by the information about, globally, the profitability of all of our activities in Italy. You may remember that for the full year 2016, we had a net profit in Italy which was close to EUR 500 million. This semester, it's at EUR 293 million. So it's on on track to be above the figures of 2016 for the full year 2017.

Outside Italy, not much to say, a very sound and dynamic activity but a Forex effect which is, of course, penalizing our activities, especially in Egypt; so all in all, an underlying net income group share at constant exchange rate, which would be up 30%. At current exchange rate, it's a little bit down, minus 5.6%, but nothing much to mention.

On the specialized financial services, we have a very good commercial momentum with new lendings significantly up in the consumer credit business. The production of new loans is close to EUR 11 billion this quarter. It's up 4.1% Q2-on-Q2. And the managed loan book is up nearly 9% June-on-June, which is a very significant increase; also a good level of activity in the leasing and factoring business and, all in all, a business division which shows revenues up 4.6%; costs, almost stable, plus 1.3%; cost of risk further declining, minus 25%; and all in all, net income group share, EUR 188 million, up 21.6%.

Large Customer division, CIB and asset servicing. We have had, all in all, a significant increase in underlying revenues, plus 5.2%. I want to mention the good performance of the capital market activities, plus 10%; and also the good performance of the asset servicing activities, plus 5%, which is a very good catch-up with the situation of rate, which was quite difficult last year before we started to bill the liquidity cost to our customers. All in all, with this good commercial momentum and this good level of revenues, considering the fact that costs are almost stable, we have, globally for the division, net income group share at EUR 450 million, up 23%. And I also mention the fact that risk-weighted assets in this division are significantly down, minus 12%, June-on-June; and minus 6%, June-on-March.

The Corporate Centre is also significantly improving. This was expected because the biggest part of the improvement is in connection with the completion of the Eureka transaction. You remember that it was completed in August last year, which means that when you have a comparison Q2 on Q2 or H1 on H1, we have the benefit of this significant improvement. So what you can see is that both at the level of revenues and at the level of net income group share of this Corporate Centre, we are significantly and progressively improving. And so we are on track to be, in 2019, where we have announced we wanted to be, around EUR 700 million of net loss for this Corporate Centre.

I finish this presentation of the business lines by the Regional Banks. Of course, they no longer account in the P&L of Crédit Agricole S.A., but they definitely contribute significantly to the net income of the group globally and of the solvency of the group. It's important to keep that in mind, obviously. A very good commercial momentum also at the level of the Regional Banks with customer savings up 4.7% and loans outstanding up 5.6%; and all in all, an underlying contribution to the net income group share of the Group, which is up 14% Q2 on Q2 if we exclude the effect of the Eureka transaction. And as I already mentioned it earlier, the Regional Banks are globally showing reversals of their credit risk provisions this quarter, as I mentioned it, in connection with the preparation of the IFRS 9 transition.

Solvency, now. At CASA level, we have a CET1 ratio, fully loaded, of 12.4%. It's up 55 bps, to be precise, this quarter. This is due first to the very high level of profitability that we have had even after the distribution. I remember that our distribution policy is a 50% payout, cash dividend with a floor at EUR 0.60 a year. So for the first quarter, the floor played, if I may say so. And so we had booked, in the first quarter, a dividend of EUR 0.15. In the second quarter, the level of result made it that the floor did not play. So all in all, for the first half of the year, we have a global dividend which is at EUR 0.34 for the first half of the year, above the floor of EUR 0.60 a year.

The other element playing on this CET1 ratio is the low consumption of RWA, no significant movement in the AFS reserve and a significant additional element, which is the fact that in the second quarter, we benefit from the impact of the capital increase of Amundi. And this represents an improvement of the CET1 ratio of CASA of 11 bps. And of course, we don't have the negative impact on our CET1 ratio of the integration of Pioneer because this is going to take place only in the third quarter. And in the third quarter, we will have a 76bps hit on our CET1 ratio linked to this integration of Pioneer. So all in all, 76 minus 11, it's roughly in the region of the 65 global impact that we had already mentioned. So pro forma the Pioneer integration, actually, the CET1 ratio of Crédit Agricole S.A. stands at 11.7%, far above the 11% target that we have set.

As far as the Group is concerned, the fully loaded CET1 ratio stands at 15%, which is also significantly up as compared to the end of March. The same elements explain the same movement, a strong level of retained earnings, almost no movement in the AFS reserves, a good control of the evolution of the RWAs, and some technical elements in which -- the effects of the capital increase of Amundi. So globally, pro forma the integration of Pioneer, the CET1 ratio of the group stands at 14.6%. Lastly, I mention on this slide the TLAC ratio, excluding any element of eligible senior preferred debt, stands at 20.8%, which is already significantly far above the future requirement of 19.5%.

As far as the funding program is concerned, we have completed 95% of the funding program of Crédit Agricole S.A., of the yearly funding program of Crédit Agricole S.A., by the end of July; so absolutely no funding issue, of course.

And we have also a very sound liquidity situation on Page 33, where we have this significant surplus of stable funds above EUR 100 billion; short-term debt, which is covered more than 3x by our portfolio of HQLA securities; and the LCR ratios of the group and of CASA far above any regulatory requirements.

I think I will finish with that, and I will leave you the floor for questions, if you have any. Thank you very much.

+++ q-and-a

Operator^ (Operator Instructions) We can now take our first question from Jean Neuez from Goldman Sachs.

Jean-Francois Neuez^ Jérôme, I just wanted to ask you 2 questions about the numbers, about your -- about the Italian involvement right now. So there's been recently your headline saying that you're still committed to potentially buying these assets in Italy. Just wanted to know what's the state of the discussion and what's the holdup, in a sense. What's the point of discussion at this stage for you and for, I guess, the local authorities? And also, in Italy, what's your stance on your JV, your consumer finance JV with BAPO, if you're willing to go further with that or not really? And secondly, I wanted to ask you, you've been, in the past, kind enough to share your views on Basel IV. We are hearing that the national supervisors are asking for new impact studies recently and that the discussions could resume. I just wanted to know whether you could share your views of the progress and whether you expect anything to be completed this year, et cetera, et cetera.

Jérôme Grivet^ Thank you, Jean-Francois. On Italy, as far as the 3 banks' potential acquisition is concerned, actually, you were asking about the points of discussions. I think the issue is not about a discussion between ourselves and the Italian government in the sense that we have set in the beginning our framework of the potential acquisition of those 3 banks. This was set in a nonbinding offer in April. We reiterated this nonbinding offer recently because it had come to its maturity date. But there is no discussion, I mean, about our financial framework. The only discussions are actually about the capacity of the Italian government to put in place all the elements that will allow it to meet our global framework. I don't know if I'm clear. What I mean, to be a little bit more blunt, is that we are not modifying our financial criteria for this acquisition, and this is not what is at stake. What is at stake is for the Italian government to gather all the financial resources in order to fulfill our requirement.
As far as Agos is concerned, we are very happy with the development of Agos, obviously. We are very happy to see that it's our -- the core shareholder of Agos is growing and developing. We are obviously ready to develop further if any opportunity of expanding our commercial footprint for this business were to arise. But for the time being, there is no formal discussion about that.
Basel IV, it's a complicated issue. And it seems to me that the more things advance, the less clear the situation is. So I read in the newspapers, as you may have in the last days, that a meeting which was initially planned in September could be postponed to October. This is not the first time we see that type of news. So I don't know exactly how to interpret that. I think the European banks and the European countries, the European governments have made it very clear what was their, what -- which were the guidelines in this discussion. So I think that from our viewpoint, there is no uncertainty. But I understand that from other stakeholders in this discussion, there might be some uncertainty.

Jean-Francois Neuez^ Do you expect anything to finish this year or not really? I'm asking whether...

Jérôme Grivet^ To be frank, I don't know. But at a certain point, I think we should all consider that if we are not able to finish the discussion by a result, we could finish it by no result.

Operator^ (Operator Instructions) We will now take our next question from Lorraine Quoirez from UBS.

Lorraine Quoirez^ I have a question on the consumer finance business. So obviously, the trends are very strong and particularly in France, where you are basically outpacing industry growth. So I'd like to get a little bit of color. I mean, you explained this during the Strategy Day, but I'd like to get a little bit more color on -- if there is an acceleration of cross-selling from the network and, basically, for how long do you intend to outperform the industry. Is that going to be over the whole, like -- the whole strategy plan? Or do you think this is just like a ramp-up and you will basically match industry growth pretty soon?

Jérôme Grivet^ Well, as far as the consumer credit activity is concerned, especially in France, I think we have the combination of 2 positive elements. The first one is that we are presently completing the set of agreements between CACF and the different regional banks. So some regional banks were, last year, not distributing CACF product. It's progressively completed. And so this is an element of acceleration for the distribution of consumer credit products through our banking networks. That's obvious. But we are getting close to the end of this process because I think that only a very few now regional banks still do not distribute CACF products. The second element, which is positive for the whole market but which -- from which we benefit, too, is the fact that the economic situation is improving in France. The credit demand from household is increasing also. And it's also increasing not only in home loans, which has been the main driver of the lending activities to household in the last maybe 2 years, but it's developing also for consumer credit or car financing. And so this is considering the strength of CACF. This is a growth engine which is positive for CACF. So for the rest of the medium-term plan, we -- again, we are not going to benefit from a significant additional expansion of the footprint of CACF because once it will work with all Regional Banks, then we will stick to this customer basis as far as this type of product is concerned. But probably, this is going to help in the coming quarter a little bit, the further growth of CACF.

Operator^ And we can now take our next question from Alex Koagne from Natixis.

Alex Koagne^ Jérôme, a few questions from my side if I may. The first question is just a follow-up on the Italian bank question. I don't know if you can share with us what are your main requirement from the Italian government. The second question is related to the off-balance-sheet savings at Cariparma. I thought that there is a drop of EUR 10 billion Q-on-Q. If you can give us some color on the reason behind. The third question is related to the Corporate Centre. I don't know if we can consider the EUR 163 million loss of this quarter as a run rate. And if you annualize the number, we are not very far from the EUR 700 million you guide for 2019. And if I may, one last question is on RWA in the CIB. Should we expect this growth to continue? And how should we think about RWA in light of your target of 2019 of EUR 134 billion?

Jérôme Grivet^ Okay, Alex. On your first question, which was about the Italian government requirement in the acquisition of the 3 small banks, I think we are not talking about Italian government requirement addressed to us. It's more the fact that the Italian government, in principle, agrees on what we have put on the table, but simply, it has to put together the different elements which are going to render this transaction feasible -- possible. So this is why they need the further 6, 8, 10 weeks, I don't know. And this is why we have accepted to extend a little bit our nonbinding offer. So we are not requested to modify, I would say, the perimeter and the parameter of our proposal.

On the off-balance-sheet assets with Cariparma, to be frank, what we decided to modify a little bit in the presentation of this customer savings within Cariparma is that -- to be frank, we got conscious that we had adopted not only traditional off-balance-sheet asset like mutual funds but also some assets which were kept under custody by Cariparma for some specific customers, which are yielding a very, very tiny level of margin, almost no revenues, which may be volatile. So we decided to strip these assets out of the real off-balance-sheet assets of Cariparma, and what is now presented is the level of real, I would say, off-balance-sheet assets, which are mutual funds kept for the individual and SME customers. So it's, I would say, purely technical and without any impact on the level of revenue.

On the Corporate Centre, as you may see on Page 26, we have a trend. And you can see on the bar chart on the right-hand side of the page, we have a trend. But we have some volatility. So of course, we think we are on a good trend and we are comfortable with the idea of meeting the EUR 700 million threshold target for 2019. But we have to work quite hard in order to reach this target because this means many, many operations of optimization of the financing cost of the Group. So it's a hard work to perform, and we don't want to go beyond or further as compared to our target.

Lastly, on the RWA in the CIB division, I think we are there at the meeting point of 3 different trends. The first one and the most important is that strategically, we have decided to put in place a pick-and-choose approach towards our customers in order to keep only the customers with a profitability meeting a certain threshold. And we have also a distribute-to-originate strategy. This is working. And actually, we've been increasing the primary distribution in the second quarter as compared to the second quarter 2016 by, I think, 5 points, if I remember correctly. We have now, on the last 12 months, a primary distribution rate which stood at 37%. So this is an approach that we want to continue to develop. So these elements are, I would say, structural and will continue in the long run. Then you have 2 additional elements, which may change or may have a certain degree of volatility. The first one is the exchange rate because we have a significant proportion of our assets which are dollar-denominated or at least non-euro-denominated. So of course, forex can have a certain impact on the level of RWA translated into euro. And we have also a certain volatility which is linked to the moment when we close a transaction. And if we close a transaction a little bit before the end of a quarter and the distribution takes place only after the end of the quarter and the beginning of the next quarter, we can have some -- I would say, some peak in the level of RWAs inside a global trend. So globally, we have benefited at the end of this quarter from the fact that Forex -- and notably, the dollar is quite weak. We have also benefited from the fact that we didn't have any significant transaction in our books at the end of the quarter, but we also benefited from a steady strategy that was defined in the medium-term plan for CACIB.

Operator^ We can now take our next question from Delphine Lee from JPMorgan.

Delphine Lee^ Just a couple of questions on my side. I just wanted to come back on your guidance for LCL on PEL revenues. Given that the first half is already up 5%, would you view that guidance as conservative? Or are we missing something? Is there some kind of impact for the second half that we should be aware of? And also maybe related to that, I mean, generally speaking, has there been a change? Or what's the rationale for the sort of the provisions on LCL on home purchase savings plans? And then secondly, on your capital, just wanted to check in terms of the impact that you had in your business plan on AFS, is that an impact that we should still expect in the future? Or is there a way you can basically revise this impact down?

Jérôme Grivet^ For LCL, I think I will not modify the guidance because globally, it seems to me reasonable. Why is that? It's because we have had, in the beginning of this year, a very significant wave of credit renegotiations. And specifically, when a credit is renegotiated, the customer benefits from a decrease of typically 100, even maybe 110 or 120 bps. So it means that on a significant proportion of our loan book, we are going to have in the coming quarters - and we already had in the second quarter as compared to the first quarter - a hit on the net interest margin.
It's going to be progressively compensated and it's already been partially compensated by the increase in volumes and by the increase in fees. And we were quite happy to see that we had, this quarter, a significant increase in the level of fees and commission for LCL. This is exactly the strategy that we wanted to implement. It's to capture new customers through the home loan and then to progressively equip those customers. It's working. So this is why I gave this guidance for the full year of 2017. I don't know if I'm going to be right by a few million of euros, but this is globally the idea I wanted to express by confirming this guidance for the full year.
On capital, obviously, what happened in the second quarter is that we had no significant movement actually, on rates and we had a very positive movement on equities. And equities represent also a certain proportion of our AFS reserves, especially the equities which are booked in the insurance division. So this is why we didn't see any, I would say, time decay effect on the AFS reserve on the second quarter. But nevertheless, quarter after quarter, the baseline on AFS reserves is that we are going to have time decay effect. So this can be partially offset by movements on rates or movements on equities. But nevertheless, as

our bond portfolio is maturing, we are having quarter after quarter the time decay effect that we have integrated in our capital planning.

Operator^ We can now take our next question from Stefan Stalmann from Autonomous Research.

Stefan-Michael Stalmann^ A couple of questions from my side. The first one going back to the insurance part. I'm wondering if what we have seen in the quarter was actually driven by your desire to sell assets, which then allowed you to boost these reserves. Or was it the other way around that you felt you had to boost the reserves and therefore, you sold assets. And then looking forward, do you think there's more of this to be expected? And are you confident that typically, you can offset the bottom line impact like you did in the second quarter going forward as well? The second question regarding your impaired loan book. We have seen it coming down by 6% during the quarter, and it's quite similar to what we have seen at other French peers. Is there something particular going on industry-wide? Have you maybe gotten a nudge by regulators to start working on your impaired loan books? Maybe you could give a bit of color on what is driving that maybe also regionally? And if I can throw in a third question. You mentioned the memorandum of understanding with CNP regarding a creditor insurance, which you had flagged them before. Could you maybe talk a little bit about the potential financial impact from in-sourcing this business in into CASA going forward?

Jérôme Grivet^ Okay. Let me start with the last question because it's the easiest one. The back book of this activity is going to remain exactly as it is now. So it's a 50-50 insurance split between CNP and ourselves, and it's not going to change. So the effect of this memorandum of understanding is simply going to come from the progressive ramp-up of the new business. So it's going to be very progressive, to be frank. And in the new business, instead of having 50% of it, we are going to have 100% of it, which means that actually, the new business is going to improve our activity only by 50% of its value. We already have 50% of it in the back book. So it's going to be progressive and slow ramp-up but it's going to be in the medium- to long-term, a significant add up to our creditor insurance business.

On the impaired loan book, I think nothing specific was required from us. And this is only the result of many, many individual decisions that are taken in the different business lines and in the different entities of the group. You have different approaches in Retail Banking in Italy, in the CIB space and so on and so forth. So I think it's only showing that the macroeconomic improvement that we are seeing presently, especially in Europe, is having some consequences on the quality of our loan book. I think there's nothing else to try to guess about that. As far as the insurance activity is concerned, obviously, we cannot decide in advance, especially for a significant transaction like the one we booked in the second quarter when we sold our stake in the Sanef toll road network to Abertis. We cannot decide in advance that this is going to take place that quarter or this quarter. What we know is that we have, in the portfolio of asset of Crédit Agricole Assurance, a very significant level of unrealized capital gains. And actually, we monitor very closely the level of unrealized capital gains on this portfolio. A big part of this unrealized capital gain is connected to the bond portfolio of CAA. So usually, typically, we don't sell the bonds to capture the capital gains, but a significant part is related either to listed equities or to real estate. And our policy has always been to try to crystallize a certain proportion of this unrealized capital gain. Year after year, we have a budget, targeted budget - because we never can pretend when we do the budget for next year that we are going to be sure to realize this level or that level of capital gain - but we try to have regular level of capital gain. When an opportunity arises, like was the case for Abertis proposing to buy this stake in Sanef, well, we have to take the opportunity to realize the capital gain. And then I would say we steer the financial policy of insurance company in order not to destabilize the P&L of the activity. So I'm not pretending we are going to have every quarter the same one-off capital gain, that the one we had on Sanef, but every time we have that kind of big capital gain, we are going to adjust globally and steer the financial policy in order to protect the level of profit, obviously, that's very important to be as stable as possible in terms of bottom line. But also to try to put money aside for our policyholders in the context of where probably rates are going to pick up at a certain point. The last point, excuse me, is obviously our policy in terms of split between euro and unit-linked products.

Operator^ And we can now take our next question from Pierre Chedeville from CIC Market Solutions.

Pierre Chedeville^ A few questions, first question is regarding the insurance business. In your medium-term plan, you mentioned the fact that you are targeting an increase in equipment rate of the networks in insurance products. And if I remember well, you wanted to go to 40% from 13% -- 30%, sorry. Could you give us an update regarding this equipment trade in insurance? It's my first question. Second question. It's a technical question. But I don't really understand why you book a part of the HPSP provision in Corporate Centre. And also, what is your view regarding the evolution of this HPSP provision, which is quite significant in this quarter in term of positive impact? And the last question is some banks, UniCredit for instance, I think, have mentioned or the potential impact of IFRS 9, which is now close, very close. Do you have any assumption at this stage, not precise, but ”grosso modo” as we say of this impact?

Jérôme Grivet^ Okay, Pierre. Equipment rate, it's a very important information, but it's a complex one too, I would say, to gather, and so it's difficult to have it more than once a year. So what we follow on a quarterly basis is the number of policies, for example, for the insurance business. And what I can say is that again, this quarter, the number of policies increased net-net by close to 200,000 in P&C insurance, as an example. But I note your point and we will try to highlight the evolution of the equipment rates by the end of this year.

The booking of part of the reversal of the home purchase saving plans provision in the Corporate Centre is in connection with the fact that in the Corporate Centre, it's usually a long-dating relationship between CASA and the Regional Banks. We book a certain proportion of the home purchase saving plans of the Regional Banks, so we have part of these plans in the Corporate Centre for the account of the Regional Banks. And then the Regional Banks themselves have another bunch of their home purchase savings plans. That's the reason why we have a split of the reversal of the provision between the Corporate Centre and LCL for its accounts and in the Regional Banks. We still have a quite significant amount of this provision. So it's going to depend actually on the evolution of rates, because to put it bluntly, if rates rise, then we can have some reversal of the provision. If rates decrease, we will have another increase of the provision.

Last point on the IFRS 9, we are not communicating formally on the impact because it's not a documented and audited impact. But what I can give you roughly is to confirm what I already said, I think last year, is that globally on the perimeter of CASA, this could lead to a hit on the CET1 ratio in the region of 30 bps. And on the perimeter of the group globally, it's going to be an impact of 20 bps. And this impact is going to be taken end of Q1 2018.

Operator^ And we can now take our next question from Jon Peace from Crédit Suisse.

Karl Jonathan Peace^ My first question is on the insurance business. And as you think in some of the proposed tax changes in the election, does that change anything at all in your business plan, either in terms of the attractiveness of the traditional life products or maybe accelerated impetus to switch into unit linked products? And then my second question was on fixed income trading. You have, I think, CVA within your figures and I just wondered if you were to strip out CVA, what the growth rate might be?

Jérôme Grivet^ Okay. We are waiting for the French government to issue its precise project of law for the modification on the tax rate of savings products because we don't know exactly how it's going to be organized. And I can say that from this viewpoint, the devil stands in the details. So we don't know exactly what will happen. If I understand clearly what is projected, this new flat tax rate is going to apply only for new contracts. So if this applies only for new contracts, it will not change much. If it applies in totality or partially to all contracts, this can have some more severe changes, but frankly, for the time being I don't know exactly what will be the impact.

On the fixed income, it's true that we have a positive impact of the CVA and FVA in the figures for the fixed income. I'm not able to give you the exact breakdown, but it has indeed a positive impact considering the evolution of rates and the evolution of the positions towards our counterparts. But I think that most of our competitors give also their figures including the CVA and FVA. And actually, it's very logical because inside the capital market division, we have a desk which is dedicated to managing the CVA and DVA. So actually, we consider it as one of the different sub business lines of the fixed income division.

Operator^ And we can now take our next question from Geoff Dawes from Société Générale.

Geoff Victor Charles Dawes^ Geoff here from SocGen. A couple of questions from myself. One is a clarification on some earlier comments you made about the RWAs and the financing division. And what we didn't quite or what I didn't quite understand is whether the actual exposure amount in the financing division has gone down as a result of the originate to distribute and everything else? Or whether the exposure amount has stayed the same or gone up and you've got a lower risk weighting on that? Thereby, causing the big drop in RWAs. That's the first question. On the second question, if I look across the divisions there are a number of areas where you seem to be growing quite far ahead of the market. So we've talked about consumer finance. There's car finance as well. There's a lot of the LCL volumes. There's some of the Regional Banks' volumes. Is this part of a coordinated effort across the group to kind of use some excess capital and take advantage of the strong capital position, the very strong franchise and footprint and so on? Or is it coincidence? Is it just a sign of very good trends in the overall economy and domestic situation generally? Those are the 2 questions.

Jérôme Grivet^ Thank you. To start with the first one. When I say that the primary distribution has increased and is now at 37%, it means that on the nominal amount of all the assets that we originate, we distribute, in average, 37% of the nominal amount. So it does not depend on the risk-weighting of each of these loans. So in addition, and I'm not able to give you the precise impact, the improvement of certain counterparts could have led this quarter to an additional decrease in RWAs. But I'm not able to give you the impact. And to be frank, I doubt it's very significant because we certainly see an improvement of the overall economic landscape, but before this translates into an improvement of the internal rating of the counterpart, leading to an easing of the risk weighting of this counterpart, it takes time. So I doubt this represents a significant proportion of the moderation of the RWA consumption this quarter.

As far as your second question is concerned, I think you've pointed out a very interesting point. When we published our medium-term plan, we said we were targeting in average an annual revenue growth of 2.5%, out of which 40%, i.e. 1 percentage point a year, would come from the improvement of synergies between business lines. And I think this is exactly what is happening. If the consumer credit division is going faster than the market, it's because it's developing on the customer basis of the Regional Banks. If the insurance business in P&C is going faster than the market, it's because it's developing on the customer basis of LCL and the Regional Banks. And so on and so forth. So I think, yes, this faster than the market growth is undoubtedly the consequence of a deliberate strategy, which is to try to develop as much as possible the synergies between business lines. It's not the strategy to use any excess of capital. This is not the way we put it. But this is indeed the result of a strategy trying to develop faster the -- to develop, at the same time, I would say, the footprint of the group, plus the synergies between business lines.

Operator^ And we can now take our next question from Guillaume Tiberghien from Exane.

Guillaume Tiberghien^ I have 2 clarifications from past questions. The first one is on the AFS. Can you give us a feel of the pace at which we should assume the time decay of the AFS? I think you had said 70 over 4 years. So that's 18 bps a year. But then you now only have 3 years and the AFS are higher. So is it a faster pace or still around 17 or 18 bps a year? Second question, sorry to come back to the RWA in the corporate and investment banking because the pick and choose strategy and the distribute to originate strategy were clearly part of the strategic plan. So apart from the FX, there shouldn't be much of a change versus what you told us at the Investor Day. Yet it seems that the RWA are way below the trend to achieve the 2019 target. So does it mean we should expect lower-than-expected RWA in '19? Or that there will be a catch-up later and maybe we should have a little bit of a growth there?

Jérôme Grivet^ Well, I think, I don't have the precise figure in mind to answer your first question but I think we are, in terms of AFS reserves, a little bit below the starting point of the medium-term plan. If I remember correctly, we were around 125, something like that, when we launched the medium-term plan. And we now are closer to 110, so there has been a little decrease already. And indeed, you were right, we were targeting a 70 bps impact of the time decay over the 4 year of the medium-term plan. So as I said earlier, this is going its way, but it's partially offset or accelerated, depending on the period, by the movements either in rates, market rates or equity indexes. So I would say that on the medium-term basis, we should have somewhere around 70 bps of decrease of the AFS component in ourCET1 over the period of the medium-term plan. And indeed, you're right, we did a little bit less than that since the beginning of the medium-term plan. And we did it partially because probably the equities were a little bit higher than what we forecast in the medium-term plan. So it's complex, but all in all, I think the main figures of the medium-term plan are still valid assumptions.

As far as RWAs are concerned, you are perfectly right again. This strategy of pick and choose and distribute to originate were some key elements of the medium-term plan for CACIB. I would say that those approaches are not completely natural for our people, for our teams, for our commercial teams. So probably, what you see is that we have a certain delay between the moment we launched this approach and the moment we are now, which means that we are now fully, I would say, in the implementation of this pick and choose and distribute to originate approach. So again, we've set some targets in terms of RWAs for each business line in the medium-term plan. We said that globally, for the large customer division, we were targeting a certain stability of the RWA construction linked with an improvement in revenues. So again, we are going to be a little bit volatile around this target. But we still maintain our objective to have, over the 4-year period, a level of RWA in this division which is more or less stable. To be clear, don't expect that we are going to decline 5% quarter after quarter.

Operator^ And we can now take our next question from Max Le Gouvello from Jefferies.

Maxence Patrick Laurent Le Gouvello du Timat^ My question would be focusing on the specialized financial services. The first one is on consumer credit. All the loan growth is coming from third parties. What is your expectation on the consolidated part? Do we need to assume a very limited growth to flat going forward? The second one is on the leasing. It seems that in Q2, you have some one-off in the revenues because we are seeing a pickup in terms of margins on that side. Can you give us some color?

Jérôme Grivet^ To be frank, on the leasing, I'm not sure I have in mind any one-off element for this quarter. But we are going to watch more carefully and if anything appears, we are going to revert to you. I don't have in mind any significant one-off on leasing this quarter. On consumer credit, it's true that we have in this division, too, an asset-light model, which means that the proportion of consolidated outstandings is going to grow much slower than the managed loan book. So...

Maxence Patrick Laurent Le Gouvello du Timat^ If it's slower, is it flat versus 9% to 10%?

Jérôme Grivet^ No, it's increasing a little bit in June as compared to March. It's true that the first time in the last 4 to 5 quarters and it's true that it's not going to grow by 10% a year but we are able to consolidate and to accommodate a slight growth in the consolidated loan book. We had allocated in the medium-term plan again a certain increase in RWAs consolidated in this business division. But it's definitely, the business model is definitely to grow faster, first on the loan books, which are consolidated in the Regional Banks at LCL and at Cariparma, and second in the car financing partnerships.

Maxence Patrick Laurent Le Gouvello du Timat^ Okay. And on the leasing portfolio, we are seeing some 10% decrease. Is it just you starting to get worried about the market and are more cautious? Or is just that you have not done some specific commercial campaign...

Jérôme Grivet^ On the car financing or the...?

Maxence Patrick Laurent Le Gouvello du Timat^ On the leasing portfolio you are down by 9.4% year-on-year.

Jérôme Grivet^ Well, again, I'm not sure...

Maxence Patrick Laurent Le Gouvello du Timat^ Table 7 of the report, Page 42.

Jérôme Grivet^ Well, I think we have to revert to you more precisely on leasing because to be frank, I didn't focus mainly on this business division. Maxence, we'll come back to you to give you the technical explanation. Yes, I see the figure. Oh, yes, I know. It's a perimeter explanation, excuse me, it's because we transferred leasing activities in Italy from the leasing division to Cariparma, to the retail location. So this is why we had the adverse movement within the perimeter of Cariparma.

Maxence Patrick Laurent Le Gouvello du Timat^ Okay, perfect. And that's maybe the explanation of the peak in term of margins.

Operator^ We can now take our next question from Piers Brown from Macquarie.

Piers Brown^ Just 2 questions. One, just coming back to LCL. So you've mentioned that you expect some further margin erosion from the recent renegotiations and that, that at some point will be offset by volume growth. I mean, how close do you think we are to the turn in net interest income? Because if I strip out the -- all the renegotiation fees and the PEL/CEL provision, it looks like the number there underlying is that 9% down year-on-year. So at what point do we see that actually start to find a base? And the second question is actually, it's more pertaining to the Crédit Agricole Group. But just on the subject of MREL, can you give us any indication as to timing as to when you would anticipate your MREL requirements to be handed down to you? And would you anticipate that the requirements in MREL will be higher, possibly materially higher than your current TLAC requirements?

Jérôme Grivet^ Okay. I think I'll start with your second question because to be frank, I don't know exactly when the MREL requirement will be finalized. But we are not expecting a divergence between the MREL requirement and TLAC requirement, especially considering the fact that we are already significantly above any regulatory requirement in terms of TLAC. Again, we are at 20.8% and we target to be at 22% in 2019, so I hardly imagine that the MREL requirement could be exceeding these levels. So I don't expect anything from this viewpoint.

As far as LCL is concerned, I think that the key driver for the evolution of the net interest margin is the evolution of the renegotiations. And as we've shown in the slide show, the renegotiations have been really slowing down and normalizing in the course of the second quarter of this year. We now are at around 400 million of renegotiations in June, which is close to the low level that we had before this pickup in this movement so we are now getting to a moment where the additional pressure on margin is going to progressively vanish. So I don't know exactly when we are going to reach the bottom in terms of net interest margin, but again, I think that if you compare by the end of the year the NBI in 2017 and 2016, we will be more or less stable, which means that we are close to the trough in these activities. And what we see in terms of credit demand, what we see in terms of development in the sale of insurance products, what we see in terms of the development of consumer credit within LCL or what we see in terms of SME lending within LCL again are different elements that are going to help to offset this pressure on margin.

Operator^ We can now take our next question from Omar Fall from Mediobanca.

Omar Fall^ Just 3 questions, please, I know it's a challenge, but is it possible just to give us a sense of what the insurance revenue would have been without the policyholder reserve strengthening exercise, if the investment margin was somewhat normalized in the quarter? That would be great. Secondly, just on expenses in LCL. The pace of reduction seems to be accelerating. Do we need to kind of rethink the 2.5 billion target? Or are some of the investments you'd highlighted going to be backdated. And then last question. Just on the Italian Regional Banks. It's obviously, an accretive transaction if it's successful, but it's not adding that much distribution market share compared certainly to the product factories. So once it's done, is there the possibility you try and take even more advantage of the pricing on banking assets in Italy to perhaps make more transactions? Or do you think that your footprint would be where it needs to be?

Jérôme Grivet^ In terms of the topline of the insurance activity, I think it wouldn't be fair to answer positively to your question. Because again, if you want to force an insurance activity to fit into the banking reporting format, you will have always surprises. So it's difficult. What I can tell you, which is not exactly an answer to your question, but nevertheless I take the opportunity of your question to give this information: if we strip out the insurance activities on the second quarter of this year and if we take a look only at the banking activities of Crédit Agricole S.A. on Page 12 of the slide show, you will see that instead of growth of the revenues, underlying revenues of the business lines, which is at 2%, you would have had 4% increase in the underlying revenues of the, I would say, banking business lines in the second quarter. So obviously, this had an impact which is important. And this corrects a little bit the image that one can have on the dynamics of the banking business lines of Crédit Agricole S.A.

On the cost basis of LCL, we have a program of first, reorganizing the back offices and second, shutting down branches, 250 branches which are going to be merged in the remaining locations. This is producing positive effects on the cost basis. At the same time, we know that we need to invest. We need to invest in IT, and we are doing it. We need also probably to invest in the refurbishing of the remaining branches, especially for the biggest ones. So we are going, at a certain point in time, to have a full stabilization of the cost basis of LCL. A bank cannot be managed by decreasing the cost basis by 5% year after year after year. So we have set some targets in terms of cost basis and cost/income ratio for LCL. We continue to target those objectives but of course, we are going to invest where we need to invest.

Last point, well the acquisition of the 3 Italian savings banks would represent if completed an increase of 20% of our footprint, which is not negligible. It's not a massive transformation, but it's not negligible. It's significant. And it will represent a significant add up for the distribution capacity of the business lines, which are present in Italy. As far as any potential additional acquisitions are concerned, I have no comment to make because there is nothing on the table, nothing we can consider. And we are fully concentrated first on closing this transaction if it's possible, on the basis we have set. And second once the transaction is completed, if it is, we will have a certain time to spend in terms of integrating properly those 3 banks.

Operator^ And we can now take our next question from Robin Down from HSBC.

Robin Down^ Actually, I was going to ask the same question as Omar, but I mean, 12 months ago when I spoke to Xavier Musca he seemed to be playing down the idea of further acquisitions in Italy building out the footprint. So I'm just sort of curious as to what's changed. Is it buying Pioneer and having that product to distribute that's increased the attractiveness here? And then, sorry, completely unrelated second question. On the consumer credit and the car finance partnerships in particular, are you taking residual value risk with those loans? And if so, can you give us any pointers as to how you're managing them and what the sensitivity might be to falling used car prices?

Jérôme Grivet^ Okay. On Italy, what we have said, what we have always said is that external growth must not be a substitute to a lack of organic growth. But we never ruled out the possibility of concluding positive acquisitions if they were made under some very strict financial criteria and if we felt we have the capacity to integrate these acquisitions. So there is no significant change in this general statement. We are exactly in this situation as far as Italian retail activities are concerned. We have the capacity to grow in Cariparma which indeed, this quarter, showed its capacity to grow. Cariparma has proven its capacity to integrate some acquisitions with the acquisition of Carispezia a few years ago and so we are exactly in the precise situation where an acquisition can be contemplated. So it's not a change. It's not a modification. It's simply the application to a specific case of our general guidelines, I would say, in terms of acquisitions.

Robin Down^ So it's just too good of a deal to turn down, then?

Jérôme Grivet^ Excuse me? too good of a deal turn it down? No, we'll see if the deal is completed. But again, we have set our criteria, and if we can conclude a deal with those criteria, it's a good thing. But the interest of the deal is not to be able to buy at a large discount. The very real interest of the deal is the capacity to integrate and to develop these additional branches with, for example, the expansion of their product range.

On specialized financial services, we have, of course, an activity, which is in the car financing business, which is partially or totally exposing us to the residual value of the car that we finance. The direct exposure to the risk of residual value, if we add any exposure that we have in the different activities and in the different entities that are working on this, is EUR 1.7 billion. But it's difficult to really comment this figure because it's adding up many, many different things and many different activities. And in most of the activities, we are in a mechanism where the financial residual value of the car i.e. the last installment that the customer has to pay in order to purchase the car, is structurally far below the technical residual value of the car - I mean, the price of the used car on the market. So it's very difficult to draw a conclusion from this single figure. Just to conclude on that, be assured that this is an issue about which our teams in the different car financing activities are very, very strict for the time being.

Robin Down^ Is it possible to give us a ballpark figure as to how far below that the residual value is versus the projected value? I mean, or I appreciate it might be commercially sensitive. But I mean, do you allow a sort of safety margin of 10%, 15%?

Jérôme Grivet^ Again, I don't have this figure in mind. But this would be an average figure, which would not be necessarily representative of the different type of businesses that we have between the traditional car financing business in which again, the financial residual value is very low and what we call more balloon car financing where the potentially, the residual value is closer to the anticipation of the market value of the used car. And the last point is that in most cases or in many cases, we have also the commitment of the car maker to take back the car if the borrower does not buy it. So we have anyway a first layer of protection, which is the carmaker itself.

Operator^ And we can now take our next question from Jean Sassus from Oddo Securities.

Jérôme Grivet^ I understand this is the last question, Jean.

Jean Sassus^ Just a quick one. Just coming back on the insurance side. I understand your point that you are building up the reserves ahead of expectation of higher yields. Now I'd like to know how you think about the dimensioning of those reserves considering your interest rate scenario, are you where you would like to be, or you need to build much more? And what kind of sensitivity should we think about higher yield on higher reserves? And what could be the impact on the P&L for the insurance sector?

Jérôme Grivet^ Well, I think we have, and when I was running the business I had initially set some targets in terms of the level of provisions I wanted to build, which are already exceeded, to be frank. For the time being, we have a provision which amounts to close to 4.5% or 5% of the total euro-denominated products outstanding, which is very significant considering the fact that on the French market, the average profit-sharing rate last year was close to 1.8%. If we have 4.5%, it means that we have more than 2 years of profit-sharing in reserves. So it's, of course, a shortcut to illustrate the importance of these reserves, but it's very significant. So the idea is not necessarily to continue indefinitely to build up those reserves but we don't know exactly as of now what would be the timing and the slope of catch-up in rates. So I think we have to be cautious about that. I think that in 1 or 2 years' time, when we'll see more closely the way the ECB is progressively normalizing its monetary policy, we'll have a clearer idea of the necessary level of reserves. But I think we are on the prudent side, to be frank. And so this was quite opportunistic from our viewpoint to continue to build up these reserves in this quarter in the context I was mentioning, so we are not going to sacrifice the profitability of this business in order to indefinitely shore up the reserves. And again, this was not the case in the second quarter or the first half of this year because in both cases, the profit of the division was up as compared to the previous year.

Jean Sassus^ But if I may for the next, let's assume the next operation or similar operation, should we expect the impact to flow through the P&L? And the second remark is you got it right for the Q2 operation because of the very low tax rate. With a normalized tax rate you wouldn't have seen the same effect?

Jérôme Grivet^ But when we realize long-term capital gains...

Jean Sassus^ Below tax rate?

Jérôme Grivet^ Below tax rate is definitely applied.

Jean Sassus^ Okay. So you -- we could expect similar operation further down the road?

Jérôme Grivet^ I don't know because the insurance activity is running its portfolio, as I said, without necessarily having in mind the constraint of the financial communication, as you can imagine. And that's a good thing, to be frank, because I think they must run this asset portfolio in the best interest of the company. But they are perfectly aware of our target in terms of profitability and I think that this is the most important. We continue to target a regular increase in the profitability of this division.

Operator^ That completes today's Q&A. I will now turn the call over to the host for any additional or closing remarks.

Jérôme Grivet^ Thank you very much. Well, I wish to all of you nice holidays, at least to those of you who are going to take some holiday. But I hope it's going to be the case for everybody. Thank you for your question. Always interesting during this call. And I'm looking forward to talking to you either in 3 month's time or in the meanwhile. Bye-bye.