Crédit Agricole HY 2023 Results

Friday, 4th August 2023

Introduction

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Welcome

Good afternoon, everyone. It is a pleasure for me to host this conference for our Q2 and first half of the year results, not only because the results are good but also because that just after this meeting, most of us be on vacation. To be more serious, we are posting very solid results for this quarter and the first half of the year.

Excellent performance of the universal banking model

Let me start with page four, where you have the main figures. It is a net profit above €2 billion for Crédit Agricole SA and close to €2.5 billion for the Group globally. We post also a very high level of return on tangible equity at CASA, and a cost/income ratio, which is significantly improving, both for CASA and for the Group. This is the result of a very good level of organic commercial activities and also the continuation of the integration of the different M&A transactions that we have been able to conclude earlier. And this quarter, we announced also a new transaction that we will probably comment, which is the signing of an agreement for the acquisition of the majority stake in the capital of Banque Degroof.

Last point on this page four, Crédit Agricole SA is now ranked top of diversified banks in Europe in the ESG rating by Moody's Analytics.

CASA key figures pro forma IFRS 17

On page five, you have a more detailed set of figures for Crédit Agricole SA. What you can see is that we are posting the highest ever result on a single quarter and on a single half year, both in terms of stated results and also underlying results. And this starts with a very high level of revenues, a very sharp increase of the top line. It is also boosted by a very moderate evolution of the cost line, especially in the inflation context that we are having.

There is an increase in the cost of risk, but the cost of risk remains at a very moderate level, all in all. And so this is leading to this high figure of net profit.

CAG key figures pro forma IFRS 17

For the Group, we have more or less the same trends on page six. We have a sharp increase in the top line, close to 10% increase of the top line in underlying figures and evolution of the cost base, which is also in the region of 5%. Cost of risk, which is increasing a little bit, but again remaining at a moderate level. And a net income that is up on the quarter and up also for the first half of the year.

Last point, the solvency of the Group remains very high at 17.6%.

Activity

Good business momentum

If we dig a little bit into the KPIs of the development of the commercial activity. You can see on page eight that we have been able to attract a significant number of new customers in our retail banks in the quarter, close to 500,000 new customers in gross figures and an increase in the customer base by above 100,000 customers.

We continue to increase the equipment of those customers with our different products and services, namely, and among different services, the P&C policies. We have been able also to generate a very significant dynamic in the business in insurance, both life and non-life. In asset management, you have seen that Amundi has posted positive inflows in the quarter.

In the consumer finance business, the dynamic is also very good with especially a very strong momentum in the distribution of different financing for cars. And in the CIB, it has also been an excellent quarter in different activities like structured finance and also repos, primary credit, debt capital market and securitisation.

There has been indeed a slowdown in the production of new loans by our retail banks. This is due, of course, to the environment of higher rates, which precludes a certain number of customers from borrowing. But definitely, the overall activity in the retail bank has continued to be good. And this is illustrated by the evolution of different categories of customer deposits, be it on-balance sheet or off-balance sheet, which continued to evolve positively on the quarter.

Revenues

Highest revenues level

If we analyse a little bit on page eight, the origin of this very strong evolution of the top line, you can see that on an underlying basis, the evolution is plus 15.6%. On a stated basis, it is close to 19% increase. This is the result of a good evolution in almost all business lines, actually.

In the Asset Gathering business division, there is a strong improvement of the revenues at Crédit Agricole Assurance. And of course, there is an effect in connection with IFRS 17, even if Q2 2022 is restated under IFRS 17, of course, for comparison purposes. But there has also been an improvement in the top line at Amundi.

In the Large Customers division, there is a slight decrease. Actually, CACEIS has seen its revenues increasing quite significantly. There has been certain decrease at CACIB, but compared to a very high comparison base in Q2 2022. And so the overall level of revenues at CACIB continues to be one of the highest ever.

In the Specialised Financial Services division, a significant part of the increase, of course, is due to the one-offs linked to the reshuffling of our agreements with Stellantis, but structurally now, we have a higher level of revenues in the car financing business, considering the fact that we used to consolidate FCA Bank through the equity accounting method, and we now consolidate globally 100% of Crédit Agricole Auto Bank instead of half of FCA Bank. And so, we now account for the revenues, the costs and the cost of risk of Crédit Agricole Auto Bank.

In the Retail Banking activities, there is also some differentiation between the situation at LCL, where the revenues show a very good resilience, but nevertheless, they are facing this increase of credit in France, which is in the beginning, costly for retail banks. And there is also a very sharp improvement of the top line in the other retail banking activities in Italy and elsewhere.

Lastly, in the Corporate Centre, we have different bits and pieces that are moving. There is one significant contribution that is up, which is the valuation of our stake in BPM. And there are some elements which are down, the fact, for example, that we no longer have any contribution coming from the TLTRO, contrary to Q2 2022. And we no longer have this quarter any reversal of home purchase saving loan provision that we used to have in Q2 2022.

All in all, you see that the top line is, again, very significantly up. And if you assess the figures for the first half of the year, you can see that the top line is up in all business divisions.

Revenues

Rising underlying quarterly revenues since 2017

This is also illustrated on page 10, where you can see that this series of quarterly increases in the top line continues over time, and it has been now at least six or seven years that every quarter, we are able to post an increase in the top line compared to the same quarter of the previous year, despite the fact that we have changed our reference for the insurance activities. And of course, with the IFRS 17 standard, you know that we now have a lower level of revenues in the Insurance business division, all things being equal.

Expenses

Expenses under control

When it comes to the cost base on page 11, what you can see on the quarter is that actually evolutions are very, very moderate. There has even been a slight decrease in the cost base in the Asset Gathering business division. This is especially the consequence of the integration of Lyxor at Amundi. It is also the case within the Retail Banking business division, especially at LCL.

And when it comes to the Large Customers division, there is an increase, especially at CACIB, which is perfectly correlated to the increase in the level of activity and the fact that we have provisioned a significantly higher amount of variable compensation, considering the high level of activity.

In the SFS business division, most of the increase is explained by the integration of Crédit Agricole Auto Bank, now it represents around €60 million out of the €70 million of increase. And you have more or less the same trends on the first half of the year.

Expenses

Cost/income ratio at the highest standards

So this is leading on page 12 to the situation, where we post probably the lowest ever level of cost/income ratio at CASA, 52.3% for the first half of the year and even closer to 50% if we take only the second quarter. So this is illustrated on the right-hand side of this page. We continue to be significantly below the sample of our peers that we follow in Europe.

Risks

Cost of risk below the 2025 MTP assumption, rise in provisioning for proven risk

On page 13, some elements in the cost of risk, so apparently, there is a sharp increase in the cost of risk at CASA. It is a multiplication by two, but you have to take into account two elements. The first one is the fact that back in Q2 2022, there was a reversal in the cost of risk at CACIB. So write-down of provisions by around €75 million, so now we have around €25 million of positive cost of risk. So it makes a significant difference. But overall, the cost of risk at CACIB continues to be very, very low.

And the second point is that now, as was the case for the top line and for the cost line, we now account for the cost of risk at Crédit Agricole Auto Bank, this represents around €25 million of additional cost of risk this quarter. At the level of the regional banks and the Group globally, there is also an increase but much more moderate. Overall, the cost of risk in terms of bps compared to the outstanding continues to be moderate and below across the cycle assumptions that we have made when we published the medium-term plan.

Asset quality

High CAG and CASA loans loss reserves

On page 14, you can see that we continue to have a low level of NPLs, 2.6% at CASA and 1.7% at the level of the regional banks, so overall 2.1%. It is a very low level, and it is more or less stable as compared to the previous quarter. The coverage ratio continues to be very high, overall, 83.6% and above 70% at CASA, it is up at CASA, up 0.6 percentage points. And the overall level of loan loss reserves that we have in our balance sheet continues to be high, close to €10 billion for CASA and above €20 billion for the Group, including a very significant component of provisions on performing loans.

Asset quality

Very high coverage ratios

On page 15, you can see that we continue to compare very favourably to most of our peers, be it at the level of the Group globally or also at the level of only CASA.

Maybe just an additional precision on this page, we continue to see a decrease in the exposure to cross-border Russian counterparts and we provide details in the appendix of this document.

Net income Group share

High net income level

On page 16, this is the consequence of what I just said regarding the revenues, the cost and the cost of risk. The profitability of almost all business divisions increased this quarter and sometimes quite significantly. And if you assess the figures for the first half of the year, there is a positive contribution of all business divisions showing the fact that actually in the present, I would say, circumstances, the diversity of businesses that we have in the scope of the Group benefits globally to the Group and to its profitability.

Financial strength CAG

Very solid capital position for the Group

In terms of financial solidity, financial strength, starting with the solvency and the solvency of the Group on page 17. I already said that the solvency of the group remains very high, 17.6%. It is the consequence of actually two elements, a high level of retained results and a high level of consumption of RWA through the organic activity of the different business lines.

You can see that the other elements playing on the solvency, methodology, regulatory effects, M&A and other points represent only tiny components in the evolution of the CET1 ratio. So a situation where the good dynamic of the Group is perfectly financed by our capital retention capacity.

All in all, we continue to post a distance to SREP, which is by far the best amongst all European systemic institutions.

Financial strength CASA

Capital level above target

When it comes to CASA, you have more or less the same trends with a solvency that remains significantly above the target of 11% at 11.6%, a high level of retained results, a high level also of organic growth and almost nothing coming from methodology regulatory effects, M&A and other bits and pieces.

This strong organic growth was not this quarter alleviated anyhow by any technical measure and we contemplate to deploy some securitisation or other technical measures of easing of the consumption of RWA in the third quarter of this year.

Last point on this page, maybe you can see that we have already provisioned a dividend of €0.50 a share.

Financial strength CAG

Customer deposits stable and diversified, 67% for individuals/SMEs

In terms of liquidity, on page 19, what you can see is that we continue to have a very ample level of customer deposits above €1,000 billion with a significant proportion of that two-thirds coming from retail customers, which is, of course, an element of stability, considering the granularity of this customer base.

Financial strength CAG

High level of reserves and liquidity indicators above pre-covid levels despite TLTRO repayment

Coming to liquidity ratios and liquidity indicators, maybe two elements, starting with the LCR ratio despite the fact that we have repaid close to €50 billion of TLTRO end of June, we have end of June, point-in-time LCR ratio at the level of the Group, which is above 140% and calculated as usually on the basis of the last 12 months, it is close to 160% at Group level.

When it comes to the level of reserves, liquidity reserves, there is indeed a significant reduction between end of March and end of June for two reasons. The first one is, of course, this TLTRO repayment. The second one is that as we had, announced some of our customer assets are no longer eligible to the Central Bank. It is real estate loans. This channel has been shut at end of June. And already in July, we've been able to replace this category of reserves by the creation of a new programme of covered bonds, which has already issued close to €70 billion of covered bonds, self, of course, retained that are eligible as liquidity reserves, if needed.

So pro forma, this new issuance, we would be again above €400 billion of liquidity reserves end of June.

I am going to end this presentation here in order to let you ask your questions. I just wanted to, as a conclusion, maybe stress one or two points. The first point is, again, the fact that we are posting very, very good results overall. The second point is that these results are the consequence of a very efficient business model of the Group globally and of CASA specifically that favour both the intensity of commercial activity and the diversification of the sources of revenues that we are able to aggregate.

The third point maybe is that when it comes to the effect of the increase in rates, which is the environment in which we live since now 1.5 years, we have positive and negative elements. But globally, I think that the positives are definitely above the negatives. And when it comes to the negatives, we perfectly know that it is only temporary.

And the last point is the fact that we regularly integrate the activities that we have been able to acquire. It is the case this quarter with the reshuffling of our agreements with Stellantis. It is going to be the case next quarter with the integration of Royal Bank of Canada Investor Services in Europe. And it is going to be the case, hopefully, in 2024 with the integration of the Degroof Petercam when the deal will be closed.

Thank you for your attention, and we can now go to your questions.

Q&A

Tarik El Mejjad (Bank of America): Congratulations for these results. Very great. So they are all very clear. So I will have rather two questions on your announcements you made this morning. The first one on the Caisses Régionales buying another €1 billion stake in CASA. I mean, I heard and I read again your explanation that you did earlier this year. So maybe you can give us even more colour, I mean why they would do that?

And secondly, from your perspective, how that impacts liquidity or the free float of the shares? And I mean, now by the mid next year, they would increase the stake by almost 8 percentage points, which is quite sizable and getting close to 65%. So that is the first question.

Second one is on capital. So you mentioned in the presentation that you do some securitisation or technical optimisation of your RWA. So what size are we talking here in terms of billions of RWAs? Or maybe ask differently in the previous quarters when we have seen, especially actually in Q1 when we have seen this big increase in capital, what was the actions you took back then?

And maybe I can squeeze in the last one on Petercam Degroof. Can you give us some numbers in terms of benefit from this acquisition? Because 30 basis points is quite sizable investment.

Jérôme Grivet: Thank you. Starting with the regional banks and the decision announced by our majority shareholder, it is very difficult for me to comment, of course, because it is a decision of the majority shareholder. The only comment I can make in terms of liquidity, free float or whatever is the fact that only the increase of the share price today is representing more actually than the amount of liquidity in terms of euro that this operation would take out of the market and of the free float. So definitely, there is no worry about a significant free float remaining for the stock.

Second point in terms of capital, we contemplate a securitisation that could represent around €3 billion to €4 billion in the third quarter of this year. And you know that we regularly do that type of operations in order to monitor the capital consumption. So in this second quarter, there was no need to undertake such transactions simply because the capacity of generating results was very significant and was ample enough to cover the RWA consumption by the business lines.

But you know that in the past, we have been able to be very agile and to be very reactive if needed. So this is what we are already working on for the third quarter.

For Degroof Petercam, it is a significant business, sizable business compared to Indosuez Wealth Management, because in terms of global figures, it represents more or less half of Indosuez Wealth Management.

In terms of revenues, I would say that Indosuez Wealth Management, it is in the region of €1.2 billion. So this acquisition would be close to half of that, I would say.

In terms of cost base, it is more or less in line with what we see at Crédit Agricole-Indosuez with the cost/income ratio in the region of 75%.

And in terms of RWA, it is around €3 billion of RWA, so it is not very significant in terms of RWA consumption at the level of the Group. So this is a transaction through which we expect not only a very high return on investment, far north of the 10% threshold that we have as a minimum criteria. But we also expect a very significant return on equity coming from this transaction because you know that this is a business in which the regulatory capital consumption is low. So we definitely expect this transaction to be very relutive for the Group globally in terms of improvement of the return on equity.

So all in all, we will provide, of course, more details at the time of the closing of the transaction. But considering the type of synergies that we have identified ahead of this closing, we definitely think that this transaction is going to be very accretive not only for Crédit Agricole-Indosuez, but also for Crédit Agricole SA globally.

Tarik El Mejjad: So that would be like 2026 kind of year point synergies will ramp up, right?

Jérôme Grivet: Yes, exactly.

Jacques-Henri Gaulard (Kepler Cheuvreux): Two questions from me. The first one is in light of all the restatements with CACF, I have a run rate at pre-tax level for the division of €170 million. Do you more or less agree with that on a quarterly level? And obviously, can we assume that this will grow with the years with the contribution from the joint venture with Stellantis, which is equity accounted growing? That is the first question.

And the second question is on business model. And when I look at the acquisitions you have done recently now acquisition or, let us say, agreements to do business with RBC, Degroof, Worldline. Obviously, we know because it is in their plan that Amundi is off an acquisition by 2025. Everything hints at businesses which are really at lower capital intensity, which means that you are going to need less capital and Tarik was talking about liquidity, I would like to talk to you about potentially returning a bit more money to shareholders, although more that your shareholders, you mentioned yourself at the beginning is very, very rich.

Is it something that you could consider with more serenity right now?

Jérôme Grivet: Well, thank you for those two questions. The run rate at CACF in terms of revenues, structurally, it is going to be increased by the fact that now we account for the CA

Auto Bank in terms of consolidated figures. So you know that this quarter, CA Auto Bank represented around €175 million and a net income of around €65 million.

So the evolution going forward of these numbers is going to depend on the development of the new business. You know that within CA Auto Bank, we have a business which is running off, which is the former partnership with FCA, and there is a business that is growing and actually growing very rapidly, which is the development of the new business, be it with other carmakers, or be it with independent car dealers.

And actually, what we have seen in this quarter, the first quarter of functioning of CA Auto Bank, is that the ramp-up of the new business is growing far faster than the runoff of the old business. So this explains at the same time, the high level of profitability of CA Auto Bank on a single quarter and also the fact that, of course, globally, the business of CACF has significantly increased its RWA consumption. But definitely, it is a business that is going quite fast nowadays.

So the other point that has to ramp up going forward is the Leasys joint venture, because for the time being, within this joint venture, we have only the new business generated by the Leasco. There was no capacity of taking onboard all the old business because you had to re-immatriculate the cars and so on and so forth, it will be too complicated. So this equity accounted contribution is supposed to ramp up as the new business is going to grow within this joint venture.

So all in all, there is ahead of us a further improvement of the run rate at CACF. And I will, of course, let you do the math.

Your second question was regarding capital. It is true that we have been able to make some opportunistic and strategic acquisitions. And it is true also that we do not choose the most capital-intensive businesses in order to select those acquisitions. You know that in terms of shareholder remuneration, we stick to this idea that, first, we want to be shareholder friendly, and we have proved it in the past. And second, we want to be predictable. And so, what is predictable is that we are going to continue to distribute 50% of the net income that we generate. And going forward, we think that this will enable us to fuel the organic growth and possibly to fuel also some non-organic growth opportunities, like actually was the case since probably four, five, six years.

Delphine Lee (JP Morgan): So my first one is, sorry, just to go back to the regional banks. I mean, this is the second operation they are doing. I mean, is the intention to go to 65%? I mean I do think these two operations are a bit of a shift compared to the past? And so just wanted to understand a little bit better the rationale for increasing to 65%. And clearly, the market is extrapolating also potentially above that. So I do not know if you can share any thoughts on that.

And then just going back to your comment around capital distribution and the usage of capital. I mean, so when you say you are shareholder friendly, but you are still sticking to 50%, does that mean that we should rule out dividend payout going up from 50% and you are prioritising a little bit more M&A at this stage?

And then little bit related to that, I mean, I guess, Amundi is doing acquisition is part of their business model and it is always been the case. But just in private banking that it is a bit less frequent. I mean, are you becoming more acquisitive in private banking? Do you have more ambitions to do more of these kind of deals? If you can just comment on that, that would be great.

Jérôme Grivet: Okay. Thank you. I will not be very long commenting actually the decisions of my majority shareholder. But the only comment I can make is that actually, they stick to the framework that they have explained last year. Last year, they have said that they wanted to make an acquisition for €1 billion of CASA shares, and that they didn't want to go above 65%. They continue to be in this framework, and they reiterated the fact that they do not want to go above 65%. So I think that they are happy with the prospect of Crédit Agricole SA. They are happy with the performances that we are posting. They have this capacity of investing an additional €1 billion. And there is nothing more. And actually, if you have additional questions, I think you should ask them to the representatives of SAS La Boétie.

When it comes to capital distribution and capital usage. What I am saying is that we have two commitments towards our shareholders. The first one is to distribute 50% and up to now, even when the supervisor was not very helpful from this point of view, we have tried to find ways of distributing all in all, 50% of the accumulated results to our shareholders and we did it.

The second point is that we think it is better for our shareholders to have 50% of a growing income base than 60% of a shrinking income base. So what we want to do is to fuel our growth organically first, and this is the most important thing. And then when it comes to inorganic growth, we continue to stick to the same principles that we have explained already several times, a very strict financial discipline with a very strict return on investment criteria above 10% whatsoever in the first three years of the acquisitions and actually most of the times significantly above 10%.

And of course, also a proven capacity of integrating efficiently the acquisitions that we make. So Amundi has a proven track record in terms of acquiring and then integrating and you know that they did it already several times. In the field of wealth management, actually, we did it already in the past, three or four years ago, some bits and pieces in Asia and in Italy. It was of course, much smaller than Degroof Petercam, and Degroof Petercam is a significant acquisition. It is not a game-changer because in terms of size, it is around half the size of Indosuez, but it is significant. And we are having here exactly the same stance, for example, than the stance we have had with Crédit Agricole Italia, small acquisitions, always a lead time for digestion, and it means that before we are able to contemplate any additional transaction in the field of wealth management, first, of course, we must wait for this transaction to be completed, which is again going to take place in 2024. But also, we need to go up to the end of the integration, which is going also to take some time, especially in a business where it is very important not to destabilise the teams, the relationship with the customers and so on and so forth. So definitely, it is not tomorrow morning that we are going to see any additional M&A in wealth management.

Guillaume Tiberghien (Exane BNP Paribas): Two questions, please. The first one relates to your cost/income ratio target of 58%. I think what you said recently was that the idea was not to try and go too much towards 50% because otherwise, you would feel you might under-invest. Now you are getting very close to 50%. And it does not look like your top line is massively over earning. So do you need to change your targets, point number one? Or do you feel that you under-invest for the time being, and therefore, the cost/income ratio might slip a little bit?

The second question relates to the consumer credit business. Due to the change in the agreement with Stellantis, I just wanted to understand how you accounted for all the loans that you acquired, because your RWA for the loans you acquired seem to be extremely low when I look at the RWA in SFS. And on that same subject, the affiliates in SFS, is that correct to assume that they fall in about €50 million now, given that for the bank as opposed to equity account for it.

Jérôme Grivet: Okay. Let me start with the first question. 58% is a ceiling, of course. It is true that on this quarter, specifically, we were close to 50%, and this is why we prefer to talk about the cost/income ratio on the first half of the year, which is at 52.3%. So very, very good, very efficient, but not so close to 50%. We are starting right now the budget process for next year. So of course, we are going to scrutinise very precisely the projects of the different business lines in order to see what is financeable with a normal run rate in terms of revenue and what must be postponed because it would be a little bit exceeding the normal run rate investment capacity of the different businesses.

You know that in terms of managing the cost base, we permanently want to decentralise the management of the cost base with very precise targets that are set by CASA to the different subsidiaries. So we will see exactly what new investment capacity this can create for 2024. But you know us now a little bit. You know that we do not want to let the cost base slide too fast and too far. Of course, whilst we are continuing to invest and you can see, for example, that, at CACIB. We have been able to allocate some additional means in order to cover the development of the business.

At SFS, in the Consumer Finance business division, actually, we have increased quite significantly the level of RWA this quarter. I think it is in the region of €5 billion. So it is an increase that is, of course, linked to the fact we now consolidate Crédit Agricole Auto Bank, which was not the case before that. And within the consolidation of Crédit Agricole Consumer Finance, we have accounted this additional number of RWAs.

There is a slide here that is showing the figures. Where is it? It is on page 62, and you can see that actually the number has gone up from €60.5 billion to €70 billion. So there is a combination between CACF, CALF and other elements, but specifically for CACF, it is €5.2 billion of additional RWAs.

Giulia Aurora Miotto (Morgan Stanley): My first question is on net interest income, more precisely on the French Retail division, but then also at Group level. Can we say that we have seen the trough this quarter? Or do you still expect it to go down and recover for LCL and at Group level? Do you expect still a tailwind from rates next year because French banks see it later than the average European bank? Or how do you see that evolving? So that is the first question on NII, maybe it is two sub questions.

And then on asset quality, I hear you that, overall, the cost of risk remains low. But are you seeing anything that starts to worry you in terms of, I don't know, any specific pockets of risk, be it leveraged loans or real estate or anything that you are watching more closely?

Jérôme Grivet: Thank you. In terms of NII, it is an area, and we are talking about the NII of French Retail, because clearly, NII is completely different if you are talking about Italy, if you're talking about France, if you are talking about CACEIS and so on and so forth.

So if we talk French Retail, NII is probably close to the lowest level, but we think that the lowest level will continue for a certain number of quarters. I do not know exactly how many quarters, but I do not see a significant improvement in the NII before the second part of 2024. It does not mean that I expect this to continue to go down significantly and even to go down in the coming quarters. But before completely recovering, it is going to take time simply because you perfectly know the mechanics and the mechanics is that the cost of the liabilities has increased very rapidly when the yield of assets is increasing only slowly and even more slowly because the production of new loans has significantly decreased. You have seen that at LCL, for home loans, the decrease is now about 40% as compared to Q2 2022, which was a high point. Fair to say. But nevertheless, the lower the production, the slower the improvement of the overall yield of the asset book.

So we are more or less going to be stable in terms of NII in the coming quarters, and we are going to see a recovery probably starting in the second part of 2024. Lately, we have had two news. One was a good news and one was a bad news. The good news was the decision of the French government on the Livret A and other regulated savings accounts because we feared another increase, and actually, it is not taking place, which is good. The bad news is the decision of the ECB on the mandatory reserves, which clearly offsets probably globally the good news of the Livret A, even if it is not spread exactly evenly on the different businesses because the Livret A good news is concentrated on LCL and the regional banks, whereas the bad news regarding the mandatory reserves is spread on all businesses that have a significant balance sheet like CACIB, like CACF, like Crédit Agricole Italia and so on and so forth. So it is not going to be spread exactly the same way, but more or less in terms of magnitude at the scale of the Group, it is globally close.

In terms of asset quality, it is clear that, for the time being, we do not see a significant deterioration of the asset quality. There are probably two areas in which we are more cautious. The first one is in the consumer credit business, what we call the short circuit contrary to the long circuit and contrary to the car financing businesses. The short circuit is probably a little bit more touchy for the time being, and this is why we started to cool down the production of new loans in this sector, in this channel.

And then the second area, which is probably a little bit more touchy is the category of very small businesses or even self-employed professionals that you find in retail banks a little bit at LCL and more significantly within the regional banks.

But all in all, this remains quite moderate as compared to the size of the portfolio and especially in the category of large customers, i.e., the customers of CACIB, no significant element and even a very low cost of risk, again, €25 million, I think in the second quarter of this year, considering the size of the portfolio at CACIB, it is absolutely nothing.

Stefan Stalmann (Autonomous Research): I wanted to explore the Degroof deal in a little bit more detail. It looks like about half of the revenue of Degroof is actually not private banking, but asset management and security services and a bit of investment banking. Are there any plans to transfer these activities to Amundi and CACEIS and maybe CACIB?

The second question on the ROI. I think if you want to generate at least 10% on the purchase price, that means at least €150 million net profit, that is about twice what Degroof currently earns. I appreciate it may be a bit early days, but can you give us a rough sense of whether there is a very significant profit uplift thatw ould come more from cost synergies or more from revenue benefits?

And maybe the third and last part of this question. Is there any appetite on your side to use this deal buying Degroof as a catalyst to enter Belgium with other product factories that you have and push maybe harder on consumer finance, insurance and the likes?

Jérôme Grivet: Thanks for the question. Well, Degroof is effectively a business in which you have a business of wealth management, traditional wealth management, a business which is perfectly correlated to this one of asset management, then you have some custody and a little bit of investment banking.

In terms of custodian activities, so asset servicing activities, clearly, the idea would be to integrate those activities within CACEIS. In terms of size, it is absolutely certain that CACEIS would be able to manage those activities with a marginal cost. So clearly, here, it is a deal in which the cost synergies will be very significant.

When it comes to asset management, I think the idea is not to integrate the asset management activities of Degroof Petercam within Amundi because it would be, I would say, culturally and structurally too different. But you know that Indosuez Wealth Management has already a tiny asset management business, which is called Indosuez Gestion, and probably the synergies that we could find would be between Indosuez Gestion and Degroof Petercam Asset Management.

When it comes to investment banking activities, it is not decided yet. It is a smaller part of the value of Degroof Petercam. In France, we have CACIB. In France, the Degroof Petercam has some teams in investment banking. We do not know yet exactly what we could do, but probably there is something to do in between. All in all, what we expect is to grow the top line of the existing Degroof Petercam by probably around 10% because we will be able to improve the product offer of Degroof Petercam vis-à-vis its own clients. We would be able, for example, to improve the capacity of Degroof Petercam as a private bank to provide credit services to their customers. We would be probably able to decrease the overall cost basis of Degroof Petercam by, let us say, around 15%. And this is leading clearly to the type of figures you have in mind in order to generate a return on investment, which would be above 10%, and, in my opinion, significantly above 10%.

So of course, it is going to be a little bit complicated because we absolutely need to preserve the identity of Degroof Petercam. It is most of its value that lies within this identity, but there is absolutely no doubt that we have the capacity to very significantly generate synergies and so generate this return on investment.

Maybe two last points. The first point is do we want to expand further in Belgium? Yes, on the customer basis of Degroof Petercam, but not on developing additional activities like selling insurance directly to the Belgian public. It is not exactly the type of idea that we have in mind. And maybe yes, I think it is exactly what we have in mind.

Flora Benhakoun (Jefferies): The first question I had is on the Corporate Centre. I know it is non-strategic, but it is still a non-negligible part of earnings. And obviously, it changed a lot with IFRS 17. If I look at this quarter, it feels to me like on an adjusted basis, and that means if we take out any one-off and also the revaluation of the Banco BPM stake, could you provide us with the kind of underlying gross operating income we can expect there on a quarterly basis? I am thinking something like €250 million negative, if that makes any sense?

And then the second question is going back to CACF, the answer you provided earlier where you described the runoff on some of the books, but then also the good growth elsewhere. I think if I understand correctly, this is all for the auto part of the business, but then there is a large part that is especially personal loans, and I think specifically in France, in Italy. How should we think about this there? Because the underlying revenues there were declining. I think they declined again sequentially this quarter. So when do you expect the trough? And then also on the cost of risk, with the consolidation now of the auto loans. I think the cost of risk seems to be around 120, 130 bps this quarter. Is that going to be the run rate you expect in the future?

Jérôme Grivet: Let me start with the Corporate Centre. It is true that, in the Corporate Centre, you have bits and pieces that are moving. You do not have so many one-offs if one-off is something that is not supposed to take place quarter after quarter. But you have some elements that can have a significant volatility in the level of revenue or in the level of cost that they can represent.

For example, if I take the valuation of the BPM stake, it is going to be present every quarter. It is not going to generate probably €140 million contribution every quarter, but it is going to be present every quarter. And when it comes to IFRS 17 component within the Corporate Centre, the net between the revenues and the cost is around zero. So actually, it is representing a significant reduction in the level of revenues and a significant reduction in the level of cost at the Corporate Centre, around €200 million of revenues and costs linked to IFRS 17 on a quarterly basis, but it does not represent any significant net income component.

So all in all, we continue to stick to this idea that the Corporate Centre should represent a global cost on a yearly basis between €700 million and €800 million. And of course, we will try to continue to monitor this cost base globally. I remember and I remind you that back five or six years ago, it was more than the double of that. And so, it was really an issue in itself.

When it comes to CACF, I am not sure I really got correctly your question. What is happening within Crédit Agricole Auto Bank is two things. First thing, the portfolio of loans that were granted under the framework of the agreement with Stellantis is supposed to wind down. It is winding down actually more slowly than what we had in mind. And probably, actually, we have continued a little bit to generate new loans for Stellantis customers a little bit longer than expected. But definitely, this is a business we are progressively exiting because this business has been granted now to both BNP and Santander.

And then within Crédit Agricole Auto Bank, there is a new business that is developing quite rapidly and probably more rapidly than what we had in mind, which is the business of financing car acquisitions, both to smaller carmakers that do not have their own financing captive and also to independent car dealers.

And then when it comes to margin issues, it is true that globally in the consumer finance business, but also in the car financing business, there has been a certain shrinkage of the net interest margin because the refinancing cost increased more rapidly than the capacity of increasing the customer rate for new loans, but it is improving now. As an example, we have increased the average cost of the new loans that we provided to our customers by around 25 bps in the second quarter of this year. So this is progressively improving. And definitely, I think that we are closed also in this front from the trough.

Flora Benhakoun: Okay. Very clear. Just one clarification also. I forgot to ask you in the questions earlier. You previously were guiding for TRIM impact of €4 billion on RWA. Does that still stand? Or was that booked in this quarter?

Jérôme Grivet: No, it still stands. And actually, as the horizon is getting farer and farer as we advance. So it now seems that it is going to be taken only in 2024.

Matt Clark (Mediobanca): So a question on transaction banking activity. Quite a lot of your peers are seeing very strong six-fold increase there. I am just wondering if you are too. And then what about the new segmental reporting that gets booked and any hints or guidance you can give us on the magnitude that that has had year-on-year for you, would be helpful.

Jérôme Grivet: I am not sure I have precisely in mind the figures regarding the transaction. You are referring to the transaction banking activities within CACIB. Is that right?

Matt Clark: Yes, on the corporate side.

Jérôme Grivet: Yes, on the corporate side. It is a business which is developing well because we have invested a lot in the development of cash management tools at CACIB. And so this business is growing, and it is a business that is getting more profitable as rates increase. But I do not have any precise number to give you in mind. Maybe the team is going to look at what kind of number and what kind of information we are able to provide and will revert to you in the coming, I would say, hours or maybe days, if you allow.

Matt Clark: And presumably, it is in the financing subdivision and within the commercial banking line there rather than the structured. Is that right?

Jérôme Grivet: Yes, exactly. It is within the financing part of CACIB and it is within the commercial banking activities. That is very clear. I do not have any metric in mind to guide you in the evolution of this precise business category.

Anke Reingen (RBC): The first one is just on the costs. I mean, obviously, very good cost control, 3% from Q2/Q2 and the 5% year-over-year in the first half. Can you just maybe explain a bit. I mean, it is below inflation, what we should be thinking about, how you can do so well, I guess, considering obviously also investing at the same time?

And then secondly, on your flexibility to capital from securitisations. Is it fair to assume that there is no real related costs because I guess you keep the securitisations?

Jérôme Grivet: I'm starting with the second point directly because actually, no, when we securitize some loans, it is in order to free some RWA. So we sell it down to the market. And so there is a cost, but actually, it is integrated in the overall cost of each business line. And if we decide to make a securitization in, for example, of consumer loans, it is going to be absorbed by the profitability of CACF. And so definitely, they have certain targets in terms of self-financing their activities, be it in terms of liquidity or in terms of capital usage. And if they exceed their budget, they have to finance the ways to get back into the budget. So they have to absorb the cost. So it is not going to be a one-off cost that is going to be accounted for, for example, in the Corporate Centre.

When it comes to the management of the cost base, again, it is very important to bear in mind that we decentralise the responsibility of managing the cost base. And this is why, for example, you can see that at LCL, they have been able to decrease quite significantly their cost base again this quarter because LCL is feeling the pressure of the shrinkage of the net interest margin in retail banking activities in France and the reaction of the management of LCL is to try and generate some cost economies in order to absorb as much as possible this pressure on the revenues.

And again, this is the best way for me to manage the cost base. If here in my office in Montrouge, I decide that CACIB is going to invest that amount of money and that CACF has to decrease its number of staff by, I don't know how many people. I will probably miss the right decision. So it is far better for me to have a permanent discussion with the different heads of businesses in order to see what they have in mind in terms of action plans to moderate their cost base evolution and simply then to trust them for the implementation of those action plans once they are approved. So it is really the way we do that, and it proves to be quite efficient.

Nevertheless, I just want to maybe precise one point. I think it is in the slides, but it is important to have it in mind. We have had, in France, on our French staff, again like last year to grant, a general salary increase that is going to start to apply beginning of H2. And so, we will have an increase, all things being equal of the cost base of our activities in France overall by around €10 million to €12 million a quarter. So all things being equal, you are going to have this increase starting in Q2.

Pierre Chedeville (CIC): Two quick questions left from my side. First one is regarding insurance P&C business. I was just wondering if you had a significant impact regarding the discounting of reserves in P&C on your combined ratio because of the new IFRS 17 and the rise in interest rates. I have seen in some other insurance companies that the new discounting of reserves in P&C could be quite interesting for insurers.

My second question is regarding your business in auto loans. I was wondering if you had set any target regarding the financing of electric vehicle maybe on production or in outstanding at a certain time. Is there something that you manage on this angle or not?

Jérôme Grivet: Thank you, Pierre. In insurance, it is clear that with IFRS 17, the P&C activity is going to be more volatile, especially because we will not be able, as we could do that in the past, to build some provisions in order to be able to withstand without too important a cost, some major events like climate events.

And so in Q2 2022, restated under IFRS 17, we have a very bad result of the P&C activities because Q2 2022 was earmarked with a very severe climate event in France. So IFRS 17 is a little bit new. We are going to learn progressively. We hope we are going to be able to do what we like to do, which is to build different categories of cushion and buffers in order to help us accommodate some punctual events. But for the time being, what we must acknowledge is that P&C activities are going to be more volatile.

Pierre Chedeville: Sorry, Jérôme, my question was more specific on the discounting impact, which is new.

Jérôme Grivet: I do not have the answer in mind. And I will ask Cécile. She knows quite well the insurance activities considering her past, and she will provide you the precise answer.

When it comes to electric car, we have presented in December last year, some strategies in order to decrease the CO_2 emissions in different sectors of activity. One applies to the car sector. And in this sector, what we want to do between 2020 and 2030 is to reduce by half, around half the amount of CO_2 emissions per kilometre for the cars that we finance. So it means that included embedded in this objective, of course, there is an objective of growing the proportion of electric car that we finance, but it is not directly an objective in terms of numbers of cars that we want to finance. It is through this global objective to divide by around two the CO_2 emissions per kilometre for the car that we finance.

Pierre Chedeville: And this target has not changed with the changing in perimeter?

Jérôme Grivet: No.

Amit Goel (Barclays): So one follow-up and then another question. So just on the costs, so I appreciate there are a couple of questions already. But I just wanted to understand in terms of that cost/income ratio and from what you see today, are you expecting it to trend up back towards that kind of 58% level? Or do you think that we could see it staying at around this level going forward?

Second question, just on the Degroof Petercam transaction. I mean, obviously, there are a couple of different interested parties. I am just curious from your perspective what it is that enabled you to get the deal across the line. And maybe just a small follow-up on that or clarification. But the 30 basis points of capital, is that for – sorry, if you get to 80%? Or is that the kind of 59.5% level of ownership?

Jérôme Grivet: Okay. Let me start with the second question. The 30 bps is for the full acquisition of Degroof because actually, we are providing some liquidity puts actually for the remaining shareholders. So we have, of course, to provision all the prudential costs of this possible operation. So definitely, 30 bps is for the 100% of Degroof.

It is very difficult for me to explain why and what was our edge in order to be the winner of this process. It is, again, very difficult. I do not know exactly who was our competitor and which were the elements that pushed the decision in our direction. So it is difficult for me to comment.

Cost/income ratio, of course, we are not going to frame the 2024 budget by saying, okay, everybody can go back to 58% of cost/income. But we are not going either to ask everybody to keep the level where it is now. So it is definitely, and I appreciate that it is maybe not exactly the answer you were expecting, but definitely, we do not want to go above 58%, and we are not going to go above 58%, and we are not going to set as a target to get back close to 58%, but there is no ratchet, I would say, saying that everybody has to permanently remain at the best level ever reached.

So it is going to be, again, a matter of appreciation, and it is going to be one of the key issues of the budget process.

Sharath Kumar (Deutsche Bank): So I just have one question pending still. On the EBA stress test results, Crédit Agricole Group did see a high impact of around 730 basis points on their CET1 under the adverse scenario. So I do know that these stress test results are only conducted at the level of the Group. But given it would also be relevant at the level of CASA, if we were to kind of use the same assumptions, what sort of impact are we looking at for the listed entity? Any colour there would be useful.

Jérôme Grivet: No, we are not going to provide any detail on what would be the impact on the listed entity, because it was not the perimeter that was tested. But maybe one clue that I can give you is the fact that, actually, this exercise was not really framed for French banks because there was a hypothesis within the methodology that was completely contradictory with the way we do banking in France. This was the hypothesis that we should feed into the cost of our sight deposits, half of the increase in short-term rates, which is absolutely not going to take place whatsoever. And the clue is the fact that most of our sight deposits sit within the regional banks. And this has had a very significant impact on the depletion of the Group.

Geoff Dawes (Société Générale): Got one quick question on the CIB and capital markets, in particular operations. Obviously, quite a good quarter revenue-wise. You mentioned an increase in market RWAs over the period. First of all, just whether that was a deliberate thing, whether some of the increase in revenues is down to a change in the appetite for risk? And then on a longer-term basis, obviously, there has been a very good post-COVID level of revenues coming through in that division. Market condition is a big part of that. But has there been any geographical change in the breakdown of your revenues over that period as well? Or is it just more activity with the same sectors.

Jérôme Grivet: Thank you for the question. No globally, we are not changing anything in the strategy at CACIB, neither from a geography point of view nor from a risk appetite point of view. So what is happening in this business division is two things. The first thing is that definitely an environment where rates are positive is better for fixed income activities. That is for sure. There is more business and more, I would say, generously priced business when rates are positive, and this is benefiting to all CIBs.

And the second point is that CACIB is progressively improving its rankings and its positioning towards its different categories of customers. And so it is benefiting from a better share of wallet with each of its customers.

When it comes to the RWA evolution on this specific quarter, of course, nothing to do with a potential increase in the risk appetite at CACIB. No change in the scope of businesses undertaken within the capital market activities, but simply some technical issues that the RWA consumption. Capital consumption in the capital market activities is a building block process in which you have some netting benefits. And it happens that this quarter, the netting is not so positive, not so favourable. So this is why the RWA consumption has increased, but there is, in my understanding, nothing structural on this point.

Geoff Dawes: Okay. So regulatory and technical. That is very helpful.

Chris Hallam (Goldman Sachs): So just one question for me on the sustainability performance. So if we look at the underlying performance of €1.85 billion in the quarter or 14.7% returns in the first half, then clearly, that is a long way ahead of the targets and ahead of market expectations. So I understand that you do not want to change the medium-term target every time you report. But perhaps you could just remind us of where we should expect to see some kind of normalisation in performance over the coming quarters or years, whether it is around things like seasonality, rising deposit betas, peak NII, increasing investments, etc., etc.? And how much more confidence heading into the summer break, how much more confident do you feel about that medium-term returns outlook?

Jérôme Grivet: It is a fair question, but I will reiterate that I do not want, as you said, to update every quarter our medium-term target. But bear in mind that a significant component of the profitability of CASA comes from CACIB. And at CACIB within CIB activities, the first half of the year always represent more than half of the year in terms of revenues, because you know that in the second half, you have the summer in which the level of activity is generally lower. And you have also the second part of December, where generally there is absolutely no business. So it is possible that in this front, we will have a slowdown of the activity, not compared to last year, but compared to the first half of this year.

Then for the other businesses, I see no specific seasonality. So we have been quite clear on the different elements that can be considered as one-off in this quarter. And I think that the run rate of each business, of course, has to be assessed by each of you considering their own analysis. But I think the most important business in which there is some seasonality, it is the CIB.

Then when it comes to insurance, we have said that, that IFRS 17 is modifying a little bit the pace at which we recognise the revenues and thus the profit. So two elements are going to be important going forward for the insurance activities, the evolution of capital markets and also the evolution of sinistrality in the P&C activities, and this is something you will have to monitor in order to assess a little bit our capacity to repeat the performances of the quarter.

Maybe one last point I could mention, but this is a point that goes into both directions. In terms of impact of the increase in rates on our different businesses, some businesses are negatively impacted. It is the case of LCL. Some businesses are positively impacted. It is the case, for example, of Crédit Agricole Italia or CACEIS. And we are feeling that we are reaching a more stabilised level of rates.

So definitely, we are not going to see the repetition of the strong evolutions, be they negative or positive in the coming quarters in those businesses.

Okay. Well, thanks, everybody. It was a pleasure to comment those results again. Thanks to the team around me and wish you good vacation. Bye-bye.

[END OF TRANSCRIPT]